TRATON
GROUP

2019
ANNUAL REPORT

COVER

Examining things from a number of angles and bringing them together to create something new — this TRATON GROUP approach is symbolized by the cover image. It shows a mountain road in Brazil linking the east of São Paulo to the coast, flipped on itself to create a mirror image. The kaleidoscopic effect opens up a new way of looking at the big picture.

“In just a few years, we have shaped the TRATON GROUP into a viable young entity that rests on both strong traditions and huge technological competency and puts its customers at the center of everything it does. It is our strategic objective to become a Global Champion in the changing transportation industry.”

ANDREAS RENSCHLER,
CEO TRATON GROUP

TRATON

With its brands MAN, Scania, Volkswagen Caminhões e Ônibus, and RIO, the TRATON GROUP is one of the world's leading providers of transportation solutions. The Group aims to reinvent transportation — with its products, its services, and as a partner to its customers.

29
PRODUCTION AND ASSEMBLY SITES

IN
17
COUNTRIES

ON
4
CONTINENTS

Fiscal year 2019:

7.0%
Operating return on sales

227,240
Order intake (units)

83,000
Employees
(As of December 31, 2019)

26,901
Sales revenue
(€ million)

242,219
Sales (units)

1,884
Operating profit
(€ million)

TRATON SPIRIT

Lasting success is only possible when people work toward achieving a common goal. And that applies to more places than just the office or the testbed: a TRATON GROUP cross-brand dragon boat team landed a spot on the winners' podium at the Dragon Boat Cup in Wolfsburg in late summer 2019. It was a standing start success: initially, the athletes trained separately at their particular locations. They only had the chance to train together twice before the first race. But they were able to make up for the rest with their enormous team spirit — the TRATON spirit. The starting positions have already been reserved for 2020.

DRI VER LESS

THROUGH THE SALT MINE

Scania is testing a new-generation autonomous transport system at Rio Tinto's Dampier Salt operations in Western Australia. The first phase of the trial involves a Scania XT 8×4 autonomous tipper truck working separately from Dampier's active operations. During this initial stage, a safety driver rides in the vehicle to observe the truck's performance and, if necessary, intervene.

In subsequent phases, additional autonomous Scania trucks will be added to develop vehicle-to-vehicle awareness and intelligent fleet supervisory controls. Rio Tinto head of Productivity & Technical Support, Rob Atkinson, said: "We're pleased to be trialing this technology in trucks that are smaller than our traditional haul trucks. This has the potential to give us more flexibility in the way we operate in a number of areas across Rio Tinto. We have seen automation create safer and more efficient operations in our business and this is a next step in evaluating options for delivering further improvements through the use of technology."

Hamburg plans to operate only emission-free city buses starting in 2030.

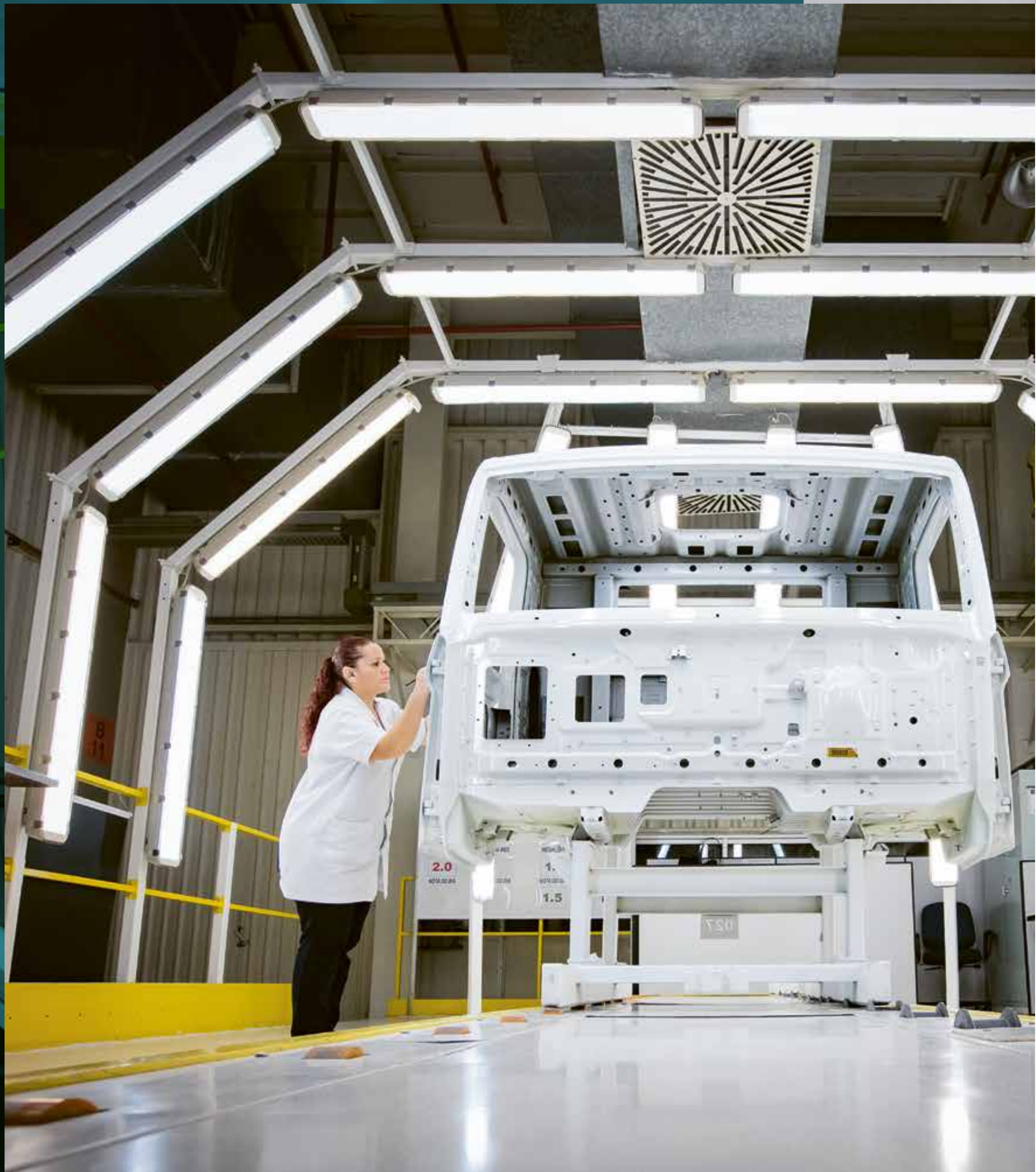
Good advice

The Hanseatic city of Hamburg is setting course for the emission-free mobility of the future: in mid-December 2019 in the city's warehouse district, public transportation companies Hamburger Hochbahn AG and Verkehrsbetriebe Hamburg-Holstein (VHH) each took delivery of an electrically-powered MAN Lion's City E bus. The buses are 12 meters long, offer space for up to 88 passengers, and have a practical range of between 200 and 270 kilometers. Over the course of 2020, MAN will bring out a demo fleet consisting of 15 electric buses in five European countries and deliver 17 series vehicles to VHH. Series production of the 12-meter-long bus will start in the second half of 2020, with production of the Lion's City E as an articulated bus following around six months later.

The transition to electric fleets is presenting public transportation companies with numerous challenges. This is why MAN is offering holistic consulting from MAN Transport Solutions experts, with services that range from operations planning and charging infrastructure all the way to service and maintenance. In addition, consultants in Hamburg are supporting a project from MAN, VHH, and Volkswagen to examine the reuse of batteries that were previously installed in the Passat GTE. The project partners have installed a container at the VHH bus depot in Hamburg's Bergedorf district in which the used batteries are connected to form a 500 kWh storage unit. The aim of this project is to examine how stationary energy storage can be used to optimize network utilization and reduce the electricity costs of fleet operators. Moreover, secondary usage improves the environmental footprint of electric vehicles overall.

→ **traton.com/electrification**

The electric buses offer space for up to 88 passengers.



JOINING FORCES

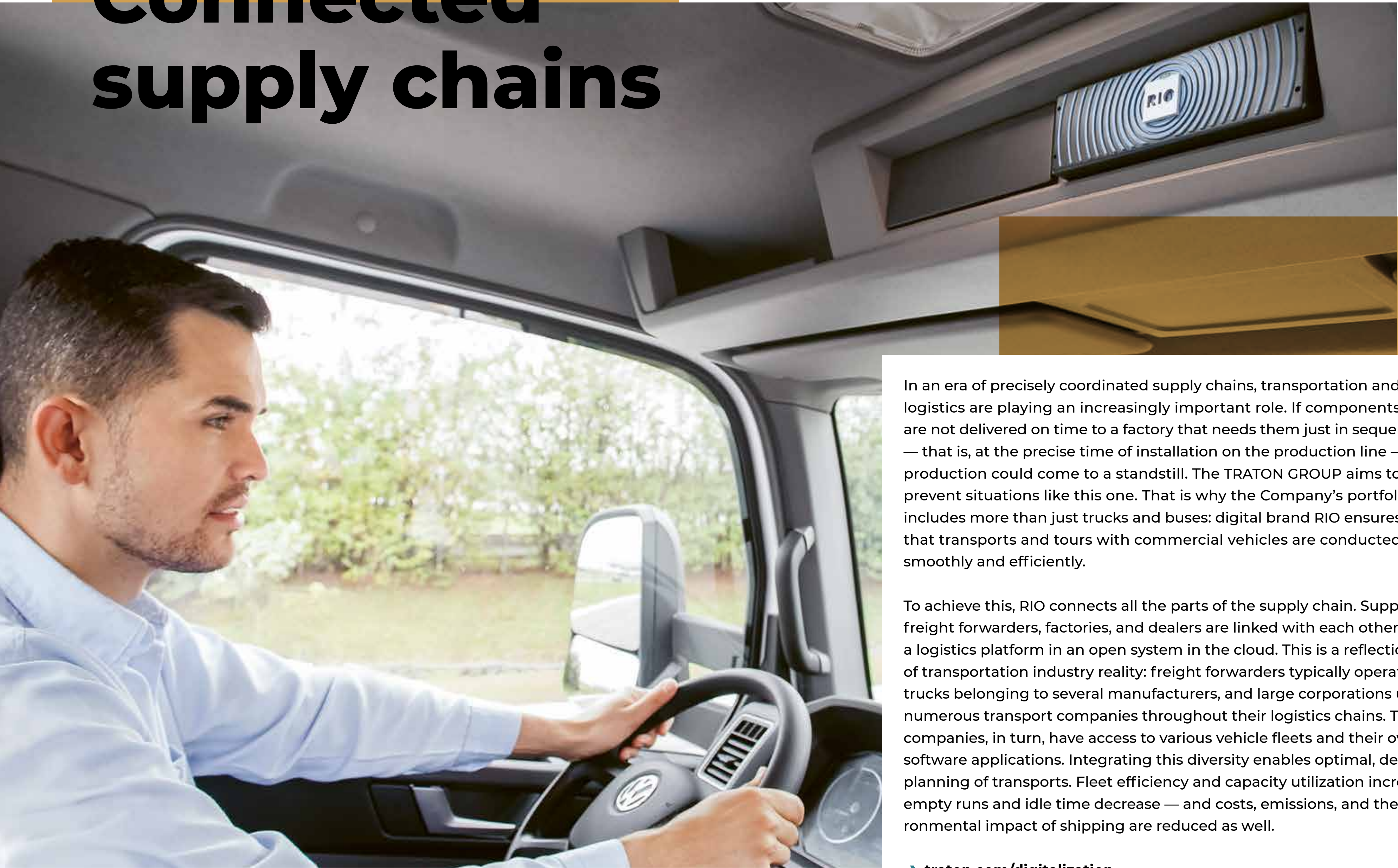
Since the inauguration of its factory in Resende (Brazil) in 1996, Volkswagen Caminhões e Ônibus has been manufacturing vehicles ranging from light delivery models to heavy-duty trucks and buses using its unique Consórcio Modular production concept. As part of this concept, the company shares the investment costs with seven suppliers at the Resende plant and entrusts them with parts of the production. The goal is to achieve higher productivity while reducing costs and assuring quality.

VWCO's successful experience with partnerships inspired the creation of a new business model to speed up the implementation of electric vehicles. In manufacturing the new, purely electric e-Delivery truck, Volkswagen Caminhões e Ônibus is extending its alliances beyond the plant gates to wherever the client is based, and has won over additional partners for the new e-Consortium for this purpose. For instance, Siemens is providing fleet operators and forwarding companies with the necessary charging infrastructure and electrical energy for the electric vehicles. Battery experts CATL and Moura are responsible for the distribution and maintenance of the batteries, in addition to their reuse and recycling, and Bosch, WEG, and Semcon are working together with VWCO Engineering to develop the main components and controls for new electric vehicles.

"We are making history with this approach," says Roberto Cortes, CEO of Volkswagen Caminhões e Ônibus. "We are the first company to test a purely electric truck under authentic operating conditions in Brazil. With the new e-Consortium, we are now joining forces with leading companies in the field of electric mobility."

→ **traton.com/modularization**

Connected supply chains



The RIO Box connects trucks of all brands with the fleet management system.

In an era of precisely coordinated supply chains, transportation and logistics are playing an increasingly important role. If components are not delivered on time to a factory that needs them just in sequence — that is, at the precise time of installation on the production line — production could come to a standstill. The TRATON GROUP aims to prevent situations like this one. That is why the Company's portfolio includes more than just trucks and buses: digital brand RIO ensures that transports and tours with commercial vehicles are conducted smoothly and efficiently.

To achieve this, RIO connects all the parts of the supply chain. Suppliers, freight forwarders, factories, and dealers are linked with each other on a logistics platform in an open system in the cloud. This is a reflection of transportation industry reality: freight forwarders typically operate trucks belonging to several manufacturers, and large corporations use numerous transport companies throughout their logistics chains. These companies, in turn, have access to various vehicle fleets and their own software applications. Integrating this diversity enables optimal, detailed planning of transports. Fleet efficiency and capacity utilization increase, empty runs and idle time decrease — and costs, emissions, and the environmental impact of shipping are reduced as well.

→ **traton.com/digitalization**

In the matrix

Viktoria Wendland, Michaela Arnquist, and Elias Olsson (from left to right) visualize a question.

60

employees work at the TRATON GROUP's COO Office in Södertälje, Sweden.

Combining the Research & Development activities of the brands to identify and realize synergies: for Viktoria Wendland, Michaela Arnquist, and Elias Olsson at the TRATON GROUP's Office of the Chief Operating Officer (COO), that's their job. In the process, it's as if they are connected to the brands within a matrix: together with the engineers at Scania, MAN, and Volkswagen Caminhões e Ônibus, the COO Office is coordinating the work to create a Group-wide modular system within existing technology areas, such as conventional powertrain, as well as future technologies: electrification, connectivity, and autonomous driving.

"This entails, for example, coordinating projects between the brands and sharing knowledge," says Viktoria Wendland, who focuses in particular on powertrains. Her colleague Michaela Arnquist from Procurement then checks whether the costs can be reduced through joint purchasing. Elias Olsson from Vehicle Development works on concepts and approaches aimed at using standardized components for various types of architecture and platforms — thereby enabling a Group modular toolbox with well-balanced performance steps. But the three of them are certain that mutual trust is just as vital as the technology: "At the COO Office, we not only serve as a link between various technologies, we also represent the wide range of cultures within the TRATON GROUP."

Successful start

One approach for ensuring that the batteries of heavy-duty trucks with electric drives are as small as possible is to recharge them via overhead lines while driving on the highway. Scania will provide 15 hybrid trucks with pantographs as part of a field test, and the first vehicles are already underway on test routes in the German states of Hesse and Schleswig-Holstein. The trucks are based on long-haul R 450 hybrid vehicles that are built at Scania's main plant in Södertälje, Sweden, on an assembly line for prototypes. Thanks to Scania's modularization, the conversion is easy: "No alterations to the base vehicle are necessary. And equipping it with the pantographs is not very complicated," reports Christer Thorén, who manages projects for electric road vehicles at Scania.

Scania's partner Laxå Special Vehicles converts the hybrid trucks. It takes about a week to install the pantographs, which were developed by Siemens, and the associated electronics. Initial reports on the field tests by the participating freight forwarders have been positive. And as of mid-2020, the trucks will be equipped with increased battery capacity of up to 72 kWh through more batteries — a maximum of four — which will also be fast-charging. That will enable an increase in the share of total kilometers that are purely electrically driven. "Sweden is also very interested in trucks with pantographs," says Christer Thorén. Thanks to a standardized interface, in the future the technology can be used not just in the R series, but in virtually all the Scania hybrid models.

→ **traton.com/ehighways**

Scania will provide

15

hybrid trucks as part of a field test.

Scania project managers Johan Lindström and Christer Thorén (right) show where the pantograph is installed on the truck.

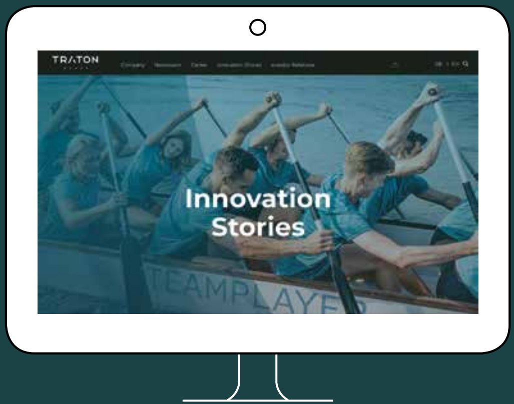
MAN project manager Sebastian Völl: field testing will begin in March 2020 at Hamburg's Container Terminal.

AUTONOMOUS DRIVING IN CONTAINER TERMINALS

As part of the Hamburg TruckPilot project, MAN and Hamburger Hafen und Logistik AG (HHLA) are developing automation solutions and logistics processes for container terminals. The project's technological requirements were specified in 2019, and now MAN project manager Sebastian Völl and his team are in the test phase. "At the testing site in Munich, we are currently simulating a variety of traffic scenarios, including cross traffic and vehicles stopping or maneuvering in reverse. These are all situations that could arise later on in the container terminal," explains Völl. March 2020 will see the start of the field test with a specially equipped MAN TGX in real-life port operations at Hamburg's Container Terminal Altenwerder (CTA).

Replicating autonomous driving within the context of the research project without disrupting the traffic infrastructure of the CTA poses a particular challenge, explains Völl: "The vehicle orients itself using high-precision digital maps, exact positioning, and with its sensors." The TGX has around two dozen of them on board: eight radar sensors, nine laser scanners, and six cameras all deliver a precise image of the surroundings. Things will get serious in October 2020: a two-week test phase with the freight forwarder Jakob Weets will feature a realistic logistics process that entails picking up containers from a temporary storage facility located 70 kilometers away in Soltau and transporting them to the CTA. MAN is even using the drive on the A7 highway as an opportunity to test automated driving concepts, which will enable drivers to focus on other tasks in the future. Once on the terminal grounds, the vehicle is supposed to drive autonomously — but naturally a safety driver will be on hand to monitor the situation.

→ **traton.com/automode**



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Further Information

This report contains certain forward-looking statements for the fiscal year 2020 that are based on present assumptions and forecasts by the Company's management. A range of known and unknown risks, uncertainties, and other factors may result in the actual results, financial position, development, or performance of the TRATON GROUP differing materially from the estimates given here. Such factors include those that TRATON has described in published reports. These reports are available on our website at www.traton.com. The Company does not assume any obligation to update such forward-looking statements and to adapt them to future events or developments.
All figures shown are rounded, so minor discrepancies may arise from addition of these amounts. Comparable prior-year figures are presented in brackets alongside the figures for the fiscal year under review.

TO OUR SHAREHOLDERS

TO OUR SHAREHOLDERS

Dear Ladies and Gentlemen,

2019 was a year of outstanding importance for our — still young — TRATON GROUP. The Group set records in terms of unit sales, sales revenue, and operating profit. Our initial public offering in June and the Innovation Day in October were undoubtedly the highlights of the fiscal year 2019. We consolidated and deepened the partnerships with Japan's Hino Motors, Ltd. and U.S. NAVISTAR INTERNATIONAL CORPORATION in line with our strategy. Both will help us on our way to becoming a Global Champion.

2019 was a year marked in economic and political terms by slow global economic momentum, the trade conflict between the United States and China, and the resultant strain on global trade as a whole. The Brexit struggles also weighed on the economy. Climate change was the big issue dominating public debate. At the same time, technological change in the mobility and transportation sectors gained further momentum. It would be true to say that 2019 was a challenging year. Nevertheless, the most important market regions for medium- and heavy-duty trucks with a gross vehicle weight above 6 t as well as for buses developed positively, some markets even very favorably. Pull-forward effects in Europe, primarily in the first half of the year, and the economic recovery in Brazil also contributed to this trend. Some markets were down slightly due to the economic situation; the truck market in Turkey even recorded a substantial decline.

All told, unit sales of the TRATON GROUP in 2019 developed in line with our projections, with a strong first half of the year and a cooling-down in the second. We raised unit sales and sales revenue in our Industrial Business segment of the three brands Scania, MAN, and Volkswagen Caminhões e Ônibus by 4% each and so reached our targets. Sales revenue in our Financial Services segment in 2019 rose significantly, as expected. We also made further progress in terms of profitability. The operating return on sales came to 7.0% for the Group and was thus in the middle of our target range for 2019.

One major driver of the positive operating performance of the TRATON GROUP was the very good performance of Scania. Our premium brand increased its unit sales, sales revenue, and operating return on sales. Scania has significantly extended its market share in Europe for trucks with a gross vehicle weight of more than 16 t and now occupies a leading position in this segment. Scania also posted gains in the after-sales business while additionally benefiting from a good product and market mix and from currency effects. The brand is enjoying a strong position. Its cost situation has steadily improved over the course of the year because parallel production of the old and new truck generations has come to an end. Scania also continues to work on lowering the production costs associated with the new generation of trucks over the long term.

MAN Truck & Bus increased vehicle sales in 2019, with sales of the MAN TGE van series almost doubling. Pull-forward effects had a positive impact on truck unit sales across Europe, ahead of the introduction of the digital tachograph in mid-2019 and, in the United Kingdom, in the run-up to Brexit. By contrast, business in Turkey and Russia experienced headwinds. Operating profit at MAN Truck & Bus recorded a decline. In addition to slowing truck sales (>6 t), the main reasons were the challenging used vehicle business and substantial investments in the future, in particular in the new generation of trucks. The fact is that profitability is still well short of the long-term targets. MAN is therefore working hard at implementing sustainable improvements to boost its profitability.

Our Volkswagen Caminhões e Ônibus brand experienced rapid growth in 2019. It benefited substantially from the continuing market recovery as its unit sales and sales revenue recorded double-digit percentage gains. Operating profit also improved. Profitability was weighed down by the strain resulting from the weak Brazilian currency, which made materials more expensive, and by higher amortization and depreciation. The market environment in South America is attractive but also highly competitive. Volkswagen Caminhões e Ônibus therefore continues to focus on a comprehensive program aimed at strengthening the company and systematically improving its earnings quality.

We are proud of what we have achieved together in the short time since our Company was established just over four years ago: every day, 83,000 employees are fully committed to ensuring the success of our Group. I would like to thank them sincerely for their dedication. In only a few years we have shaped the TRATON GROUP, a viable young entity that rests on strong traditions and huge technological competency and puts its customers at the center of everything it does. We expect the steadily growing collaboration between our brands to generate additional synergies over the coming years. Together we are driving the change toward sustainable, fossil-free road transportation. It is our strategic objective to become a Global Champion in the changing transportation industry. Our Group has great potential for further improvements in efficiency and productivity. We must now mobilize this potential within the team, steer it in the right direction, and harness it with the necessary financing. This we have secured through our successful IPO on June 28, 2019, which has given us access to the capital markets.

A good ten percent of shares are currently in free float, with an international shareholder base. The dual listing on the Frankfurt Stock Exchange and on Nasdaq Stockholm underscores our international outlook, as does the new legal form, TRATON SE. Ahead of the IPO, the TRATON management met more than 400 analysts and potential investors in Europe and the United States. The Company, its potential, and the Global Champion Strategy with all its challenges and facets were discussed in depth as part of a large number of group and one-on-one conversations. We would like to thank all our conversation partners and, in particular, our shareholders for their openness and searching reflections. Through their investment, our shareholders have demonstrated and continue to demonstrate their trust in us, our strategy, and our wide-ranging potential. We are aware of the special responsibility we now have toward our shareholders and employees, which comes with a particular incentive for us to remain successful, to keep improving, and to meet the expectations of our investors.

We would be delighted for you to accompany us on our journey.

Sincerely,

Andreas Renschler
CEO, TRATON GROUP

MANAGEMENT BOARD

ANDREAS RENSCHLER

Chief Executive Officer TRATON SE and Member of the Board of Management of Volkswagen AG

ANTONIO ROBERTO CORTES

Member of the Executive Board of TRATON SE, Chief Executive Officer Volkswagen Caminhões e Ônibus

JOACHIM DREES

Member of the Executive Board of TRATON SE, Chief Executive Officer MAN

HENRIK HENRIKSSON

Member of the Executive Board of TRATON SE, Chief Executive Officer Scania

DR. CARSTEN INTRA

Member of the Executive Board of TRATON SE, responsible for Human Resources and IT

CHRISTIAN LEVIN

Member of the Executive Board of TRATON SE, responsible for R&D and Procurement (Chief Operating Officer)

CHRISTIAN SCHULZ

Member of the Executive Board of TRATON SE, responsible for Finance and Business Development

REPORT OF THE SUPERVISORY BOARD[1]

Dear Shareholders,

For TRATON, 2019 commenced with the Company's conversion into a European stock corporation (SE). Since the adoption of this new legal form on January 17, 2019, the Supervisory Board has been composed of 20 members, instead of the previous twelve. Of these 20 members, half are elected by the Annual General Meeting and half by the employee representatives.

The Company's Supervisory Board addressed the Company's position and performance regularly and in detail in fiscal 2019. In accordance with the recommendations of the German Corporate Governance Code, the statutory requirements, the Articles of Association, and the Rules of Procedure, we regularly advised the Executive Board in its management of the Company and monitored its activities. We were involved in an advisory capacity in all matters and decisions of major importance for the TRATON GROUP.

The Executive Board provided us with regular, comprehensive, and timely information, in both written and verbal form, on the course of business, relevant business events, corporate planning, and deviations in the course of business from forecasts as well as their causes. The Executive Board also reported to the Supervisory Board, in particular, on the TRATON GROUP's strategy and the implementation status of strategic projects, the TRATON GROUP's risk position and risk management, as well as compliance issues. The documents required as a basis for making decisions were available to the members of the Supervisory Board at all times at the meetings and during the preparation of the resolutions to be passed. During regular talks with the Chief Executive Officer outside the Supervisory Board meetings, I also discussed matters and issues relevant to the Company, such as the development of the business, planning and strategic projects (the Company's IPO in particular), the risk position, risk management, and compliance.

The Supervisory Board held five regular meetings in fiscal 2019, one of which was a conference call. In addition, resolutions on urgent matters were adopted in writing.

With the exception of Mr. Athanasios Stimoniaris, who was excused, each member of the Supervisory Board attended at least half of the meetings of the Supervisory Board and of the committees of which they were members during the year under review.

Committee activities

The Supervisory Board established two committees — the **Presiding Committee** and the **Audit Committee** — on which shareholders and employees are represented equally, with three representatives in each case, as well as the **Nomination Committee**, which consists solely of shareholder representatives. The main role of the committees is to prepare Supervisory Board resolutions. In some cases, the Supervisory Board's decision-making powers or tasks are transferred to committees. The Nomination Committee is tasked with identifying candidates for Supervisory Board positions and recommending suitable candidates to the Supervisory Board as the latter's proposals for election at the Annual General Meeting. In this capacity, the shareholder representatives on the Presiding Committee act as the Nomination Committee.

Mr. Frank Witter was Chairman of the Audit Committee. The Presiding Committee was always chaired by the Chairman of the Supervisory Board. At the Supervisory Board meetings, the Chairman of the Audit Committee and I provided regular reports on the work of the committees. A list of the members of the committees as of the end of 2019 is provided on page 194 of this Annual Report.

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

The **Presiding Committee** held a total of four face-to-face meetings in 2019. It dealt, in particular, with all the key issues to be discussed at the following full Supervisory Board meetings and prepared resolutions for them.

The **Nomination Committee** did not meet in the year under review.

The **Audit Committee** held a total of four meetings in the reporting period. It dealt in detail with financial reporting issues, the annual financial statements of TRATON SE and the TRATON GROUP, and the audit reports submitted by the auditors, PricewaterhouseCoopers GmbH Wirtschaftsprüfungsgesellschaft, Munich ("PwC").

The Committee discussed the half-yearly financial report with the Executive Board prior to its publication. PwC reviewed the TRATON GROUP's interim financial statements as of June 30, 2019. This did not lead to any objections. The Committee discussed the findings of the review with the auditors in detail.

The Audit Committee also addressed the engagement of the auditors to audit the annual financial statements for 2019, the areas of emphasis of the audit, and the rotation of the auditors from fiscal year 2020 onward. The Committee regularly addressed the course of business in the TRATON GROUP, the internal control system, risk management and the risk management system, and the TRATON GROUP's risk position, among other issues. The Audit Committee also addressed compliance and internal audit issues, such as the TRATON GROUP's internal audit system and the audit plan for the TRATON GROUP's Corporate Audit function, as well as its implementation status. The head of Internal Audit of the TRATON GROUP and the Chief Compliance Officer of the TRATON GROUP also reported in person to the Committee.

Issues addressed by the Supervisory Board

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

In general, the shareholder and employee representatives met for separate preliminary discussions before each of the Supervisory Board meetings. The following additional information relates to the Supervisory Board meetings held in 2019:

Supervisory Board meeting on February 20, 2019

Our meeting on February 20, 2019, focused on the consolidated financial statements for 2018. After detailed examination, we approved the consolidated financial statements of the TRATON GROUP for 2018, which were prepared by the Executive Board. On February 20, 2019, we also deliberated on the agenda for the 2019 Annual General Meeting and for two Extraordinary General Meetings concerning the increase in the Company's share capital, the creation of Authorized Capital 2019, the authorization of the Executive Board to issue convertible bonds and/or bonds with warrants, the creation of contingent capital, and authorization to purchase and use the Company's own shares. In addition, we resolved to engage PwC to audit TRATON SE's 2019 annual financial statements — provided the 2019 Annual General Meeting elects PwC as the auditors for the year under review.

Supervisory Board conference call on June 3, 2019

In a meeting held in the form of a telephone conference, we discussed in greater detail the current status of and the next steps in the Company's IPO process and the related issuing prospectus as well as the "intention to float" announcement.

Supervisory Board meeting on June 7, 2019

The main items on the agenda of the second meeting in June 2019 concerned deliberations on matters such as the TRATON GROUP's order situation, sales revenue, earnings, and employment. The EU CO_2 emissions limits for trucks and buses were also discussed. A further topic was the target for the percentage of women on the Executive Board.

Supervisory Board meeting on September 12, 2019

The September meeting focused on a discussion of the business performance of TRATON SE in the first half of the year and on the preliminary status of the corporate planning for the period from 2019 to 2024. In addition, the Supervisory Board discussed issues relating to the EU General Data Protection Regulation and the approach to non-auditing activities.

Supervisory Board meeting on October 25, 2019

In addition to the Company's business performance, we discussed in greater detail the corporate planning for the period from 2019 to 2024. Moreover, we dealt with the targets for the composition of the Supervisory Board, the profile of skills and expertise for the Supervisory Board and the Executive Board, and the Declaration of Conformity of the Company's Executive Board and the Supervisory Board with respect to the Government Commission on the German Corporate Governance Code in accordance with section 161 of the *Aktiengesetz* (AktG — German Stock Corporation Code). The resolutions on the targets for the composition of the Supervisory Board, the profile of skills and expertise, the diversity concept, and the Declaration of Conformity were passed in writing on November 25, 2019, following further deliberation.

Conflicts of interest

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

Corporate governance and Declaration of Conformity

In December 2019, the Executive Board and the Supervisory Board issued the annual Declaration of Conformity. This is permanently available on TRATON SE's website at https://ir.traton.com/download/companies/traton/Declaration/TRATON_SE_Entsprechenserklaerung_2019_EN.pdf. Detailed explanations of and the reasoning behind the departures from the recommendations of the German Corporate Governance Code can be found in the Declaration of Conformity dated December 2019.

Further information on corporate governance at TRATON is available in our Corporate Governance Report, see pages 32ff. of this Annual Report.

Changes to the composition of the Supervisory Board and the Executive Board

Before the Company was converted into a Societas Europaea on January 17, 2019, its Supervisory Board was composed of twelve members, namely six shareholder representatives and six employee representatives. The six shareholder representatives were Mr. Hans Dieter Pötsch, Dr. Manfred Döss, Mr. Gunnar Kilian, Dr. Ferdinand Oliver Porsche, Ms. Hiltrud Werner, and Mr. Frank Witter. The employee representatives were Mr. Athanasios Stimoniaris, Mr. Torsten Bechstädt, Ms. Lisa Lorentzon, Mr. Michael Lyngsie, Mr. Bernd Osterloh, and Mr. Günther Pröbster.

Since the Company's reorganization, the Supervisory Board has been composed of 20 members: ten shareholder representatives and ten employee representatives. With the exception of Dr. Ferdinand Oliver Porsche and Mr. Günther Pröbster, the Supervisory Board members of TRATON AG were also appointed as Supervisory Board members of TRATON SE. The following persons additionally became members of the Supervisory Board of TRATON SE. As shareholder representatives: Dr. Albert Kirchmann, Dr. Julia Kuhn-Piëch, Nina Macpherson, Dr. Dr. Christian Porsche, and Dr. Wolf-Michael Schmidt; as employee representatives: Mari Carlquist, Jürgen Kerner, Bo Luthin, Karina Schnur, and Steffen Zieger. The newly constituent Supervisory Board elected Mr. Hans Dieter Pötsch as its Chairman and Mr. Athanasios Stimoniaris as its Deputy Chairman.

In connection with the conversion of the Company, the size and composition of the Executive Board were also modified. Prior to the adoption of the new legal form, the Executive Board of TRATON AG had been composed of the following five members: Mr. Andreas Renschler, Mr. Antonio Roberto Cortes, Mr. Joachim Drees, Mr. Henrik Henriksson, Mr. Christian Schulz. After the adoption of the new legal form, the number of members of the Executive Board was increased to seven. Dr. Carsten Intra and Mr. Christian Levin were appointed to the Executive Board of TRATON SE. The other members of TRATON AG's Executive Board were appointed as Executive Board members of TRATON SE.

Audit of the annual and consolidated financial statements

In accordance with our proposal, on February 20, 2019, the Annual General Meeting of TRATON SE elected PricewaterhouseCoopers GmbH Wirtschaftsprüfungsgesellschaft, Munich, as the auditors for fiscal 2019. The Supervisory Board issued the concrete audit engagement letter to PwC in line with the Audit Committee's recommendations and specified the areas of emphasis of the audit.

The auditors issued unqualified audit opinions on the 2019 annual financial statements of TRATON SE and the 2019 consolidated financial statements for the TRATON GROUP, plus the Combined Management Report.

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

The members of the Audit Committee and the members of the Supervisory Board received the documents relating to the annual financial statements and the audit reports prepared by the auditors in good time for the meetings of these committees on February 18, 2020, and February 20, 2020, respectively.

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

Based on the audit reports by the auditors and its discussion with them as well as its own findings, the Audit Committee prepared the Supervisory Board's examination of the consolidated financial statements and the annual financial statements of TRATON SE, as well as the Combined Management Report, and reported on them in the Supervisory Board meeting on February 20, 2020. After this, it recommended that the Supervisory Board approve the annual financial statements.

We examined these documents in depth in the knowledge of, and taking into account, the report by the Audit Committee and the auditors' report, and in our discussions with them. We came to the conclusion that these reports comply with the applicable requirements and that the assessments by the Executive Board of the position of the Company and the Group presented in the Combined Management Report correspond to those of the Supervisory Board. We therefore concurred with the results of the audit by the auditors in our meeting on February 20, 2020, and approved the annual financial statements prepared by the Executive Board and the consolidated financial statements. The annual financial statements are thus adopted.

The Supervisory Board would like to thank all the members of the Executive Board and the employees of the TRATON GROUP's companies for their achievements and active commitment. We also wish to extend our thanks to the employee representatives for their objective and constructive cooperation in the interests of our Company.

Munich, February 20, 2020

On behalf of the Supervisory Board:
Hans Dieter Pötsch
Chairman of the Supervisory Board

AT A GLANCE

TRATON GROUP

Trucks and buses (units)	2019	2018	Change
Order intake	227,240	243,714	–7%
Unit sales	242,219	232,992	4%
of which trucks[1]	220,723	210,363	5%
of which buses	21,496	22,629	–5%
TRATON GROUP financial key performance indicators			
Sales revenue (€ million)	26,901	25,927	4%
Operating profit (€ million)	1,884	1,513	25%
Operating profit (adjusted) (€ million)[3]	1,871	1,650	13%
Operating return on sales (in %)	7.0	5.8	1.2 pp
Operating return on sales (adjusted) (in %)[3]	7.0	6.4	0.6 pp
Industrial Business			
Sales revenue (€ million)	26,444	24,963	6%
Operating profit (€ million)	1,741	1,346	29%
Operating profit (adjusted) (€ million)[3]	1,729	1,484	17%
Operating return on sales (in %)	6.6	5.4	1.2 pp
Operating return on sales (adjusted) (in %)[3]	6.5	5.9	0.6 pp
Return on investment (in %)	9.7	8.6	1.1 pp
Primary R&D costs (€ million)	1,376	1,411	–2%
Capital expenditures in property, plant, and equipment, and intangible assets (€ million)	993	931	7%
Net cash flow (€ million)	2,711	221	2,490
Cash conversion rate (in %)	179	14	165 pp
Net liquidity (€ million)[2]	1,500	227	1,273
Financial Services			
Sales revenue (€ million)	849	760	12%
Operating profit (€ million)	142	138	3%
Net portfolio (€ million)[2]	9,936	8,699	1,237

1 Incl. MAN TGE vans (2019: 14,788 units; 2018: 7,871 units)

2 As of December 31, 2019, and December 31, 2018

3 Not audited

TRATON ON THE CAPITAL MARKETS

Successful IPO

TRATON SE celebrated its IPO on June 28, 2019. TRATON shares are listed under the ticker symbol 8TRA in the Regulated Market of the Frankfurt Stock Exchange (Prime Standard) and in the Regulated Market (reglerad marknad) of Nasdaq Stockholm (Large Cap Segment).

TRATON shares were initially quoted at €27.00 on the Frankfurt Stock Exchange and SEK 281.15 on Nasdaq Stockholm. Based on the offer price, the placement resulted in a market capitalization of €13.5 billion for TRATON.

A total of 51,500,000 no-par value common bearer shares (no-par value shares) of Volkswagen AG were placed, carrying full dividend rights in euros for fiscal year 2019.

Stock markets rise further in 2019 despite uncertainties

In spite of some uncertainties, the global stock markets recorded growth in 2019, accompanied by a high level of volatility in most regions. At times, some key stock indices reached all-time highs.

The expansionary monetary policy pursued by the Fed, which cut its key lending rate in three stages to 1.50% in the face of stable unemployment and relatively moderate inflation figures driven by weakening economic growth, provided a positive stimulus. The European Central Bank also continued its expansionary monetary policy in light of weak economic growth. Although preliminary estimates by the International Monetary Fund (IMF) put global economic growth in 2019 at a continued robust 2.9%, this was the weakest growth since the financial crisis a decade ago.

Uncertainties that arose repeatedly in the course of 2019 and were triggered in particular by the trade dispute between the U.S.A. and China weighed on the financial markets and ensured a high level of volatility. Another factor was the uncertain outcome of the negotiations on the United Kingdom's exit from the European Union. Noticeably weaker leading economic indicators and associated concerns about future global economic growth depressed financial market sentiment, especially in the second half of 2019.

The Stoxx Europe 50, which is the index of the largest listed European companies, rose by 23.3% in 2019. The Dax, Germany's leading index, posted somewhat stronger growth at 25.5%. The SDax, which comprises the 70 largest companies in Germany outside the Dax and the MDax, grew by 28.9%. The Stoxx Europe 600 Industrial Goods & Services (SXNP) index, whose members are the largest listed European companies in the industrial goods and services sector, recorded 32.1% growth over the course of the year 2019.

TRATON experiences volatile share price performance

Following a high of €27.27 on the Frankfurt Stock Exchange on July 4, 2019, TRATON shares came under pressure in August in a weak stock market environment, reaching their low of €22.20 on August 15, 2019. In particular, the share price was negatively affected by recurring uncertainties about U.S. economic policies, the Brexit negotiations, and concerns about future unit sales trends in the commercial vehicle industry as a consequence of weaker economic indicators. The share price on the Nasdaq Stockholm in Sweden reached its high of SEK 287.00 on July 2, 2019, and its low of SEK 239.80 for 2019 on August 28, 2019.

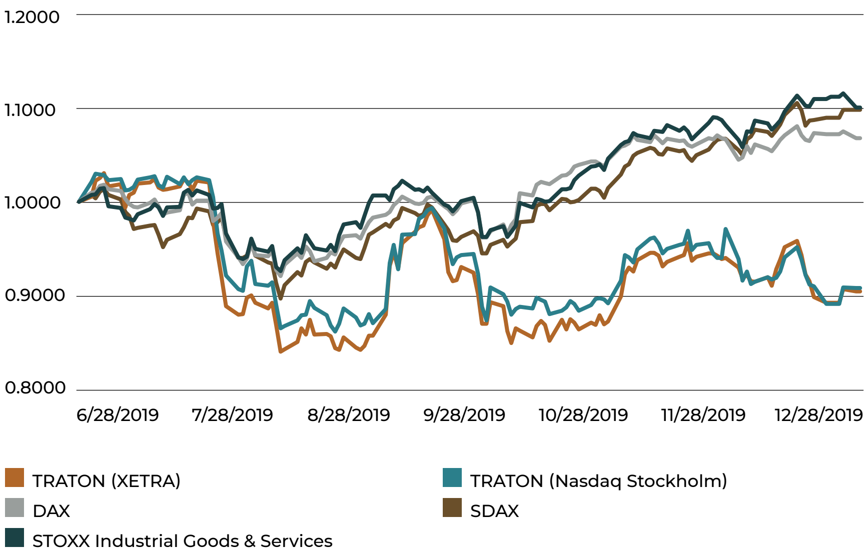
Following a recovery in the meantime and a second phase of weakness, TRATON shares benefited from a significantly improved stock market environment starting in early November. The announcement of the nine-month figures and the reiteration of the outlook for fiscal year 2019 also supported the price growth. Weaker market data accompanied by a further increase in uncertainty about unit sales growth in the commercial vehicle industry in 2020 weighed on our share price at the end of the year.

TRATON shares were priced at €23.92 and SEK 252.80 on December 31, 2019. This resulted in a decrease of 9.6% and 9.2% in the share price compared with the initial listing on June 28, 2019.

TRATON SE's market capitalization at year-end was €12.0 billion. TRATON SE's shares have been quoted in the SDax since September 16, 2019.

Currently, 17 financial analysts have issued an investment recommendation for TRATON shares. At the end of 2019, nine analysts voted for "Buy" and eight for "Hold."

TRATON SHARE PRICE PERFORMANCE COMPARED WITH SELECTED INDICES SINCE THE IPO (JUNE 28, 2019, INDEXED)



Significant increase in earnings per share

Earnings per share are calculated by dividing consolidated profit after tax attributable to TRATON SE shareholders by the number of shares outstanding.

Earnings per share rose by 9% to €3.04 in the previous fiscal year. This growth was the result of a sharp increase in operating profit and a lower tax rate.

Proposed dividend of €1.00 per share

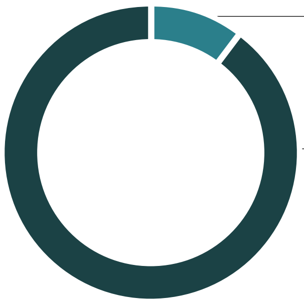
The Executive Board and Supervisory Board of TRATON SE are proposing to the Annual General Meeting to be held on May 28, 2020, to pay a dividend of €1.00 per share for fiscal year 2019. This proposal corresponds to a total distribution of €500 million and a distribution rate of 33% of consolidated profit after tax attributable to TRATON SE shareholders. The distribution rate would thus lie within TRATON's target range of 30 to 40% of consolidated profit after tax.

Based on the proposed dividend and the average annual price of TRATON shares, this produces a dividend yield of 4.1% for 2019.

Free float at 10.3%

TRATON has an international investor base, including from Germany, Sweden, the United Kingdom, and the U.S.A., comprising both institutional and private investors. The largest single shareholder is Volkswagen Finance Luxemburg S.A., Luxembourg, a Volkswagen Group company, which holds 89.7% of the share capital. The free float calculated in accordance with the criteria used by Deutsche Börse was 10.3% on December 31, 2019.

SHAREHOLDER STRUCTURE AS OF DECEMBER 31, 2019 (AS % OF THE SHARE CAPITAL)



BASIC DATA FOR TRATON SHARES

Class	No-par value common bearer shares
ISIN	DE000TRATON7
WKN (German Securities Identification Number)	TRATON
Stock exchange	Frankfurt Stock Exchange Nasdaq Stockholm
Segment	Regulated Market (Prime Standard) of the Frankfurt Stock Exchange Large Cap Segment of Nasdaq Stockholm
Bloomberg ticker symbol	8TRA GY/8TRA SS
Reuters ticker symbol	8TRA.DE/8TRA.ST
Index membership (selection)	SDax (Deutsche Börse) OMX Stockholm All Share Index
Number of shares	500,000,000
Free float	10.28%

TRATON share capital

TRATON SE's share capital at the end of fiscal year 2019 was €500 million. It is composed of 500,000,000 no-par value shares, each with a notional value of €1.00. All shares carry full dividend rights in euros.

TRATON's investor relations activities

In the run-up to the IPO, a wide range of group and one-on-one meetings were held with investors in Europe and the U.S.A. in the course of a roadshow. In total, TRATON's management met with more than 400 potential investors.

In the period since the IPO, we have continued to provide timely information to institutional investors and analysts, as well as retail investors, about the TRATON GROUP's business performance and strategic focus. Additionally, we held ongoing talks and meetings with institutional investors and analysts at roadshows and investor conferences in Europe and the U.S.A.

At its Innovation Day in Sweden in October, the TRATON GROUP presented a broad spectrum of innovations to analysts, investors, and journalists. These ranged far beyond new vehicles to include new forms of collaboration. MAN, Scania, and Volkswagen Caminhões e Ônibus presented innovative solutions in the fields of electric mobility, autonomous driving, and networked systems.

TRATON investor relations information

You can find further information about TRATON shares as well as financial news, financial reports, presentations, information about the Annual General Meeting, and contact details at http://ir.traton.com.

KEY PERFORMANCE INDICATORS FOR TRATON SHARES

	2019
Earnings per share from continuing operations in € (diluted/basic)	3.04
Earnings per share from continuing and discontinued operations in € (diluted/basic)	3.04
Price-earnings ratio (PE ratio)[1]	7.9
Dividend per share (€)[2]	1.00
Dividend yield (in %)[3]	4.1
Distribution ratio (in %)	33
Xetra (€)	
Year-end closing price	23.92
Annual average price	24.37
Annual high	27.27
Annual low	22.20
Nasdaq Stockholm (SEK)	
Year-end closing price	252.80
Annual average price	260.29
Annual high	287.00
Annual low	239.80
Number of shares (million)[4]	500
Market capitalization (€ billion)[4]	12.0

1 Earnings per share attributable to shareholders at year-end closing Xetra price

2 Proposed dividend, subject to approval by the 2020 Annual General Meeting

3 Based on the proposed dividend and the annual average price of TRATON shares (Xetra trading), source: Bloomberg

4 As of December 31, 2019

RESPONSIBILITY IN THE TRATON GROUP

Sustainability and corporate responsibility

For TRATON, being fit for the future means understanding and managing global challenges. We have to identify where opportunities and risks for both sustainable development and for our business success present themselves and focus our actions accordingly. Our goal is to actively shape the transportation industry of the future and become a Global Champion. In order to achieve this goal, we have to consistently act in a sustainable manner and fulfill our responsibility as a company. That applies to both our processes and our products. In doing so, we are laying the foundation for strengthening our market position in the long term. In 2019, our sustainability efforts received the Prime status from the ISS ESG rating agency. With a rating of C+ (on a scale of A+ to D-), TRATON ranks in the top 15% of companies in the transportation industry.

We are working hard to continuously improve the entire value chain with regard to both economic and ecological factors and to generate the maximum benefit for our customers and for society as a whole across the entire life cycle. As part of this process, we are keeping an eye on the scarcity of natural resources and the advancing consequences of climate change, both of which are key factors. Companies in the transportation sector are faced with the challenge of lowering their CO_2 emissions and developing innovative strategies for zero-emission and resource-efficient products. The TRATON GROUP is doing just that across many levels.

Our strong brands MAN, Scania, and Volkswagen Caminhões e Ônibus are in the best position to make the transportation industry more sustainable with their products and services. Sustainability and corporate responsibility have been a firmly established component of the TRATON GROUP brands for over ten years. We will be continuing our ongoing efforts to drive both of these issues forward. The brands take over the operational management and organization of the activities depending on where they are positioned. We are searching for and finding autonomous answers to the upcoming challenges as part of our journey to become a Global Champion of the transportation industry.

Selected examples of our brands' sustainability activities are presented below. Further information on the organization, management, and measures across the different fields of action is available in the sustainability reports of Scania and MAN.

Committed to climate protection

The TRATON GROUP complies with the requirement of the United Nations to take more bold action to fight climate change and has committed itself to various climate goals.

At Scania, these include halving its CO_2 emissions in both inland transportation and in its own operations by 2025 as against 2015. Scania already intends to only use electricity that comes from 100% renewable energy sources in 2020. In order to anchor these goals across the whole company, Scania organized a Climate Day ahead of the 2019 UN Climate Action Summit. 52,000 Scania employees in more than 100 countries stopped working for one hour to find out more about climate science and sustainability and to discuss how each team can make a contribution.

MAN already adopted a Group-wide Climate Strategy back in 2011. It entails the binding goal of reducing absolute CO_2 emissions at MAN production sites by 25% by 2020 as against the 2008 baseline. It was possible to reach this goal early in 2018 with a reduction of 26% compared to 2008. MAN is now continuing to expand its climate protection strategy through increased use of renewable energies and the introduction of new energy supply concepts.

Sustainability as well as protecting and respecting the environment are key strategic issues in the TRATON GROUP. To ensure compliance with the requirements of the Paris climate agreement, the institutions of the European Union resolved a CO_2 regime for heavy-duty trucks weighing more than 16 tons for the first time in the first half of 2019. Truck manufacturers have to reduce the CO_2 emissions of their new vehicle fleets in the EU by 15% by 2025, with a reduction target of 30% by 2030. The reference period for all reduction targets is the period from July 1, 2019, to June 30, 2020. The TRATON GROUP is fully committed to further reducing greenhouse gas emissions caused by commercial vehicles.

Future-proof solutions

In a quest to turn low-pollutant urban mobility with as close to zero local emissions as possible into reality, MAN continues to drive the electrification of its commercial vehicles forward. The fully electric MAN eTGE van meets all the main requirements faced by intercity delivery operations of the future in terms of local emissions and the level of noise produced. This vehicle complies with the funding criteria of the *Bundesamt für Wirtschaft und Ausfuhrkontrolle* (BAFA — Federal Office of Economics and Export Control) with respect to the total cost of ownership to the same extent as its diesel counterparts. As part of the European Transport Sustainability Award 2020, the MAN eTGE was named Europe's most sustainable vehicle by the Transport specialist magazine in the “Vans and delivery trucks” category.

At the start of 2019, Scania took part in a pilot study to test zero-noise overnight delivery in six McDonald's restaurants in Stockholm. As part of this pilot project, a Scania hybrid truck operated by logistics provider HAVI was used, capable of traveling up to ten kilometers in the innercity area in electric mode without producing any noise. By operating on empty roads at night, these trucks make deliveries more efficient while reducing traffic jams and lowering emissions during rush hour. Trucks under the Euro 6 emission standard all run on renewable hydrotreated vegetable oil (HVO) outside of the city. This means that they produce 90% less CO_2 emissions than their diesel counterparts.

Volkswagen Caminhões e Ônibus is working to pave the way for the next transportation generation and has set the course for this by establishing a pioneering e-Consortium at its development and production complex in Resende, Brazil. This business model brings new partner companies on board that also work offsite at the customers' premises. The e-Consortium encompasses all aspects of manufacturing and operating electric trucks: it covers the vehicles' entire life cycle, from developing components locally all the way to setting up the infrastructure required for production. This also includes battery disposal at the end of their useful life. This concept makes Volkswagen Caminhões e Ônibus the world's first vehicle manufacturer to offer an entire support structure comprising products and services for its electric trucks.

HIGHLIGHTS 2019

2019 was a groundbreaking year for the TRATON GROUP. The change in our legal form in January from a German stock corporation (AG) to a European company (Societas Europaea, SE) reinforced the Group's international corporate identity. The Company has been named TRATON SE since then.

The whole year, and in particular the first six months, was shaped by our IPO. It increased our financial flexibility and opened up direct access to the capital markets. June 28, 2019, was the first trading day for TRATON shares, and represented a key milestone in the corporate history of the Group. The successful dual listing on the Frankfurt Stock Exchange in Germany and Nasdaq Stockholm in Sweden underscores the international positioning of the TRATON GROUP.

At the Innovation Day in October in Södertälje, Sweden, the TRATON GROUP showcased itself as an innovative company and announced forward-looking investments in electric mobility and digitalization totaling €2 billion by the year 2025.

A procurement joint venture was formed in October as part of the strategic partnership with Japan-based Hino Motors, Ltd.: HINO & TRATON Global Procurement GmbH. Navistar and Scania agreed to cooperate in the field of mining vehicles for the Canadian market under the umbrella of TRATON's alliance. This will see Scania delivering heavy-duty vehicles in 2020 for the first tests by selected operators.

The TRATON brands Scania, MAN, and Volkswagen Caminhões e Ônibus recorded a large number of additional highlights in 2019:

Scania showcased sustainable solutions for public transportation that, in particular, offer the right concepts to overcome the future challenges facing densely populated metropolises during the UITP 2019 Global Public Transport Summit.

Scania invited the UITP participants to Barkarbystaden, Sweden, to present the first examples of implementing an innovative traffic solution on site, including autonomous shuttle buses in scheduled local public operations. Scania also presented its new battery-electric self-driving urban concept vehicle, NXT, at the UITP Summit. It offers wide-ranging flexibility, for example delivering goods during the day and collecting trash at night. In cooperation with Scandinavian Biogas Fuel AB, Sweden's largest biogas producer, Scania presented a technique for converting food waste into renewable biogas, for example.

At the TRATON Innovation Day in September, Scania presented additional forward-looking solutions for the “Autonomous Driving” area of application in the shape of the autonomous AXL concept vehicle for use in mines.

In October 2019, Scania also received the Truck of the Year award for the Latin American market at the international FENATRAN trade show in Brazil. And the new Scania Citywide, Scania's first fully electric bus in series production for urban transportation, received an award at the Busworld trade fair in Brussels. The Scania R450 was once again crowned the Green Truck 2019. This accolade is awarded to the most fuel-efficient and eco-friendly commercial vehicle in its category.

MAN also focused on development activities in the area of electric powertrains for distribution trucks and city buses in 2019. MAN and the Austrian Council for Sustainable Logistics have been testing the first fully electric MAN eTGM distribution trucks in day-to-day logistics operations since September 2018. The MAN eTGM truck has also been used for plant logistics at the Porsche production site in Zuffenhausen since the end of 2018. So far, the outcomes of the test drives have been very positive. MAN is planning to produce a small batch series of fully electric trucks on the basis of the tried-and-tested vehicle concept.

MAN has entered into development partnerships, including with the cities of Munich, Hamburg, Wolfsburg, and Luxembourg, for the production of its fully electric city bus with the aim of integrating everyday experiences into series development. At the end of 2019, MAN delivered the first two fully electric Lion's City E buses to public transportation companies Verkehrsbetriebe Hamburg-Holstein GmbH and Hamburger Hochbahn AG to run extensive practical tests in day-to-day passenger operations.

In terms of digitalization and automation of commercial vehicles, the partnership between DB Schenker and MAN marked the first time a logistics company and a vehicle manufacturer tested networked truck convoys in real-life logistics operations. The findings of this platooning project, which took place under the scientific supervision of the Fresenius University of Applied Sciences, were presented in May 2019. The project partners were able to clearly show that platooning is robust and reliable in real-life everyday operations and is well received by the drivers. The project also proved that truck platoons have the potential to bring about more efficient use of highway space, fewer traffic jams, and improved road safety.

In 2019, MAN Truck & Bus prepared for the product launch of the new generation of trucks — a milestone in the company's history. The product was officially launched in February 2020.

Volkswagen Caminhões e Ônibus continued to drive the introduction of electric trucks in Brazil forward in 2019. As well as configuring new models using a new and exclusive architecture solution, the company announced its decision to set up a pioneering e-Consortium at its development and production site in Resende, Brazil, during the TRATON GROUP Innovation Day in October 2019.

The Constellation truck line topped the production milestone of 240,000 units in 2019 since its introduction in 2005. Another success story is the new Delivery series from Volkswagen Caminhões e Ônibus, of which more than 25,000 units have already been produced since its launch in 2017. Volkswagen Caminhões e Ônibus also strengthened its market position in the bus segment: since 1993, more than 150,000 Volksbus chassis have been produced.

Additionally, the Volkswagen Caminhões e Ônibus brand was named one of the top employers in Brazil in 2019.

TRATON GLOBAL CHAMPION STRATEGY

The TRATON GROUP is dedicated to creating a Global Champion in the transportation industry — a leader in profitability, with global presence and customer-focused innovation. The TRATON GROUP was founded in 2015 and unites the leading brands Scania, MAN, and Volkswagen Caminhões e Ônibus under one roof. The ultimate goal of TRATON is to enable our brands to serve our customers with the best products, services, and solutions. To achieve this, the TRATON GROUP has established its Global Champion Strategy.

TRATON's Global Champion Strategy consists of four key pillars: **(i) Brand Performance** — profitable growth and increased performance of our brands Scania, MAN, and Volkswagen Caminhões e Ônibus; **(ii) Cooperation & Synergies** — exploiting those across our brands; **(iii) Global Expansion** — to leverage further scale; and **(iv) Customer-Focused Innovation** — to address future challenges in our industry and transform transportation. TRATON's Global Champion Strategy is based on a set of shared values and common beliefs, i.e., customer focus, determination, respect, team spirit, and integrity.

By implementing the Global Champion Strategy, the TRATON GROUP aims to achieve its strategic target of 9.0% adjusted return on sales[1] over the cycle.

1 Not audited

(i) Brand Performance

The TRATON GROUP's leading brands Scania, MAN, and Volkswagen Caminhões e Ônibus form the foundation of the Group. The brands' focus is sustaining and further developing the business in the Group's core markets. This includes maintaining leading market positions in Europe and Brazil and generating further growth by increasing the market share in existing and new markets.

We expect that the new truck generations for each of the TRATON GROUP brands, the first new product generations since 1995 for Scania, since 2000 for MAN, and since 2005 for Volkswagen Caminhões e Ônibus, will further enhance their technology and innovation leadership. This will contribute to customer satisfaction and increased sales revenue as well as market penetration. In particular, the new truck generations aim at optimizing customers' TCO (total cost of ownership) through lower fuel consumption, increased operational uptime, and improvements in safety. With regard to Scania, the introduction of the new truck generation was concluded in the first quarter of 2019. Additionally, in light of its large and growing rolling fleet, the TRATON GROUP considers itself well-positioned to further increase sales revenue from after-sales services.

Furthermore, all brands are focused on improving their operational performance. All have implemented a number of strategic brand performance and operational improvement programs over the last few years. We assume there is still potential to further advance brand performance and increase the TRATON GROUP's profitability. Therefore, the brands continue to focus on improving their performance with additional dedicated performance programs. In its ongoing Product Cost Optimization Program, which is part of its Focus & Ambition program, Scania, for example, is focused on improving the product cost of its new truck generation globally. MAN aims to increase its market share in Europe with the launch of its new truck generation, among other things, and to continuously work on its cost base under its Operational Excellence program. Volkswagen Caminhões e Ônibus aims to leverage the recovering Brazilian market utilizing its new Delivery truck generation.

(ii) Cooperation & Synergies

As part of its Global Champion Strategy, the TRATON GROUP plans to further improve long-term cooperation between the brands. This cooperation aims to realize synergies across the Group's brands and alliance partners, which will contribute to our profitability.

The TRATON GROUP intends to leverage synergies across five key dimensions:

- Purchasing (including lead buying of parts and components);
- Modularization and components (increasing the share of common components across different products);
- Joint powertrain (in particular common base engine, exhaust aftertreatment, transmission, and axle);
- New technologies (common electric powertrain, autonomous driving);
- Production footprint and logistics (optimizing global footprint in terms of facilities and logistics processes).

In all of these categories a multitude of projects have been established to materialize the identified synergies. In general, purchasing synergies have the shortest time of implementation, and therefore the majority of synergies that have been implemented to date relate to this category.

(iii) Global Expansion

As part of its global expansion, the TRATON GROUP has formed strategic long-term alliances with selected partners and associates in order to access all essential and profitable truck markets. While the TRATON GROUP is mainly active in the European, South American, Middle Eastern, African, and Asian markets, its associates Navistar and Sinotruk operate mainly in North America (Navistar) and China (Sinotruk), and its strategic partner Hino Motors is mainly active in Japan, Southeast Asia, and North America.

The TRATON GROUP views its strategic alliances as a catalyst for strengthening its position en route to becoming the Global Champion in the commercial vehicle industry. These strategic alliances help the TRATON GROUP gain access to all the relevant markets and leverage economies of scale and synergies, especially in the areas of powertrain technology, new technological developments, and purchasing.

(iv) Customer-Focused Innovation

We expect that creating a Global Champion will enable us to successfully address future technological challenges and to seize opportunities associated with three megatrends that are currently transforming the transportation industry: globalization, digitalization, and sustainability. The TRATON GROUP is developing solutions in the areas of autonomous driving, connectivity, and electrification/alternative fuels that address these megatrends. These solutions are set to reduce inefficiencies and enhance customer value and TCO, which is a key factor in customers' purchase decisions.

Our platform and scale in the transportation industry form a basis to develop new technologies and transportation solutions. The ability to lead the transportation sector toward sustainability is a prerequisite for the TRATON GROUP's long-term success.

CORPORATE GOVERNANCE

Corporate Governance Statement, Corporate Governance Report

Corporate governance at TRATON forms the framework for the management and supervision of the Company and the Group. Good corporate governance lays the foundations for responsible leadership and control of our Company and for successful business performance in the long term. At the same time, good corporate governance fosters the confidence that the financial markets, our investors, customers, business partners, and employees have in our Company, the Group, and in the work we do.

Our system of corporate governance is determined by applicable laws, our Articles of Association, internal regulations and guidelines, as well as by national and international standards of good corporate governance. The German Corporate Governance Code (the Code) represents the statutory provisions for the governance of German stock corporations that apply to TRATON and provides recommendations and suggestions for responsible and transparent corporate governance at TRATON in accordance with recognized standards.

A domination and profit and loss transfer agreement between the former Volkswagen Coaching GmbH (now TRATON SE) and Volkswagen AG had been in place since February 3, 2004 (most recently amended on April 29, 2014). This domination and profit and loss transfer agreement expired at the end of December 31, 2019, pursuant to section 307 of the *Aktiengesetz* (AktG — German Stock Corporation Act). TRATON SE will therefore undertake a profit transfer for the last time for the 2019 fiscal year.

I. Corporate Governance at TRATON[1]

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

Declaration of Conformity

The Executive Board and Supervisory Board of TRATON SE issued their annual Declaration of Conformity in December 2019 as follows:

"The Executive Board and Supervisory Board of TRATON SE declare that the recommendations of the Government Commission of the German Corporate Governance Code in the version that was published by the German Ministry of Justice in the Federal Gazette *(Bundesanzeiger)* on 24 April 2017 in the version dated 7 February 2017 have been complied with since TRATON SE was listed on the stock exchange on 28 June 2019, with the exception of section 5.3.2(3) sentence 2 (independence of the Chair of the Audit Committee), section 5.4.1(2) sentence 1 (Objectives regarding the composition of the Supervisory Board and Profile of Skills and Expertise) and section 5.4.1(6–8) (disclosure regarding election proposals). Since the development of objectives regarding the composition of the Supervisory Board and a profile of skills and expertise as well as the respective resolution of the Supervisory Board on 25 November 2019, the recommendations of the Government Commission of the German Corporate Governance Code in the version dated 7 February 2017 have been complied with, with the exception of section 5.3.2(3) sentence 2 (independence of the Chair of the Audit Committee) and section 5.4.1(6–8) (disclosure regarding election proposals).

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

Detailed explanations of and the reasoning behind the departures from the recommendations of the German Corporate Governance Code can be found in the Declaration of Conformity dated December 2019.

1. The recommendation in section 5.3.2(3) sentence 2 of the Code is not being complied with insofar as the Chairman of the Audit Committee of the Supervisory Board, Mr Frank Witter, is not independent within the meaning of section 5.4.2(2) of the Code in view of his position as a member of the Board of Management of Volkswagen AG. The Executive Board and Supervisory Board of TRATON SE consider it to be of prime importance that the Chair of the Audit Committee have the necessary understanding of the profession and industry, especially in large, international, listed companies. Due to the personal competencies of Mr Witter it has been decided to deviate from this recommendation.

2. With regard to the recommendation in section 5.4.1(6–8) of the Code according to which certain circumstances shall be disclosed when the Supervisory Board makes election proposals to the General Meeting, the guidelines in the Code are vague and the definitions unclear. A departure from the Code is therefore being disclosed as a precautionary measure. Notwithstanding this, the Supervisory Board will make every effort to satisfy the guidelines in section 5.4.1(6–8) of the Code."

The Declaration of Conformity is available on the Internet at https://ir.traton.com/websites/traton/English/5000/corporate-governance.html.

Our listed subsidiary MAN SE has also issued a Declaration of Conformity with the Code, which is available at https://www.corporate.man.eu/en/investor-relations/corporate-governance/corporate-governance-at-man/Corporate-Governance-at-MAN.html.

Swedish Corporate Governance Code

Furthermore, TRATON has published a statement regarding departures by TRATON's corporate governance system from the Swedish Corporate Governance Code. This is also available at https://ir.traton.com/websites/traton/English/5000/corporate-governance.html.

The Swedish Corporate Governance Code states that companies that are listed in Sweden can decide whether to comply with the Swedish code or with the relevant local regulations in the countries where those companies are headquartered. TRATON has decided to comply with the German Corporate Governance Code and not with the Swedish Corporate Governance Code.

Annual General Meeting

At the Annual General Meeting of a European stock corporation (Societas Europaea), shareholders exercise their rights in relation to the corporation's affairs. These include the shareholders exercising their voting rights, being provided with information, and entering into a dialogue with the Executive and Supervisory Boards.

TRATON SE will hold its first public Annual General Meeting in 2020 with the aim of comprehensively guaranteeing these shareholder rights. The convocation of the Annual General Meeting will be published in the Federal Gazette *(Bundesanzeiger)* in accordance with the legal deadlines and will also be available, inclusive of all reports and submissions for the Annual General Meeting, as of this date on the TRATON SE website.

Procedures of the Executive and Supervisory Boards as well as composition and procedures of their committees

TRATON SE has a two-tier structure comprising an Executive Board and a Supervisory Board. Both boards work closely together on behalf of the Company.

The Executive Board reports to the Supervisory Board regularly, promptly, and comprehensively in both written and oral form on all issues of relevance for the Company with regard to strategy, planning, and the position of the Company, the development of the business, the risk situation, risk management, and compliance. The Supervisory Board monitors how the Executive Board manages the Company. The Supervisory Board is directly involved in decisions of fundamental importance.

The Company's Executive Board comprised five members up until it changed its legal form to a European stock corporation on January 17, 2019. The Executive Board has comprised seven members since this change. The Executive Board does not have any committees.

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

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

The Company's Supervisory Board comprised twelve members up until it changed its legal form to a European stock corporation. Since this change, Supervisory Board has comprised 20 members, with equal numbers of shareholder and employee representatives. The Supervisory Board has formed a total of three committees (Presiding Committee, Nomination Committee, and Audit Committee).

Further details about the members of the Executive and Supervisory Boards as well as of the Supervisory Board committees can be obtained from the Report of the Supervisory Board and from the "Governing Bodies" chapter of the Annual Report.

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

– at least three members of the Supervisory Board should be persons who embody the criterion of internationality to a particularly high degree;
– at least two Supervisory Board positions on the shareholder side for persons with no potential conflicts of interest, and who are independent within the meaning of the Code;
– any person that sits on a governing body or is involved in an advisory capacity at one of the Company's major competitors should not be a member of the Supervisory Board;
– in addition, proposals for election should not, as a rule, include any persons who have reached the age of 75 at the time of the election or who have been a member of the Company's Supervisory Board for more than 15 years.

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

Ms. Macpherson as well as Dr. Kirchmann and Dr. Schmid are considered independent members of the Supervisory Board in accordance with the Code.

Furthermore, the Supervisory Board of TRATON SE should collectively possess the following skills and expertise:

– knowledge and experience of the Company itself,
– leadership or oversight experience in other medium-sized or large companies,
– experience in industries that are of importance to the TRATON GROUP, such as the mechanical engineering, automotive, and information technology sectors,
– knowledge of capital markets,
– human resources expertise (particularly the search for and selection of members of the Executive Board, and the succession process) and knowledge of incentive and remuneration systems for the Executive Board,
– expertise in the areas of financial reporting or auditing,
– expertise in the areas of law and compliance.

All aims have been fulfilled or taken into consideration, respectively. The resumes of the members of the Supervisory Board can be viewed at https://traton.com/en/company/Supervisory-Board.html.

Besides, a statutory quota of at least 30% women and at least 30% men applies to the composition of the Supervisory Board pursuant to section 17 (2) of the *SE-Ausführungsgesetz* (SEAG — German SE Implementation Act). These requirements have been met by the Supervisory Board of TRATON SE. These quotas have also been separately fulfilled by both the shareholder and employee sides.

In line with the Supervisory Board's age limit stipulation for members of the Executive Board, appointments of members of the Executive Board should, as a rule, end once those members have reached the age of 65. An extension by a maximum of three more years is possible.

In accordance with the requirements of the AktG and section 4.3.4 of the Code, members of the Executive Board may undertake secondary activities only with the Supervisory Board's consent.

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

Remuneration report

The remuneration system and the specific remuneration of the members of the Executive and Supervisory Boards are detailed in the Remuneration Report contained in the Annual Report.

Compliance/risk management

TRATON set up its Governance, Risk & Compliance ("GRC") function in 2015. This function is managed by the Head of GRC/Chief Compliance Officer of the Group, who reports directly to the Chief Executive Officer of TRATON SE. GRC is comprised by the Corporate GRC Office at TRATON SE and the decentralized GRC teams at the brands. The Corporate GRC Office of TRATON SE and the decentralized GRC teams are jointly responsible for compliance and risk management throughout the entire TRATON GROUP.

The Corporate GRC Office plays a central control and support role in respect of the Group's risk management and compliance activities. This includes specifying GRC principles and uniform minimum standards for the entire Group, as well as giving the brands the necessary flexibility to implement tangible GRC measures, which fit with their respective organizations and environments. The processes for whistleblowing and internal investigations, for example, are strictly standardized, with a central Investigation Office in place at TRATON SE. In contrast, GRC communication is embedded at brand level. The Corporate GRC Office also coordinates GRC support IT systems and takes action to improve the Group's GRC function in terms of effectiveness and efficiency.

Group-wide minimum standards specified by TRATON GRC are determined in line with the strategy objective of becoming the Global GRC Champion. In this regard, the strategy and the framework are continuously improved and reviewed. These minimum standards are specified in close consultation with the brands.

The Head of GRC/Chief Compliance Officer reports regularly, at least every quarter, to the Executive Board of the TRATON GROUP on the Group's risk exposure as well as on the current situation and on the GRC function's main activities. The Governance & Risk Board (GRB) as well as the Compliance Board (CB) were set up at TRATON level. This enables top-level executives from the entire Group to discuss relevant GRC issues regularly and in detail.

The GRC teams at brand level are responsible for implementing the compliance management and risk management systems at each brand. Each brand maintains a GRC organization, i.e., employees fully assigned to the GRC function. This organization is supported by a network of employees in the brands' subsidiaries, who are responsible for certain GRC activities, in particular risk reports, internal control systems, and compliance.

The TRATON GROUP GRC function's (including the GRC teams within the brands) main duties include:

- supporting a risk management process, which makes the Group's key business risks transparent and ensures a clear line of responsibility for risks and for implementing risk-reducing measures;
- providing a system for monitoring the effectiveness of internal controls and for taking the appropriate remedial action where necessary;
- providing and continuously improving a compliance program covering anti-corruption activities, antitrust law, and the prevention of money laundering, based on a comprehensive compliance-related risk assessment;
- issuing policies for relevant GRC topics, e.g., gifts and invitations, sponsorship and donations, as well as internal investigations;
- compliance audits of all business partners acting as sales intermediaries;
- providing various training courses to raise awareness and enhance knowledge of GRC-relevant topics;

- a range of different communication activities to promote compliance and integrity in accordance with each of the codes of conduct of the TRATON GROUP and the individual brands;
- providing compliance-related advice to all employees at central and local levels (Compliance Helpdesk);
- providing various information channels for whistleblowers, especially in the area of white-collar crime. This kind of information is followed up on in detail. Appropriate consequences are determined by the Committee for Disciplinary Action, depending on the outcome, and implemented by the line manager responsible.

In 2019 TRATON rolled out Volkswagen's Together4Integrity (T4I) program. This program is designed to promote the Group's integrity, culture, and risk initiatives, so that these are on a par with the Company's key priorities. The program's main purpose is the implementation of numerous measures, which are determined in accordance with the five principles detailed in the Ethics & Compliance Initiative Report (ECI). This initiative is an alliance of organizations that have committed to building and sustaining high-quality ethics and compliance programs. The GRC function has organized major kick-off events at both TRATON and the brands, at which employees from all levels were able to discuss the issues of compliance and integrity with members of each Executive Board team.

Furthermore, a range of compliance- and integrity-related communication activities were initiated last year. In particular, the frank clarification of situations in which workplace dilemmas could arise was fostered with the aid of the Dilemma Game, and articles on the topics of compliance and integrity were published on the intranet.

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

Transparency and communication

The website https://ir.traton.com/websites/traton/English/1/investor-relations.html provides shareholders with access to the Company's Articles of Association, consolidated financial statements for the TRATON GROUP, the MAN SE and Scania AB annual reports, the financial diary with all the relevant dates, and information about forthcoming events.

The Company's ad-hoc releases can also be accessed at https://ir.traton.com/websites/traton/English/4000/financial-news.html immediately after they have been published in compliance with the law. Likewise, notifications of voting rights pursuant to section 33ff. of the *Wertpapierhandelsgesetz* (WpHG — German Securities Trading Act) as well as disclosures of directors' dealings in accordance with Article 19 of the *Marktmissbrauchsverordnung* (Market Abuse Directive) and section 15a of the WpHG can also be found there.

Information about the Executive and Supervisory Boards of TRATON SE can be obtained at https://traton.com/en/company.html.

The above-mentioned information and documents are available in both German and English. Exceptions to this are documents relating to the Scania Group, which are only available in English, and the MAN SE annual reports, which are only available in German.

Financial reporting

The year-end consolidated financial statements of the TRATON GROUP are prepared by the Executive Board on the basis of the International Financial Reporting Standards (IFRSs), while the single-entity financial statements of TRATON SE are prepared in accordance with the German GAAP.

The Supervisory Board has set up an Audit Committee, which deals in particular with monitoring and the integrity of the financial reporting process, monitoring financial reporting, the effectiveness of the internal control system, of the risk management system, and of the internal audit system, of the annual audit and compliance. Furthermore, the Audit Committee submits a reasoned recommendation for the choice of external auditors to the Supervisory Board, obtains a statement regarding the auditors' independence, deals with the additional services provided by the auditors, drafts the resolution on issuing the audit engagement letter, and also deals with determining the areas of emphasis of the audit and agreeing the auditors' fees.

In line with the recommendation in section 7.1.2 of the Code, the half-yearly financial report is discussed by the Executive Board together with the Audit Committee prior to publication and the set publication dates are complied with.

II. Other Corporate Governance practices

TRATON has a Code of Conduct, which is the mandatory guideline on acting with integrity at TRATON and applies equally to all employees — from the Executive Board and managers down to each individual employee. The Code of Conduct focuses on integrity and the responsibility that each individual has — responsibility as a member of society, as a business partner, and in the workplace. With the aid of practical examples, it also explains how each individual can live up to this responsibility and behave with integrity — especially in conflict situations.

Furthermore, TRATON also expects its suppliers and business partners as well as their employees to act responsibly, comply with applicable laws everywhere and at all times, and respect core ethical values. TRATON has therefore issued its own Code of Conduct for Suppliers and Business Partners, which details minimum ethical standards to be met by TRATON's suppliers and business partners.

The Code of Conduct as well as the Code of Conduct for Suppliers and Business Partners are available at https://traton.com/en/company/compliance_risk.html.

Corporate responsibility and sustainability are integral components of TRATON's strategy. Our Group and our brands take sustainability to mean understanding and proactively addressing global challenges and recognizing the opportunities and risks of sustainable development. TRATON takes the expectations of our customers, of politicians, and of society on board and provides specific answers to the various challenges posed by sustainable mobility. Wherever we operate in the world, our goal is to meet the highest standards and partner with companies that are leading the way in terms of sustainability.

You can find further information on the topics of corporate responsibility and sustainability at https://ir.traton.com/websites/traton/English/7000/sustainability.html.

III. Target for percentage of women

Given the long-term nature of the employment contracts held by current members of the Executive Board, the Supervisory Board has set the target percentage for the proportion of females members of the Executive Board at 0% for the period up to June 27, 2024, in accordance with section 111 (5) of the AktG. Irrespective of the above, however, the Supervisory Board's long-term goal is to increase the proportion of female members of the Executive Board, and it therefore supports the Executive Board's work to increase the proportion of female members at the top executive levels in the Company.

Pursuant to section 76 (4) of the AktG, the Executive Board of TRATON SE has likewise set the following goals for females in the two management levels directly below the Executive Board in the period until December 31, 2023:

- 20% for females in the first management level below the Executive Board.
- 30% for females in the second management level below the Executive Board.

Please refer to the MAN SE Corporate Governance Report for the corresponding disclosures by TRATON SE subsidiaries, which are required by law to set target percentages.

IV. Disclosures on the diversity concept for the Executive Board and the Supervisory Board

A diversity concept for the Executive and Supervisory Boards is to be devised in accordance with section 289f (2) no. 6 of the *Handelsgesetzbuch* (HGB — German Commercial Code). This concept is to factor in aspects like age, gender, educational or occupational background.

The diversity concept for the Supervisory Board should comprise the following elements:

- the defined goals for the composition of the Supervisory Board;
- the profile of skills and expertise for the Supervisory Board;
- the gender quota of 30% for the composition of TRATON SE's Supervisory Board that is already imposed by law and must therefore be complied with in accordance with section 17 (2) of the SEAG.

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

The members of the Executive Board are to fit the following profile:

- Appointments of members of the Executive Board should, as a rule, end when those members reach the age of 65, although an extension by a maximum of three more years is possible.
- Members of the Executive Board should have long-standing management experience and contribute as much experience as possible from a range of different activities.
- The Executive Board should collectively have leadership experience in an international context.
- Skills and expertise that the Executive Board should collectively possess include long-standing experience in the fields of machinery/vehicle manufacturing, finance, and HR management.

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

The composition of TRATON SE's Supervisory Board is in line with the standards laid down in the diversity concept.

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

COMBINED MANAGEMENT REPORT

COMBINED MANAGEMENT REPORT OF TRATON SE, MUNICH, FOR THE PERIOD FROM JANUARY 1 TO DECEMBER 31, 2019

All figures shown are rounded, so minor discrepancies may arise from addition of these amounts. Comparable prior-year figures are presented in brackets alongside the figures for the fiscal year under review.

Key Information about the TRATON GROUP

1. Business activities and organization

With its Scania, MAN, and Volkswagen Caminhões e Ônibus brands, the TRATON GROUP is a leading global commercial vehicle manufacturer. TRATON's Global Champion Strategy seeks to make it a Global Champion in the industry through profitable growth and synergies, global expansion, and customer-focused innovations. Together with its partners Navistar International Corporation, Lisle, Illinois/U.S.A. (Navistar) (interest of 16.8%), Sinotruk (Hong Kong) Limited, Hong Kong/China (Sinotruk) (interest of 25% plus 1 share), and its strategic partner Hino Motors, Ltd., Tokyo/Japan (Hino Motors), the TRATON GROUP forms a strong common platform for future synergies, in particular in purchasing and development.

The TRATON GROUP (formerly Volkswagen Truck & Bus) was established in 2015 in order to concentrate the activities of the three commercial vehicle brands of Volkswagen AG, Wolfsburg. During this process, the organization was focused more sharply on commercial vehicles.

The TRATON GROUP's business activities are divided into the two reportable segments: Industrial Business and Financial Services. The Industrial Business segment combines the three operating units Scania Vehicles & Services (brand name: Scania), MAN Truck & Bus (brand name: MAN), and Volkswagen Caminhões e Ônibus, as well as holding companies and the Group's digital brand, RIO. The Financial Services segment consists solely of Scania Financial Services and offers customers a broad range of financial services, including dealer and customer finance, leasing, and insurance products. The TRATON GROUP's overall headcount is approximately 83,000.

The TRATON GROUP's vehicle brands are clearly positioned:

- The Scania brand is positioned as a premium innovation leader for sustainable transportation solutions.
- The MAN brand is a reliable business partner whose objective is to simplify its customers' business and to offer a full range of solutions, from light commercial vehicles through heavy-duty trucks.
- Volkswagen Caminhões e Ônibus offers excellent value with products that are tailored to growth markets such as Latin America and Africa.

A core component of the Group's business purpose is the creation of an integrated, powerful organization that is stronger than the sum of its parts. The TRATON GROUP was therefore structured from the outset with a clear matrix organization. The Company is led by a strong Executive Board team that comprises both the Group functions Chief Executive Officer (CEO), Chief Financial Officer (CFO), Chief Operating Officer (COO), and Chief Human Resources Officer (CHRO), and the CEOs of the three vehicle brands.

The core functions of the TRATON GROUP are distributed across the Munich, Germany and Södertälje, Sweden locations and are thus situated close to the MAN and Scania brands. Another important location is São Paulo, Brazil, the headquarters of the Volkswagen Caminhões e Ônibus brand. The area of responsibility of the COO in Södertälje was reorganized as of July 1, 2019. It now also coordinates purchasing, strategic product planning, and production management for the entire TRATON GROUP in addition to research and development activities.

2. Research and development

The TRATON GROUP develops innovative solutions and products that are tailored to the needs of its markets and customers.

In the past fiscal year, primary development costs amounted to €1,376 million (previous year: €1,411 million) and were therefore similar to the figure recorded in 2018. Particular highlights include expenditure on the new generation of MAN trucks, which was launched in February 2020, as well as development services for our cross-brand 13-liter heavy-duty drive platform (common base engine, CBE).

What is more, the TRATON GROUP introduced solutions to all ACE trends (autonomous, connected, electrified) to the market. In order to expand our position in this regard, we again invested in new technologies in 2019. R&D spending will shift increasingly from conventional toward alternative drivetrains.

Already today, electric vehicles are being marketed under the umbrella of the TRATON GROUP: brewing company Ambev plans to add 1,600 e-Delivery vehicles from our Volkswagen Caminhões e Ônibus brand to its Brazilian fleet by 2023. The e-Delivery was available for test drives at the TRATON Innovation Day 2019 for the first time in Europe. In 2020, Scania and MAN will begin series production of electric city buses. Electric trucks made by MAN with a total weight of 26 tons are currently being tested by customers in Austria and Germany. And sales of the new electric MAN eTGE van have taken off since it was introduced into the market.

With our strategic partner Hino Motors in Japan, we plan to cooperate on electric drivetrains and leverage the combined expertise. With respect to electrification, we can also leverage synergies with the Volkswagen Group (e.g., battery cell access). But during the transition phase to fully electric vehicles, hybrid solutions and alternative fuels will also be important to complement the fossil-fueled combustion engine.

The TRATON GROUP has already got multiple solutions for autonomous vehicles off the ground. These include, for example, Scania autonomous vehicles at mining operations in Australia or an MAN project with the German Federal Ministry for Economic Affairs and Energy, where a driverless safety vehicle has been tested under real-life conditions. The presentation of Scania's new autonomous concept vehicle without a driver cab (AXL) during TRATON Innovation Day 2019 underlines the autonomous driving technology already available today.

The TRATON GROUP launched its digital brand RIO in 2016, an open, cloud-based solution for the entire transportation and logistics ecosystem. RIO offers a package of digital services that interconnects everyone involved in the supply chain on a unified platform. RIO offers a cloud-based solution that can be used with vehicles from any manufacturer. RIO intends to expand its offering of intelligent, digital transportation solutions to improve vehicle uptime, to optimize internal processes and vehicle utilization, and to reduce the cost of ownership. As of 2019, almost every medium- and heavy-duty truck from Scania and MAN is connected to the platform. And following the launch of the RIO brand in the Brazilian market, as many as 1,000 trucks were networked at Volkswagen Caminhões e Ônibus in 2019. In addition, through its digital brand, RIO, the TRATON GROUP plans to facilitate the digitalization of the Volkswagen Group's logistics processes.

In our opinion, innovation is marked by three key drivers: Modularization of components and products, Software and Systems as the byword for networking traditional and new technologies as well as business models, and People and Collaboration to serve as the foundation for collaboration across borders and brands.

The newly developed modular toolbox, called "byggladan" in Swedish, includes all elements from the powertrain to the vehicle frame for vehicles in the Group. Inspired by the Swedish brand Scania's modular toolbox model, this will allow even simpler and faster customized configuration, including for MAN trucks.

The Consórcio Modular system at our plant in Resende, Brazil, is a good example of the integrated production of commercial vehicles in conjunction with partners and suppliers. This model is now being extended to the production of electric vehicles for the first time.

RESEARCH AND DEVELOPMENT IN THE INDUSTRIAL BUSINESS SEGMENT IN FIGURES

€ million	2019	2018	Change
Primary R&D costs	1,376	1,411	–35
of which capitalized development costs	467	449	18
Capitalization ratio (in %)	34.0	31.8	2.1 pp
Amortization of, and impairment losses on, capitalized development costs	192	170	22
Research and development costs recognized in the income statement	1,101	1,132	–31
Sales revenue, Industrial Business	26,444	24,963	1,482
Primary R&D costs	1,376	1,411	–35
R&D ratio (in %)	5.2	5.7	–0.4 pp
R&D employees (as of December 31)	7,067	6,644	423

3. Financial management

INTERNAL MANAGEMENT PROCESS WITHIN THE TRATON GROUP

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

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

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

The first year of the medium-term planning period is then fixed and a budget drawn up for the individual months at the level of the operating cost centers.

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

MOST IMPORTANT KEY PERFORMANCE INDICATORS

Based on our Global Champion Strategy, the TRATON GROUP's most important financial and nonfinancial key performance indicators are:

- Unit sales
- Sales revenue
- Operating return on sales
- Return on investment in the Industrial Business segment
- Primary research and development costs in the Industrial Business segment
- Capex in the Industrial Business segment
- Cash conversion rate in the Industrial Business segment

The four new key performance indicators defined for the Industrial Business segment in 2019 — return on investment, primary research and development costs, capex, and cash conversion rate — allow us to focus to a stronger extent on capital commitment and cash management than in the past. These performance indicators are being reported for the first time for fiscal year 2019. Our goal is to safeguard the TRATON GROUP's profitability by means of appropriate capital commitment and a targeted financial policy. Operating profit, which we previously reported as an important key performance indicator, is continued as a component of operating return on sales.

THE TRATON GROUP'S KEY PERFORMANCE FIGURES

As well as the disclosures and key performance indicators required by the applicable financial reporting standards, the TRATON GROUP publishes alternative key performance figures that are not defined by any generally applicable standards. We calculate these figures by making certain adjustments to balance sheet or income statement items. We hold the view that they convey relevant information about our business and are designed to enable comparability of the TRATON GROUP's performance over time or compared with our peer group. They are explained in the following together with our key performance indicators.

Key performance indicators at Group level

The following key performance indicators are determined at Group level. Internal management of the segments is also based on these key performance indicators.

Unit sales

Unit sales reflect our market performance. They represent the number of vehicles sold by our brands, Scania, MAN, and Volkswagen Caminhões e Ônibus. We use unit sales to monitor our goal of maintaining a leading position in our core markets.

Sales revenue

The growth target set out in our Global Champion Strategy is based on growing sales revenue. Driven mainly by unit sales, sales revenue reflects our market performance in terms of financial figures. A strong After Sales business, sales of used vehicles, and financial services also contribute to corporate growth.

Operating return on sales

Operating return on sales is the ratio of operating profit to sales revenue and expresses the economic performance of our business activities after accounting for the use of resources. Operating profit does not include net investment income. The operating return on sales measures the TRATON GROUP's profitability.

Key performance indicators for the Industrial Business segment

In addition to the key performance indicators determined at Group level, the following key performance indicators have been defined for managing the Industrial Business segment.

Return on investment in the Industrial Business segment

Return on investment represents the return on invested capital for a particular period. It is determined by calculating the ratio of operating profit after tax to annual average invested capital. If the return on investment exceeds the cost of capital demanded by the market, added value is generated for the TRATON GROUP.

Operating profit after tax is included in the calculation of the return on investment. This, in turn, is calculated by applying an overall average tax rate of 30% to the operating profit of the Industrial Business segment. Invested capital is calculated as total operating assets (intangible assets, property, plant, and equipment, assets leased out, inventories, and receivables) less noninterest-bearing liabilities (trade payables and contract liabilities). Average invested capital is derived from the balance at the beginning and the end of the reporting period. As the concept only comprises our operating activities, assets relating to investments in subsidiaries and associates and the investment of cash funds are not included when calculating invested capital. Interest charged on these assets is reported in the financial result. The calculation methodology corresponds to the system used in the Volkswagen Group. The calculation is only performed on an annual basis.

Primary research and development costs in the Industrial Business segment

Primary research and development costs in the Industrial Business segment contain both capitalized development costs and research and development costs not eligible for capitalization. They therefore represent expenditures ranging from blue skies research down to the market-ready development of our products and services. There is a particular focus here on subject areas that are defined in our Global Champion Strategy: autonomous driving, connectivity, and alternative drives. We can only drive innovation forward and implement our Global Champion Strategy if we invest sufficiently in research and development.

Capex in the Industrial Business segment

Capex in the Industrial Business segment represents the TRATON GROUP's investments in the future. It consists of the cash investments in property, plant, and equipment and in intangible assets (excluding capitalized development costs) that are reported in the statement of cash flows.

Cash conversion rate in the Industrial Business segment

In order to fund our forward-looking expenditures, we use the cash conversion rate in the Industrial Business segment to monitor the TRATON GROUP's financial position. This indicates the share of profit after tax generated as cash funds and is calculated as the ratio of net cash flow to profit after tax. The cash conversion rate is presented as a percentage.

Additional key performance figures

Adjustments to operating profit

In addition to reported operating profit, adjusted operating profit is also calculated to enable the greatest possible transparency of our business performance. Adjustments concern certain items in the financial statements that, in the opinion of the Executive Board, can be presented separately to enable a more appropriate assessment of financial performance. They include, in particular, costs of restructurings and structural measures. The adjusted operating return on sales is therefore calculated as the ratio of adjusted operating profit to sales revenue. Adjustments to operating profit are also taken into account in determining the adjusted return on investment and adjusted EBITDA.

Net liquidity/net financial debt

Net liquidity/net financial debt comprises cash and cash equivalents, marketable securities, investment deposits, and loans to affiliated companies less financial liabilities, and reflects cash and cash equivalents, marketable securities, investment deposits, and loans to affiliated companies not financed by total borrowings.

Net cash flow

Net cash flow comprises net cash provided by/used in operating activities (continuing operations) and net cash provided by/used in investing activities attributable to operating activities (continuing operations), and indicates the excess funds from operating activities.

Equity ratio in the Industrial Business and Financial Services segments

The equity ratio is the extent to which assets are covered by equity. For each segment, it is calculated from that segment's perspective.

IMPACT OF THE NEW FINANCIAL REPORTING STANDARD IFRS 16 "LEASES"

Effective January 1, 2019, the new IFRS 16 financial reporting standard made changes to the previous lease accounting rules with the core objective of recognizing all leases. Accordingly, lessees do not have to classify leases into finance and operating leases. Instead, they must generally recognize a right-of-use asset and a lease liability for all leases in their balance sheet. The recognized right-of-use assets are reported in the balance sheet items in which the assets underlying the lease would be presented if they were owned by the TRATON GROUP. Using the modified retrospective method (adjustments to the opening balance), right-of-use assets were recognized as noncurrent assets for the first time as of January 1, 2019, and lease liabilities were recognized as financial liabilities.

This resulted in an increase in total assets, with no change in equity. The new approach results in a slight increase in operating profit in fiscal year 2019, since this item only contains depreciation of right-of-use assets since January 1, 2019. Interest expense relating to lease liabilities in the Industrial Business segment is recognized as a charge in the financial result.

Operating profit for fiscal year 2019 improved by €37 million because of the separate presentation of interest expense in leases, with a resulting improvement of 0.1 percentage points in operating return on sales. Together with the recognition of right-of-use assets, the improvement in operating profit saw RoI in the Industrial Business segment decline by 0.6 percentage points. The change in the recognition of operating lease expenses in the statement of cash flows resulted in a €181 million improvement in cash flow from operating activities and net cash flow in 2019. Cash flow from financing activities decreased accordingly. The improvement in net cash flow also saw an improvement in the cash conversion rate in the Industrial Business segment by twelve percentage points. The increase in financial liabilities resulting from the change in accounting policies negatively impacted net liquidity in the Industrial Business segment by €1,075 million as of December 31, 2019. The initial application of the new financial reporting standard IFRS 16 did not have any material effect on sales revenue.

Report on Economic Position

1. Macroeconomic environment

The global economy sustained its robust growth in 2019 with a decrease in momentum: global gross domestic product (GDP) rose by 2.6% (previous year: 3.2%). Economic momentum weakened compared to the prior-year level both in advanced economies and in emerging markets. Amid a still comparatively low interest rate level and with prices for energy and other commodities declining year-on-year on the whole, consumer prices decreased worldwide. Growing upheaval in trade policy at international level and persistent geopolitical tensions led to substantially greater economic uncertainty and weighed on the international trade of goods.

EUROPE/OTHER MARKETS

GDP growth in western Europe slowed to 1.2% (previous year: 1.8%) as the year went on. The rate of change in virtually all countries in northern and southern Europe decreased compared with the previous year. The unknown outcome of the negotiations on the United Kingdom's exit from the European Union and the related question of what form this relationship would take in the future remained the primary source of uncertainty. The unemployment rate in the euro zone continued to decrease, falling to an average of 7.5% (previous year: 8.1%). While mirroring this trend, rates remained considerably higher in Greece and Spain.

At 2.3% (previous year: 3.3%), the central and eastern Europe region also recorded a lower growth rate in the reporting period than in the previous year. GDP growth in central Europe slowed down on a comparatively high level. Economic growth in eastern Europe weakened as well. Lower prices for energy and other commodities led to a further deterioration of the economic situation in some countries from this region that export raw materials. At 1.1% (previous year: 2.2%), GDP growth in Russia, the region's largest economy, halved compared to the previous year.

The Turkish economy showed a slightly positive rate of change of 0.5% (previous year: 2.9%). Increased tariffs along with the depreciation of the Turkish lira, accompanied by very high inflation, led to a decline in purchasing power. South Africa's GDP rose by just 0.2% (previous year: 0.8%) in the reporting period, down further on the already low figure for the prior period. Ongoing structural deficits, social unrest, and political challenges weighed on the economy.

GERMANY

Germany's GDP continued to grow in 2019 on the back of the strong labor market, however, momentum diminished significantly year-on-year to 0.5% (previous year: 1.5%). Both company and consumer sentiment continued to deteriorate as the year progressed.

NORTH AMERICA

Economic growth in the U.S.A. decreased to 2.3% (previous year: 2.9%) in the reporting period. The economy was supported mainly by domestic consumer demand. The unemployment rate in the United States came in at 3.7% (previous year: 3.9%). Facing global uncertainties, the U.S. Federal Reserve cut its key interest rate and reversed the tighter monetary policy it had previously pursued amid relatively constant inflation rates. The U.S. dollar gained strength against the euro in the course of the year. Canada's growth rate declined to 1.6% (previous year: 2.0%), while the Mexican economy stagnated at a rate of 0.1% (previous year: 2.1%).

SOUTH AMERICA

Brazil's economy once again recorded only slight growth, at 1.1% (previous year: 1.3%). The situation in South America's largest economy remained tense due to political uncertainty, among other factors. The economic situation in Argentina deteriorated further as the year went on. Amid continuing high inflation coupled with considerable devaluation of the local currency, the country remained in recession, with GDP falling by 2.6% (previous year: decline by 2.5%).

ASIA-PACIFIC

China's economy grew at a rate of 6.2% (previous year: 6.6%) in 2019, somewhat slower than in the previous year but at a high level. Government support provided in response to the trade policy dispute between China and the U.S.A. continued in the course of the year. The Indian economy recorded a growth rate of 4.8% (previous year: 6.8%) in the reporting period. Japan's GDP grew by only 1.1% (previous year: 0.3%).

2. Market environment

The most important truck markets for the TRATON GROUP are the EU28+2 region (defined as the EU28 countries with the exception of Malta, plus Norway and Switzerland), known as the EU27+3 region from February 1, 2020 (defined as the EU27 countries with the exception of Malta, plus the United Kingdom, Norway, and Switzerland), as well as Brazil, South Africa, Russia, and Turkey. In these markets, new registrations of medium- and heavy-duty trucks with a gross vehicle weight of more than 6 t were slightly higher in 2019 than in the prior-year period. With a strong first half of the year, new registrations in the EU28+2 region were somewhat above the 2018 level, due, among other factors, to pull-forward effects from the introduction of the digital tachograph as of June 15, 2019, and to Brexit pull-forward effects in the United Kingdom. However, registrations declined substantially in the second half of the year. In Brazil, truck registrations rose substantially on the back of the economic recovery, particularly in the truck segment with a gross vehicle weight of more than 15 t. New truck registrations in Turkey, however, were down substantially because of the negative economic developments there. The Russian market recorded a moderate decline. The market in South Africa reported a slight decrease.

New bus registrations in 2019 in the most important bus markets for the TRATON GROUP (EU28+2, Brazil, and Mexico) were sharply higher overall than in the prior-year period. Registrations in the EU28+2 region rose perceptibly, especially in Norway, France, and Romania. The Brazilian bus market grew substantially. However, the market level in Mexico fell moderately below the prior-year level.

3. Target achievement in 2019

The Executive Board of TRATON SE reiterated the forecast for 2019, which was originally communicated in the IPO prospectus, unchanged in the 2019 half-yearly financial report and the 9M 2019 interim statement. Overall, we achieved the following targets in fiscal year 2019:

TRATON GROUP	Actual 2018	Forecast 2019	Actual 2019
Sales (units)	232,992	slight growth	242,219
Sales revenue (€ million)	25,927	slight growth	26,901
Operating return on sales (in %)	5.8	6.5–7.5	7.0
Industrial Business			
Sales revenue (€ million)	24,963	moderate growth	26,444
Financial Services			
Sales revenue (€ million)	760	substantial increase	849

4. Results of operations

ORDER INTAKE

ORDER INTAKE, INDUSTRIAL BUSINESS

Units	2019	2018	Change
Order intake, Industrial Business	227,240	243,714	–7%
of which trucks[1]	206,208	219,825	–6%
of which buses	21,032	23,889	–12%

1 Incl. MAN TGE vans (2019: 15,234 units; 2018: 10,087 units)

Order intake in the Industrial Business segment was 227,240 (previous year: 243,714) units in the 2019 reporting period, and hence down 7% on the previous year. The decline was primarily attributable to the Truck business. There was a significant decline in orders in the EU28+2 region, in particular because of the sharp declines in Germany and Poland and the substantial decreases in the United Kingdom due to Brexit pull-forward effects. Demand grew in Brazil in the wake of the economic recovery, resulting in a substantial increase in order intake. Additionally, substantial declines were recorded in Argentina, India, and Turkey.

Order intake in the Bus business was 21,032 (previous year: 23,889) units in 2019. In the EU28+2 region, the order intake rose slightly compared with the previous year, with orders received from France, Sweden, and Germany making a particularly positive contribution. The order intake increased significantly in South America, with sharp growth especially in Brazil. The overall decline is above all attributable to the markets in Mexico, Iran, and Singapore.

UNIT SALES

UNIT SALES BY COUNTRY

Units	2019	2018	Change
Unit sales, Industrial Business	**242,219**	**232,992**	**4%**
Unit sales, trucks[1]	**220,723**	**210,363**	**5%**
EU28+2	135,002	124,509	8%
of which in Germany	37,672	34,246	10%
South America	48,350	40,451	20%
of which in Brazil	43,438	32,903	32%
Other regions	37,371	45,403	–18%
Unit sales, buses	**21,496**	**22,629**	**–5%**
EU28+2	7,028	6,673	5%
of which in Germany	1,387	1,640	–15%
South America	8,476	7,283	16%
of which in Brazil	6,113	5,081	20%
Other regions	5,992	8,673	–31%

1 Incl. MAN TGE vans (2019: 14,788 units; 2018: 7,871 units)

The Industrial Business segment increased its unit sales by 4% to 242,219 (previous year: 232,992) units in 2019. Unit sales of trucks grew by 5% to 220,723 (previous year: 210,363) units, and unit sales of buses declined by 5% to 21,496 (previous year: 22,629) units.

Unit sales of trucks were up noticeably on the previous year's level in the EU28+2 region, due mainly to Germany, France, and the United Kingdom. The truck unit sales figure was supported by the MAN TGE van, whose volume virtually doubled.

Growth in unit sales of trucks in South America differed from region to region. Whereas unit sales rose substantially in Brazil, most of the other South American markets posted rapid declines. In Argentina, especially, unit sales declined substantially because of the difficult macroeconomic situation.

In the remaining markets, in particular unit sales of trucks in India, Turkey, Russia, and Iran recorded substantial declines compared with the prior-year period.

Unit sales of buses in the EU28+2 region recorded a moderate improvement year-on-year, lifted mainly by unit sales in France, Norway, and Portugal. Unit sales in South America were up sharply compared with the prior-year period, with unit sales in Brazil, in particular, posting a substantial increase. This growth was supported by an order as part of a government program for school buses.

Unit sales fell short of the prior-year level in the remaining regions. The reduction was primarily attributable to substantial declines in Iran and Mexico.

Some of the unit sales are made subject to buyback obligations. In 2019, around 37,100 contracts (previous year: around 34,600 contracts) were entered into under which TRATON is obliged to buy back the vehicles sold.

SALES REVENUE

SALES REVENUE BY PRODUCT GROUP

€ million	2019	2018	Change
TRATON GROUP	**26,901**	**25,927**	**4%**
Industrial Business	**26,444**	**24,963**	**6%**
New Vehicles	17,387	16,216	7%
After Sales[1]	4,965	4,730	5%
Others	4,092	4,016	2%
Financial Services	**849**	**760**	**12%**
Consolidation/others	–392	204	–

1 Incl. spare parts and workshop services

The TRATON GROUP generated sales revenue of €26.9 billion (previous year: €25.9 billion) in 2019, 4% higher than in the previous year. The prior-year period contained the sales revenue of Volkswagen Gebrauchtfahrzeughandels und Service GmbH ("VGSG"), which was disposed of as of January 1, 2019, in the amount of €585 million. Adjusted for this sales revenue, the increase in the year under review amounted to 6%.

The increase in sales revenue in the Industrial Business segment by 6% to €26.4 billion (previous year: €25.0 billion) was attributable in particular to the New Vehicles business, driven by a moderate increase in the Truck business (>6 t) and in the Bus business.

The After Sales business recorded moderate growth. The Others business mainly comprises used vehicles, engines, and leasing, and grew slightly year-on-year.

The Financial Services segment also recorded significant growth as a result of the increased unit sales in the New Vehicles business.

PROFIT AND LOSS

CONDENSED TRATON GROUP INCOME STATEMENT

	TRATON GROUP		Industrial Business		Financial Services		Others/ reconciliation	
€ million	2019	2018	2019	2018	2019	2018	2019	2018
Sales revenue	26,901	25,927	26,444	24,963	849	760	–392	204
Cost of sales	–21,618	–20,946	–21,462	–20,298	–547	–489	391	–159
Gross profit	**5,284**	**4,981**	**4,983**	**4,665**	**302**	**271**	**–1**	**46**
Distribution expenses	–2,480	–2,391	–2,356	–2,265	–126	–110	1	–16
Administrative expenses	–973	–1,011	–973	–1,007	–	–	–	–4
Other operating result	53	–66	88	–46	–34	–22	–1	2
Operating profit	**1,884**	**1,513**	**1,741**	**1,346**	**142**	**138**	**0**	**28**
Operating return on sales (in %)	7.0	5.8	6.6	5.4	16.8	18.2	–	–
Financial result	**81**	**53**	**140**	**98**	**8**	**10**	**–67**	**–55**
Profit/loss before tax	**1,965**	**1,566**	**1,881**	**1,444**	**151**	**148**	**–67**	**–27**
Income taxes	**–401**	**–415**	**–361**	**–344**	**–40**	**–40**	**–1**	**–30**
Profit/loss from discontinued operations, net of tax	**–2**	**250**	**–2**	**509**	**–**	**–**	**–**	**–260**
Profit/loss after tax	**1,561**	**1,401**	**1,518**	**1,610**	**111**	**108**	**–67**	**–317**

Operating profit

At €5,284 million, gross profit was up 6% on the prior year. The gross margin was 19.6% (previous year: 19.2%). The increase was due to a 4% rise in sales revenue compared with fiscal year 2018. In addition to volume effects, this increase was supported by the new heavy-duty series of our Scania brand, which continues to be met with a positive reception on the market. The end of parallel production of the heavy-duty series at Scania Vehicles & Services also contributed to this trend. Overall, the positive earnings effects were able to more than offset the negative effects from cost increases, increased depreciation and amortization charges, and expenses for production preparations for the new generations of trucks and buses at MAN Truck & Bus.

We maintained distribution expenses proportional to sales revenue thanks to our strict cost management. Administrative expenses declined both in absolute terms and in proportion to sales revenue. Overall, the ratio of distribution and administrative expenses to sales revenue improved by 0.3 percentage points year-on-year.

Other operating result increased by €119 million to €53 million. The improvement was mainly due to the fact that expenses recognized in the previous year did not recur. They include in particular the €88 million write-down of indirect tax receivables at Volkswagen Caminhões e Ônibus (previous year: income from the reversal of write-down of indirect tax receivables of €65 million) and restructuring expenses of €71 million for MAN Truck & Bus India in 2018. Higher expenses for litigation risks were an offsetting factor.

Operating profit of the TRATON GROUP overall improved by €371 million to €1,884 million in 2019, corresponding to an increase of 25%. The TRATON GROUP's operating return on sales increased by 1.2 percentage points to 7.0%.

Taking into account the adjustments, operating profit (adjusted)[1] was €1,871 million (previous year: €1,650 million). The operating return on sales (adjusted)[1] was 7.0% (previous year: 6.4%).

Financial result
The financial result improved by €28 million to €81 million in the year under review. It includes income of €80 million from the sale of the 49% interest in the Tactical Wheeled Vehicles division of Rheinmetall MAN Military Vehicles GmbH (RMMV) to Rheinmetall AG. In the prior-year period, the other financial result was impacted by negative effects from the measurement of put options and compensation rights of MAN SE noncontrolling interest shareholders amounting to €142 million. In the prior-year period, the other financial result contained positive effects from the reversal of an impairment loss on the investment in Sinotruk.

1 Not audited

The TRATON GROUP's profit before tax rose significantly by 25% to €1,965 million in the reporting period.

Taxes and discontinued operations
The income tax expense reported for fiscal year 2019 was €401 million (previous year: €415 million), corresponding to a tax rate of 20% (previous year: 26%). Prior-period taxes were one of the factors contributing to this positive development. In addition, the nonrecognition of deferred tax assets relating to current losses at a company in Brazil had negatively impacted the prior-year period.

The profit/loss from discontinued operations was a result of the sale of the Power Engineering business as of the end of December 31, 2018, and the final purchase price adjustment in the reporting period.

Profit after tax
Profit after tax was €1,561 million in fiscal year 2019 and higher than the prior-year amount of €1,401 million. This saw earnings per share rise from €2.78 to €3.04, for a total of 500 million shares.

The Executive and Supervisory Boards of TRATON SE are proposing to the Annual General Meeting to be held on May 28, 2020, to pay a dividend of €1.00 per share for fiscal year 2019. This proposal corresponds to a total distribution of €500 million and a distribution rate of 33% of consolidated profit after tax attributable to TRATON SE shareholders. The distribution rate would thus lie within TRATON's target range of 30 to 40% of consolidated profit after tax. In addition, TRATON SE's net income (before profit transfer) for fiscal year 2019 under German GAAP, which amounted to €1,404 million, is transferred to Volkswagen AG under the domination and profit and loss transfer agreement. As a result of the company's initial public offering (IPO), the domination and profit and loss transfer agreement was terminated as of the end of fiscal year 2019.

BUSINESS PERFORMANCE: INDUSTRIAL BUSINESS

KEY PERFORMANCE INDICATORS, INDUSTRIAL BUSINESS

€ million	2019	2018	Change
Operating profit	1,741	1,346	395
Operating profit (adjusted)[1]	1,729	1,484	245
Operating return on sales (in %)	6.6	5.4	1.2 pp
Operating return on sales (adjusted) (in %)[1]	6.5	5.9	0.6 pp

1 Not audited

Operating profit recorded by the Industrial Business segment came to €1,741 million, representing a year-on-year increase of 29%. This resulted in an operating return on sales of 6.6% (previous year: 5.4%). The main drivers for this development were positive earnings contributions by increased volumes and the more favorable product mix. In addition, the operating profit reflects efficiency gains due to the removal of bottlenecks in the supply process and positive effects following the end of parallel production at Scania Vehicles & Services. This more than offset inflation-related cost increases, higher depreciation and amortization charges, and expenses in connection with production preparations for the new generations of trucks and buses at MAN Truck & Bus.

In fiscal year 2019, operating profit included adjustments of €13 million from the reversal of provisions for restructurings in Brazil. Restructuring provisions for restructuring programs were recognized in prior-year periods, which were reported in operating profit (adjusted). Expenses for the restructuring of activities in India amounting to €137 million were adjusted in the 2018 prior-year period.

Taking into account the adjustments, operating profit in the Industrial Business segment was €1,729 million (previous year: €1,484 million). The operating return on sales (adjusted) was 6.5% (previous year: 5.9%).

BUSINESS PERFORMANCE: FINANCIAL SERVICES

KEY PERFORMANCE INDICATORS, FINANCIAL SERVICES

	2019	2018	Change
Operating profit (€ million)	142	138	4
Operating return on sales (in %)	16.8	18.2	–1.4 pp

Operating profit recorded by the Financial Services segment improved to €142 million in fiscal year 2019 (previous year: €138 million) as a result of higher sales revenue and positive currency effects. Because of lower margins and higher operating expenses as well as costs incurred in connection with the opening of new locations, the operating return on sales declined to 16.8% (previous year: 18.2%).

The number of financing contracts rose from around 161,600 to around 175,700. The 35,814 (previous year: 33,017) new contracts entered into to finance trucks played an important role in this development. The 1,212 (previous year: 967) new contracts for financing buses also contributed to the success.

5. Financial position

PRINCIPLES AND GOALS OF FINANCIAL MANAGEMENT

Financial management contributes to the value of the TRATON GROUP by optimizing the outcome of all financial measures, liquidity, and capital structure and also reducing risks. All external and internal financial transactions are solely generated to fulfill financing needs or to limit risks from an actual underlying business transaction and therefore do not serve any speculative purpose. Dependencies on particular financial partners are to be avoided. All financial transactions are concluded under standard market conditions.

Financial management has the duty to manage all financial transactions and financial risks in the TRATON GROUP with a focus on achieving the following objectives:

– ensuring the solvency of all Group companies at all times as well as the financing of all Group business activities;

- limiting of market price risks (from interest rates, foreign currencies/exchange rates, commodity prices) and default risk of financial counterparties;
- optimization of costs from funding activities and returns on financial investments;
- secure processing of financial transactions and payment transactions as well as pooling of Group liquidity.

FINANCING STRATEGY

Our goal is to finance ongoing investment requirements in the Industrial Business segment from operating cash flow. For this reason, the Industrial Business segment should not report any net debt in a normal business environment. Depending on leverage and the liquidity position, other capital spending projects, such as acquisitions, should be financed by a balanced mixture of equity and debt. The composition can be adapted to reflect the relevant capital market environment.

As a general rule, the Industrial Business segment's capital structure should correspond to an implied solid investment-grade classification. A key performance indicator in this context is the ratio of net debt to adjusted EBITDA. If justified by extraordinary financing requirements or special market circumstances, this target can be temporarily relaxed subject to certain conditions. It is our goal to ensure that the Industrial Business segment's capital structure complies with an implied solid investment-grade classification again within a reasonable period.

Equity ratio in the Industrial Business segment should in principle be greater than 30% of total Industrial Business assets. In our Financial Services segment, we ensure that leased or financed assets are financed at matching maturities. The Financial Services segment's equity ratio is expected to be between 8 and 12% of total Financial Services assets.

Financing mix

Financial liabilities should be comprised of a balanced mix of bank liabilities and other financing sources, among others capital market financing. Especially for short-term debt, we intend to use a broad range of financing instruments.

Liquidity

The TRATON GROUP strives to maintain adequate available liquidity from net cash flow in the Industrial Business segment. This is, among others, supplemented by committed, unused credit lines from banks, to cover liquidity requirements at all times.

Maturity profile

As a general principle, the TRATON GROUP aims to achieve a balanced maturity profile for its liabilities so that it can cover amounts falling due during the year from the net cash flow to the greatest extent possible.

Dividend policy

The TRATON GROUP intends paying a dividend of 30 to 40% of its annual consolidated profit after tax. The resolution to distribute a dividend for a particular fiscal year is adopted by the Annual General Meeting in the following year. The dividend is paid once a year. The proposal by the Executive Board and Supervisory Board concerning the amount of the dividend generally considers business performance and other influencing factors.

Risk management

The TRATON GROUP uses appropriate financial instruments, e.g., derivatives, to cover the financial risks of the Group. This also includes hedging of balance sheet foreign exchange exposure. Order book and other probable future sales and purchase contracts are hedged within defined limits. Commodity price risks are partially hedged, while counterparty risks are closely monitored. Management of foreign exchange, interest rate, and commodity exposure is at the discretion of each brand, thereby accommodating respective business needs, since different functional currencies and business environments apply. The Group's activities in the Financial Services segment are managed to largely match assets and liabilities in order to minimize interest rate mismatches. Appropriate value-at-risk methods apply.

FINANCING IN 2019

Gross financial debt amounted to €12.5 billion (previous year: €10.8 billion) as of December 31, 2019. €7.3 billion (previous year: €5.1 billion) of this amount was attributable to financing through capital market instruments, €2.3 billion (previous year: €2.5 billion) to bank funding, €1.8 billion (previous year: €3.2 billion) to Volkswagen Group loans, and €1.1 billion (previous year: €0 billion) to lease liabilities.

Financial liabilities of the TRATON GROUP as of 12/31/2019, in € billion	Total	Due in 2020	Due in 2021	Due in 2022	Due in 2023	Due in 2024	Due in 2025 or later
Bonds	6.4	2.3	2.9	1.0	0.0	0.1	0.0
of which in the Industrial Business segment	–	–	–	–	–	–	–
of which in the Financial Services segment	6.4	2.3	2.9	1.0	0.0	0.1	0.0
Commercial papers	0.9	0.9	–	–	–	–	–
of which in the Industrial Business segment	–	–	–	–	–	–	–
of which in the Financial Services segment	0.9	0.9	–	–	–	–	–
Liabilities to banks	2.3	1.4	0.4	0.3	0.1	0.0	0.1
of which in the Industrial Business segment	0.8	0.5	0.3	0.0	0.0	0.0	0.0
of which in the Financial Services segment	1.5	0.8	0.2	0.3	0.1	0.0	0.1
Volkswagen Group liabilities	1.8	1.8	0.0	–	–	–	–
of which in the Industrial Business segment	1.8	1.8	0.0	–	–	–	–
of which in the Financial Services segment	0.0	0.0	–	–	–	–	–
Total financial liabilities (excl. lease liabilities)	11.4	6.3	3.4	1.4	0.1	0.1	0.1
of which in the Industrial Business segment	2.6	2.3	0.3	0.0	0.0	0.0	0.0
of which in the Financial Services segment	8.9	4.1	3.1	1.4	0.1	0.1	0.1
Lease liabilities[1]	1.1						
Total financial liabilities	12.5						
of which in the Industrial Business segment	3.6						
of which in the Financial Services segment	9.0						
of which Others/reconciliation	–0.1						

1 The maturity structure of the lease liabilities is as follows: < 1 year: €0.2 billion; 1–5 years: €0.5 billion; > 5 years: €0.4 billion.

Financial liabilities of the TRATON GROUP as of 12/31/2018, in € billion	Total	Due in 2019	Due in 2020	Due in 2021	Due in 2022	Due in 2023	Due in 2024 or later
Bonds	4.8	1.4	1.8	1.2	0.4	0.0	–
of which in the Industrial Business segment	–	–	–	–	–	–	–
of which in the Financial Services segment	4.8	1.4	1.8	1.2	0.4	0.0	–
Commercial papers	0.3	0.3	–	–	–	–	–
of which in the Industrial Business segment	–	–	–	–	–	–	–
of which in the Financial Services segment	0.3	0.3	–	–	–	–	–
Liabilities to banks	2.5	1.5	0.5	0.1	0.3	0.0	0.1
of which in the Industrial Business segment	0.9	0.7	0.2	0.0	0.0	0.0	0.0
of which in the Financial Services segment	1.5	0.8	0.2	0.1	0.3	0.0	0.1
Revolving credit facility	–	–	–	–	–	–	–
of which in the Industrial Business segment	–	–	–	–	–	–	–
of which in the Financial Services segment	–	–	–	–	–	–	–
VOLKSWAGEN Group liabilities	3.2	2.2	1	–	–	–	–
of which in the Industrial Business segment	2.8	1.8	1	–	–	–	–
of which in the Financial Services segment	0.4	0.4	0	–	–	–	–
Total financial liabilities (excl. lease liabilities)	10.8	5.3	3.3	1.3	0.7	0.1	0.1
of which in the Industrial Business segment	3.7	2.5	1.2	0.0	0.0	0.0	0.0
of which in the Financial Services segment	7.1	2.9	2.1	1.3	0.7	0	0.1
Lease liabilities	0						
Total financial liabilities	10.8						
of which in the Industrial Business segment	3.7						
of which in the Financial Services segment	8.0						
of which Others/reconciliation	–1.0						

The expansion of the Financial Services business in the reporting period saw a €2.2 billion increase in bonds and commercial papers. Scania maintains an €8.0 billion European Medium Term Note program, of which €6.1 billion has been drawn down. In addition, a bond of €0.3 billion was issued as part of an asset-backed securities transaction. To cover short-term funding needs in the Financial Services segment, two additional Commercial Paper Programs in SEK and EUR amounting to a total of €2.4 billion have been set up, of which €0.9 billion has been drawn down.

The TRATON GROUP has revolving credit facilities with Volkswagen AG of €4.0 billion in place, of which €1.0 billion has been drawn down. The addition of the purchase price of the Power Engineering segment made it possible to repay €1.0 billion to Volkswagen AG in January 2019. Furthermore, the TRATON GROUP has committed credit facilities with banks in place in an aggregate amount of €4.1 billion, of which €2.3 billion has been drawn down. The initial recognition of lease liabilities under IFRS 16 resulted in financial liabilities of €1.1 billion being reported.

The TRATON GROUP's credit facilities include customary change-of-control clauses, allowing the counterparty to demand early repayment in case of significant changes in ownership.

The broad range of funding contracts entail interest rates in keeping with market conditions, which differ according to the respective finance instrument, maturity, currency, funding purpose, and volume as well as market region.

FINANCIAL LIABILITIES IN THE TRATON GROUP BY CURRENCY

€ billion	12/31/2019	12/31/2018
EUR	6.4	6.1
SEK	2.9	2.5
BRL	0.7	0.8
USD	0.3	0.4
GBP	0.3	0.3
NOK	0.3	0.1
CHF	0.2	0.1
Other currencies	0.5	0.5
Lease liabilities	1.1	0.0
Total financial liabilities	12.5	10.8

Liquidity

Cash and cash equivalents as of December 31, 2019, amounted to €1.9 billion (previous year: €3.0 billion).

Local cash funds in certain countries (e.g., China, Russia) are only available to the Group for cross-border transactions subject to exchange controls. Such amounts are used locally to cover the financing needs of the operating business.

The TRATON GROUP's financial management manages cash pools at brand level, wherever legally and economically appropriate and feasible. The TRATON brands manage operational cash themselves. Excess cash of the TRATON brands is managed at TRATON SE level. The TRATON GROUP deposits a large portion of its excess cash with Volkswagen AG under standard market conditions.

Equity

EQUITY RATIO

	TRATON GROUP		Industrial Business		Financial Services		Others/ reconciliation	
€ million	2019	2018	2019	2018	2019	2018	2019	2018
Equity	14,134	16,801	13,365	16,219	971	815	–201	–234
Total equity and liabilities	45,183	46,384	37,396	40,295	10,324	9,153	–2,536	–3,064
Equity ratio (in %)	**31.3**	**36.2**	**35.7**	**40.3**	**9.4**	**8.9**	**–**	**–**

As of December 31, 2019, the equity ratio in the Industrial Business segment was 35.7% (previous year: 40.3%), with 9.4% (previous year: 8.9%) in the Financial Services segment.

CASH FLOW

CONDENSED TRATON GROUP STATEMENT OF CASH FLOWS

	TRATON GROUP		Industrial Business		Financial Services		Others/reconciliation	
€ million	**2019**	**2018**	**2019**	**2018**	**2019**	**2018**	**2019**	**2018**
Cash and cash equivalents as of January 1	**2,997**	**4,594**	**2,945**	**4,686**	**53**	**48**	**–**	**–141**
Gross cash flow[1]	3,460	2,856	3,384	2,798	498	116	–422	–57
Change in working capital	–2,373	–2,402	–1,276	–1,212	–1,480	–1,189	383	–1
Net cash used in operating activities – discontinued operations	–	–72	–	–88	–	–	–	17
Net cash provided by/used in operating activities	**1,088**	**382**	**2,108**	**1,497**	**–982**	**–1,073**	**–38**	**–41**
Net cash provided by/used in investing activities attributable to operating activities	634	–932	603	–1,364	–3	–3	33	435
Change in marketable securities, investment deposits, and loans	–2,994	51	–2,268	592	90	–34	–816	–506
Net cash flows from investing activities of discontinued operations	–	–184	–	0	–	–	–	–183
Net cash provided by/used in investing activities	**–2,360**	**–1,065**	**–1,665**	**–773**	**87**	**–37**	**–782**	**–255**
Net cash provided by/used in financing activities	**183**	**–865**	**–1,540**	**–2,416**	**902**	**1,117**	**820**	**433**
Effect of exchange rate changes on cash and cash equivalents	6	–48	5	–50	0	–2	0	4
Change in cash and cash equivalents	**–1,085**	**–1,596**	**–1,092**	**–1,742**	**7**	**5**	**0**	**141**
Cash and cash equivalents as of December 31, 2019	**1,913**	**2,997**	**1,853**	**2,945**	**60**	**53**	**0**	**0**
Gross cash flow	3,460	2,856	3,384	2,798	498	116	–422	–57
Change in working capital	–2,373	–2,402	–1,276	–1,212	–1,480	–1,189	383	–1
Net cash provided by/used in investing activities attributable to operating activities	634	–932	603	–1,364	–3	–3	33	435
Net cash flow	**1,721**	**–478**	**2,711**	**221**	**–985**	**–1,076**	**–5**	**377**

1 Gross cash flow is calculated as the sum of profit before tax and income tax payments, adjusted by depreciation and amortization of, and impairment losses on, immaterial assets, property, plant, and equipment, investment property, capitalized development costs, products leased out (net of impairment reversals), impairment losses on equity investments (net of impairment reversals), changes in pensions, profit/loss on disposal of noncurrent assets and equity investments, share of profits and losses of equity-method investments, and other noncash expenses/income from lease liabilities.

Gross cash flow in 2019 was €604 million higher than in the previous year. This increase was faster than the growth in operating profit and was attributable, in particular, to higher depreciation and amortization charges, due among other things to the initial application of the new financial reporting standard IFRS 16 “Leases.”

Operating cash flow in the reporting period was negatively impacted in a similar amount as in the previous year by funds of €2,373 million tied up in working capital.

The increased level of funds tied up in working capital was attributable to a €984 million increase in financial services receivables (previous year: €947 million). This portfolio growth impacted the negative cash flow of the Financial Services segment.

The increase in inventories (€85 million in the reporting period) was €546 million lower than in the previous year, and this had a positive effect on funds tied up in working capital. Likewise, a decline in receivables by €157 million in 2019, following an increase of €269 million in the previous year, led to a reduction of €427 million in funds tied up in working capital. Conversely, the increase in liabilities (especially trade payables), by €874 million, was lower.

Within working capital, the €1,587 million increase in products leased out (previous year: €1,598 million) was offset by the depreciation of products leased out and by the increase in buyback liabilities in net cash provided by operating activities.

Net cash provided by investing activities attributable to operating activities in 2019 was marked by proceeds of €1,978 million from the disposal of the Power Engineering business and €101 million from the disposal of the 49% interest in RMMV’s Tactical Wheeled Vehicles division. In the prior-year period, the amount of €394 million in the proceeds from the disposal of subsidiaries item had primarily included cash pool receivables becoming due as a result of the deconsolidation of Power Engineering. Other investments were up slightly year-on-year.

Net cash flow from continuing operations of the TRATON GROUP improved overall by €2,200 million to €1,721 million. The 2019 net cash flow of the Industrial Business segment contains the aforementioned nonrecurring factors from the sale of subsidiaries and equity investments amounting to €2,079 million (previous year: €394 million). Net cash flow also rose year-on-year, even without these effects.

Net cash provided by/used in investing activities includes an investment of €2,994 million in marketable securities and investment deposits, mainly as a result of depositing cash funds of TRATON SE with Volkswagen AG.

Net cash provided by financing activities amounted to €183 million (previous year: net cash used in financing activities of €865 million) in the reporting period. This reflected the loss absorption by Volkswagen AG for the prior-year period amounting to €4,161 million (previous year: €28 million), a distribution from retained earnings to Volkswagen AG in the amount of €3,250 million, and the net increase in financial liabilities of €380 million (previous year: €1,246 million). In the reporting period, this included an amount of €181 million relating to the repayment of lease liabilities due to the introduction of the new financial reporting standard, IFRS 16 “Leases.”

Net cash provided by financing activities also included payments to noncontrolling interest shareholders of MAN SE from the acquisition of shares and from compensation payments amounting to €1,109 million (previous year: €2,132 million). Since the domination and profit and loss transfer agreement was terminated by the Executive Board of TRATON SE on August 22, 2018, with effect from midnight (00:00) on January 1, 2019, by way of notice of extraordinary termination, payment of the stipulated cash settlement was made for the last time for fiscal year 2018.

Cash flow from discontinued operations in the 2018 prior-year period related to the Power Engineering business and is presented in separate rows in the statement of cash flows. The TRATON GROUP’s net cash flow does not contain discontinued operations.

CASH CONVERSION RATE IN THE INDUSTRIAL BUSINESS SEGMENT

€ million	**2019**	**2018**
Net cash flow	2,711	221
Profit after tax	1,518	1,610
Cash conversion rate (in %)	**179**	**14**

In 2019 and 2018, the cash conversion rate was impacted by a number of nonrecurring factors; in the year under review, this item reflected the proceeds from the disposal of the Power Engineering business to a significant extent. Information on other nonrecurring factors can be found in the sections “Profit and loss” and “Cash flows.”

NET LIQUIDITY

TRATON GROUP NET LIQUIDITY

	TRATON GROUP		Industrial Business	
€ million	12/31/2019	12/31/2018	12/31/2019	12/31/2018
Cash and cash equivalents	1,913	2,997	1,853	2,945
Marketable securities, investment deposits, and loans	3,195	202	3,288	1,029
Gross liquidity	**5,108**	**3,200**	**5,141**	**3,974**
Total borrowings	–12,497	–10,814	–3,641	–3,747
Net liquidity/net financial debt	**–7,390**	**–7,615**	**1,500**	**227**

In 2019, net debt declined by €225 million to €7,390 million. Due to the initial application of the new financial reporting standard IFRS 16 “Leases” and the recognition of lease liabilities as financial liabilities, total borrowings as of January 1, 2019, rose by €1,034 million.

CAPITAL EXPENDITURES

CAPITAL EXPENDITURES BY SEGMENT

€ million	2019	2018	Change
TRATON GROUP	**1,478**	**1,395**	**83**
Industrial Business	1,507	1,404	104
of which in property, plant, and equipment	974	906	68
of which in capitalized development costs	467	449	18
of which in intangible assets	19	25	–6
of which in equity investments	47	24	23
capex, Industrial Business	993	931	62
capex/sales revenue (in %), Industrial Business[1]	3.8	3.7	
Financial Services	4	4	1
Others/reconciliation	–34	–12	–21

1 Capex/sales revenue in the Industrial Business segment is calculated as the ratio of capital expenditures to sales revenue in %.

The increased investments in property, plant, and equipment, and intangible assets served to complete the launch of the new vehicle generation at Scania and to prepare production of the new truck and bus generations at MAN Truck & Bus. Additionally, the TRATON GROUP invested in the development of the common heavy engine platform and a common powertrain, among other projects. Other capital expenditures related, among other things, to the modernization of production facilities with the construction of a roller dynamometer test stand in Munich, a technology center in Nuremberg, and production facilities in Sweden.

THE TRATON GROUP’S OFF-BALANCE-SHEET COMMITMENTS

€ million	12/31/2019	12/31/2018	Change
TRATON GROUP			
Contingent liabilities	3,676	3,290	386
Purchase order commitments for property, plant, and equipment, and intangible assets	512	533	–20
Obligations under irrevocable credit commitments	416	354	62
Off-balance-sheet commitments under rental and leasing contracts	60	1,202	–1,141
Miscellaneous financial obligations	30	28	2

Off-balance-sheet commitments under rental and leasing contracts declined in fiscal year 2019, mainly due to the initial application of IFRS 16. By contrast, contingent liabilities rose mainly as a result of buyback guarantees.

6. Net assets

BALANCE SHEET ANALYSIS

CONDENSED TRATON GROUP BALANCE SHEET

	TRATON GROUP		Industrial Business		Financial Services		Others/reconciliation	
€ million	12/31/2019	12/31/2018	12/31/2019	12/31/2018	12/31/2019	12/31/2018	12/31/2019	12/31/2018
Intangible assets	6,755	6,597	6,750	6,594	4	3	–	–
Property, plant, and equipment	6,789	5,469	6,778	5,458	25	11	–13	–1
Assets leased out	7,119	6,599	7,115	6,595	826	3	–821	0
Equity-method investments	1,365	1,223	1,365	1,223	–	–	–	–
Other equity investments	34	37	386	421	0	0	–352	–384
Income tax receivables	167	189	141	174	26	26	–	–10
Deferred tax assets	970	939	935	907	48	47	–13	–15
Financial services receivables	7,991	6,900	10	–	7,981	6,900	0	0
Inventories	4,943	4,822	4,943	4,822	–	–	–	–
Trade receivables	2,144	2,319	2,216	2,355	34	27	–106	–62
Other assets	1,816	8,037	1,727	8,796	1,320	1,990	–1,231	–2,750
Marketable securities and investment deposits	3,178	98	3,178	5	–	93	–	–
Cash and cash equivalents	1,913	2,997	1,853	2,945	60	53	0	0
Assets held for sale	–	157	–	–	–	–	–	157
Total assets	**45,183**	**46,384**	**37,396**	**40,295**	**10,324**	**9,153**	**–2,536**	**–3,064**
Equity	14,134	16,801	13,365	16,219	971	815	–201	–234
Financial liabilities	12,497	10,814	3,641	3,747	8,998	8,026	–141	–958
Provisions for pensions and other post-employment benefits	1,769	1,506	1,759	1,499	10	8	–	–
Income tax payables	278	247	265	234	13	12	–	–
Deferred tax liabilities	787	824	733	770	63	66	–9	–12
Income tax provisions	51	153	47	153	4	0	–	–
Other provisions	2,094	2,122	2,092	2,112	3	10	–	–
Other liabilities	11,101	8,996	13,042	10,770	138	123	–2,079	–1,896
Put options/compensation rights granted to noncontrolling interest shareholders	–	1,827	–	1,827	–	–	–	–
Trade payables	2,472	2,969	2,453	2,963	125	93	–106	–87
Liabilities directly associated with assets held for sale	–	123	–	–	–	–	–	123
Total equity and liabilities	**45,183**	**46,384**	**37,396**	**40,295**	**10,324**	**9,153**	**–2,536**	**–3,064**

The initial application of the new financial reporting standard IFRS 16 “Leases” results in a number of changes in the balance sheet structure. These are explained in detail under “Accounting policies” in the notes to the consolidated financial statements.

The TRATON GROUP’s total assets declined by €1,201 million compared with December 31, 2018. This decrease is due primarily to a €6,221 million decline in other assets. This is attributable, in particular, to the payment of the loss absorption of €4,161 million for fiscal year 2018 by Volkswagen AG, and the settlement of the purchase price receivable in the amount of €1,978 million for the Power Engineering business sold as of the end of December 31, 2018.

Property, plant, and equipment rose by €1,321 million compared with December 31, 2018. This is primarily attributable to the initial application of IFRS 16 and the associated recognition of right-of-use assets.

Equity-method investments rose because of improved results of material investments in this category.

Products leased out increased primarily due to the higher volume of operating leases and the higher volume of sales with buyback obligations at Scania and MAN. Approximately 37,100 vehicles were sold with such buyback obligations in 2019 (previous year: approximately 34,600 vehicles).

In addition, marketable securities and investment deposits rose by €3,079 million due to the investment of cash and cash equivalents of TRATON SE with Volkswagen AG.

Cash and cash equivalents amounted to €1,913 million as of the reporting date (previous year: €2,997 million). Cash inflows included the payment of the loss absorption for 2018 and of the purchase price receivable, while cash outflows included the distribution of retained earnings, the acquisition of shares tendered by noncontrolling interest shareholders of MAN SE, and the short-term investment and repayment of loans to Volkswagen AG.

The TRATON GROUP’s total equity decreased from €16,801 million as of December 31, 2018, to €14,134 million as of December 31, 2019. This is due primarily to the distribution of retained earnings of €3,250 million. It also reflects the transfer of the profit attributable to Volkswagen for 2019 under German GAAP. In addition, there were negative effects from the translation of financial statements of foreign operations and actuarial losses from the measurement of pension obligations due to lower interest rates. Offsetting factors were the increased profit after tax and the recognition of effects due to the expiration of the put options granted to noncontrolling interest shareholders of MAN SE.

Financial liabilities increased by €1,683 million. This mainly reflected the €1,076 million increase in lease liabilities from the initial application of the new financial reporting standard IFRS 16.

Other liabilities rose by €2,105 million. This is primarily the result of the liability of €1,404 million arising from the profit transfer to Volkswagen AG under German GAAP and the increase in buyback obligations.

Due to the expiration of the put options granted to the noncontrolling interest shareholders of MAN SE, the resulting obligations amounting to €1,827 million as of December 31, 2018, were either paid or recognized directly in equity.

In addition to the assets recognized in the consolidated balance sheet, the TRATON GROUP also uses assets that are not eligible for recognition, such as individual brands, internally developed patents, and employee expertise. Expenditures on these assets are investments in the future that safeguard market success in the coming years.

At the end of the 2019 fiscal year, there were off-balance-sheet commitments in the form of contingent liabilities of €1,187 million (previous year: €1,141 million) and buyback guarantees (mainly to Volkswagen Group companies) of €2,489 million (previous year: €2,149 million). Contingent liabilities mainly contain contingent liabilities for potential tax risks at Volkswagen Caminhões e Ônibus in Brazil.

Other financial obligations were entered into, in particular for leases and rental agreements as well as purchase commitments. More information can be found in note 40 in the notes to the consolidated financial statements.

RETURN ON INVESTMENT

RETURN ON INVESTMENT IN THE INDUSTRIAL BUSINESS SEGMENT

€ million	2019	2018
Annual average invested capital	12,584	11,013
Operating profit	1,741	1,346
Operating profit after tax	1,219	942
Operating profit (adjusted)[1]	1,729	1,484
Operating profit (adjusted) after tax[1]	1,210	1,039
Return on investment (in %)	**9.7**	**8.6**
Return on investment (adjusted) (in %)[1]	**9.6**	**9.4**

1 Not audited

For information on the calculation of the return on investment, see section 3 “Financial management” of this Combined Management Report. Return on investment rose slightly compared to the previous year, attributable to the increase in operating profit as against the prior-year period. In 2019, this was offset by higher average invested capital, due primarily to the initial recognition of right-of-use assets as a result of the application of the new financial reporting standard IFRS 16 “Leases.” Please refer to the disclosures in sections “Balance sheet analysis” and “Profit and loss“ for more information on invested capital and operating profit.

7. Summary of economic position

The Executive Board of TRATON SE considers business development and the economic position in 2019 to have been positive overall:

Unit sales of trucks and buses in the relevant markets were in line with expectations. The positive development was driven by, among other factors, strong demand for trucks in Europe in the first half of the year and by a significant increase in demand in Brazil. The MAN TGE van series made a considerable contribution to total unit sales. At 220,723, truck unit sales were up 5% on the prior-year level. In Europe (EU28+2), our truck unit sales rose faster than the market as a whole, although market growth slowed in the course of the year. This is reflected in the Group’s order intake, which declined by 7% in the course of the year compared with 2018.

Unit sales of buses reached 21,496, and hence were 5% lower than in the prior-year period.

The TRATON GROUP’s sales revenue rose by 4% to a total of €26,901 million. The prior-year figure contained sales revenue of €585 million attributable to the Volkswagen Gebrauchtfahrzeughandels und Service GmbH (VGSG) business sold as of January 1, 2019. At +6% year-on-year, the sales revenue of the Industrial Business segment was in line with expectations. The Financial Services segment recorded an increase of 12% in the reporting period, and hence also performed in line with expectations.

With an operating return on sales of 7%, the TRATON GROUP was within the forecast target range.

The results of operations, financial position, and net assets thus corroborate the Company’s solid financial position. This assessment also reflects information that became known after the end of the fiscal year.

TRATON SE (German GAAP)

TRATON SE has its registered office in Munich and is the holding company and parent of the TRATON GROUP. TRATON SE is the (direct and indirect) parent company of Scania AB, MAN SE, MAN Truck & Bus SE, MAN Latin America Indústria e Comércio de Veículos Ltda., and TB Digital Services GmbH.

TRATON SE was formed by changing the legal status of TRATON AG to a European stock corporation (Societas Europaea/SE) on the basis of the resolution of December 14, 2018. This change took effect on January 17, 2019, when it was entered in the commercial register. Since then, the Company has been registered at the Munich Local Court under no. HRB 246068. The annual financial statements of TRATON SE for the fiscal year from January 1 through December 31, 2019, have been drawn up in accordance with the provisions of the *Handelsgesetzbuch* (HGB — German Commercial Code) and the SE Regulation in conjunction with the *Aktiengesetz* (AktG — German Stock Corporation Act).

As of December 31, 2019, TRATON SE is a direct 89.72% subsidiary of Volkswagen Finance Luxemburg S.A., Luxembourg, which is in turn a wholly owned subsidiary of Volkswagen Aktiengesellschaft, Wolfsburg (Volkswagen AG).

1. Course of business

The course of business of TRATON SE essentially corresponds to the course of business of the TRATON GROUP and is presented in detail in the Report on Economic Position. TRATON SE is integrated into the TRATON GROUP's internal management process, and the same key performance indicators apply as for the TRATON GROUP.

In fiscal year 2019, TRATON SE generated net income of €1,404 million (previous year: net loss of €4,161 million). The €5,565 million improvement resulted primarily from a reduction in other operating expenses, an increase in net investment income, and considerably lower impairment losses on financial assets.

2. Results of operations

INCOME STATEMENT FOR TRATON SE

€ million	2019	2018
Net investment income	1,932	–88
Write-downs of financial assets	–401	–1,182
Net interest income/expense	–1	1
Sales revenue	13	14
Cost of sales	–15	–14
Gross profit	–2	0
General and administrative expenses	–135	–145
Other operating income	23	2
Other operating expenses	–29	–2,748
Income taxes	17	–1
Earnings after tax	**1,404**	**–4,161**
Profit transferred/loss absorbed on the basis of a domination and profit and loss transfer agreement	–1,404	4,161
Net income for the fiscal year	**–**	**–**
Withdrawal from the capital reserves	600	3,250
Income from capital reduction	**16,000**	**–**
Transfer to the free capital reserves in accordance with provisions governing ordinary capital reductions	**–16,000**	**–**
Net retained profit	**600**	**3,250**

Net investment income improved by €2,020 million year-on-year. This resulted, among other things, from a regular dividend of €400 million (previous year: €363 million) and a special dividend of €800 million from Scania AB, and income from the reversal of provisions recognized in the previous year for expenses in connection with the award proceedings for shareholders of MAN SE of €703 million. The write-downs of financial assets comprise impairment of the carrying amount of the investment in MAN SE in the amount of €401 million.

The net interest income/expense was down slightly on the previous year.

There was a minor drop in sales revenue, which contains services and cost allocations charged to affiliated companies.

The general and administrative expenses increased, mainly because of the increase in the headcount and the related personnel expenses. By contrast, the lower expenses in connection with the IPO and preparations for the capital market listing of TRATON SE in the amount of €31 million (previous year: €68 million) had an offsetting effect.

In the previous year, the other operating expenses contained expenses of €2,748 million in connection with partial divestment of the equity investment in MAN SE. This expense was attributable, among other things, to the sale of MAN SE's Power Engineering business.

On the basis of the domination and profit and loss transfer agreement in force until midnight on December 31, 2019, the earnings after tax of €1,404 million will be transferred to Volkswagen AG (previous year: loss of €4,161 million absorbed by Volkswagen AG).

The Executive Board proposes that €500 million of the resulting net profit for the 2019 fiscal year be distributed to the shareholders, and the remainder be carried forward. This would give a payout ratio of around 33% of the TRATON GROUP's earnings after tax attributable to TRATON SE shareholders.

The economic situation of TRATON SE is dominated by its operating activities and those of its subsidiaries. TRATON SE participates in the operating profits of its subsidiaries through dividend payments and profit and loss transfer agreements. The economic situation of TRATON SE is therefore essentially the same as that of the TRATON GROUP, which is outlined in the section "Report on Economic Position."

3. Assets and financial position

BALANCE SHEET FOR TRATON SE

€ million	**2019**	**2018**
Fixed assets	20,585	19,092
Receivables and other assets	3,718	6,784
Bank balances	0	0
Total assets	**24,303**	**25,876**
Equity	21,341	24,591
Liabilities to banks	0	0
Miscellaneous provisions and liabilities	2,962	1,285
Total equity and liabilities	**24,303**	**25,876**

Total assets declined by €1,573 million year-on-year to €24,303 million.

Fixed assets mainly comprise the shares in Scania AB and MAN SE and other equity investments. The increase resulted principally from the tender of MAN common and preferred shares by noncontrolling interest shareholders and the resulting increase in TRATON SE's stake in MAN SE to 94.36% and the capital contribution to Scania AB of €800 million. This was countered by a write-down of the carrying amount of the equity investment in MAN SE. The shares in Navistar are disclosed in equity investments. As of December 31, 2019, TRATON SE held 16.8% of Navistar's capital.

The proportion of fixed assets relative to total assets increased to 84.7% (previous year: 73.8%).

Receivables and other assets declined by €3,066 million to €3,718 million. In the previous year, this item mainly comprised receivables from Volkswagen AG due to loss absorption and tax allocations. As of December 31, 2019, this item contained financial receivables of €3,211 million from Volkswagen AG and of €461 million from MAN SE and its subsidiaries.

Bank balances only exist to a small extent; surplus liquidity is mainly invested with Volkswagen AG.

As a result of the transfer of the net profit of €3,250 million to Volkswagen AG, there was a year-on-year reduction in equity of the same amount. As of December 31, 2019, the equity ratio was therefore 87.8% (previous year: 95.0%).

On February 25, 2019, the Annual General Meeting of TRATON SE resolved to increase the Company's share capital from €10,000,200 to €500,000,000 by converting part of the Company's capital reserves into capital stock and issuing 489,999,800 new no-par value bearer shares. The capital reserves of TRATON SE amounting to €20,241,380 thousand (previous year: €21,331,380 thousand) comprise the contributions made by Volkswagen AG to TRATON SE, especially the transfer of MAN SE and Scania AB.

The miscellaneous provisions and liabilities contain, in particular, liabilities to affiliated companies, other provisions, and provisions for pensions. The increase in miscellaneous liabilities was mainly due to liabilities to Volkswagen AG for the profit transfer, including the income tax allocation, and an increase in liabilities to affiliated companies due to intragroup financing transactions. In the previous year, this item contained the liabilities in connection with the payment of appropriate compensation to noncontrolling interest shareholders of MAN SE. Miscellaneous provisions in the amount of €15 million were mainly recognized for obligations under public law. In the previous year, primarily the risks relating to the obligation to make compensation payments to noncontrolling interest shareholders of MAN SE amounting to €704 million were recognized here.

Net liquidity/net financial debt comprises bank balances, intragroup receivables from financing transactions, loans to Group companies, and marketable securities less financial liabilities to banks/others and less intragroup liabilities from financing transactions. The net liquidity of TRATON SE on December 31, 2019, was €2,427 million (previous year: €1,658 million).

4. Opportunities and risks

The business performance of TRATON SE is essentially exposed to the same risks and opportunities as that of the TRATON GROUP. TRATON SE's exposure to the risks of its equity investments and subsidiaries is proportionate to the respective stakes it holds in these. The risks and opportunities are outlined in the Report on Opportunities and Risks. In addition, the relationship with equity investments may result in payments arising from statutory or contractual liability (especially financing) and write-downs of shares in affiliated companies and other equity investments.

5. Remuneration of the Executive Board

The basic principles of the remuneration system for members of the Executive Board and Supervisory Board are outlined in the Remuneration Report. The Remuneration Report is part of the Combined Management Report and also presents the individual remuneration of members of the Executive Board and Supervisory Board.

6. Report on expected developments

TRATON SE is the parent and holding company of the TRATON GROUP. The profits and losses reported by its subsidiaries are distributed or transferred to TRATON SE. The expectations with regard to the TRATON GROUP's business performance as described in the Outlook also affect the earnings of TRATON SE. The outlook for the TRATON GROUP thus also applies to TRATON SE. Taking into account the expectations with regard to the Group's key performance indicators, we assume a considerable decline in operating profit plus net investment income due to lower income from equity investments. For more information, please refer to the TRATON GROUP's Report on Expected Developments.

Report on Expected Developments, Opportunities, and Risks

1. Report on expected developments

Our forecast for the key performance indicators of the TRATON GROUP for the period from January 1, 2020, to December 31, 2020, reflects the forward-looking expectations of the Company with respect to the 2020 key performance indicators of the TRATON GROUP. Assumptions that we have made regarding the overall economic environment and the development of the truck and bus markets serve as the foundation for this planning. The assessments presented for future business development are based on the targets of our operating units as well as the opportunities and risks provided in connection with the anticipated market conditions and the competitive situation. Against this background, we are adapting our expectations for business development to reflect each of the current forecasts regarding the development of the truck and bus markets. The following statements are based on our state of knowledge at the beginning of 2020.

EXPECTED MACROECONOMIC DEVELOPMENTS

Our forecasts are based on the assumption that global economic growth in 2020 will be at the same level as in the preceding year. We continue to see risks in protectionist tendencies, volatility on the financial markets, and structural deficits in individual countries. In addition, persistent geopolitical tensions and conflicts will weigh on growth prospects. We estimate that momentum in both the advanced economies and the emerging markets will be similar to that seen in 2019. We expect the strongest rates of expansion in Asia's emerging economies.

In western Europe, economic growth in 2020 is likely to decline slightly compared to the reporting period. Resolving structural problems continues to pose a major challenge, as does the uncertain impact of the United Kingdom's exit from the EU. We expect that gross domestic product (GDP) in Germany will increase only at a low rate in 2020. The situation in the labor market will probably remain stable and bolster consumer spending.

In central Europe, we estimate that growth rates in 2020 will also be approximately the same as those for the past fiscal year. The economic situation in eastern Europe should stabilize, provided the conflict between Russia and Ukraine does not worsen. The Russian economy is expected to see only muted growth.

For Turkey, we anticipate an increasing growth rate amid higher inflation. The South African economy will probably be dominated by political uncertainty and social tensions again in 2020 resulting, in particular, from high unemployment. Growth should therefore increase only slightly.

We assume that the economic situation in the U.S.A. will remain stable in 2020. Nevertheless, GDP growth should be lower than in the reporting period. The U.S. Federal Reserve could further reduce the key lending rate during 2020. Economic growth is likely to remain almost constant in Canada and to increase slightly in Mexico, following a period of stagnation in the previous year.

The Brazilian economy will, in all likelihood, further stabilize in 2020 and record somewhat more dynamic growth than in the year under review. Amid sustained high inflation, the economic situation in Argentina is expected to remain very tense.

In 2020, the Chinese economy is expected to continue growing at a relatively high level, but will lose some of its momentum compared with prior years. A — presumably temporary — agreement with the U.S.A. on trade-related matters and the government's fiscal measures are likely to have a stabilizing effect.

EXPECTED SECTORAL DEVELOPMENTS

Contrary to our macroeconomic expectations for 2020, we regard the decline in order intake and an expected decrease in transportation volumes as signs of a downturn on the European truck market. The TRATON GROUP Executive Board therefore expects new registrations for medium- and heavy-duty trucks (>6 t) in 2020 in the core geographic regions for the TRATON GROUP, i.e., Europe (defined as the EU27 countries excluding Malta plus United Kingdom, Norway, and Switzerland, or "EU27+3"), Brazil, Russia, South Africa, and Turkey to vary from region to region compared to the previous year. A 10 to 20% downturn in the market is expected in the EU27+3 region. For Brazil, we anticipate that demand will increase significantly compared to the previous year. We expect to see a noticeable rise in demand overall in the other relevant markets. Russia will probably witness a moderate rebound in demand in 2020. In Turkey, we anticipate a substantial recovery, starting from the very low prior-year level. We expect a moderate decline in South Africa.

In the bus markets that are relevant for the TRATON GROUP (EU27+3, Brazil, and Mexico), we also expect varied regional developments in 2020. In the EU27+3 region, we anticipate a moderate year-on-year downturn in the market. In Brazil, new registrations will probably be significantly higher than in the previous year. We anticipate a moderate increase in Mexico.

Furthermore, with respect to factors impacting the commercial vehicle industry, we foresee a stable political environment in the most relevant countries for the TRATON GROUP. In particular, we assume stability of the global trade and tariff framework and no renewed deterioration of the political environment between China and the U.S.A., as well as no further escalation of the Middle East conflict.

UNIT SALES 2020

We anticipate sales volumes for trucks (excluding MAN TGE vans) to decline significantly overall in 2020, while bus sales volumes are expected to increase moderately overall.

Worldwide, we estimate that there will generally be a moderate decline in sales volumes in fiscal year 2020 for all vehicles (including MAN TGE vans).

SALES REVENUE AND OPERATING RETURN ON SALES 2020

We expect to see a moderate decrease in the sales revenue of the Industrial Business segment, primarily due to the market-related lower volumes in the Truck business. In the Financial Services segment, we anticipate a slight increase in sales revenue. Overall, we therefore expect a moderate reduction in the TRATON GROUP's sales revenue.

For 2020, we forecast an operating return on sales of between 4.5 and 5.5% for the TRATON GROUP.

We expect the operating return on sales in the Industrial Business segment to amount to 4.0 to 5.0%, with a weaker first half of the year. This expectation is based on the sharp downturn in the truck market in the EU27+3 region. Furthermore, we anticipate increased expenses in the used vehicle business as well as additional costs in connection with the rollout of the new generation of trucks at MAN Truck & Bus.

For the Industrial Business segment, we forecast a return on investment of 5.5 to 6.5% and a cash conversion rate of 20 to 30%.

We expect operating return on sales to be in the range of 12.0 to 16.0% for the Financial Services segment. The anticipated increase in sales revenue will be offset by increased costs for digitalization and gaining access to new markets.

CAPEX AND PRIMARY RESEARCH AND DEVELOPMENT COSTS

With investments in our products and plants as well as in our research and development activities, we are laying the foundation for profitable and sustainable growth in the TRATON GROUP. For fiscal year 2020, we are planning a noticeable rise in capex. Primary research and development costs are expected to decline perceptibly following the rollout of the new product range.

SUMMARY OF EXPECTED DEVELOPMENTS

Overall, the TRATON GROUP's Executive Board is anticipating a moderate decline in unit sales and sales revenue for the TRATON GROUP, based on current market expectations for 2020. Together with a sharp slowdown in the truck market, the operating return on sales will be negatively impacted by higher expenses in the used vehicle business and additional costs for launching the new generation of trucks at MAN Truck & Bus, with the result that we are forecasting an operating return on sales for the TRATON GROUP of 4.5 to 5.5%.

	Actual 2019	Forecast 2020
TRATON GROUP		
Sales (units)	242,219	moderate decline
Sales revenue (€ million)	26,901	moderate decline
Operating return on sales (in %)	7.0	4.5–5.5
Industrial Business		
Sales revenue (€ million)	26,444	moderate decline
Operating return on sales (in %)	6.6	4.0–5.0
Return on investment (in %)	9.7	5.5–6.5
Cash conversion rate (in %)[1]	179	20–30
Capex (€ million)	993	noticeable increase
Primary research and development costs (€ million)	1,376	noticeable decline
Financial Services		
Sales revenue (€ million)	849	slight growth
Operating return on sales (in %)	16.8	12.0–16.0

1 In 2019 and 2018, the cash conversion rate was impacted by a number of nonrecurring factors; in the year under review, this item reflected the proceeds from the disposal of the Power Engineering business to a significant extent. Information on other nonrecurring factors can be found in the sections "Profit and loss" and "Cash flows."

2. Report on opportunities and risks (contains the report required by section 289 (4) of the *Handelsgesetzbuch* (HGB — German Commercial Code))

The TRATON GROUP is exposed to numerous risks in a wide range of categories. Entrepreneurial risks are acceptable to a reasonable extent, but they need to be managed effectively and controlled with appropriate risk response measures. Risks that pose a threat to the continued existence of the TRATON GROUP or any TRATON brand must be avoided.

In this context, the term "risk" describes the possibility of events or developments occurring that may have — individually or together with other circumstances — a material impact on achieving TRATON's targets. Risks with a positive impact are also referred to as opportunities.

The TRATON GROUP promotes a risk awareness culture which is characterized by openness and encourages people throughout the organization to speak up and discuss the risks the Company is facing. Transparency is fundamental for dealing effectively with risks and avoiding blind spots, i.e., risks which remain undetected and therefore are not addressed properly.

In the past, Scania and MAN maintained their own risk management systems independently from each other. As part of its ongoing reorganization, TRATON is currently in the process of redesigning and further enhancing its risk management and internal control systems in order to ensure uniform minimum standards across the whole TRATON GROUP.

RISK MANAGEMENT ORGANIZATION

The Executive Board of TRATON SE holds the ultimate responsibility for implementing and monitoring effective risk management in the TRATON GROUP. In order to fulfill this obligation, the Executive Board provides strategic direction, takes decisions on major risk management matters, and acknowledges TRATON's major risks. Furthermore, the Executive Board provides summarized information to the Supervisory Board and Audit Committee of TRATON SE so that these can fulfill their oversight role.

The mandate to develop the Group's risk management framework has been assigned to the Governance, Risk & Compliance (GRC) function at TRATON SE. Together with the corresponding risk management functions in the brands, it is responsible for designing, implementing, and coordinating the respective processes across the TRATON GROUP.

As a principle, all management across the organization is responsible for managing risks within its area of responsibility (“risk ownership”). Risks are to be reported openly and promptly along the defined reporting channels and additionally to the respective risk management function, if the risks fulfill the relevant reporting criteria and thresholds.

Furthermore, the Corporate Audit function provides independent assurance to management about the effectiveness of the Group’s risk management activities.

RISK MANAGEMENT FRAMEWORK

The TRATON risk management framework shows how the different risk management processes within the TRATON GROUP relate to each other. The framework addresses relevant legal requirements and further makes reference to generally accepted principles defined in external frameworks and standards (e.g., COSO, ISO).

The purpose of risk management at TRATON is to define binding minimum standards for an effective risk management across the whole TRATON GROUP, thereby creating transparency with regard to the current TRATON risk profile and ensuring that clear ownership is assigned for all relevant risks. In general, all processes included in the framework follow the same generic cycle:

- **Identify** risks which may affect the achievement of the Company’s plans and objectives;
- **Assess** and prioritize the relevant risks based on impact, likelihood, and further criteria;
- **Mitigate** risks by implementing appropriate risk responses (e.g., control or action plan);
- **Report** to management on the Company’s risk status;
- **Monitor** the development of risks and the effectiveness of risk response measures.

The risk management framework deals with risks in a more narrow sense, thus without considering opportunities. Instead, for external reporting purposes opportunities are collected periodically from dedicated functions, especially Controlling and Strategy.

RISK MANAGEMENT PROCESSES

Enterprise risk management (ERM)

The ERM process is designed to provide management with transparency regarding the TRATON GROUP’s current risk exposure. It encompasses all organizational rules and measures to identify and assess concrete business risks from a broad range of categories. It helps management to ensure that all relevant risks are clearly assigned to an owner and to monitor the implementation of appropriate measures. ERM serves as the core process for satisfying a variety of internal and external reporting obligations, as outlined in the related chapter below. Risks are assessed in terms of their probability of occurrence and impact on net basis, with the net assessment factoring in any implemented measures that mitigate the risk in question. Risks are ranked by their net expected value, i.e., the product of probability of occurrence and impact.

Internal control system (ICS)

The ICS is a recurring process for managing and monitoring systemic risks at process level. It covers all prescribed procedures, methods, and measures that serve to provide reasonable assurance regarding the reliability of financial reporting and selected compliance topics (e.g., anti-corruption, antitrust law). ICS as a process comprises the selection of entities to be included (scoping), documentation of relevant control activities, assessment of control design and operating effectiveness, mitigation of identified control deficiencies, and management reporting.

Regular GRC Process

The Regular GRC Process is an annual process which aims at the identification, assessment, and mitigation of major systemic risks. For each relevant risk, countermeasures and management controls are recorded and their effectiveness tested. The Regular GRC Process mostly focuses on Company-level risks and management systems.

RISK REPORTING

The Executive Board and the Supervisory Board/Audit Committee of TRATON SE are informed regularly about the TRATON GROUP’s risk situation and risk management. The same applies to the executive and supervisory bodies of the TRATON brands and Group companies.

On behalf of TRATON SE's Executive Board, the TRATON Governance & Risk Board (GRB) deals with risk management, internal controls, and related topics in the TRATON GROUP on a quarterly basis. The GRB is hosted by the GRC function and composed of the Chief Financial Officers of TRATON SE and the brands as well as other senior management.

In addition to the criteria for regular risk reporting processes, criteria have been defined across the TRATON GROUP when an urgent risk notification to the Executive Board is required. That is the case if a new risk emerges that may have a significant impact on the TRATON GROUP's targets, or an already reported risk increases significantly.

Finally, TRATON satisfies a number of additional internal and external reporting requirements, including risk reporting to Volkswagen AG and external risk reporting in the Combined Management Report of the statutory financial reporting.

MAIN FEATURES OF INTERNAL CONTROL OVER FINANCIAL REPORTING

The TRATON GROUP's internal control system is designed to provide reasonable assurance that TRATON's statutory financial statements are accurate, i.e., without material errors or omissions.

At TRATON SE, the Group Accounting function prepares and presents consolidated financial statements for the TRATON GROUP. The function also governs TRATON's accounting framework, which includes relevant accounting manuals, policies, and the definition of procedural instructions and internal controls. Furthermore, Group Accounting monitors relevant legislative requirements and reviews accounting consistency and continuity across the TRATON GROUP.

In order to ensure the validity of financial reporting, typical control mechanisms are systematically applied to all relevant processes, in particular comprehensive reviews and checks, approval hierarchies, segregation of duties, and the four-eyes-principle. As financial reporting and consolidation rely heavily on the use of information technology, appropriate IT controls are in place for all relevant systems (e.g., access control, backup and recovery procedures, and change management), including controls over external service providers.

The TRATON GROUP's internal control system over financial reporting not only covers accounting activities at TRATON SE, but also includes other functions and subsidiaries where material financial reporting information is generated.

The effectiveness of the financial reporting internal control system is assessed at least annually in the course of the ICS process described above. Identified control deficiencies are centrally monitored until remediation measures have been implemented. As outlined before, the TRATON GROUP is currently redesigning and enhancing its internal control system based on common minimum standards across the whole TRATON GROUP.

OPPORTUNITIES AND RISKS

Significant opportunities and risks that may have an impact on the TRATON GROUP's net assets, financial position, and results of operations are classified into six categories: strategy, markets, products, operations, legal & compliance, and finance.

Strategy

TRATON's ability to meet its stated objective of becoming a Global Champion in the truck industry depends to a significant extent upon successful geographic expansion beyond its current core markets of EU27+3 and Brazil. The TRATON GROUP intends to expand its business activities in North America and Asia through strategic alliances and other measures, both of which entail significant opportunities and risks. If the TRATON GROUP fails to successfully expand beyond our EU27+3 and Brazilian core markets, our ability to maintain profitable scale may be jeopardized.

The strategic alliances entail various risks for TRATON, in particular if our business and legal interests cannot be aligned with those of our partners. Unexpected problems with respect to these alliances could adversely affect the TRATON GROUP's position and access to the strategically important North American and Asian markets.

TRATON operates in an industry where efficiency improvements and cost savings are crucial in order to maintain competitiveness and profitability. There are significant opportunities arising from collaboration among the brands and with its alliance partners, resulting mainly from additional economies of scale. Our future success will depend, among other factors, on our ability to realize long-term synergies from collaboration and to successfully implement operational efficiency programs within the operating units.

Commercial vehicles are subject to a broadening range of increasingly strict and at times conflicting environmental laws and regulations around the world, in particular regulations to address climate change and vehicle exhaust emissions.

In the European Union, CO_2 monitoring regulations are already in effect or will have become effective by 2020, depending on vehicle configuration (EU regulation 2019/1242 from June 20, 2019). These require heavy-duty truck manufacturers, including the TRATON GROUP, to use a standard methodology to monitor CO_2 emissions and report them to authorities in EU member states. In addition, European truck manufacturers have to fulfill the EU's first-ever regulation of CO_2 emissions by heavy-duty vehicles targeting a 15% reduction in CO_2 emissions by trucks weighing over 16 tons by 2025 and a 30% reduction (to be confirmed) by 2030, each compared to the benchmark period of July 1, 2019, to June 30, 2020. The objective of the 30% reduction by 2030 will be reviewed in 2022. If these emission targets are not met, potential penalties of €4,250 per gram of CO_2 emissions per ton-kilometer (tkm) would be triggered (2025 until 2029; from 2030 onward: €6,800 per gram of CO_2/tkm).

The EU Commission aimed at evaluating a life cycle assessment for heavy-duty trucks by 2023. Furthermore, as part of the announced European Green Deal of the designated new EU Commission, CO_2 emissions are to be further reduced from originally 40% up to 55% by 2030, based on the 1990s emissions. This may impact the CO_2 emission requirements for heavy-duty trucks further.

Compliance with exhaust emission regulations will require substantial investments in new technologies, including alternative drive systems and vehicles powered by alternative fuels. Increasing connectivity within the transportation network may resolve inefficiencies in the currently existing transportation network, e.g., unused transportation capacities, empty runs, or inefficient transportation routing. Combined with connected traffic management systems, this may lead to an optimized transportation flow and thus also to decreased CO_2 emissions.

Markets

The commercial vehicle industry is heavily influenced by economic and political conditions globally and in TRATON's key markets. For that reason, the industry is subject to significant cyclicality. Deviations from expected developments in the economic environment and fluctuations in the business climate may result both in opportunities and in risks regarding the demand for our products.

Despite current downturn in the European commercial vehicle market, the TRATON GROUP sees opportunities for all brands to achieve profitable growth in the transportation markets in the medium to long term, since the underlying global economic trends are expected to continue, or assuming that the transportation markets recover despite an overall cooling down of the economy. These include continued, albeit moderate, economic growth, value chains based on an international division of labor, increasing e-commerce, and the resulting high level of global transportation volumes.

Volatility on the financial and commodity markets, increasing protectionist tendencies, and structural deficits that compromise the development of individual advanced and emerging economies represent significant risks to the continued growth of the global economy. The growing ecological challenges that are impacting individual countries and regions to varying extents are a further factor. Moreover, the potential transition from an expansionary to a more restrictive monetary policy worldwide harbors risks in the overall economic environment. Private and public sector debt remain high in many places, which hinders growth prospects and can trigger negative market reactions.

Declines in growth in key countries and regions often have an immediate impact on the state of the global economy and therefore pose a significant risk. In particular, the United Kingdom's departure from the EU Single Market in a "no-deal" Brexit and other trade policy measures such as tariffs or nontariff barriers to trade would have a negative impact on TRATON.

The TRATON GROUP intends to benefit from accessing growing addressable market segments in emerging economies. The addressable market for Western vehicle manufacturers in such markets is expected to grow as stricter regulations and emission standards are implemented globally over the coming years. However, economic growth in some emerging markets is overshadowed, in particular, by dependency on energy and commodity prices and capital imports, as well as by socio-political tensions, conflicts, corruption, inadequate government structures, and a lack of legal certainty.

Geopolitical tensions and conflicts as well as signs that the global economy is fragmenting are another material risk factor for the development of individual countries and regions. In light of the existing, strong global interdependence, local developments may also negatively impact the global economy. Any escalation of the conflicts in eastern Europe, the Middle East, or in Africa could distort the energy and commodity markets around the world and intensify migration trends, for example. Any aggravation of the situation in East Asia could put further strain on the global economy. The same applies to violent conflicts, terrorist activities, cyberattacks, and the spread of infectious diseases, which may prompt unexpected, short-term responses from the markets.

TRATON is subject to intense competition, which may increase further in the future. TRATON's future success depends on its ability to address the key factors of competition in the commercial vehicle industry: these are, in particular, its innovation initiatives which have a positive effect on the total cost of ownership, the ability to respond to specific customer needs with tailored products and services, and the availability of technological innovations that respond to the major trends of the industry (i.e., alternative drives, connectivity, and autonomous driving). If TRATON fails to successfully compete in changing markets, this may result in pricing pressure, loss of sales, and lower margins.

TRATON can address the fluctuation in the demand for its products with flexible production and labor concepts, among other things. Furthermore, the international footprint of the TRATON GROUP may help to buffer market volatility that is limited to specific markets or regions. As a further option, we may implement structural adjustments if a market downturn cannot be addressed by temporary measures. However, such adjustments may involve substantial nonrecurring expenses.

Products

The TRATON GROUP's future success will depend on its ability to correctly assess and respond to the industry's major trends with innovative, commercially attractive products, technologies, and services. Timely innovations in disruptive trends like autonomous driving, connectivity, and electric drives may provide business opportunities. To achieve this, TRATON is investing significantly in research and development. This may also involve partnerships and cooperation with suppliers or other organizations outside TRATONS's core competences.

The development of new products involves large and complex projects that are subject to various risks. These may result from a number of factors, including inaccurate assumptions with respect to planning and implementation costs, unexpected technical challenges, weaknesses in project design and management, or poor performance of third-party suppliers and partners. These factors could result in considerable cost overruns, delays in new product launches, delivery delays, quality issues, and damage to customer relationships.

To address these risks, TRATON and its brands have set up a strategic planning process based on an analysis of trends in the market and business environment. The resulting product plans are used to manage our extensive research and development activities.

As commercial vehicles become increasingly complex, the risks of vehicle defects and quality issues generally rise. The impact of such issues may further increase due to the TRATON GROUP's modular component concept, as components may be used in a number of different vehicles across the brands. Substandard quality may result in manufacturer's guarantee, statutory warranty, and ex gratia repair costs as well as the loss of market share or lower product margins. In severe cases, TRATON may be exposed to product recalls as well as product liability and compensation claims. By the same token, superior product quality may strengthen our positioning within the competitive environment.

In order to maintain high quality standards for its products and to comply with government-prescribed safety and other standards, TRATON incurs substantial costs for monitoring, certification, and quality assurance. We have implemented a comprehensive quality management system that begins at the product gestation stage and extends to manufacturing, suppliers, and to in-life monitoring of the Company's products.

Operations

The TRATON GROUP's success depends on the uninterrupted operation of its manufacturing activities. Unforeseen disruption of a production facility represents a considerable risk and may be caused by a number of incidents — for example power failure, equipment failure, fires, floods, social unrest or terrorist activity, labor difficulties, or other operational problems. Additionally, the TRATON GROUP relies on the timely delivery of high-quality materials and components by its suppliers. If one or more suppliers are unable or unwilling to fulfill delivery obligations, for example due to supply shortages, labor strikes, capacity allocation to other customers, or financial distress of the supplier, we face the risk of production downtime and inventory backlog.

Furthermore, accidents or technical faults in production facilities may cause hazardous substances to contaminate water, soil, and air. The TRATON GROUP has taken a variety of preventive and detective measures to counter these risks. These measures include preventive plant maintenance and servicing, regular checks by qualified personnel, on-site inspections, risk avoidance plans, hazardous substance management, and plant fire departments.

Due to the high level of competition in the commercial vehicle industry, efficiency improvements and cost savings are crucial in order to maintain competitiveness and profitability. While we have put operational efficiency initiatives in place for each of our brands, there can be no assurance that these programs will yield the targeted improvements, or that they will not entail higher implementation costs than expected.

The TRATON GROUP's business processes rely heavily on information technology. As well as opportunities for improving the efficiency and effectiveness of TRATON's operations, this also gives rise to risks. Parts of the infrastructure may fail as a result of accidents, disasters, technical damage, outdated technology, or cyberattacks, thereby impairing business processes or bringing them to a complete standstill. There is also the risk of unauthorized access to confidential business data and information stored on the Company's IT systems.

In order to ensure the availability, integrity, and confidentiality of information, TRATON uses a risk-based information security management system as well as a combination of the latest hardware and software technologies, effective IT organizational mechanisms, and an IT-related internal control system.

Our success further depends substantially on our ability to attract, hire, train, and retain experienced management and personnel. TRATON's management team has substantial expertise and industry experience, and the loss of key members of management could adversely affect our ability to implement our strategic objectives. Further, the TRATON GROUP also depends on employees that are highly skilled and qualified in scientific and technical fields.

Attracting and retaining such employees depends on a variety of factors, including the Company's remuneration and benefit programs, work environment, career development opportunities, commitment to diversity, and public image. To capture the value of our employees and support the strategic targets of the TRATON GROUP, all brands foster an environment in which training, qualification, and continuous professional development are central to the personnel development strategy, from modern vocational education strategies for trainees all the way to top management executive education programs.

Legal & Compliance

In the ordinary course of its business, the TRATON GROUP is involved in various legal disputes and legal proceedings. Some of the associated risks are considerable. See "Important legal cases" for further details. Furthermore, we may be subject to proceedings by governmental authorities if we fail to comply with laws and regulations.

In particular, the TRATON GROUP is subject to antitrust regulation in the EU and other jurisdictions and is therefore exposed to the risks of related enforcement actions and damage claims. The commercial vehicle industry is increasingly concentrated and therefore subject to heightened scrutiny by antitrust authorities. A finding of an infringement of antitrust regulations could adversely affect the TRATON GROUP in a variety of ways, including significant fines, private enforcement claims, disclosure of and changes in business practices, and reputational damage.

The TRATON GROUP is subject to data protection regulations with respect to, among other things, the use and disclosure of personal data, and the confidentiality, integrity, and availability of such information. In particular, we are subject to the stringent requirements of the EU's General Data Protection Regulation (GDPR), which entered into force in May 2018. If the TRATON GROUP fails to comply with this regulation, this could result in claims for damages and other liabilities, significant fines and other penalties, and the loss of customers and reputation.

The TRATON GROUP's international presence and large number of products and services expose us to risks arising from breaches of our patents by third parties, or the unauthorized disclosure of company-specific TRATON expertise by third parties. To address these risks, we review the specific legal situation in each case, if appropriate with the support of external legal advisers, to defend ourselves against unjustified claims or assert our own claims. Further, the TRATON GROUP has set up and is continuously enhancing a comprehensive compliance program with a special focus on combatting corruption, antitrust law, and preventing money laundering.

Finance

Due to its global business activities and international nature, the TRATON GROUP is exposed to considerable financial risks. It manages these risks using a Group-wide financial risk management system.

If the TRATON GROUP carries out transactions in a currency other than its functional currency, it is exposed to currency risk. The TRATON GROUP therefore conducts hedging of currency risk arising from order backlog, receivables, and liabilities, and partly hedges currency risk arising from forecast transactions. The inclusion of subsidiaries or other affiliated companies in countries outside the euro zone in the consolidated financial statements represents a risk as a result of currency translation. As a general rule, TRATON does not use derivatives to hedge these translation risks.

Interest rate risk results from interest rate-sensitive assets and liabilities. The goal of interest rate risk management is to largely reduce these risks through the use of derivative financial instruments.

The manufacture of the TRATON GROUP's products requires commodities. Price trends on the commodity markets or price escalation clauses in supplier contracts may entail commodity price risks. These risks are managed through long-term supplier contracts, price escalation clauses in customer contracts, and targeted commodity price hedging in the banking market.

Liquidity risk describes the risk that the TRATON GROUP may have difficulty in meeting obligations associated with financial liabilities. To ensure liquidity, cash inflows and outflows are continuously monitored and managed. In addition, changes in the TRATON GROUP's liquidity are monitored using a detailed financial plan. The TRATON GROUP's financial management manages automated cash pools, wherever legally and economically appropriate and feasible.

For external financing purposes, the opportunities available on the financial market are tracked continuously so as to ensure the TRATON GROUP's financial flexibility. Additionally, the TRATON GROUP has access to Volkswagen intragroup financing.

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

The TRATON GROUP is exposed to a risk of impairment affecting profit or loss if equity-method investments are impaired.

TRATON grants its employees pension commitments and other long-term benefits. The present value of these liabilities depends largely on the discount rate used to discount future benefits, the inflation rate as the basis of future benefit adjustments, expected salary trends, the contribution payments to be made, and the longevity of the beneficiaries.

In order to reduce the financial risks inherent in defined benefit pension plans, some of the TRATON GROUP's pension plans are — on a mandatory or voluntary basis — funded through pension plan assets that can be offset against pension plan liabilities in the balance sheet. The fair value of plan assets can be negatively impacted in particular by changes in exchange rates, interest rates, credit risks, and securities prices.

Any significant increase in the present value of pension commitments and other long-term employee benefits granted by TRATON and/or significant reductions in the fair value of plan assets could materially adversely affect the TRATON GROUP's net assets, financial position, and results of operations.

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

Furthermore, the TRATON GROUP is subject to income and other taxes in multiple jurisdictions. Provisions for income, sales, value-added, and other taxes, including withholding taxes, are primarily determined on the basis of responsible judgment and estimates of tax bases. Accordingly, in the ordinary course of our business, there are various transactions and calculations, including, for example, intercompany transactions and cross-jurisdictional transfer pricing and transactions with specific documentation requirements, for which the final tax assessments or the timing of the tax effect is subject to some uncertainty.

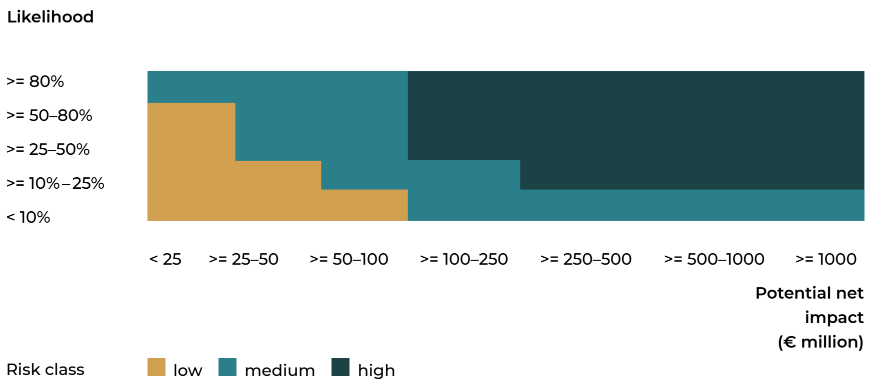
TRATON is regularly subject to tax audits conducted by the tax authorities responsible, which may disagree with the tax positions we have included. Even if the TRATON GROUP considers the reported tax positions appropriate, the conduct of a tax audit may impact on the tax positions reported. As a result, we may be subject to additional tax liabilities, interest, penalties, or any regulatory, administrative, or other sanctions relating thereto.

AGGREGATED REPRESENTATION ON THE BASIS OF RISK CATEGORIES

Based on the following matrix, identified risks are assessed according to their potential net impact and net likelihood, if possible considering any implemented risk mitigating measures. The risk classes are derived by considering the net expected value of the impact of risks on the TRATON GROUP's operating profit.

The management report outlines risks that could have a significant impact on the achievement of the Company's goals based on financial and nonfinancial criteria. The ERM process defines brand-specific thresholds for internal risk reporting in the net risk impact amount of between €7.5 million and €15 million. These criteria are validated on a regular basis and adjusted if necessary.

Risks belonging to the Strategy risk category usually have a long-term effect, which is difficult to quantify in the short term. TRATON therefore does not quantify these risks. The risk class for strategic risks is assessed through expert opinion.



On the basis of these three risk classes and the risk categories, the aggregated risk situation is represented in the following table by summarizing the net expected impact of the reported risks for each risk category:

Risk category	Risk class
Strategy	High
Markets	High
Products	High
Operations	Medium
Legal & Compliance	High
Finance	Medium

OVERALL ASSESSMENT OF THE TRATON GROUP'S RISK AND OPPORTUNITY POSITION

According to our evaluation, market risks have the most considerable impact on the TRATON GROUP. In addition to the general cyclicality of and the intense competition in the commercial vehicle industry, there are increasing risks to the economic environment arising from protectionist measures and geopolitical tensions, which may have a negative impact on sales volumes and sales margins. At the same time, stable markets for transportation solutions despite a generally cooling economy may also represent a tangible opportunity for the TRATON GROUP in a short-term perspective. In the strategic risk area, the requirements and risks regarding the CO_2 regulation in the EU are in particular focus. Product risks primarily include potential excess costs and delays for engineering and new product launches. This is further emphasized by the significant investments of the TRATON GROUP in order to respond to emerging market trends with innovative, attractive, and energy-efficient products and services. The main operations risks arise from production interruptions, which may have several reasons. Legal and compliance risks comprise litigation risks, in particular. Among the finance risks, future currency developments are also an area of significant uncertainty that can have both a positive and a negative effect on us.

Overall, the TRATON GROUP is exposed to significant levels of uncertainty that it can influence only partially. In the aggregate, the described risks generally outweigh the corresponding opportunities. However, TRATON has determined that there are no risks which individually, or in combination with other risks, endanger its continued existence.

Due to the dynamic nature of the current business environment, the Company will continue to monitor its main risks and opportunities closely.

IMPORTANT LEGAL CASES

After unannounced inspections at the premises of several European truck manufacturers including MAN and Scania in 2011, the European Commission initiated proceedings in 2014 for suspected violations of EU antitrust rules in the European truck sector. On July 19, 2016, the European Commission issued a settlement decision (the "Settlement Decision") against MAN and four other European truck manufacturers (excluding Scania) holding that collusive arrangements on pricing and gross price increases for medium- and heavy-duty trucks in the European Economic Area and the timing and the passing on of costs for the introduction of emission technologies for medium- and heavy-duty trucks required by EURO III to EURO VI standards had lasted from January 17, 1997, to January 18, 2011 (for MAN: until September 20, 2010). While the other four truck manufacturers were fined, MAN was granted immunity from fines since it had acted as a key witness and informed the European Commission of the antitrust infringements in September 2010. Scania decided not to apply for leniency and not to settle this antitrust case and, by decision of the European Commission dated September 27, 2017 (the "Scania Decision"), received a fine in the amount of approximately €880.5 million. Scania has appealed the Scania Decision to the General Court of the European Union, asking for full annulment and will use all means at its disposal to defend itself. Depending on how the legal proceedings develop, the eventual fine may differ from the original one. In place of paying the fines, Scania has offered a financial guarantee covering the entire amount of fines. The guarantee was accepted by the Accounting Officer of the European Commission. The Group set aside a €403 million provision in connection with these administrative proceedings in the previous years.

Following the Settlement Decision, a significant number of (direct and indirect) truck customers in various jurisdictions have initiated or joined lawsuits against MAN and/or Scania. In one case, a claim has also been filed against TRATON SE. Further claims may follow. The claims against MAN differ significantly in scope as some truck customers only bought or leased a single truck while other cases concern a multitude of trucks. Furthermore, some truck customer damages claims have been combined in class actions or through claim aggregators to which the truck customers assigned their respective damages claims.

In Germany, seven “judgments on the merits of the claim” *(Grundurteile)* have been rendered against one or more MAN companies. There was no need in these cases to resolve the issue of whether any damages were actually sustained. The defendant MAN companies have appealed all of these decisions. In individual proceedings, courts of appeal issued “orders for evidence to be taken” *(Beweisbeschlüsse)* so that an expert can clarify the question of whether any damage has been sustained and, if so, in what amount. By contrast, a range of lawsuits against MAN have been dismissed some of them already finally. In addition to a series of dismissals of lawsuits — some of them already final — in Spain and Hungary, individual courts in Spain have upheld a total of twelve lawsuits in part and one in full. The defendant MAN companies have already appealed all of the decisions or will do so within the statutory period. In one case, the court of appeal has already dismissed the decision of the court of first instance. In Belgium, in addition to a judgment on the merits by which the court upheld MAN SE’s underlying liability for alleged damages, another decision was issued in which the court ordered MAN SE to pay damages on an equitable basis. MAN SE has already appealed both of the decisions or will do so within the statutory period.

A relatively small number of (direct and indirect) customers in various jurisdictions have initiated or joined lawsuits against Scania. Further, Scania has received a number of third-party notices from other defendant truck manufacturers. As is the case for MAN, the claims against Scania differ significantly in scope as some customers only bought or leased one truck while others operate a whole fleet of trucks. Furthermore, some customer damages claims in other jurisdictions have been combined in class actions or through claim aggregators. The exact number of trucks involved is, however, unknown.

The Annual General Meeting of MAN SE approved the conclusion of a domination and profit and loss transfer agreement (the “TRATON/MAN DPLTA”) between MAN SE and Truck & Bus GmbH (now TRATON SE) in June 2013. In July 2013, appraisal proceedings were instituted to review the appropriateness of the guaranteed dividend for the fiscal year 2013 and the recurring fixed compensation payment for the following fiscal years, both set out in the TRATON/MAN DPLTA in accordance with section 304 of the *Aktiengesetz* (AktG — German Stock Corporation Act) and the cash redemption set out in the TRATON/MAN DPLTA in accordance with section 305 of the AktG. It is common for noncontrolling interest shareholders to institute such proceedings. In its final decision announced on June 26, 2018 (and corrected in July and December 2018), the Higher Regional Court *(Oberlandesgericht)* of Munich set the guaranteed dividend and the recurring fixed compensation payment at €5.47 gross per share (minus potential corporate taxes and solidarity surcharges at the rates as applicable to the respective fiscal year). The cash redemption payable to the noncontrolling interest shareholders in exchange for their shares was confirmed to be €90.29 per share, which had been determined by the Regional Court *(Landgericht)* Munich I in 2015 as an adequate amount. The decisions of the Higher Regional Court of Munich were published in the Federal Gazette *(Bundesanzeiger)* on August 6, 2018, and January 10, 2019. In accordance with section 305 (4) of the AktG, noncontrolling interest shareholders had the right to tender their shares to TRATON AG (now TRATON SE) in consideration for a cash redemption of €90.29 per share plus interest within two months of this publication date and thereby cease to be shareholders. Upon expiry of the tender window on October 8, 2018, the free float for MAN SE’s shares amounted to 13.13%.

Following the legal effect of the court decisions in June/July 2018, TRATON AG (now TRATON SE) terminated the TRATON/MAN DPLTA for cause in accordance with section 304 (4) of the AktG with effect as of January 1, 2019. After the publication of the registration of the termination of the TRATON/MAN DPLTA in the commercial register by MAN in January 2019, the noncontrolling interest shareholders of MAN SE were, in accordance with clause 5.6 of the TRATON/MAN DPLTA, during a two-month period again entitled to tender their shares to TRATON AG (now TRATON SE) in consideration for a cash redemption of €90.29 per share without additional interest. Upon expiry of the tender window on March 4, 2019, the free float for MAN SE’s shares was reduced to below 6%.

In the tax proceedings between MAN Latin America Indústria e Comércio de Veículos Ltda., São Paulo/Brazil, and the Brazilian tax authorities, the Brazilian tax authorities took a different view of the tax implications of the acquisition structure chosen by MAN SE for the acquisition of MAN Latin America in 2009. The tax proceedings have been divided into two auditing periods, covering the years 2009/2011 (“Phase 1”) and 2012/2014 (“Phase 2”). In December 2017, an adverse last instance judgment was rendered by the Brazilian Administrative Court (Phase 1), which was negative for MAN Latin America. MAN Latin America appealed this judgment before a regular judicial court in 2018. The tax proceeding related to Phase 2 is still pending judgment by the Brazilian tax authorities. Because of the potential range of penalties plus interest which could apply under Brazilian law, the estimated size of the risk in the event that the tax authorities are able to prevail overall with their view is uncertain. However, the TRATON GROUP continues to expect a positive outcome for MAN Latin America. If this is not the case, this could result in a risk of about €685 million (as of December 31, 2019) for the contested period from 2009 onward. This assessment is based on the accumulated accounts at the reporting date for the claimed tax liability including the potential penalty surcharges, as well as accumulated interest, but excluding any future interest and without discounting any cash flows. Several banks have issued bank guarantees for the benefit of MAN Latin America as customary in connection with such tax proceedings, which in turn are secured by MAN SE.

In the ordinary course of its business, the TRATON GROUP is involved in various legal disputes and legal proceedings in addition to the cases described above. Although any negative decisions in such cases could have a material effect on the Company's results in a particular reporting period, TRATON GROUP does not believe that they could have a material adverse effect on its net assets, financial position, and results of operations. The TRATON GROUP does not tolerate compliance violations.

Events after December 31, 2019

On January 30, 2020, TRATON SE offered to acquire all outstanding common shares of NAVISTAR INTERNATIONAL CORPORATION ("Navistar") (NYSE: NAV) not already owned by TRATON SE at a price of USD 35.00 per share in cash. This corresponds to an offering price of around €2.6 billion. TRATON SE held 16.8% of the outstanding common shares of Navistar as of December 31, 2019.

Supplemental Information on Fiscal Year 2019

1. Remuneration report

REMUNERATION OF THE EXECUTIVE BOARD

The remuneration report details the individualized remuneration of the Executive and Supervisory Boards of TRATON SE, broken down into components, as well as individualized pension provision disclosures for the members of the Executive Board. In addition, in this chapter we explain the main elements of the remuneration system for the Executive Board.

Principles of Executive Board remuneration

Matters involving the remuneration system and the total remuneration of each individual member of the TRATON SE Executive Board are decided on by the Supervisory Board on the basis of the recommendations of the latter's Presiding Committee. The remuneration system implements the requirements of the *Aktiengesetz* (AktG — German Stock Corporation Act) and the recommendations of the German Corporate Governance Code (the Code) in the version dated February 7, 2017. In particular, the remuneration structure is focused on ensuring sustainable business development in accordance with section 87 (1) of the AktG.

At the end of 2018, the Supervisory Board of TRATON SE decided to modify the remuneration system for the Executive Board with effect from the effective date of the reorganization of TRATON AG as TRATON SE (January 17, 2019).

The Supervisory Board was supported by prominent, independent external remuneration and legal advisers as it developed the remuneration system for the Executive Board.

The level of the Executive Board remuneration should be appropriate and attractive in the context of the Company's national and international peer group. Criteria include the tasks of the individual Executive Board member, their personal performance, the economic situation, and the performance of and outlook for the Company, as well as how customary the remuneration is when measured against the peer group. In this context, comparative studies on remuneration are conducted on a regular basis.

The Executive Board members' remuneration in the period up to January 16, 2019, was based on the remuneration systems of the Group companies in question that were in force until that date. Mr. Renschler receives remuneration based solely on his employment contract as member of the Volkswagen AG Board of Management in accordance with the Board of Management remuneration system in force at Volkswagen AG. Mr. Renschler's remuneration is allocated proportionate to his work at TRATON SE and not recharged to TRATON SE.

Components of Executive Board remuneration

In this section, we will first present an overview of the remuneration systems for the Executive Boards of the respective Group companies that were in force until January 16, 2019, as well as the remuneration system for the Executive Board of TRATON SE in force from January 17, 2019. We will then outline the remuneration components in the reporting period in detail.

Overview of the remuneration systems of the Group companies in question (until January 16, 2019)

The remuneration systems for the Executive Board members of Group companies MAN Truck & Bus AG, MAN Latin America Indústria e Comércio de Veiculos Ltda., Scania CV AB, and TRATON AG comprise fixed and variable components.

Fixed remuneration

The fixed/non-performance-related remuneration comprises fixed remuneration and fringe benefits. The fringe benefits relate to noncash benefits granted and include, in particular, the use of company cars, for example, and the payment of insurance premiums.

The fixed level of remuneration is reviewed regularly and adjusted if necessary.

Variable remuneration

Variable remuneration at MAN Truck & Bus AG, MAN Latin America Indústria e Comércio de Veículos Ltda., and TRATON AG is calculated on the basis of three equally-weighted components, each of which is capped at 200% of the target amount:

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

Variable remuneration at Scania CV AB is calculated on the basis of two components with the following weighting:

- Long-term incentive bonus (LTI) (weighting of 3/9)
- Company performance bonus (CPB) (weighting of 6/9)

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

The target areas are:

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

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

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

The company performance bonus is calculated based on the operating profit of the Group company in question (weighting of 2/3; weighting of 5/9 for Scania) and TRATON’s operating return on sales (weighting of 1/3; weighting of 1/9 for Scania). The calculation is based in each case on a two-year period.

The target amount is calculated as follows:

Operating profit:

> The average operating profit of the Group company in question from the year under review and the previous fiscal year is compared with a target figure defined by the Supervisory Board of the company before the beginning of the fiscal year in which the bonus is granted. The target figure corresponds to target achievement of 100%.
>
> The resulting percentage ratio of the average to the target figure gives the target achievement figure as a percentage.

TRATON’s operating return on sales:

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

The personal performance bonus at MAN Truck & Bus AG, MAN Latin America Indústria e Comércio de Veículos Ltda., and TRATON AG recognizes the individual employee’s performance in the past fiscal year on the basis of the performance rating and the extent to which the targets set in the individual target agreement have been met. The bonus is determined according to quantitative and qualitative factors. The personal performance bonus for each individual is determined by the responsible Supervisory Board of the company in question.

Overview of the TRATON remuneration system (from January 17, 2019)

The remuneration system of the Executive Board comprises fixed and variable components. The variable remuneration consists of a bonus with a two-year assessment period and a long-term incentive (LTI) in the form of a performance share plan with a forward-looking three-year term that reflects both positive and negative developments. The fixed component creates an incentive for individual members of the Executive Board to perform their duties in the best interests of the Company and to fulfill their obligation to act with proper business prudence without needing to focus on merely short-term performance targets. The variable components, dependent among other criteria on the financial performance of the Company, serve to ensure the long-term impact of behavioral incentives.

In respect of the remuneration components, the remuneration system for the Executive Board generally makes a distinction between months and fiscal years beginning up to and including the month and fiscal year of TRATON SE's IPO (pre-IPO phase) and the months and fiscal years beginning after the month and fiscal year of TRATON SE's IPO (post-IPO phase).

A distinction is made in the case of the Executive Board members Dr. Intra, Mr. Drees, Mr. Levin, and Mr. Schulz between the pre- and post-IPO phases with regard to the fixed remuneration, the target amount from the bonus, and the target amount from the performance share plan.

This distinction affects all Executive Board members included in the TRATON remuneration system in the case of the LTI: for performance shares issued up to and including the fiscal year of the Company's IPO, the LTI is based on the performance of Volkswagen AG. For performance shares issued after that date, the LTI is based solely on the performance of TRATON SE.

In addition to their activity as members of the Executive Board of TRATON SE, three members of the Executive Board exercise an executive board activity at foreign subsidiaries of TRATON SE (Mr. Henriksson: SCANIA CV AB; Mr. Levin: TRATON AB; Mr. Cortes: MAN Latin America Indústria e Comércio de Veículos Ltda.). They receive 20% of the fixed (excluding fringe benefits) and variable remuneration components from TRATON SE, with the remaining 80% coming from the relevant subsidiary.

In addition to their activity as members of the Executive Board of TRATON SE, Mr. Drees and Dr. Intra exercise an executive board activity at MAN SE and MAN Truck & Bus SE. As from January 17, 2019, MAN Truck & Bus SE reimburses TRATON SE for a proportion of the fixed (excluding fringe benefits) and variable remuneration components (80% for Mr. Drees, 20% for Dr. Intra).

If 100% of the relevant agreed targets are achieved, the annual target remuneration for Dr. Intra, Mr. Drees, and Mr. Schulz, and for Mr. Levin (extrapolated to 100%) for the pre-IPO phase amounts to a total of €1,850 thousand in each case. This corresponds to fixed remuneration of €650 thousand, a target amount from the bonus of €550 thousand, and a target amount from the performance share plan of €650 thousand. For the post-IPO phase, the annual target remuneration for Dr. Intra, Mr. Drees, and Mr. Schulz, and for Mr. Levin (extrapolated to 100%) amounts to a total of €2,330 thousand in each case. This corresponds to fixed remuneration of €700 thousand, a target amount from the bonus of €700 thousand, and a target amount from the performance share plan of €930 thousand. For Mr. Henriksson and Mr. Cortes, the annual target remuneration, extrapolated to 100%, amounts to a total of €1,240 thousand (Mr. Cortes) and €2,496 thousand (Mr. Henriksson). This corresponds to fixed remuneration of €620 thousand and €750 thousand, a target amount from the bonus of €310 thousand and €750 thousand, and a target amount from the performance share plan of €310 thousand and €996 thousand, respectively.

A variable minimum remuneration of €216 thousand was contractually agreed with Dr. Intra (remuneration of €480 thousand ratably in proportion between the time between the reorganization date of January 17, 2019, and June 30, 2019). The variable minimum remuneration is subject to subsequent adjustment in the event of any identified misconduct on the part of the Executive Board member.

A payment of €59 thousand in compensation for disadvantages with regard to Daimler AG's performance phantom share plans due to a change of employment was contractually agreed with Mr. Schulz for fiscal year 2019. In addition, Mr. Schulz is reimbursed for the cost of hotel accommodation until June 30, 2019, as well as for weekly trips home until December 31, 2020.

A contractual arrangement with Mr. Cortes specifies the payment of an amount to compensate for the higher tax burden in Germany.

Fixed remuneration

The fixed/non-performance-related remuneration comprises fixed remuneration and fringe benefits. Appointments assumed at Group companies are not remunerated separately; instead, they are deemed to be included in the fixed remuneration. The fringe benefits relate to noncash benefits granted and include, in particular, the use of company cars, for example, and the payment of insurance premiums.

The fixed level of remuneration is reviewed regularly and adjusted if necessary.

Variable remuneration

The variable remuneration consists of a performance-related bonus with a two-year assessment period and a long-term incentive (LTI) in the form of a performance share plan with a forward-looking three-year term (long-term incentive components) and phantom preferred shares of Volkswagen AG (pre-IPO phase) or phantom shares of TRATON SE (post-IPO phase). The components of variable remuneration reflect both positive and negative developments.

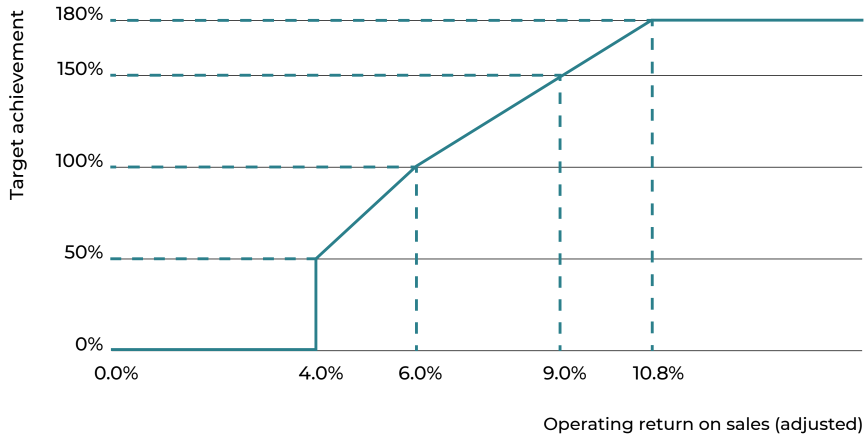
Payment of variable remuneration components depends on compliance with the cultural and integrity requirements in the Volkswagen Group and at TRATON SE. Malus and clawback clauses enable the subsequent adjustment of the payment amount in the event of any identified misconduct on the part of the members of the Executive Board. If the Executive Board member has culpably behaved unethically or in breach of the member's duties in the relevant assessment period, or violated supervisory or organizational obligations willfully or through gross negligence ("circumstances triggering malus"), the Supervisory Board is entitled to reduce the variable remuneration by up to 100% or claw it back in the event that circumstances triggering malus become subsequently known (clawback).

The Supervisory Board may adjust the variable remuneration components in the event of extraordinary developments.

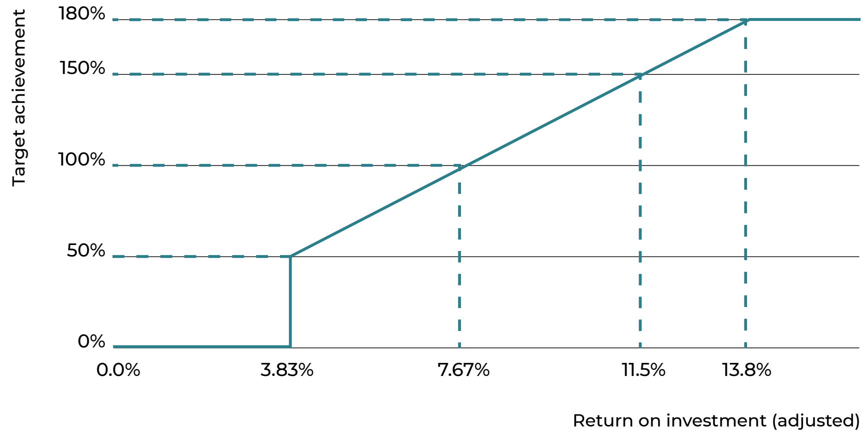
Bonus

The bonus is based on the profit of the relevant fiscal year and the preceding fiscal year. Fifty percent of the bonus depends on the average adjusted operating return on sales and fifty percent depends on the average return on investment (adjusted), both in the Industrial Business segment. Each of the two components of the bonus will only be payable if certain thresholds are exceeded or reached.

CALIBRATION OF ADJUSTED OPERATING RETURN ON SALES (2-YEAR AVERAGE)



CALIBRATION OF ADJUSTED RETURN ON INVESTMENT (2-YEAR AVERAGE)



BONUS 2019

	Adjusted return on investment	Adjusted operating return on sales
2018/2019 average values	9.12%	6.0%
Target achievement	118.92%	100%
Overall target achievement	**109.46%**	

The payment amount for the bonus is capped at 180% of the target amount.

Performance share plan – long-term incentive (LTI)
The LTI is granted to the Executive Board annually in the form of a performance share plan. Each performance period of the performance share plan has a term of three years. At the time the LTI is granted, the annual target amount under the LTI is converted on the basis of the initial reference price of Volkswagen AG's preferred shares (pre-IPO phase) or TRATON SE shares (post-IPO phase) into performance shares, which are allocated to the respective member of the Executive Board purely for calculation purposes. Conversion at the beginning of the performance period is based on the unweighted average closing prices of Volkswagen AG's preferred shares (pre-IPO phase) or TRATON SE shares (post-IPO phase) on the last 30 trading days before January 1 of the relevant performance period. The final determination of the number of performance shares happens at the end of the three-year performance period in line with the average level of target achievement in the three fiscal years of the performance period with regard to the annual earnings per preferred share of Volkswagen AG (pre-IPO phase) or the earnings per TRATON SE share (post-IPO phase) (earnings per share/EPS per (preferred) share in euros). A condition for this is that a minimum level of annual earnings per share is reached.

PERFORMANCE PERIOD 2019–2021
EPS VOLKSWAGEN PREFERRED SHARES (PRE-IPO)

€	2019
Maximum threshold	30.0
100% level of target	20.0
Minimum threshold	10.0
Actual	26.7
Target achievement (in %)	141.2

A cash settlement is made at the end of the three-year term of the performance share plan. The payment amount corresponds to the final number of specified performance shares, multiplied by the closing reference price at the end of the three-year period, plus a dividend equivalent for the relevant term. The closing reference price is the unweighted average of the closing prices of Volkswagen AG's preferred shares (pre-IPO phase) or TRATON SE shares (post-IPO phase) on the last 30 trading days before the end of the three-year performance period.

€	2019
Initial reference price	147.08
Closing reference price	–[1]
Dividend equivalent	4.86

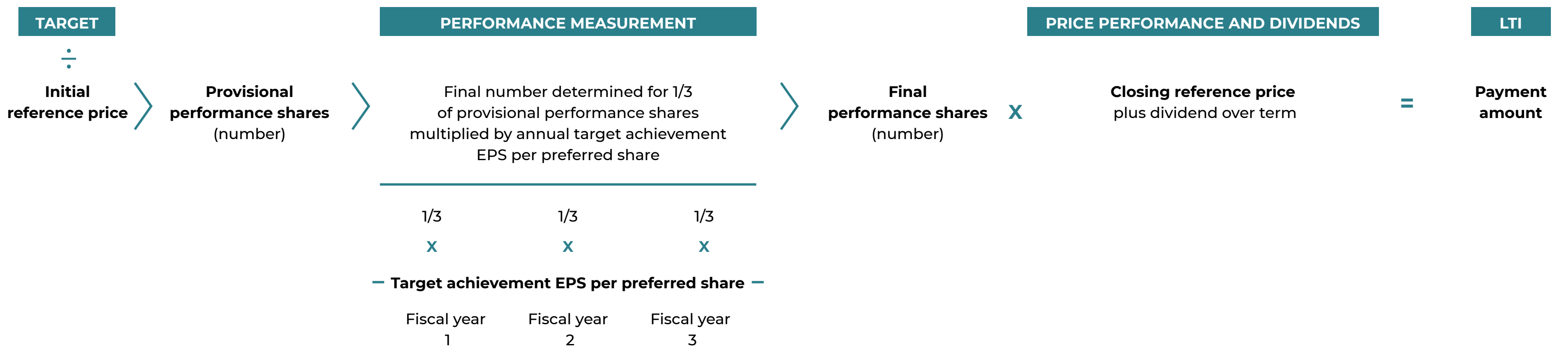
1 Determined at the end of the performance period

The payment amount under the performance share plan is limited to 200% of the target amount. For performance periods in the pre-IPO phase, an advance of 20% of the payment amount is made if the average capex/sales revenue ratio or average development costs/sales revenue ratio in the Volkswagen Group's Automotive Division is less than 5% during the performance period.

If the employment contract of a member of the Executive Board ends before the end of the performance period due to extraordinary termination for cause for which the member of the Executive Board is responsible, or due to revocation of appointment due to gross breach of duties, or due to resignation, termination by the member, or an agreement to annul the employment contract desired by the member of the Executive Board, without this being caused by a breach of duties by the Company or health issues affecting the member of the Executive Board or a close member of their family, or if the member of the Executive Board violates the restraint on competition in force for the duration of the employment relationship or any subsequent restraint on competition (“bad leaver” cases), all of the performance shares of a current performance period are forfeited.

In the introductory phase of the performance share plan (2019 to 2021), the members of the Executive Board receive advances of 80% of their target amount for the first two tranches (tranche 2019–2021 and tranche 2020–2022) of the performance share plan. The two advances will each be paid after the first year of the performance period. A settlement is made based on actual achievement of targets at the end of the relevant three-year performance period. The advance will not be paid if circumstances triggering malus exist in the first year of the performance period.

CALCULATION OF THE PAYMENT AMOUNT FROM THE PERFORMANCE SHARE PLAN



INFORMATION ON PERFORMANCE SHARES (TRATON GROUP)

	Performance period 2019–2021	
€ thousand	Number of performance shares allocated at the grant date	Fair value at the grant date
Andreas Renschler	–	–
Antonio Roberto Cortes	2,016	259
Joachim Drees	4,226	544
Henrik Henriksson	6,475	833
Carsten Intra	4,226	544
Christian Levin	4,226	544
Christian Schulz	4,226	544
Total	**25,395**	**3,267**

€ thousand	Provision as of 12/31/2019	Intrinsic value as of 12/31/2019	Total comprehensive income for 2019 arising from performance shares
Andreas Renschler	–	–	–
Antonio Roberto Cortes	155	–	155
Joachim Drees	325	–	325
Henrik Henriksson	498	–	498
Carsten Intra	325	–	325
Christian Levin	325	–	325
Christian Schulz	325	–	325
Total	**1,953**	**–**	**1,953**

Since Mr. Cortes, Mr. Drees, Mr. Henriksson, Dr. Intra, and Mr. Levin exercise additional executive board activities at subsidiaries of TRATON SE and this results in proportionate remuneration by TRATON SE, the figures for TRATON SE are as follows; for Mr. Drees and Dr. Intra, 100% of the remuneration was paid out by TRATON SE, which was subsequently reimbursed by MAN Truck & Bus SE:

INFORMATION ON PERFORMANCE SHARES (TRATON SE)

	Performance period 2019–2021	
€ thousand	Number of performance shares allocated at the grant date	Fair value at the grant date
Andreas Renschler	–	–
Antonio Roberto Cortes	403	52
Joachim Drees[1]	4,226	544
Henrik Henriksson	1,295	167
Carsten Intra[2]	4,226	544
Christian Levin	845	109
Christian Schulz	4,226	544
Total	**15,221**	**1,958**

1 Proportionate reimbursement (80%) by MAN Truck & Bus SE: number: 3,381; fair value €435 thousand

2 Proportionate reimbursement (20%) by MAN Truck & Bus SE: number: 845; fair value €109 thousand

€ thousand	Provision as of 12/31/2019	Intrinsic value as of 12/31/2019	Total comprehensive income for 2019 arising from performance shares
Andreas Renschler	–	–	–
Antonio Roberto Cortes	31	–	31
Joachim Drees[1]	325	–	325
Henrik Henriksson	100	–	100
Carsten Intra[2]	325	–	325
Christian Levin	65	–	65
Christian Schulz	325	–	325
Total	**1,170**	**–**	**1,170**

1 Proportionate reimbursement (80%) by MAN Truck & Bus SE: provision as of December 31, 2019: €260 thousand; total comprehensive income for 2019 from performance shares: €260 thousand

2 Proportionate reimbursement (20%) by MAN Truck & Bus SE: provision as of December 31, 2019: €65 thousand; total comprehensive income for 2019 from performance shares: €65 thousand

The number of performance shares includes the provisional performance shares allocated at the grant date of the performance share plan. The fair value as of the grant date was determined using a recognized valuation technique.

The provision recognized as of December 31, 2019, reflects the obligation to the members of the Executive Board. To determine its amount, the performance shares expected for future performance periods were taken into account in addition to the provisional performance shares determined or allocated for the performance period 2019 to 2021. The amount therefore depends in particular on the individual contract term. The intrinsic value was calculated in accordance with IFRS 2 and corresponds to the amount that the members of the Executive Board would have received if they had stepped down on December 31, 2019. Only the nonforfeitable (vested) performance shares at the reporting date are included in the calculation. The intrinsic value was calculated based on the unweighted average share price for the 30 trading days (Xetra closing prices of Volkswagen's preferred shares) preceding December 31, 2019, taking the dividends paid per preferred share during the performance period into account. The net value of all amounts recognized in income for the performance shares in fiscal year 2019 is recorded in total comprehensive income for 2019 arising from performance shares in accordance with IFRSs.

Total remuneration cap

In addition to the cap on the individual variable remuneration components for the members of the Executive Board, the annual benefits received according to the Code, consisting of the fixed remuneration, variable remuneration components (bonus and performance share plan), occupational pension contributions, and fringe benefits for a fiscal year may not exceed an amount, extrapolated to 100%, of €1,750 thousand (Mr. Cortes), €2,900 thousand (Mr. Drees, Dr. Intra, Mr. Levin, Mr. Schulz), or €4,000 thousand (Mr. Henriksson) for the relevant member of the Executive Board in the pre-IPO phase, and an amount, extrapolated to 100%, of €1,750 thousand (Mr. Cortes), €3,700 thousand (Mr. Drees, Dr. Intra, Mr. Levin, Mr. Schulz), or €4,000 thousand (Mr. Henriksson), in the post-IPO phase. If the total remuneration cap is exceeded, the variable components will be reduced proportionately.

Regular review and adjustment

The Supervisory Board regularly reviews and, if necessary, adjusts the level of the total remuneration cap and the individual targets.

Other agreements

In the event of illness, there is a right to continued payment of the fixed and variable remuneration for a period of twelve months.

REMUNERATION OF THE MEMBERS OF THE EXECUTIVE BOARD IN ACCORDANCE WITH GERMAN GAAP (TRATON GROUP)

	2019				2018
€ thousand	Non-performance-related components	Performance-related components	Long-term incentive components	Total remuneration	Total remuneration
Andreas Renschler	–	–	–	–	–
Antonio Roberto Cortes	639	361	259	1,259	1,155
Joachim Drees	813	633	544	1,989	1,915
Henrik Henriksson	779	852	833	2,464	2,151
Carsten Intra	686	576	544	1,805	–
Christian Levin	673	576	544	1,792	–
Christian Schulz	786	616	544	1,945	700
Total	**4,375**	**3,613**	**3,267**	**11,255**	**5,922**

Since Mr. Cortes, Mr. Drees, Mr. Henriksson, Dr. Intra, and Mr. Levin exercise additional executive board activities at subsidiaries of TRATON SE and this results in proportionate remuneration by TRATON SE, the figures for TRATON SE are as follows; for Mr. Drees and Dr. Intra, 100% of the remuneration was paid out by TRATON SE, which was subsequently reimbursed by MAN Truck & Bus SE:

REMUNERATION OF THE MEMBERS OF THE EXECUTIVE BOARD IN ACCORDANCE WITH GERMAN GAAP (TRATON SE)

	2019				2018
€ thousand	Non-performance-related components	Performance-related components	Long-term incentive components	Total remuneration	Total remuneration
Andreas Renschler	–	–	–	–	–
Antonio Roberto Cortes	119	65	52	235	–
Joachim Drees[1]	783	576	544	1,903	–
Henrik Henriksson	144	157	167	467	–
Carsten Intra[2]	686	576	544	1,805	–
Christian Levin	129	115	109	353	–
Christian Schulz	786	616	544	1,945	700
Total	**2,646**	**2,104**	**1,958**	**6,708**	**700**

1 Proportionate reimbursement (80%) by MAN Truck & Bus SE: non-performance-related components €518 thousand, performance-related component €461 thousand, long-term incentive component €435 thousand, total remuneration €1,413 thousand

2 Proportionate reimbursement (20%) by MAN Truck & Bus SE: non-performance-related components €129 thousand, performance-related component €115 thousand, long-term incentive component €109 thousand, total remuneration €353 thousand

Mr. Renschler received total remuneration of €4,070 thousand from Volkswagen AG for his work at TRATON SE in fiscal 2019. It is comprised of non-performance-related components in the amount of €1,290 thousand, a performance-related component in the amount of €1,521 thousand, and a long-term incentive component amounting to €1,260 thousand. Total remuneration for his work at TRATON SE amounted to €4,003 thousand in fiscal 2018.

Remuneration of the members of the Executive Board in accordance with the German Corporate Governance Code

The amounts shown as benefits received in the Executive Board remuneration tables in accordance with the Code correspond, in principle, to the amounts paid out for the fiscal year in question.

During the introductory phase of the performance share plan (2019 to 2020) at TRATON SE, the affected members of the Executive Board who were members of the Executive Board at the time the plan was introduced (as of January 17, 2019) receive advances on the target amount shown in the German Corporate Governance Code tables as benefits received for the fiscal year in which the performance share plan was awarded.

During the introductory phase of the performance share plan (2017 to 2018), Mr. Renschler received an advance from Volkswagen AG on the target amount shown in the German Corporate Governance Code table as benefits received for the fiscal year in which the performance share plan was awarded.

The amounts shown as benefits granted in the Executive Board remuneration tables in accordance with the Code are based on the fair value at the grant date for variable remuneration under the performance share plan and on 100% of the targets for any further variable remuneration.

REMUNERATION OF THE MEMBERS OF THE EXECUTIVE BOARD (BENEFITS RECEIVED AND BENEFITS GRANTED) IN ACCORDANCE WITH THE GERMAN CORPORATE GOVERNANCE CODE

	Andreas Renschler					
	Chief Executive Officer of TRATON SE; member of the Board of Management of Volkswagen AG[1,2]					
	Benefits received		Benefits granted			
€ thousand	2019	2018	2018	2019	2019 (minimum)	2019 (maximum)
Fixed remuneration	1,080	1,080	1,080	1,080	1,080	1,080
Fringe benefits	210	197	197	210	210	210
Total	**1,290**	**1,277**	**1,277**	**1,290**	**1,290**	**1,290**
One-year variable remuneration	1,521	1,287	1,080	–	–	–
Multi-year variable remuneration						
LTI (performance share plan 2017–2019)	–	–	–	–	–	–
LTI (performance share plan 2018–2020)	–	1,152	1,440	–	–	–
LTI (performance share plan 2019–2021)	–	–	–	1,260	–	2,880
Total	**1,521**	**2,439**	**2,717**	**2,340**	**–**	**4,824**
Pension expense	4,020	4,200	4,200	4,020	4,020	4,020
Total remuneration	**6,831**	**7,915**	**8,194**	**7,650**	**5,310**	**10,134**

1 Volkswagen AG employment contract and remuneration structure; remuneration for the work at TRATON SE

2 Information based on key figures currently available

	Roberto Cortes					
	Member of the Executive Board of TRATON SE; CEO of MAN Latin America Indústria e Comércio de Veículos Ltda.[1]					
	Benefits received		Benefits granted			
€ thousand[6]	2019	2018	2018	2019	2019 (minimum)	2019 (maximum)
Fixed remuneration	617	545	545	617	617	617
Fringe benefits	21	17	17	21	21	21
Total	**639**	**562**	**562**	**639**	**639**	**639**
One-year variable remuneration (PPB)[2]	4	82	272	12	–	24
Multi-year variable remuneration						
CPB (2 years)[2]	13	191	272	12	–	24
LTI (4 years)[2]	20	321	272	12	–	24
Bonus (2 years)[3]	324	–	–	296	–	534
LTI (performance share plan 2019–2021)[3,4]	237	–	–	259	–	593
Total[5]	**598**	**594**	**817**	**592**	**–**	**1,198**
Pension expense	358	203	203	358	358	358
Total remuneration	**1,595**	**1,358**	**1,581**	**1,588**	**997**	**2,195**

1 Employment contract with MAN Latin America Indústria e Comércio de Veículos Ltda. until January 16, 2019, as of January 17, 2019, with MAN Latin America Indústria e Comércio de Veículos Ltda. and TRATON SE

2 MAN Latin America Indústria e Comércio de Veículos Ltda. remuneration structure

3 TRATON SE remuneration structure

4 Benefits received: advance during the introductory phase of the performance share plan

5 Information based on key figures currently available

6 Exchange rate: BRL 4.53 = €1

	Joachim Drees					
	Member of the Executive Board of TRATON SE; CEO of MAN SE; CEO of MAN Truck & Bus SE[1]					
	Benefits received		Benefits granted			
€ thousand	2019	2018	2018	2019	2019 (minimum)	2019 (maximum)
Fixed remuneration[2]	734	624	624	734	734	734
Fringe benefits	79	68	68	79	79	79
Total	**813**	**692**	**692**	**813**	**813**	**813**
One-year variable remuneration (PPB)[3]	21	468	312	14	–	27
Multi-year variable remuneration						
CPB (2 years)[3]	14	387	312	14	–	27
LTI (4 years)[3]	23	368	312	14	–	27
Bonus (2 years)[4]	576	–	–	526	–	947
LTI (performance share plan 2019–2021)[4,5]	497	–	–	544	–	1,243
Total[6]	**1,130**	**1,223**	**936**	**1,111**	**–**	**2,272**
Pension expense	532	264	264	532	532	532
Total remuneration	**2,475**	**2,179**	**1,892**	**2,455**	**1,345**	**3,616**

1 Employment contract with MAN Truck & Bus AG until January 16, 2019, as of January 17, 2019, with TRATON SE

2 Including a special bonus for fiscal year 2019 in the amount of €60,000

3 MAN Truck & Bus AG remuneration structure

4 TRATON SE remuneration structure

5 Benefits received: advance during the introductory phase of the performance share plan

6 Information based on key figures currently available

	Henrik Henriksson					
	Member of the Executive Board of TRATON SE; CEO of Scania CV AB[1]					
	Benefits received		Benefits granted			
€ thousand[6]	2019	2018	2018	2019	2019 (minimum)	2019 (maximum)
Fixed remuneration	750	733	733	750	750	750
Fringe benefits	30	26	26	30	30	30
Total	**779**	**759**	**759**	**779**	**779**	**779**
One-year variable remuneration[2]	–	–	–	–	–	–
Multi-year variable remuneration						
CPB (2 years)[2]	46	1,061	562	25	–	49
LTI (4 years)[2]	21	331	281	12	–	25
Bonus (2 years)[3]	785	–	–	717	–	1,291
LTI (performance share plan 2019–2021)[3,4]	762	–	–	833	–	1,905
Total[5]	**1,614**	**1,392**	**843**	**1,587**	**–**	**3,269**
Pension expense	315	318	318	315	315	315
Total remuneration	**2,708**	**2,469**	**1,920**	**2,682**	**1,094**	**4,364**

1 Employment contract with Scania CV AB until January 16, 2019, as of January 17, 2019, with Scania CV AB and TRATON SE

2 Scania CV AB remuneration structure

3 TRATON SE remuneration structure

4 Benefits received: advance during the introductory phase of the performance share plan

5 Information based on key figures currently available

6 Exchange rate: SEK 10.30 = €1

Dr. Carsten Intra

Member of the Executive Board & *Arbeitsdirektor* (Executive Board member responsible for employee relations) of TRATON SE; Chief Human Resources Officer & *Arbeitsdirektor* of MAN SE; Chief Human Resources Officer & *Arbeitsdirektor* of MAN Truck & Bus SE
Joined January 17, 2019

€ thousand	Benefits received 2019	2018	Benefits granted 2018	2019	2019 (minimum)	2019 (maximum)
Fixed remuneration	647	–	–	647	647	647
Fringe benefits	38	–	–	38	38	38
Total	**686**	**–**	**–**	**686**	**686**	**686**
One-year variable remuneration	–	–	–	–	–	–
Multi-year variable remuneration						
Bonus (2 years)[1]	576	–	–	526	–	947
LTI (performance share plan 2019–2021)[1,2]	497	–	–	544	–	1,243
Total[3]	**1,073**	**–**	**–**	**1,070**	**–**	**2,190**
Pension expense	248	–	–	248	248	248
Total remuneration	**2,006**	**–**	**–**	**2,003**	**934**	**3,123**

1 TRATON SE remuneration structure

2 Benefits received: advance during the introductory phase of the performance share plan

3 Information based on key figures currently available

Christian Levin

Member of the Executive Board of TRATON SE;
Member of the Executive Board of TRATON AB[1]
Joined January 17, 2019

€ thousand[5]	Benefits received 2019	2018	Benefits granted 2018	2019	2019 (minimum)	2019 (maximum)
Fixed remuneration	647	–	–	647	647	647
Fringe benefits	26	–	–	26	26	26
Total	**673**	**–**	**–**	**673**	**673**	**673**
One-year variable remuneration	–	–	–	–	–	–
Multi-year variable remuneration						
Bonus (2 years)[2]	576	–	–	526	–	947
LTI (performance share plan 2019–2021)[2,3]	497	–	–	544	–	1,243
Total[4]	**1,073**	**–**	**–**	**1,070**	**–**	**2,190**
Pension expense	345	–	–	345	345	345
Total remuneration	**2,091**	**–**	**–**	**2,088**	**1,018**	**3,208**

1 Employment contract with TRATON AB and TRATON SE

2 TRATON SE remuneration structure

3 Benefits received: advance during the introductory phase of the performance share plan

4 Information based on key figures currently available

5 Exchange rate: SEK 10.30 = €1

	Christian Schulz					
	Member of the Executive Board of TRATON SE; CFO[1] Joined June 26, 2018					
	Benefits received		Benefits granted			
€ thousand	**2019**	**2018**	**2018**	**2019**	**2019 (minimum)**	**2019 (maximum)**
Fixed remuneration[2]	727	243	243	727	727	727
Fringe benefits	59	30	30	59	59	59
Total	**786**	**274**	**274**	**786**	**786**	**786**
One-year variable remuneration (PPB)[3]	16	182	182	8	–	16
Multi-year variable remuneration						
CPB (2 years)[3]	11	137	182	8	–	16
LTI (4 years)[3]	13	107	182	8	–	16
Bonus (2 years)[4]	576	–	–	526	–	947
LTI (performance share plan 2019–2021)[4,5]	497	–	–	544	–	1,243
Total[6]	**1,113**	**427**	**546**	**1,093**	**–**	**2,237**
Pension expense	382	38	38	382	382	382
Total remuneration	**2,281**	**738**	**857**	**2,261**	**1,168**	**3,404**

1 Employment contract with TRATON AG until January 16, 2019, as of January 17, 2019, with TRATON SE

2 2019 figure includes compensation of €59 thousand for benefits forfeited as a result of the change of employment.

3 TRATON AG (formerly Volkswagen Truck & Bus GmbH) remuneration structure

4 TRATON SE remuneration structure

5 Benefits received: advance during the introductory phase of the performance share plan

6 Information based on key figures currently available

Regular termination benefits

In the event of regular termination of their service on the Executive Board, the members of the Executive Board are generally entitled to retirement, disability, and surviving dependents' benefits, as well as the use of a company car under certain circumstances. The agreed pension benefits are generally paid or made available when the Executive Board member reaches the age of 65. TRATON SE maintains occupational pension plans for Dr. Intra, Mr. Drees, and Mr. Schulz. The occupational pension plans for the other members of the Executive Board are maintained by Volkswagen AG (Mr. Renschler), Scania CV AB (Mr. Henriksson), TRATON AB (Mr. Levin), and MAN Latin America Indústria e Comércio de Veículos Ltda. (Mr. Cortes).

Entitlements to such benefits are accumulated under a defined contribution system, the Capital Account Plan, with the value of benefits dependent upon the performance of certain fund indices. For Dr. Intra, Mr. Drees, and Mr. Schulz, TRATON SE pays an annual contribution amounting to 40% of the contractually agreed fixed remuneration in the calendar year. Executive Board members may elect to make contributions themselves out of their gross salary.

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

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

In the event of disability or death, the beneficiary is paid the accumulated account balance, or a minimum of €2,000 thousand. The members of the Executive Board are also generally entitled to retirement, disability, and surviving dependents' benefits in the event of early termination of their appointment without having entered retirement, although the minimum plan assets will only be maintained as ratably reduced plan assets pursuant to sections 2 (1) and 2a (1) of the *Gesetz zur Verbesserung der betrieblichen Altersversorgung* (BetrAVG — Occupational Pensions Act). Pursuant to section 2a (2) item 2a) of the BetrAVG, the maintained portion of the minimum plan assets is adjusted by 1% per annum from the Board member's departure from the Company until the benefits fall due.

Instead of the occupational pension plan, a private pension plan is maintained for Mr. Cortes as a defined contribution plan.

As of December 31, 2019, the pension obligations for members of the Executive Board in accordance with IAS 19 amounted to €4,555 thousand (previous year: €1,066 thousand). €1,238 thousand (previous year: €307 thousand) was added to the provision in the reporting period in accordance with IAS 19. Other benefits such as surviving dependents' pensions and the use of company cars are also factored into the measurement of pension provisions. An additional amount of €942 thousand (previous year: €478 thousand) was spent on defined contribution plans that are not included in total benefits. In the previous year, an amount of €38 thousand had also been recharged to TRATON. Pension obligations measured under German GAAP for the members of the Executive Board whose pension entitlements are recognized by TRATON SE amounted to €3,910 thousand (previous year: –) as of December 31, 2019. Under German GAAP, TRATON SE added €1,536 thousand (previous year: –) to the provision in the year under review. An additional amount of €28 thousand (previous year: –) was spent on defined contribution plans that are not included in total benefits. In the previous year, an amount of €38 thousand had also been recharged to TRATON.

Early termination benefits

If the appointment to the Executive Board is terminated for cause through no fault of the Executive Board member, the claims are limited to a maximum of two years' remuneration, in accordance with the recommendation in section 4.2.3 (4) of the Code (severance payment cap).

No severance payment is made if the appointment to the Executive Board is terminated for cause for which the Executive Board member is responsible.

PENSIONS OF THE MEMBERS OF THE EXECUTIVE BOARD IN 2019 (PRIOR-YEAR FIGURES IN BRACKETS)

€ thousand	Pension expense	Present value as of December 31[1]
Andreas Renschler	–	–
	(–)	(–)
Antonio Roberto Cortes	358	–
	(203)	(–)
Joachim Drees[2]	532	1,493
	(264)	(782)
Henrik Henriksson[3]	315	318
	(318)	(284)
Carsten Intra[4]	248	2,074
	(–)	(–)
Christian Levin[5]	345	287
	(–)	(–)
Christian Schulz[6]	382	382
	(38)	(–)
Total	**2,180**	**4,555**
	(823)	**(1,066)**

1 The amount is included in the total for pension obligations and other post-employment benefits reported in the balance sheet (see note 32 to the consolidated financial statements).

2 Post-employment benefits attributable to TRATON SE under German GAAP: €686 thousand (previous year: –); pension provisions attributable to TRATON SE under German GAAP: €1,493 thousand (previous year: –)

3 The post-employment benefits also include employer social security contributions attributable to pension insurance (defined contribution plans). Post-employment benefits for these types of social security contributions attributable to TRATON SE under German GAAP: €15 thousand (previous year: –).

4 Post-employment benefits attributable to TRATON SE under German GAAP: €503 thousand (previous year: –); pension provisions attributable to TRATON SE under German GAAP: €2,070 thousand (previous year: –)

5 The post-employment benefits also include employer social security contributions attributable to pension insurance (defined contribution plans). Post-employment benefits for these types of social security contributions attributable to TRATON SE under German GAAP: €13 thousand (previous year: –).

6 In the previous year, an amount of €38 thousand was recharged to TRATON SE for benefit entitlements in the Volkswagen Group. Post-employment benefits attributable to TRATON SE under German GAAP: €347 thousand (previous year: €38 thousand); pension provisions attributable to TRATON SE under German GAAP: €347 thousand (previous year: –).

SUPERVISORY BOARD REMUNERATION

The remuneration of the members of the Supervisory Board of TRATON SE is comprised entirely of non-performance-related remuneration components.

The following applies to members of the Supervisory Board of TRATON SE with effect from January 1, 2019:

Members of the Supervisory Board receive fixed remuneration of €75 thousand per fiscal year.

The Chairman of the Supervisory Board receives fixed remuneration of €225 thousand, while the Deputy Chairman receives remuneration of €150 thousand.

For their work in the Supervisory Board committees, the members of the Supervisory Board also receive additional fixed remuneration of €40 thousand per committee per fiscal year provided the committee met at least once per year for the performance of its duties. Memberships of the Nomination and Mediation Committees established in accordance with section 27 (3) of the *Mitbestimmungsgesetz* (MitbestG — German Codetermination Act) are not taken into account.

Committee chairpersons receive double this amount, while deputy chairpersons receive one-and-a-half times the committee remuneration listed above.

Membership of no more than two committees is taken into account, whereby the two functions with the highest remuneration are counted if this maximum number is exceeded.

Supervisory Board members who belonged to the Supervisory Board or one of its committees for only part of the fiscal year receive proportionate remuneration.

Supervisory Board members receive an attendance fee of €1 thousand for attending a meeting of the Supervisory Board or one of its committees; if several meetings are held on one day, the attendance fee is paid only once.

The remuneration becomes due after the end of the Annual General Meeting that accepts or decides to approve the consolidated financial statements for the fiscal year for which the remuneration is paid.

For fiscal year 2019, the members of the Supervisory Board received total remuneration of €2,324 thousand. Of this figure, €1,125 thousand related to the work on the Supervisory Board and €400 thousand to the work in the committees.

The members of the Supervisory Board did not receive any remuneration for fiscal year 2018.

REMUNERATION OF THE MEMBERS OF THE SUPERVISORY BOARD

€ thousand	Fixed remuneration	Work in the committees	Attendance fees	Group appointments	Total 2019
Pötsch, Hans Dieter	225	80	5	–	310
Stimoniaris, Athanasios[4]	150	60	–	165	375
Bechstädt, Torsten[4]	75	60	8	–	143
Carlquist, Mari[1,3]	–	–	–	–	–
Döss, Dr. Manfred[1]	–	–	–	–	–
Kerner, Jürgen[4]	75	–	3	197	275
Kilian, Gunnar[1]	–	–	–	–	–
Kirchmann, Dr. Albert X.	75	–	3	–	78
Kuhn-Piëch, Dr. Julia	75	40	4	125	244
Lorentzon, Lisa[1,3]	–	–	–	–	–
Luthin, Bo[2,3]	–	–	3	–	3
Lyngsie, Michael[2,3]	–	–	3	–	3
Macpherson, Nina	75	40	8	–	123
Osterloh, Bernd[4]	75	40	2	–	117
Porsche, Dr. Dr. Christian	75	40	5	–	120
Schmid, Dr. Wolf-Michael	75	–	5	–	80
Schnur, Karina[4]	75	40	6	143	264
Werner, Hiltrud[1]	–	–	–	–	–
Witter, Frank[1]	–	–	–	–	–
Zieger, Steffen[4]	75	–	4	105	184
Total	**1,125**	**400**	**59**	**740**	**2,324**

1 Remuneration for fiscal year 2019 was waived in full.

2 Remuneration for fiscal year 2019 was waived except for the attendance fees for the first three meetings.

3 In view of the waivers, the Executive Board of TRATON SE decided to make a contribution of €276 thousand to "Scanias Personalstiftelse 1996" after the 2020 Annual General Meeting.

4 These employee representatives have stated that they will transfer their Supervisory Board remuneration to the Hans Böckler Foundation in accordance with the guidelines issued by the German Confederation of Trade Unions (DGB).

The employee representatives on the Supervisory Board who are employed by TRATON SE or other TRATON GROUP companies also receive their regular salaries as specified in their employment contracts. If they are members of German works councils, this is based on the provisions of the *Betriebsverfassungsgesetz* (BetrVG — German Works Council Constitution Act).

2. Separate nonfinancial Group report

Pursuant to section 315b (2) of the HGB, TRATON SE exercises the right to exempt itself from the requirement to publish a nonfinancial statement, and refers to the combined nonfinancial report of Volkswagen AG for fiscal 2019, which will be available in German at https://www.volkswagenag.com/presence/nachhaltigkeit/documents/sustainability-report/2019/Nicht-finanzieller_Bericht_2019_d.pdf and in English at https://www.volkswagenag.com/presence/nachhaltigkeit/documents/sustainability-report/2019/Nonfinancial_Report_2019_e.pdf as of April 30, 2020, at the latest.

3. Takeover-related disclosures in accordance with sections 289a (1) and 315a (1) of the HGB

COMPOSITION OF SUBSCRIBED CAPITAL

Details of the composition of the subscribed capital can be found on pages 144 to 146 of the notes to the annual financial statements.

TRATON is not aware of any restrictions on the exercise of voting rights or the transfer of shares.

SIGNIFICANT SHAREHOLDINGS IN TRATON SE

Details of TRATON SE's shareholdings can be found on pages 195 to 201 of the notes to the annual financial statements.

TRATON SE has not been notified of, nor is it aware of, further existing direct or indirect interests in the capital of TRATON SE that exceed the relevant threshold of 10% of the voting rights or the relevant thresholds of the *Wertpapierhandelsgesetz* (WpHG — German Securities Trading Act).

APPOINTMENT AND DISMISSAL OF MEMBERS OF THE EXECUTIVE BOARD, AMENDMENTS TO THE ARTICLES OF ASSOCIATION

The appointment and dismissal of members of the Company's Executive Board is governed by sections 39 (2) and 46 of the SE Council Regulation in conjunction with sections 84 and 85 of the *Aktiengesetz* (AktG — German Stock Corporation Act) and Article 8 of the Company's Articles of Association. These require the Executive Board to have at least two members who are appointed for a period of up to five years. Members of the Executive Board may be reappointed.

Section 59 (1) of the SE Council Regulation in conjunction with sections 179ff. of the AktG applies to amendments to the Company's Articles of Association. Under these provisions, the Annual General Meeting may resolve to amend the Articles of Association by a majority of at least three-quarters of the share capital represented when the vote is taken. In accordance with Article 13 (4) of the Company's Articles of Association, the Supervisory Board may pass resolutions to amend the Articles of Association that alter only its wording.

POWERS OF THE EXECUTIVE BOARD

The powers of the Executive Board are governed by section 39 of the SE Council Regulation in conjunction with sections 77ff. of the AktG and Article 9 of the Articles of Association of the Company. These provisions require the Executive Board to manage the Company independently and to represent the Company both in court and otherwise.

Article 5 (3) of the Articles of Association authorizes the Executive Board to increase the Company's share capital on one or several occasions by a total of up to €200,000,000 by issuing up to 200,000,000 bearer shares on a cash or noncash basis on or before May 21, 2024, subject to the Supervisory Board's approval (Authorized Capital 2019). The dividend entitlement of new shares can be determined contrary to the provisions of section 60 (2) of the AktG. Shareholders must be granted preemptive rights unless the Executive Board makes use of one of the following authorizations to disapply preemptive rights, with the consent of the Supervisory Board. The new shares may also be underwritten by a credit institution of an entity operating pursuant to section 53 (1) sentence 1 of the *Kreditwesengesetz* (KWG — German Banking Act) or section 53b (1) sentence 1 or (7) of the KWG (financial institution) to be designated by the Executive Board, or by a consortium of such credit or financial institutions, with the obligation to offer them for sale to shareholders of the Company. The Executive Board is authorized, with the consent of the Supervisory Board, to disapply shareholders' preemptive rights in the following cases:

a) to settle fractions resulting from a capital increase;
b) to the extent necessary to grant holders or creditors of convertible bonds or bonds with warrants, as well as convertible profit participation rights, issued by the Company and/or its direct or indirect majority investees a preemptive right to new shares in the amount to which they would be entitled following the exercise of their options or conversion rights or after meeting their exercise of option or conversion obligations;
c) if the new shares are issued against cash contributions and the issue price of the new shares is not materially lower than the quoted market price of existing listed shares of the Company at the date when the issue price is finally determined, which should be as close as possible to the placement of the shares. However, this authorization to disapply preemptive rights applies only to the extent that the notional amount of the share capital attributable to the shares issued with preemptive rights disapplied in accordance with section 186 (3) sentence 4 of the AktG does not exceed a total of 10% of the share capital, meaning neither the share capital existing when this authorization takes effect, nor the share capital existing at the date when this authorization is exercised. Shares that (i) are sold or issued, with preemptive rights disapplied, during the term of this authorization up to the date of its exercise on the basis of other authorizations in direct application, or application with the necessary modifications, of section 186 (3) sentence 4 of the AktG, or (ii) shares that were issued or will be issued, with preemptive rights disapplied, to settle bonds or profit participation rights with conversion or exercise rights or obligations will be counted toward this limit, to the extent that the bonds or profit participation rights were issued during the term of this authorization up to the date of its exercise, in application, with the necessary modifications, of section 186 (3) sentence 4 of the AktG;
d) to the extent that the capital increase is implemented to grant shares against noncash contributions, in particular for the purposes of acquiring companies, parts of companies, or investments in companies, or other assets.

The Executive Board is also authorized to define the further details of the capital increase and its implementation, with the consent of the Supervisory Board. The Supervisory Board is authorized to amend the version of Article 5 of the Articles of Association following the complete or partial implementation of the capital increase from Authorized Capital 2019 or after the expiration of the authorization period, in line with the scope of the capital increase.

Under Article 5 (4) of the Articles of Association, the Company's share capital may also be increased by up to €50,000,000 on a contingent basis through the issue of up to 50,000,000 bearer shares (no-par-value shares) (Contingent Capital 2019). The sole purpose of Contingent Capital 2019 is to issue new shares to the holders/creditors of bonds which are issued by the Company or by other companies in which the Company directly or indirectly holds a majority interest in accordance with a resolution passed by the shareholders under item 2 of the agenda for the meeting of May 22, 2019, in the event that conversion and/or option rights are exercised or conversion or option exercise obligations are settled or the Company makes use of its right to grant shares in the Company, either in full or in part, in lieu of payment of the respective cash amount. The shares will be issued at the conversion or option price to be determined in accordance with the aforementioned resolution. The contingent capital increase will only be implemented to the extent that conversion rights or options are exercised or conversion or exercise obligations are discharged, or the Company exercises its right to grant shares of the Company, either in part or in full, in lieu of payment of the cash amount due, and to the extent that other instruments are not used to settle the conversion rights or options.

The new shares carry dividend rights from the beginning of the fiscal year in which they are issued. To the extent permitted by law, the Executive Board may, with the consent of the Supervisory Board, determine the dividend rights in derogation of the above and of section 60 (2) of the AktG, including for a fiscal year that has already closed.

The Executive Board is authorized to define the further details of the implementation of the contingent capital increase, with the consent of the Supervisory Board.

3

OPERATING UNITS

OPERATING UNITS OF THE TRATON GROUP

This chapter does not form part of the Combined Management Report or the consolidated financial statements.

Scania Vehicles & Services

	2019	2018	Change
Trucks and buses (units)			
Order intake	88,739	97,446	–9%
Unit sales	99,457	96,475	3%
of which trucks	91,680	87,993	4%
of which buses	7,777	8,482	–8%
Financial key performance indicators (€ million)			
Sales revenue	13,934	12,981	7%
Operating profit	1,506	1,207	25%
Operating return on sales (in %)	10.8	9.3	1.5 pp

Scania Vehicles & Services' order intake in 2019 was 88,739 (previous year: 97,446) vehicles. Order intake for trucks was 81,352 (previous year: 88,740) units, down 8% compared to 2018. The main reason for this decline was the negative trend in the EU28+2 region, mainly the UK, Germany, and Poland. Order intake for buses was also lower, amounting to 7,387 (previous year: 8,706) units, primarily due to a decline in orders from Mexico and a lack of orders from Iran.

Total vehicle sales in 2019 increased slightly to 99,457 (previous year: 96,475) vehicles. Truck sales rose to 91,680 (previous year: 87,993) units, 4% more than in 2018. This was primarily attributable to significant growth in the EU28+2 region and strong growth in Brazil. Overall, Scania Vehicles & Services significantly increased its share in the European market for trucks over 16 t in 2019 and took a leading position in that segment. In addition to favorable economic development, the rollout of the new truck generation made a positive contribution to performance in Brazil. In Russia and the Middle East, both truck and bus sales were substantially lower than in 2018. Worldwide, Scania Vehicles & Services sold 7,777 (previous year: 8,482) buses in 2019.

Sales revenue increased by 7% to €13,934 million (previous year: €12,981 million) in the reporting period. In addition to overall growth in the New Vehicles business, sales revenue in the After Sales business reached a record high in 2019.

Scania Vehicles & Services generated an operating profit of €1,506 million (previous year: €1,207 million) in 2019. This represents a year-on-year increase of 25% and an operating return on sales of 10.8% (previous year: 9.3%). The operating profit includes a positive exchange rate effect of €106 million. In addition to an overall improvement in sales revenue growth, earnings were lifted by an improved product and market mix. The successful rollout of the new Scania truck generation in Latin America and Asia marked the end of the previous parallel production of old and new series. Scania Vehicles & Services continues to work consistently on optimizing its logistics and production processes, thus systematically improving the cost situation and normalizing its production capacity following the rollout of the new truck generation.

MAN Truck & Bus

	2019	2018	Change
Trucks and buses (units)			
Order intake	100,652	112,915	–11%
Unit sales	104,887	102,556	2%
of which trucks[1]	97,524	95,352	2%
of which buses	7,363	7,204	2%
Financial key performance indicators (€ million)			
Sales revenue	11,088	10,815	3%
Operating profit	371	402	–8%
Operating profit (adjusted)[2]	371	539	–31%
Operating return on sales (in %)	3.3	3.7	–0.4 pp
Operating return on sales (adjusted) (in %)[2]	3.3	5.0	–1.6 pp

1 Incl. MAN TGE vans (2019: 14,788 units; 2018: 7,871 units)

2 Not audited

Order intake of MAN Truck & Bus in 2019 was 100,652 (previous year: 112,915) vehicles, 11% down on the previous year's level. Order intake for trucks in the amount of 78,147 (previous year: 94,518) units was 17% lower than in 2018. The main drivers for this were accelerated negative trends in the EU28+2 region. In 2019, MAN Truck & Bus received orders for 15,234 (previous year: 10,087) MAN TGE vans. Order intake for buses was down by 13%, amounting to 7,271 (previous year: 8,310) units, primarily due to a decline in orders from Singapore, Saudi Arabia, and Israel.

Total vehicle sales of MAN Truck & Bus rose by 2% to 104,887 (previous year: 102,556) units in 2019. Sales of the MAN TGE van almost doubled to 14,788 (previous year: 7,871) units and made a particular contribution to this growth. Truck unit sales were down 5% compared to the previous year at 82,736 (previous year: 87,481) units, in particular due to lower demand in the EU28+2, India, and Turkey. In India, the main sales activities were discontinued in the course of the previous year. Bus sales grew to 7,363 (previous year: 7,204) units in 2019. This corresponds to a year-on-year increase of 2%, driven by a significant increase in the EU28+2 and substantial growth in Saudi Arabia.

MAN Truck & Bus generated sales revenue of €11,088 million (previous year: €10,815 million) in 2019, a year-on-year increase of 3%. This growth was driven by both the New Vehicles and the After Sales business.

At €371 million (previous year: €402 million), operating profit in fiscal year 2019 was down on the previous year by 8%. This corresponds to an operating return on sales of 3.3% (previous year: 3.7%). Positive effects from revenue growth, mainly driven by higher MAN TGE sales and a growing After Sales business, were offset by lower truck sales (>6 t) and a difficult market environment for used vehicles. There were also negative effects from higher expenses, including depreciation due to increased capital spending as well as higher costs in preparation for the launch of the new truck and bus generations. The prior-year period contained a positive effect of €19 million resulting from the transfer of the RIO brand to a TRATON GROUP company. Counteracting effects in the prior-year period were expenses for the restructuring of activities in India amounting to €137 million.

Continuous improvement and striving for Operational Excellence are preconditions to secure future growth and achieve profitability targets.

Volkswagen Caminhões e Ônibus

	2019	2018	Change
Trucks and buses (units)			
Order intake	41,103	36,535	13%
Unit sales	41,891	36,362	15%
of which trucks	35,282	29,018	22%
of which buses	6,609	7,344	–10%
Financial key performance indicators (€ million)			
Sales revenue	1,738	1,421	22%
Operating profit	55	28	99%
Operating profit (adjusted)[1]	43	28	54%
Operating return on sales (in %)	3.2	2.0	1.2 pp
Operating return on sales (adjusted) (in %)[1]	2.5	2.0	0.5 pp

1 Not audited

Order intake of Volkswagen Caminhões e Ônibus in 2019 rose 13% to 41,103 (previous year: 36,535) vehicles. Truck orders, which amounted to 34,566 (previous year: 29,173) units, were 18% higher than in the previous year. Strong growth in Brazil more than offset declines in Argentina and other South American countries. Order intake for buses decreased by 11% to 6,537 (previous year: 7,362) units. The reason for this was the lower demand in Mexico.

Volkswagen Caminhões e Ônibus sold a total of 41,891 (previous year: 36,362) trucks and buses in 2019, corresponding to growth of 15% compared to the prior-year period. This increase is attributable to the economic recovery in Brazil. By contrast, export sales declined in particular due to lower demand in other relevant markets in South America.

Truck sales increased by 22% to 35,282 (previous year: 29,018) vehicles. Volkswagen Caminhões e Ônibus thus defended a prominent position in the Brazilian truck market, among others, with said market recording growth in the heavy-duty segment (over 16 t), in particular. Bus sales declined by 10% to 6,609 (previous year: 7,344) units, in particular as a result of lower sales in Mexico, despite improvements in Brazil.

Volkswagen Caminhões e Ônibus sold 5,434 (previous year: 8,545) vehicles outside Brazil, maintaining its position as one of Brazil's leading exporters with 27% (previous year: 26%) of the country's vehicle exports. The declining export sales were mainly the result of weaker demand from Argentina, Mexico, Chile, and some African countries.

Volkswagen Caminhões e Ônibus's sales revenue expanded by 22% in 2019, from €1,421 million to €1,737 million. This increase reflects the higher sales, accompanied by solid market positioning, despite the depreciation of Brazilian currency.

Operating profit in 2019 rose to €55 million (previous year: €28 million). This figure includes a gain of €13 million from the reversal of a restructuring provision. Positive volume and price effects were partially offset by foreign exchange effects and inflation-related cost increases, e.g., for materials, as well as higher depreciation. The operating profit also includes the partial reversal of a tax asset impairment. Together with other nonoperational items, this leads to an overall positive operating profit effect from other income and other expenses. The operating return on sales was 3.2% (previous year: 2.0%).

Volkswagen Caminhões e Ônibus continues to focus its efforts on an extensive program to strengthen the company in a competitive market environment with the aim of systematically improving its earnings quality.

CONSOLIDATED FINANCIAL STATEMENTS

CONSOLIDATED FINANCIAL STATEMENTS AS OF DECEMBER 31, 2019

Income Statement
of the TRATON GROUP

€ million	Note	TRATON GROUP 2019	2018
Sales revenue	8	**26,901**	**25,927**
Cost of sales	9	–21,618	–20,946
Gross profit		**5,284**	**4,981**
Distribution expenses	9	–2,480	–2,391
Administrative expenses	9	–973	–1,011
Net impairment losses on financial assets		–45	–45
Other operating income	10	624	792
Other operating expenses	11	–526	–814
Operating profit		**1,884**	**1,513**
Share of profits and losses of equity-method investments		208	209
Interest income	12	93	83
Interest expense	12	–262	–245
Other financial result	13	43	6
Financial result		**81**	**53**
Profit before tax		**1,965**	**1,566**
Income taxes	14	–401	–415
current		–368	–449
deferred		–33	34
Profit from continuing operations, net of tax		1,563	1,151
Profit/loss from discontinued operations, net of tax		–2	250
Profit after tax		**1,561**	**1,401**
of which attributable to shareholders of TRATON SE		1,518	1,390
of which attributable to noncontrolling interests		43	11
Earnings per share from continuing operations in € (diluted/basic)	15	3.04	2.30
Earnings per share from continuing and discontinued operations in € (diluted/basic)	15	3.04	2.78

Statement of Comprehensive Income
of the TRATON GROUP

€ million	2019	2018
Profit after tax	**1,561**	**1,401**
Pension plan remeasurements recognized in other comprehensive income		
Pension plan remeasurements recognized in other comprehensive income, before tax	–340	–49
Deferred taxes on pension plan remeasurements recognized in other comprehensive income	96	4
Pension plan remeasurements recognized in other comprehensive income, net of tax	–243	–45
Fair value measurement of other equity investments and marketable securities		
Fair value measurement of other equity investments and marketable securities, before tax	–5	–1
Deferred taxes relating to the fair value measurement of other equity investments and marketable securities	1	–1
Fair value measurement of other equity investments and marketable securities, net of tax	–4	–2
Share of other comprehensive income of equity-method investments that will not be reclassified subsequently to profit or loss		
Share of other comprehensive income of equity-method investments that will not be reclassified subsequently to profit or loss , before tax	1	31
Deferred taxes relating to the share of other comprehensive income of equity-method investments that will not be reclassified subsequently to profit or loss	–4	3
Share of other comprehensive income of equity-method investments that will not be reclassified subsequently to profit or loss, net of tax	–3	34
Items that will not be reclassified to profit or loss	**–250**	**–12**
Currency translation differences		
Unrealized currency translation gains/losses	–54	–509
Transferred to profit or loss	2	16
Currency translation differences, before tax	–52	–492
Deferred taxes relating to currency translation differences	2	3
Currency translation differences, net of tax	–50	–490
Cash flow hedges		
Fair value changes recognized in other comprehensive income	–20	–21

€ million	2019	2018
Transferred to profit or loss	20	–12
Cash flow hedges, before tax	0	–33
Deferred taxes relating to cash flow hedges	–1	12
Cash flow hedges, net of tax	0	–22
Cost of hedging		
Fair value changes recognized in other comprehensive income (cost of hedging)	0	–3
Cost of hedging transferred to profit or loss	–2	5
Cost of hedging, before tax	–2	1
Deferred taxes relating to cost of hedging	1	–1
Cost of hedging, net of tax	–1	1
Share of other comprehensive income of equity-method investments that may be reclassified subsequently to profit or loss		
Other comprehensive income for the period from equity-method investments	22	18
Share of other comprehensive income of equity-method investments transferred to profit or loss	2	1
Share of other comprehensive income of equity-method investments that may be reclassified subsequently to profit or loss, before tax	24	18
Deferred taxes on other comprehensive income of equity-method investments	0	0
Share of other comprehensive income of equity-method investments that may be reclassified subsequently to profit or loss, net of tax	24	18
Items that may be reclassified subsequently to profit or loss	**–27**	**–492**
Other comprehensive income, before tax	–373	–521
Deferred taxes relating to other comprehensive income	96	17
Other comprehensive income, net of tax	**–277**	**–504**
Total comprehensive income	**1,284**	**896**
of which attributable to shareholders of TRATON SE	1,246	887
of which attributable to noncontrolling interests	38	9

Balance Sheet

Assets of the TRATON GROUP as of December 31, 2019, and December 31, 2018

€ million	Note	TRATON GROUP 12/31/2019	TRATON GROUP 12/31/2018
Noncurrent assets			
Intangible assets	[16]	6,755	6,597
Property, plant, and equipment	[17]	6,789	5,469
Assets leased out	[18]	7,119	6,599
Equity-method investments	[19]	1,365	1,223
Other equity investments	[20]	34	37
Noncurrent income tax receivables		44	50
Deferred tax assets	[14]	970	939
Noncurrent financial services receivables	[21]	4,871	4,212
Other noncurrent financial assets	[22]	130	63
Other noncurrent receivables	[23]	384	663
		28,461	**25,851**
Current assets			
Inventories	[24]	4,943	4,822
Trade receivables	[25]	2,144	2,319
Current income tax receivables		124	140
Current financial services receivables	[21]	3,120	2,688
Other current financial assets	[22]	338	6,371
Other current receivables	[23]	963	939
Marketable securities and investment deposits	[26]	3,178	98
Cash and cash equivalents	[27]	1,913	2,997
Assets held for sale	[7]	–	157
		16,722	**20,533**
Total assets		**45,183**	**46,384**

Equity and liabilities of the TRATON GROUP as of December 31, 2019, and December 31, 2018

€ million	Note	TRATON GROUP 12/31/2019	TRATON GROUP 12/31/2018
Equity	[28]		
Subscribed capital		500	10
Capital reserves		20,241	21,331
Retained earnings		–4,150	–2,064
Accumulated other comprehensive income		–2,727	–2,478
Equity attributable to shareholders of TRATON SE		**13,865**	**16,799**
Noncontrolling interests		270	2
		14,134	**16,801**
Noncurrent liabilities			
Noncurrent financial liabilities	[29]	5,966	5,449
Provisions for pensions and other post-employment benefits	[32]	1,769	1,506
Noncurrent income tax payables		125	122
Deferred tax liabilities	[14]	787	824
Noncurrent income tax provisions		17	16
Other noncurrent provisions	[33]	1,225	1,184
Other noncurrent financial liabilities	[30]	2,604	2,333
Other noncurrent liabilities	[31]	2,034	1,780
		14,527	**13,217**
Current liabilities			
Put options/compensation rights granted to noncontrolling interest shareholders		–	1,827
Current financial liabilities	[29]	6,531	5,366
Trade payables		2,472	2,969
Current income tax payables		153	125
Current income tax provisions		34	137
Other current provisions	[33]	869	938
Other current financial liabilities	[30]	2,837	1,620
Other current liabilities	[31]	3,626	3,263
Liabilities directly associated with assets held for sale	[14]	–	123
		16,522	**16,366**
Total equity and liabilities		**45,183**	**46,384**

Statement of Changes in Equity

of the TRATON GROUP for the period January 1 to December 31

€ million	Subscribed capital	Capital reserves	Retained earnings	Accumulated other comprehensive income						Equity attributable to shareholders of TRATON SE	Noncontrolling interests	Total
				Items that may be reclassified subsequently to profit or loss			Items that will not be reclassified to profit or loss					
				Currency translation	Cash flow hedges	Equity–method investments	Remeasurements of pension plans	Equity–method investments	Other equity investments			
Balance as of 01/01/2018	**10**	**24,581**	**–10,760**	**–1,274**	**14**	**–80**	**–882**	**89**	**3**	**11,702**	**109**	**11,810**
Profit after tax	–	–	1,390	–	–	–	–	–	–	1,390	11	1,401
Other comprehensive income, net of tax	–	–	–	–488	–21	18	–44	34	–2	–502	–2	–504
Total comprehensive income	–	–	1,390	–488	–21	18	–44	34	–2	887	9	896
Release of distributable capital reserves	–	–3,250	3,250	–	–	–	–	–	–	–	–	–
Profit transfer to Volkswagen AG			4,161	–	–	–	–	–	–	4,161		4,161
Dividends allocated to noncontrolling interests	–	–	–	–	–	–	–	–	–	–	–4	–4
Other changes	–	–	–106	0	–	–	157	–	–2	50	–113	–63
Balance as of 12/31/2018	**10**	**21,331**	**–2,064**	**–1,762**	**–6**	**–62**	**–770**	**124**	**–1**	**16,799**	**2**	**16,801**
Balance as of 01/01/2019	**10**	**21,331**	**–2,064**	**–1,762**	**–6**	**–62**	**–770**	**124**	**–1**	**16,799**	**2**	**16,801**
Profit after tax	–	–	1,518	–	–	–	–	–	–	1,518	43	1,561
Other comprehensive income, net of tax	–	–	–	–50	–1	24	–238	–3	–4	–272	–5	–277
Total comprehensive income	–	–	1,518	–50	–1	24	–238	–3	–4	1,246	38	1,284
Capital increase from capital reserves	16,490	–16,490	–	–	–	–	–	–	–	–	–	–
Reduction in subscribed capital into capital reserves	–16,000	16,000	–	–	–	–	–	–	–	–	–	–
Capital transactions involving a change in ownership interest[1]	–	–	459	6	0	1	8	0	–1	473	230	704
Distribution of retained earnings	–	–	–3,250	–	–	–	–	–	–	–3,250	–	–3,250
Release of distributable capital reserves	–	–600	600	–	–	–	–	–	–	–	–	–
Profit transfer to Volkswagen AG	–	–	–1,404	–	–	–	–	–	–	–1,404	–	–1,404
Other changes	–	–	–9	0	–	–0	2	3	4	0	0	0
Balance as of 12/31/2019	**500**	**20,241**	**–4,150**	**–1,806**	**–8**	**–38**	**–998**	**125**	**–2**	**13,865**	**270**	**14,134**

1 The put options granted to noncontrolling interest shareholders of MAN SE expired on March 4, 2019. The remaining liability of €704 million was reclassified directly to equity. €230 million of this amount is attributable to noncontrolling interests.

Statement of Cash Flows[1]

of the TRATON GROUP for the period January 1 to December 31

	TRATON GROUP	
€ million	**2019**	**2018**
Cash and cash equivalents as of January 1	**2,997**	**4,594**
Profit before tax	1,965	1,566
Income taxes paid	–463	–420
Depreciation and amortization of, and impairment losses on, intangible assets, property, plant, and equipment, and investment property[2]	863	639
Amortization of, and impairment losses on, capitalized development costs[2]	192	170
Reversals and Impairment losses on equity investments[3]	–67	–184
Depreciation of products leased out[2]	1,147	1,090
Change in pension obligations	–52	57
Profit/loss on disposal of noncurrent assets and equity investments	–29	13
Share of the result of equity-method investments[3]	–120	–157
Other noncash income/expense	25	81
Change in inventories	–85	–632
Change in receivables (excl. Financial Services)	157	–269
Change in liabilities (excl. financial liabilities)	119	993
Change in provisions	7	51
Change in products leased out	–1,587	–1,598
Change in financial services receivables	–984	–947
Net cash used in operating activities – discontinued operations	–	–72
Net cash provided by operating activities	**1,088**	**382**
Capital expenditures in intangible assets (excluding capitalized development costs) and property, plant, and equipment	–997	–935
Additions to capitalized development costs	–467	–449
Capital expenditures to acquire other investees	–14	–11
Proceeds from the disposal of subsidiaries	1,978	394
Proceeds from the disposal of other investees	101	0
Proceeds from the disposal of intangible assets, property, plant, and equipment, and investment property	33	69
Change in marketable securities and investment deposits	–3,083	–49
Change in loans	88	100
Net cash used in investing activities – discontinued operations	–	–184
Net cash used in investing activities	**–2,360**	**–1,065**
Loss absorption by Volkswagen AG	4,161	28
Distribution of retained earnings	–3,250	–
Noncontrolling interest shareholders of MAN SE: compensation payments and acquisition of shares tendered	–1,109	–2,132
Proceeds from the issuance of bonds	3,082	2,162
Repayment of bonds	–1,464	–720
Change in miscellaneous financial liabilities	–1,057	–197
Repayment of lease liabilities	–181	0
Net cash used in financing activities – discontinued operations	–	–7
Net cash provided by/used in financing activities	**183**	**–865**
Effect of exchange rate changes on cash and cash equivalents	6	–48
Change in cash and cash equivalents	**–1,085**	**–1,596**
Cash and cash equivalents as of December 31	**1,913**	**2,997**

1 See note 36 for more information

2 Net of impairment reversals

3 Prior-year period adjusted due to reversal of impairment loss on equity-method investment in Sinotruk

NOTES

to the Consolidated Financial Statements of the TRATON GROUP

1. Basis of preparation

GENERAL INFORMATION

TRATON SE, Munich, Germany ("the Company," "TRATON") is the parent company of the TRATON GROUP. By way of a resolution dated December 14, 2018, the Company changed its legal form to a European stock corporation (Societas Europaea/SE). The change in legal form became effective upon its entry in the commercial register on January 17, 2019. Since then, TRATON has been registered in the commercial register at the Munich Local Court under no. 246068.

With its MAN, Scania, Volkswagen Caminhões e Ônibus, and RIO brands, the TRATON GROUP is a manufacturer of commercial vehicles. The Group's portfolio consists of light-duty commercial vehicles, trucks, and buses, as well as the sale of spare parts and customer services. RIO has a growing portfolio of digital solutions and services. The TRATON GROUP also offers a broad range of financial services to its commercial vehicle customers.

In the course of the internal restructuring of the Volkswagen Group, Volkswagen AG's entire interest in TRATON SE was transferred to Volkswagen Finance Luxemburg S.A., whose registered office is in Luxembourg (Volkswagen Finance Luxemburg), when the transfer agreement dated December 13, 2019, was entered into. TRATON SE is thus a direct subsidiary of Volkswagen Finance Luxemburg (prior to the transfer: direct subsidiary of Volkswagen Aktiengesellschaft, Wolfsburg (Volkswagen AG)). The financial statements of Volkswagen Finance Luxemburg are published in the Luxembourg Trade and Company Register. TRATON SE and its subsidiaries are included in Volkswagen AG's consolidated financial statements, which are published in the *Bundesanzeiger* (the Federal Gazette).

In accordance with Regulation 1606/2002 of the European Parliament and of the Council, the TRATON GROUP prepared its consolidated financial statements for the fiscal years ended December 31, 2018, 2017, and 2016, in compliance with International Financial Reporting Standards (IFRSs), as adopted by the European Union. These financial statements were published in an offering prospectus in the course of TRATON SE's IPO on June 28, 2019. The consolidated financial statements contained in the prospectus are available on our website at www.traton.com. The accompanying consolidated financial statements of TRATON SE for the fiscal year ended December 31, 2019, were prepared in accordance with section 315e (1) of the *Handelsgesetzbuch* (HGB — German Commercial Code) and in compliance with the International Financial Reporting Standards (IFRS), as adopted in the European Union.

The consolidated financial statements have been prepared in euros (€), TRATON SE's functional currency. All figures shown are rounded, so minor discrepancies may arise from addition of these amounts.

From the Executive Board's perspective, the accompanying 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 are not necessarily indicative of future results.

The accompanying consolidated financial statements were audited by PricewaterhouseCoopers GmbH WPG, Munich. The Executive Board prepared these consolidated financial statements on February 10, 2020, and resolved to authorize them for submission to the Supervisory Board. The period in which adjusting events after the reporting period are recognized ends on that date.

The fiscal year corresponds to the calendar year.

2. Basis of consolidation

In addition to TRATON SE, the consolidated financial statements comprise all significant subsidiaries that are controlled directly or indirectly by TRATON SE. Control exists if TRATON SE obtains power over the potential subsidiaries, either directly or indirectly, from voting rights or similar rights, is exposed, or has rights to, positive or negative variable returns from its involvement with the subsidiaries, and is able to influence those returns. In the case of the structured entities consolidated in the TRATON GROUP, TRATON is also able to direct the material relevant activities remaining after the change in the structure even it is not invested in the structured entity concerned, and is hence able to influence its own variable returns. The structured entity largely serves to implement asset-backed securities transactions to refinance the financial services business. Subsidiaries are included from the date when control exists; they are deconsolidated form the date on which control no longer exists. Subsidiaries that are acquired during the fiscal year are consolidated from the date when control exists. Companies that are disposed of in the fiscal year are deconsolidated from the date on which control no longer exists.

Subsidiaries whose business activities have been suspended or whose business volume is minimal and that are insignificant individually and in the aggregate for the presentation of a true and fair view of the TRATON GROUP's net assets, financial position, results of operations, and cash flows are not consolidated.

Material entities whose financial and operating policies TRATON SE can significantly influence indirectly or directly (associates) or over which TRATON SE shares control indirectly or directly (joint ventures) are measured using the equity method. Joint ventures also include entities in which the TRATON GROUP holds a majority equity interest, but whose shareholder agreements stipulate that important decisions may only be resolved unanimously. There is a rebuttable presumption that significant influence can generally be presumed when TRATON SE indirectly or directly holds between 20 and 50% of the voting rights. Associates also include entities whose financial and operating policies the TRATON GROUP can significantly influence, but without controlling them. Insignificant associates and joint ventures are generally recognized at cost, net of any impairment losses required to be recognized, plus any reversals of impairment losses required be recognized.

All other investees are financial investments.

The composition of the TRATON GROUP is shown in the following table:

	2019	2018
TRATON SE and consolidated subsidiaries		
Germany	22	26
Other countries	257	258
Subsidiaries carried at cost		
Germany	9	7
Other countries	16	15
Associates, joint ventures, and other equity investments		
Germany	8	7
Other countries	21	17

As of January 1, 2019, Volkswagen Gebrauchtfahrzeughandels und Service GmbH, Langenhagen (VGSG), was sold to a subsidiary of Volkswagen AG that is not a member of the TRATON GROUP and deconsolidated. In the previous year, the basis of consolidation was materially impacted by the disposal of the Power Engineering business area (see disclosure on "Noncurrent assets held for sale and discontinued operations").

Other changes to the subsidiaries contained in the basis of consolidation did not materially affect the presentation of the net assets, financial position, and results of operations individually and in the aggregate. From the Group's perspective, the Sinotruk (Hong Kong) Limited, Hong Kong, China, (Sinotruk), and NAVISTAR INTERNATIONAL CORPORATION, Lisle, Illinois, U.S.A., (Navistar), associates are significant as of the reporting date.

The list of the TRATON GROUP's shareholdings within the meaning of section 313 (2) of the HGB is presented on pages 195 to 201.

The assets and liabilities of the entities included in the consolidated financial statements are recognized in accordance with the uniform accounting policies applicable to the TRATON GROUP. In the case of equity-accounted entities, we apply the same accounting policies to determine the TRATON GROUP's share of the investee's equity. This is based on the most recent audited annual financial statements of the entity in question.

Business combinations are accounted for using the acquisition method of accounting. In the course of initial consolidation, assets and liabilities are recognized at their acquisition-date fair values. The carrying amounts are adjusted in the subsequent periods. Goodwill arises when the economic consideration paid for the acquisition exceeds the fair value of the identified net assets. Any goodwill is tested for impairment at least once a year. If it is impaired, an impairment loss is recognized and goodwill is carried at its recoverable amount. If the economic consideration paid for the acquisition is less than the identified net assets, the difference is recognized in profit or loss in the year of acquisition. Any difference arising due to the acquisition of additional shares of a subsidiary that has already been consolidated is charged directly to equity. Unless otherwise stated, the share of equity directly attributable to noncontrolling (minority) interests at the acquisition date is measured at the fair value of the net assets (excluding goodwill) attributable to such noncontrolling interests. Any contingent consideration is measured at its acquisition-date fair value. Subsequent changes in the fair value of contingent consideration do not adjust the acquisition-date fair value. Acquisition-related costs that are not equity transaction costs are not added to the economic consideration paid, but instead recognized as expenses in the period in which they are incurred.

The accounting policies of TRATON SE and its subsidiaries are adjusted in the course of consolidation to ensure that they are presented as if they constituted a single economic entity. Intercompany assets and liabilities, equity, expenses, and income, as well as cash flows, are eliminated in full. Intercompany profits or losses arising in Group inventories and assets are eliminated. Consolidation adjustments result in deferred taxes. Deferred tax assets and liabilities are offset if the taxable entity or taxpayer are identical and relate to the same tax period.

The following consolidated affiliated company has satisfied the conditions set out in section 264 (3) of the HGB due to its inclusion in the consolidated financial statements and exercises the exemption to the greatest extent possible:

– TB Digital Services GmbH, Munich

CURRENCY TRANSLATION

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

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

3. New and revised accounting pronouncements

NEW ACCOUNTING PRONOUNCEMENTS APPLIED

IFRS 16 – Leases

IFRS 16 revises the accounting requirements for leases. Effective January 1, 2019, the TRATON GROUP accounts for leases under IFRS 16 using the modified retrospective method for the first time. Prior-period amounts were not adjusted. Existing contracts were not reassessed at the date of initial application to identify whether they contain a lease based on the IFRS 16 criteria. Instead, contracts that were already classified as leases under IAS 17 or IFRIC 4 continue to be classified as leases. Contracts that were not classified as leases under IAS 17 or IFRIC 4 are also not classified as leases under IFRS 16. Under this method, the lease liability is measured at the present value of the outstanding lease payments at the transition date. Present value is calculated on the basis of the lessee's incremental borrowing rates as of January 1, 2019. The weighted average interest rate applied in the TRATON GROUP was 3.6%. At the date of initial application, leases whose term ends before January 1, 2020, are classified as short-term leases regardless of the inception date of the lease and are therefore not recognized in the balance sheet. As a practical expedient, right-of-use assets are measured at the amount of the related lease liability, adjusted for any prepaid or accrued lease payments. In exercise of that practical expedient, right-of-use assets are adjusted for those amounts that were recognized as of December 31, 2018, as provisions for onerous operating leases. Also in this context, right-of-use assets were not tested for impairment at the date of initial application.

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

- The opening balance of right-of-use assets amounts to €1,023 million. This amount is reduced by right-of-use assets that were transferred to third parties under subleases in cases in which the sublease was classified as a finance lease. Such subleases resulted in finance lease receivables of €13 million. Of the right-of-use assets recognized, €3 million had already been recognized in the balance sheet as of December 31, 2018, under finance leases.
- Starting on January 1, 2019, all assets leased out must be presented separately from assets used by the TRATON GROUP itself. Assets with a total carrying amount of €17 million were therefore reclassified from property, plant, and equipment to assets leased out. Assets leased out contain vehicles leased out, investment property, and other assets leased out.
- Lease liabilities of €1,034 million were recognized and reported in noncurrent and current financial liabilities. Of the recognized lease liabilities, €1 million had already been recognized in the balance sheet as of December 31, 2018, under finance leases.
- Initial application of IFRS 16 had no effect on equity.

The difference between the expected payments for operating leases of €1,023 million discounted using the lessee's incremental borrowing rate as of December 31, 2018, and the opening balance of lease liabilities amounting to €1,034 million results primarily from the reassessment of lease terms under IFRS 16. Reasonably certain extension or termination options were taken into account when determining the lease payments. In addition, lease payments for low-value and short-term leases are not included in the opening balance of lease liabilities.

In contrast to the previous accounting policy, under which expenses for operating leases were reported in full in operating profit, only depreciation and impairment losses relating to right-of-use assets are allocated to operating profit under IFRS 16 in the Industrial Business segment. In the Industrial Business segment, interest expenses from unwinding discounted lease liabilities are reported in the financial result. In fiscal year 2019, this increased operating profit by €37 million.

The change in the recognition of operating lease expenses in the statement of cash flows resulted in a €181 million improvement in cash flow from operating activities and net cash flow in 2019. Cash flow from financing activities decreased accordingly. The increase in financial liabilities resulting from the change in accounting policies negatively impacted net liquidity in the Industrial Business segment by €1,075 million as of December 31, 2019. The initial application of the new financial reporting standard IFRS 16 did not have any material effect on sales revenue.

It also resulted in significantly more extensive disclosures.

Other accounting policies

Various requirements took effect as of January 1, 2019, in the context of the IFRS Annual Improvements Project 2017. These contain clarifications of IAS 12, IAS 23, IFRS 3, and IFRS 11.

With regard to IAS 12 (Income Taxes), it was clarified that the way in which the income tax consequences of dividends are recognized is based on the way in which the transactions that generated the dividend payments are recognized.

Additionally, clarifying explanations about the determination of the weighted capitalization rate were added to IAS 23 (Borrowing Costs).

The additional explanations in IFRS 3 (Business Combinations) and IFRS 11 (Joint Arrangements) clarify that when an entity obtains control of investments previously classified as joint operations, the principles for a business combination achieved in stages must be applied.

The amendments to IAS 28 (Investments in Associates and Joint Ventures) clarified effective January 1, 2019, that the impairment requirements of IFRS 9 (Financial Instruments) are to be applied to long-term interests in associates or joint ventures that are essentially part of a net investment to which the equity method is not applied.

Clarifications to IFRS 9 (Financial Instruments) have additionally been made since January 1, 2019. These state that certain financial instruments that contain a prepayment feature with negative compensation can be measured at amortized cost or at fair value through other comprehensive income.

Another pronouncement now in force is IFRIC 23 (Uncertainty over Income Tax Treatments), which stipulates that tax risks must be considered if it is probable that the taxation authorities will not accept tax treatments.

In addition, it was clarified in IAS 19 (Employee Benefits) that actuarial assumptions must be reassessed at the time of a plan amendment, curtailment, or settlement.

The aforementioned changes in accounting pronouncements do not materially affect the TRATON GROUP's net assets, financial position, and results of operations.

NEW OR AMENDED IFRSS NOT APPLIED

In its 2019 consolidated financial statements, TRATON did not apply the following accounting pronouncements that have already been adopted by the IASB, but were not yet required to be applied for the fiscal year.

Standard/ Interpretation		Published by the IASB	Application mandatory[1]	Adopted by the EU	Expected impact
IFRS 3	Business Combinations: Definition of a Business	10/22/2018	01/01/2020	No	No material impact
IFRS 9, IAS 39, and IFRS 7	Interest Rate Benchmark Reform	09/26/2019	01/01/2020	Yes	No material impact
IFRS 17	Insurance Contracts	05/18/2017	01/01/2021[2]	No	No material impact expected
IAS 1 and IAS 8	Presentation of Financial Statements and Accounting Policies, Changes in Accounting Estimates and Errors: Definition of Material	10/31/2018	01/01/2020	Yes	No material impact

1 Effective date from the TRATON GROUP's perspective

2 The IASB has postponed the effective date to January 1, 2022.

4. Accounting policies

MEASUREMENT PRINCIPLES

With the exception of certain items, such as financial instruments at fair value through profit or loss or provisions for pension obligations and other post-employment benefits, items are measured in the TRATON GROUP on the basis of the historical cost convention, although inflation adjustments are applied at entities in hyperinflationary economies. The accounting policies applied to individual items are explained in greater detail in the following.

In light of the domination and profit and loss transfer agreement entered into by TRATON SE and Volkswagen AG (please refer to the disclosures on "Domination and profit and loss transfer agreements" in the "Equity" section for further information), the accompanying consolidated financial statements have been prepared following appropriation of net profit by Volkswagen AG. Transfers of profits or absorption of losses to or by Volkswagen AG are presented as transactions with owners directly in equity.

The income statement has been prepared using the cost of sales (function of expense) format.

HYPERINFLATIONARY ECONOMIES

Argentina was classified as a hyperinflationary economy in 2018, which meant that TRATON subsidiary Scania Argentina S.A., Buenos Aires, Argentina, became hyperinflationary in that year. This entity therefore adjusted its nonmonetary items to account for inflation. The inflation adjustment was performed using the CPI (consumer price index) by applying an average rate of 184.13. The cumulative effect as of January 1, 2018, amounted to €48 million, net of taxes, and was recognized in retained earnings. Adjustments for 2018 were recognized in the other financial result. As of January 1, 2019, Scania Argentina S.A. changed its functional currency to U.S. dollars, since the entity's economic environment is largely determined by U.S. dollars. As a result, nonmonetary assets are no longer adjusted for inflation as from that date.

INTANGIBLE ASSETS

The TRATON GROUP's intangible assets comprise goodwill, brands, customer relationships, software, and capitalized development costs.

Purchased intangible assets are recognized at cost and amortized over their economic life using the straight-line method.

Development costs for future series products and other internally generated intangible assets are recognized at cost, to the extent that production of these products is expected to generate an economic benefit for the TRATON GROUP. If the recognition criteria are not met, the expenses are recognized in profit or loss in the period in which they are incurred. Research costs are recognized in profit or loss as incurred. Capitalized development costs consist of all direct and indirect costs that are directly attributable to the development process. They are amortized using the straight-line method from the start of production over the expected life of the models or technologies developed.

Intangible assets acquired in the course of a business combination are measured at their fair value at the acquisition date. Brand names acquired under business combinations generally have an indefinite useful life and are therefore not amortized. An indefinite useful life generally arises from the continued use and maintenance of a brand.

The amortization period for software and licenses is mainly three to five years. Capitalized development costs are amortized over a period of three to ten years. Customer relationships are amortized over a period of twenty years.

Amortization charges in a reporting period are allocated to the corresponding functions in the income statement. Goodwill, indefinite-lived intangible assets, and intangible assets that are not yet available for use are tested for impairment at least once a year. Assets in use and other intangible assets with finite useful lives are only tested for impairment if there are concrete indications of impairment. To determine the recoverability of goodwill and indefinite-lived intangible assets, the TRATON GROUP generally uses the higher of value in use and fair value less costs to sell of the asset or cash-generating unit concerned. Value in use is the present value of the expected future cash flows of the asset concerned. If no recoverable amount can be measured for an individual asset, the recoverable amount is determined for the smallest identifiable group of assets that generate cash flows (cash-generating unit) to which the asset belongs. For the purposes of the impairment test, goodwill is allocated to the cash-generating unit to which it relates. If an asset's recoverable amount is less than its carrying amount, an impairment loss is recognized immediately in profit or loss.

Value in use of goodwill, indefinite-lived intangible assets, and finite-lived intangible assets, mainly capitalized development costs, is determined for impairment testing on the basis of the following pretax cost of capital (WACC) rates that are adjusted, where necessary, for country-specific risks:

WACC	2019	2018
Volkswagen Caminhões & Ônibus	12.4%	10.6%
MAN Truck & Bus	8.2%	7.0%
Scania Vehicles & Services	8.2%	7.0%

The costs of capital rates are based on the interest rate for risk-free investments, the market risk premium, and the cost of debt. Additionally, specific peer group information on beta factors and the cost of debt are considered, with changes in leverage due to the initial application of IFRS 16 being taken into account. The composition of the peer groups used to determine beta factors is continuously reviewed and adjusted if necessary.

PROPERTY, PLANT, AND EQUIPMENT

Items of property, plant, and equipment are measured at cost and reduced by depreciation and, if necessary, impairment losses. Cost is recognized on the basis of directly attributable direct and indirect costs. The production cost of internally manufactured items of property, plant, and equipment comprises directly attributable production costs and proportionate production overheads.

Items of property, plant, and equipment are depreciated by the straight-line method ratably over their estimated useful lives. If items of property, plant, and equipment consist of significant identifiable components with different useful lives, such components are recognized and depreciated separately. The useful lives of items of property, plant, and equipment are periodically reassessed and adjusted if necessary.

Depreciation is mainly based on the following useful lives: buildings (ten to 100 years), lease-hold improvements (five to 33 years), technical equipment and machinery (three to 12 years), and other equipment, operating and office equipment (three to 15 years).

CAPITALIZED BORROWING COSTS

For qualifying assets, borrowing costs are capitalized as part of the cost of the assets. An asset is a qualifying asset if at least one year is necessary to get it ready for its intended use or sale. Borrowing costs of inventories are not capitalized.

LEASES

The TRATON GROUP accounted for leases in accordance with IAS 17 until December 31, 2018. A lease was defined as an agreement under which the lessor conveys to the lessee in return for a series of payments the right to use an asset for an agreed period of time. Leases were accounted for by the lessee and the lessor on the basis of the allocation of the risks and rewards incidental to ownership of the asset.

If substantially all of the material risks and rewards were attributable to the TRATON GROUP as a lessee, the assets in question were recognized at the lower of fair value and the present value of the minimum lease payments, and depreciated using the straight-line method over the shorter of the economic life of the asset or the term of the lease. The payment obligations resulting from future lease payments were discounted and recognized as liabilities.

If the TRATON GROUP was the lessee in operating leases, meaning that not all of the material risks and rewards were transferred to it, lease or rent payments were recognized directly as expenses in the income statement.

Comparative information relating to leases relates to IAS 17.

Since January 1, 2019, the TRATON GROUP has accounted for leases in accordance with IFRS 16. IFRS 16 defines a lease as a contract — or part of a contract — under which a lessor conveys to a lessee the right to use an asset for an agreed period of time in exchange for a fee.

TRATON as lessee

If the TRATON GROUP is the lessee, as a rule it recognizes a right-of-use asset and a lease liability for all leases in its balance sheet.

There are recognition exemptions for short-term and low-value leases that the TRATON GROUP exercises, hence it does not recognize any right-of-use assets or liabilities for such leases. The related lease payments are recognized as expenses in the income statement. A lease is a low-value lease if the maximum new value of the underlying asset is €5,000. IFRS 16 is also not applied to leases of intangible assets.

Right-of-use assets

As a rule, the right-of-use asset is measured at the amount of the lease liability plus any lease payments made at or before the commencement date, less any lease incentives received, plus any additional direct costs, as well as costs incurred by the lessee in dismantling and removing the underlying asset, and restoring the site or the underlying asset. During the lease term, the right-of-use asset is depreciated using the straight-line method over the shorter of the lease term or its useful life.

If ownership of the underlying asset is transferred to the TRATON GROUP at the end of the lease term, the right-of-use asset is depreciated from the commencement date to the end of the useful life of the underlying asset.

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

Lease liabilities

The lease liability is measured by the discounted, outstanding lease payments underlying the lease (the interest rate implicit in the lease). If the interest rate implicit in the lease cannot readily be determined, the lessee's incremental borrowing rate is used. The lease liability is adjusted using the effective interest rate method on the basis of the lease payments. Interest expenses from unwinding the discount on lease liabilities is presented in the financial result in the income statement and in net cash provided by/used in operating activities in the statement of cash flows.

A large number of leases contain extension and termination options. In determining the term of a lease, all relevant facts and circumstances that create an economic incentive to exercise, or not to exercise, the option are considered. Periods covered by an option are considered when determining the term of a lease if the lessee is reasonably certain to exercise, or not to exercise, the option.

TRATON as lessor

Lease accounting is based on classification into operating and finance leases. Classification is made on the basis of the risks and rewards incidental to ownership of the underlying asset.

Classification and accounting for leases

In an operating lease, the significant risks and rewards are retained by the TRATON GROUP. The underlying asset is measured at cost and recognized in the TRATON GROUP's assets leased out; the lease payments received in the period are recognized as income in the income statement.

In the case of a finance lease, the significant risks and rewards are transferred to the lessee. The underlying asset is derecognized from the TRATON GROUP's assets leased out, and a receivable is recognized in its place in the amount of the net investment in the lease.

The net investment in the lease corresponds to the lease payments receivable by the lessor and any unguaranteed residual value accruing to the lessor, discounted at the interest rate implicit in the lease. Lease payments include fixed payments, less any lease incentives payable, certain variable lease payments, any residual value guarantees that the lessor receives, the exercise price of a purchase option if it is reasonably certain that it will be exercised, and payments of penalties for terminating the lease.

Credit risk from lease receivables is accounted for in accordance with IFRS 9.

Assets leased out

In addition to vehicles leased out, assets leased out include vehicles subject to a buyback obligation (referred to in the following as "products leased out"), to the extent that the TRATON GROUP retains the risks and rewards incidental to ownership of the products leased out. In the case of operating leases, vehicles with buyback obligations are recognized at cost and depreciated to the calculated residual value using the straight-line method over the term of the lease. Changes to the calculated residual value are taken into account by adjusting the future depreciation rates. The forecast residual values are adjusted to include constantly updated internal and external information on residual values, depending on specific local factors and the experience gained in the marketing of used vehicles. In doing so, assumptions must be made in particular with regard to future supply and demand of vehicles and to vehicle price trends. These assumptions are based either on qualified estimates or on publications by expert third parties. Where available, qualified estimates are based on external data and also reflect additional information available internally, such as values derived from past experience and current sales data. Impairment losses identified as a result of impairment tests in accordance with IAS 36 are recognized.

Land and buildings held to earn rentals (investment property) are also presented in assets leased out. These assets are recognized at cost less cumulative depreciation and impairment losses. Assets other than land are depreciated using the straight-line method over the estimated useful life. The useful lives underlying depreciation generally correspond to those of items of property, plant, and equipment used by the entity. The fair value of this investment property is disclosed in the notes. Fair value is estimated using internal calculations or appraisals prepared by external experts (based on recognized valuation techniques). These can be reused in subsequent years by adjusting the changing variables. The income value is determined on the basis of the rental income, taking into account additional factors such as land value, remaining useful life, administrative and maintenance costs, and a multiplier specific to commercial property.

EQUITY-METHOD INVESTMENTS

Equity-method investments include associates and joint ventures. Associates and joint ventures are initially measured at cost. In subsequent periods, the TRATON GROUP's share of profits and losses generated after acquisition is recognized in the income statement. Other changes in the equity of associates and joint ventures, such as currency translation differences, are recognized in other comprehensive income. Intercompany profits or losses from transactions by Group companies with associates and joint ventures are eliminated ratably in the profit or loss of the Group companies. If there are indications that the carrying amount may be impaired, equity-method investments are tested for impairment; any impairment loss is recognized in the income statement. If the reason for impairment ceases to apply at a later date, the impairment loss is reversed to the carrying amount that would have been determined had no impairment loss been recognized.

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

INVENTORIES

Inventories are measured at the lower of cost and net realizable value. Cost comprises directly attributable production costs and proportionate fixed and variable production overheads. Overheads are allocated on the basis of the normal capacity of the production facilities. Borrowing costs are not capitalized. Distribution, general, and administrative expenses are not included in production cost. As a general principle, similar items of inventories are measured using the weighted average method or the FIFO method.

FINANCIAL INSTRUMENTS

Nonderivative financial instruments

Nonderivative financial instruments primarily include customer receivables, financial services receivables, loans, cash and cash equivalents, financial liabilities, trade payables, and liabilities from buyback obligations. Cash and cash equivalents include bank balances and highly liquid financial investments of a temporary nature that are exposed to no more than minor risks of fluctuation in value. Nonderivative financial instruments are accounted for at the settlement date in the case of regular way purchases or sales — that is, the date on which the asset is delivered.

The TRATON GROUP's financial management supports cash pool structures at brand level, wherever legally and economically appropriate and feasible. The TRATON GROUP brands manage their own operational liquidity themselves. Surplus liquidity of the brands is managed at the level of TRATON SE. The TRATON GROUP deposits most of the surplus liquidity with Volkswagen AG on an arm's length basis. Demand deposits with Volkswagen AG are reported in cash and cash equivalents due to their similarity to cash. By contrast, deposits classified as investments are recognized as marketable securities and investment deposits (current) or as other financial assets (noncurrent). Correspondingly, borrowings from Volkswagen AG are recognized as financial liabilities. Deposits with globally positioned banks are also a standard practice.

Initial measurement of financial instruments

Primary financial assets and liabilities are initially recognized at cost. As a rule, cost corresponds to fair value, plus or minus transaction costs, at the date of acquisition or origination. An exception to this principle relates to financial instruments recognized at fair value through profit or loss. Trade receivables without any significant financing component are initially recognized at the transaction price.

Financial assets and financial liabilities are generally reported at their gross carrying amounts. They are only offset if the TRATON GROUP has a currently enforceable right to set off the recognized amounts and intends to do so.

Classification and subsequent measurement of financial instruments
Financial instruments are classified as financial assets, equity instruments, or financial liabilities depending on the substance of the contractual arrangement and the definitions in IAS 32.

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

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

Financial assets (liabilities) that meet the following conditions are measured at fair value through other comprehensive income:

- the financial asset is held within a business model whose objective is achieved by both collecting contractual cash flows and selling financial assets, and
- the contractual terms of the financial asset give rise on specified dates to cash flows that are solely payments of principal and interest on the principal amount outstanding.

The TRATON GROUP has exercised the option under IFRS 9 to recognize investments in equity instruments that are not held for trading at fair value through other comprehensive income (no recycling) because recognition of gains and losses on these instruments at fair value through profit or loss would not provide any information about the entity's performance for the TRATON GROUP. By default, all other financial assets are classified as at fair value through profit or loss.

Financial liabilities are classified into the following categories:

- Financial liabilities at fair value through profit or loss; only financial instruments held for trading are measured at fair value through profit or loss. In the TRATON GROUP, this requirement is only met by derivatives that are not included in hedge accounting.
- Financial liabilities at amortized cost; by default, all other financial liabilities are measured at amortized cost.

As a general principle, the TRATON GROUP does not apply the fair value option to financial assets or liabilities.

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

- at which a financial asset or liability is measured at initial recognition;
- minus any principal repayments;
- plus or minus the cumulative amortization of any difference between the original amount and the amount repayable at maturity, amortized using the effective interest method;
- and adjusted for any loss allowances in the case of financial assets.

Impairment of financial instruments and contract assets
In all cases, the TRATON GROUP recognizes lifetime expected credit losses (ECL) for trade receivables, lease receivables, and contract assets (referred to in the following as the "simplified approach"). For trade receivables and contract assets, expected credit losses are estimated using a provision matrix unless there is objective evidence of individual impairment. The provision matrix is based on the Group's historical loss experience, adjusted for debtor-specific factors, general economic factors, and an estimate of both current and expected changes in variables as of the reporting date, including the time value of money, if appropriate. The provision rates depend on the number of days a receivable is past due:

- not impaired and not past due: 1.0% of the receivable;
- up to 30 days past due: 1.5% of the receivable;
- between 31 and 90 days past due: 2.5% of the receivable;
- more than 91 days past due: 4.0% of the receivable.

For other financial instruments, the TRATON GROUP recognizes the lifetime expected credit losses if there has been a significant increase in credit risk since initial recognition (referred to in the following as the “general approach”). By contrast, if the credit risk of the financial instrument has not increased significantly since initial recognition, a loss allowance is measured for that financial instrument at an amount equal to 12-month expected credit losses. To the extent that the internal risk management and control systems do not indicate a significant increase in credit risk at an earlier point in time, there is a rebuttable presumption in the TRATON GROUP that a significant increase in credit risk has arisen if payments are more than 30 days past due.

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

- Stage 1: Financial instruments at initial recognition and whose credit risk has not increased significantly
- Stage 2: Significant increase in credit risk since recognition of the instrument, based on expected credit losses over the lifetime of the underlying contract
- Stage 3: Credit-impaired financial instruments

Allocation to a stage is reviewed in each reporting period. A financial asset is credit-impaired if one or more events have occurred that negatively impact future expected cash flows. These events include delayed payment over a certain period, the institution of enforcement measures, the threat of insolvency or overindebtedness, the application for or opening of bankruptcy proceedings, or the failure of reorganization measures. The amount of expected credit losses is based on the probability of default, the loss given default, and the exposure at the default date. If, based on the internal risk management and control systems, there are no grounds for assuming that there will be a significant increase in credit risk at an earlier point in time, there is a rebuttable presumption in the TRATON GROUP that default has occurred if payments are more than 90 days past due. The financial asset is always derecognized if there are no longer any reasonable expectations that it is collectible.

For financial assets, expected credit losses are calculated as the difference between all contractual cash flows payable to the TRATON GROUP under the terms of the contract and all cash flows that the Group expects to receive. This difference is discounted using the original effective interest rate. In the case of lease receivables, the cash flows and discount rates used to determine expected credit losses are the same as the cash flows and discount rates used to measure the lease receivable under IFRS 16 “Leases.”

Derivatives and hedge accounting

The TRATON GROUP is exposed to a range of financial risks on account of its operating business. Entities use corresponding derivatives, such as swaps, forward contracts, and options to hedge foreign exchange (currency) risk, interest rate risk, and commodity price risk. Derivatives are initially recognized and accounted for at each subsequent reporting date at their fair value. They are generally recognized at the trade date.

The recognition of gains and losses from fair value measurement depends on the designation of the derivative. Derivatives that do not meet the IFRS 9 hedge accounting criteria are measured at fair value through profit or loss (referred to in the following as “derivatives not included in hedge accounting”). These gains and losses from measurement and realization are recognized in other operating income/expense or in the financial result, depending on the underlying risk.

A condition for applying hedge accounting is that the hedging relationship between the hedged item and the hedging instrument is clearly documented and that there is an economic relationship between the hedged item and the hedging instrument that is not dominated by the effect of the credit risk. The hedging instruments are affected by the same risk as the hedged items, specifically foreign exchange (currency) risk. In each hedging relationship for which hedge accounting is used, the designated amount of the hedged item corresponds to the volume of the hedging instrument. In cash flow hedges, the hedging instruments are measured at fair value. Gains or losses from the remeasurement of the effective designated portion of the derivative are recognized in the cash flow hedge reserve in accumulated other comprehensive income, whereas gains or losses from the undesignated forward element of the derivative and the cross-currency basis spread are recognized in the reserve for hedging expenses. The amounts recognized in other comprehensive income are reclassified to the income statement as soon as the hedged future cash flows are recognized in profit or loss. The reclassification of both the cash flow hedge reserve and the reserve for hedging expenses is recognized in the item to which the hedged item is allocated. The ineffective portion of a cash flow hedge is recognized in profit or loss for the period.

The Group does not currently apply fair value hedge accounting.

PENSION PROVISIONS

Pension obligations from defined benefit plans are determined using the projected unit credit method under IAS 19, under which the future defined benefit obligation is measured on the basis of the proportionate benefit entitlements earned by the end of the reporting period and discounted to its present value. This method considers expected future pay and pension increases and historical staff turnover rates, as well as vested pension rights and entitlements known at the reporting date. Remeasurements of the net defined benefit asset or liability comprise actuarial gains and losses resulting from differences between the actuarial assumptions made and what has actually occurred, or changes in actuarial assumptions, as well as the return on plan assets, excluding amounts included in net interest income or expense. Remeasurements are recognized in other comprehensive income, net of deferred taxes.

OTHER PROVISIONS

General

Under IAS 37, provisions are recognized for a present obligation to a third party arising from a past event that is likely to result in an outflow of resources embodying economic benefits and whose amount can be measured reliably.

Where the effect of the time value of money is material, the provision is recognized at its present value. Discounting uses market rates of interest. The settlement amount also reflects expected cost increases at the reporting date.

Provisions are not offset against recourse rights.

Share-based payment

Share-based payment consists of performance shares. Share-based payment obligations are accounted for as a cash-settled plan under IFRS 2. Such cash-settled plans are measured at fair value over their term. Fair value is determined using a recognized valuation technique. The remuneration expense is recognized over the vesting period.

CONTINGENT LIABILITIES AND COMMITMENTS

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

SALES REVENUE

Revenue from contracts with customers

Sales revenue is recognized as soon as a performance obligation under a customer contract has been satisfied. Discounts, customer rebates, and other sales allowances reduce the transaction price. If a contract contains multiple performance obligations, the transaction price is allocated to the relevant performance obligations. Variable consideration is only included in the transaction price to the extent that it is highly probable that a subsequent reversal of the sales revenue can be ruled out.

Sales revenue from products is recognized when the customer obtains control of the products. As a rule, this is the date when the vehicle is delivered.

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

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

TRATON uses the practical expedient to account for a significant financing component only in contracts for which TRATON expects the period between the transfer of the product or service to the customer and the customer payment to be more than one year.

Sales revenue from leases, buyback agreements, and customer finance

Income from customer finance and finance leases is recognized over the term of the agreement using the effective interest rate method and reported in sales revenue. When interest-free or low-interest vehicle finance is awarded, sales revenue is reduced by the interest savings granted.

In the case of operating leases and short-term vehicle rentals, sales revenue is recognized using the straight-line method over the term of the lease or rental. Leases and rentals relate primarily to new trucks and buses. The assets continue to be recognized in the balance sheet as assets leased out.

Income from sale transactions in which a Group company incurs a buyback obligation at a predetermined value is not immediately recognized in full as revenue if the benefits and obligations are not transferred to the customer. The difference between the sale price and the present value of the buyback price is allocated as sales revenue over the period until the return of the vehicle on an accrual basis. Until the vehicle is returned, these assets are reported in the balance sheet as assets leased out.

OPERATING EXPENSES AND INCOME

Operating expenses are recognized when the underlying products or services are used. Costs of advertising and other distribution expenses are recognized as incurred.

The production costs incurred to generate sales revenue and the purchase costs of merchandise are recognized in cost of sales. In addition to direct material and labor costs, production cost also includes production-related indirect costs, including depreciation of production facilities. This item also includes the cost of additions to warranty provisions for statutory or contractual guarantee obligations that are recognized when products are sold. Research and development costs not eligible for capitalization and impairment losses on development costs are also reported in cost of sales. Corresponding to the presentation of interest and fee and commission income in sales revenue, interest expenses and fee and commission expenses attributable to the financial services business are presented in cost of sales.

GOVERNMENT GRANTS

Government grants for expenses incurred are recognized in profit or loss in other operating income for the period or in the item in which the expenses to be offset are also recognized. Government grants for assets are deducted from the carrying amount of the asset to which the grant relates and therefore result in a lower depreciation charge over the useful life of the asset compared to depreciation without a grant. If a claim to a grant arises at a subsequent date, the amount of the grant attributable to previous periods is recognized in profit or loss.

INCOME TAXES

Tax provisions contain obligations under current taxes. Provisions are recognized for potential tax risks based on the best possible estimate. A liability is recognized for other provisions resulting from supplementary tax payments that are due in this context.

Deferred tax assets are generally recognized for deductible temporary differences between the tax base of assets and liabilities and their carrying amounts in the consolidated balance sheet, for tax loss carryforwards, and for tax credits, to the extent that it can be expected that they will be utilized. Deferred tax liabilities are generally recognized for all taxable temporary differences between the tax base of assets and liabilities and their carrying amounts in the consolidated balance sheet (temporary concept).

Deferred taxes are recognized in the amount of the expected liability or tax benefit, as appropriate, in subsequent fiscal years, based on the expected enacted tax rate at the time of realization. The tax consequences of dividend payments are generally not taken into account until the resolution on appropriation of net profit has been adopted.

Deferred tax assets that are unlikely to be realized within a clearly predictable period are reduced by valuation allowances.

Deferred tax assets for tax loss carryforwards are usually measured on the basis of future taxable income over a planning period of five fiscal years. We offset deferred tax assets and deferred tax liabilities where taxes are levied by the same taxation authority and relate to the same tax period.

NONCURRENT ASSETS HELD FOR SALE AND DISCONTINUED OPERATIONS
Noncurrent assets held for sale and discontinued operations include both individual noncurrent assets and groups of assets, together with liabilities directly associated with those assets (disposal groups), if their carrying amounts will be recovered principally through a sale transaction rather than through continuing use.

Noncurrent assets classified as “held for sale,” either individually or as part of a disposal group, are presented separately as “held for sale” in the balance sheet. Within the scope of IFRS 5, they are measured at the lower of their carrying amount and fair value less costs to sell, and are no longer depreciated or amortized. If there is any subsequent increase in fair value less costs to sell, a remeasurement gain is recognized. The remeasurement gain may not exceed the cumulative impairment losses already recognized for that asset.

A discontinued operation is a component of an entity that represents a major line of business of the TRATON GROUP and that is either classified as “held for sale” or has been disposed of. The assets and liabilities of a discontinued operation are classified as “held for sale” in the balance sheet until the disposal is completed, and are measured at the lower of their carrying amount and fair value less costs to sell. Gains or losses recognized on measurement at fair value less costs to sell, gains or losses on the disposal, and the post-tax profit or loss of the discontinued operation are presented separately in the TRATON GROUP’s income statement as “Income/loss from discontinued operations, net of tax.” Prior-period amounts in the TRATON GROUP’s income statement are adjusted accordingly. Discontinued operations are presented separately in the statement of cash flows. Prior-period amounts are also adjusted in these cases.

The elimination of intercompany profits between TRATON and discontinued operations is based on the corresponding agreement following the sale. If TRATON assumes that the agreement will be continued following the sale, intercompany profits are eliminated with the discontinued operation. By contrast, if TRATON will not continue the agreement following the sale, intercompany profits are eliminated with the continued operation.

With the example of the disclosure on “Noncurrent assets held for sale and discontinued operations,” the notes to the consolidated financial statements generally refer to continued operations, unless expressly indicated otherwise or required by IFRSs.

PRIOR-PERIOD INFORMATION
Certain prior-period information was adjusted to reflect the current presentation to improve comparability. If material, the details of such information is contained in the relevant sections.

5. Estimates and management’s judgment

Preparation of consolidated financial statements in accordance with IFRSs requires assumptions to be made with regard to certain items that affect the carrying amounts in the balance sheet or income statement and the disclosure of contingent assets and liabilities. Assumptions and management’s judgment relate primarily to the following matters:

The impairment testing of nonfinancial assets — especially goodwill, brand names, and capitalized development costs — and equity-accounted investments, or investments accounted at cost, require assumptions to be made about future market trends and the discount rate to be applied. Detailed sales planning for commercial vehicles, profitability projections for products, and trends in the after-sales business are based on expected future market trends. The planning period for impairment testing is generally five years, although the useful life of the asset can be used for finite-lived assets. To determine cash flows, the expected growth rates of the markets in question are used, which are primarily affected by the planned sales revenue and the gross margin for TRATON’s products and services. Estimated cash flows after the end of the planning period are based on an annual growth rate of up to 1% (previous year: up to 1%).

Estimates of the useful life of finite-lived assets are based on past experience and are periodically reviewed. Any change in the estimate results in a change in the residual useful life and, if appropriate, recognition of an impairment loss. Additionally, the recoverability of the Group's assets leased out depends in particular on the residual value of vehicles leased out after the end of the lease term, because this constitutes a significant portion of the expected cash flows. Forecasting residual values requires management to make assumptions about the future supply of and demand for vehicles, as well as vehicle price trends. These assumptions are based either on qualified estimates or on published information by expert third parties. Where available, qualified estimates are based on external data and also reflect additional information available internally, such as values derived from past experience and current sales data.

The fair value of assets acquired and liabilities assumed in a business combination is determined using recognized valuation techniques such as the relief-from-royalty method or the residual income method, if no observable market inputs are available.

The TRATON GROUP is exposed to risks from contractual payments. In all major respects, the Group has the right to recover the vehicles underlying the contracts as collateral. The Group has an exposure to loss if the fair value of the collateral does not fully cover the risk exposure to the customer and the customer is unable to discharge its contractual payment obligations. Accordingly, determining the recoverability of financial assets requires estimates about the amount and probability of future events. If possible, the estimates are derived from past experience, taking into account current market data and rating classes, as well as scoring information.

In the TRATON GROUP, around 15% (previous year: 15%) of vehicles are sold with a buyback obligation. These transactions are accounted for as operating leases. All sales for which no firm buyback is agreed from the outset, but where solely the customer decides about a buyback at a previously agreed price, are also accounted for as operating leases. Based on contractual arrangements and our experience with such sales, we assume that customers will always make use of their put option.

Lease terms under IFRS 16 are estimated based on the noncancelable period of the lease. Many leases feature extension or termination options. When measuring the term of a lease, such options are only included if it is reasonably certain that the lessee will exercise the option. The determination of the discount rates also affects the amount of the lease liabilities and the right-of-use assets. This assessment and the determination considers all facts and circumstances, such as past lease terms and any incremental costs incurred.

Recognition and measurement of provisions are based on estimates of the amount and probability of future events, and estimates of the discount rate. If possible, experience or external appraisals are also used in these cases. The assumptions underlying the calculation of pension provisions can be found in the disclosures on "Provisions for pensions and other post-employment benefits." Remeasurements are recognized directly in equity and therefore have no effect on the gains or losses presented in the income statement. Any changes in estimates of the amount of other provisions are always recognized in profit or loss. Provisions are periodically adjusted to reflect new knowledge. Recognizing expected values requires the periodic addition of further amounts to provisions or the reversal of unutilized provisions. Reversals and expenses from recognizing new provisions are allocated directly to the functions. Warranty claims arising from sales are determined on the basis of estimated future costs and ex gratia arrangements. In addition, assumptions must be made about the nature and extent of future guarantee and ex gratia claims. The measurement of restructuring provisions is based on estimates and assumptions regarding the amount of severance payments, the effects of onerous contracts, the timeline for the implementation of measures, and, consequently, the timing of the expected payments. The measurement assumptions are regularly reviewed as the restructuring program progresses. Litigation and other court proceedings lead to complex legal issues and entail a significant level of imprecision and numerous uncertainties. A provision is recognized for these if it is probable that an obligation arises in connection with these proceedings that is likely to lead to a future outflow of resources and its amount can be estimated reliably.

In the TRATON GROUP, many vehicles are sold together with services. Where services and vehicles are sold as a bundle, the selling price is divided between both performance obligations, and each performance obligation is accounted for separately. The allocation is made on the basis of the standalone prices, the determination of which is subject to judgment. Rebates are allocated to the vehicle when the price is divided.

TRATON SE and its subsidiaries operate all over the world and are continuously audited by the local financial authorities. Changes in tax legislation, jurisdiction, and how these are interpreted by the financial authorities in the different countries may result in tax payments that differ from the estimates made in these financial statements. The measurement of the tax provision is based on the most probable estimate that this risk materializes. Depending on the individual case, whether tax-related uncertainties are recognized individually or as part of a group at TRATON depends on which presentation is better suited to forecasting whether the tax-related risk materializes. In the case of contracts entailing cross-border goods and services supplied within the Group, determining the price of the individual products and services is particularly complex because no market prices are available for the Company's own products in many cases or because using the market prices of similar products entails a degree of uncertainty due to lack of comparability. In these cases, the products and services are priced using recognized standard accounting practices, including for tax purposes.

When calculating deferred tax assets, assumptions must be made as to future taxable income and the timing of realization.

Assumptions and management's judgment are based on presumptions that refer in each case to currently available knowledge. All estimates and assumptions represent the best of management's knowledge and belief in order to convey a true and fair view of the Group's net assets, financial position, and results of operations. In particular, expected future business performance is based on the circumstances known at the date of preparation of the consolidated financial statements and the assumed realistic future development of the global economic environment, the relevant markets, and the legal circumstances. Because expected future business performance is subject to uncertainties, some of which are beyond the Group's control, our assumptions and estimates are exposed to a high level of uncertainty, with the result that actual estimated values may differ significantly from those originally expected. If actual developments differ from expected developments, the assumptions and the carrying amounts of the assets and liabilities concerned are adjusted accordingly.

For 2020, we expect new registrations for medium- and heavy-duty trucks (>6 t) in the core geographic regions for the TRATON GROUP, i.e., Europe (defined as EU27 countries excluding Malta plus the United Kingdom, Norway, and Switzerland, or "EU27+3"), Brazil, Turkey, Russia, and South Africa to vary from region to region compared to the previous year. A 10 to 20% downturn in the market is expected in the EU27+3 region. For Brazil, we anticipate that demand will increase significantly compared to the previous year. We expect to see a noticeable rise in demand overall in the other relevant markets. Russia will probably witness a moderate rebound in demand in 2020. In Turkey, we anticipate a substantial recovery, starting from very low prior-year level, with a moderate decline in South Africa.

In the bus markets that are relevant for the TRATON GROUP (EU27+3, Brazil, and Mexico), we also expect varied regional developments in 2020. In the EU27+3 region, we anticipate a moderate year-on-year downturn in the market. In Brazil, new registrations will probably be significantly higher than in the previous year. We anticipate a moderate increase in Mexico.

6. Segment reporting

Segments are defined on the basis of internal management and reporting in the TRATON GROUP. The operating units are Scania Vehicles & Services, MAN Truck & Bus, and Volkswagen Caminhões e Ônibus. The Financial Services business rounds off the range of products and services. Each operating unit is managed by its own executive board. In order to make decisions about the allocation of resources and the assessment of performance, the results of these units are regularly reviewed by the Executive Board in its role as chief operating decision maker. The following reportable segments apply to external reporting:

Industrial Business: TRATON's activities in connection with commercial vehicles comprise the following products: trucks, buses, and engines, together with the services associated with these products. The three operating units collaborate closely in central areas such as procurement, research, and development. The operating units are also growing closer together through the progressive centralization of corporate finance activities. The units are very similar in terms of the products and services they offer, and there is no systematic difference between the customers of the individual units. All three units are active in the market for commercial vehicles, which is highly cyclical and heavily correlated overall with the business climate. As a result, the business activities of the three operating units are implemented at different levels. However, the units have a similar business cycle with regard to their long-term financial performance, as can be seen from the long-term development of operating return on sales.

Consequently, TRATON combines the three operating units into a single reporting segment for external reporting purposes, which it refers to as the Industrial Business segment. This approach complies with the recognition and measurement principles described in IFRS 8, under which segments with similar characteristics may be aggregated into a single segment. The Industrial Business segment also includes the Group's holding companies and their investees, Sinotruk and Navistar.

The **Financial Services** segment offers customers financing solutions such as loans, leasing, and insurance solutions. The Financial Services reporting segment consists solely of Scania Financial Services. For customers of MAN Truck & Bus and Volkswagen Caminhões e Ônibus, Volkswagen Financial Services AG and its subsidiaries provide similar financing solutions outside the TRATON GROUP.

The segment information represents continuing operations. The segment disclosures for the current and the comparative period therefore do not include the corresponding information for discontinued operations.

Segment profit or loss in the TRATON GROUP is determined on the basis of operating profit or loss, which is calculated as profit/loss before tax and before the financial result. The assets and liabilities resulting from purchase price allocation relating to companies acquired are allocated to the relevant segments.

Segment financial information is presented in accordance with the disclosure and measurement policies applied to preparation of the consolidated financial statements. As a departure from IFRS 16, subleasing of buyback vehicles is always accounted for as an operating lease. Sales revenues between the segments are transacted on an arm's length basis. Depreciation, amortization, and impairment losses relate to the intangible assets, property, plant, and equipment, investment property, and other equity investments allocated to the individual divisions. Starting in 2019, they also include the depreciation of and impairment losses on right-of-use assets under IFRS 16. Capital expenditures in intangible assets, property, plant, and equipment, and investment property are reported exclusive of net investments in finance leases and additions of right-of-use assets under IFRS 16.

The other segments in the prior-year period consisted of the activities of Volkswagen Gebrauchtfahrzeughandels und Service GmbH (VGSG), a company that was sold in January 2019 (see disclosure on "Noncurrent assets held for sale and discontinued operations"). VGSG's business consists of sales of used passenger vehicles. The reconciliation contains consolidation adjustments between the reporting segments.

REPORTING SEGMENTS 2019

€ million	Industrial Business	Financial Services	Other segments	Recon–ciliation	TRATON GROUP
Sales revenue by segment	**26,444**	**849**	**–**	**–392**	**26,901**
Intersegment sales revenue	–390	–2	–	392	–
Sales revenue, TRATON GROUP	26,054	847	–	–	26,901
Depreciation/amortization	–2,200	–391	–	386	–2,204
Impairment losses	–2	0	–	0	–2
Segment profit (operating profit)	**1,741**	**142**	**–**	**0**	**1,884**
Financial result	**140**	**8**	**–**	**–67**	**81**
of which share of profits and losses of equity-method investments	208	–	–	–	208
Capital expenditures[1]	**1,507**	**4**	**–**	**–34**	**1,478**
Equity-method investments	1,365	–	–	–	1,365

1 Capital expenditures do not contain additions of right-of-use assets under IFRS 16. The total additions to noncurrent assets (intangible assets, property, plant, and equipment, including right-or-use assets under IFRS 16, investment property) amounting to €1,741 million were split into €1,770 million in additions to the Industrial Business segment and €6 million in additions to the Financial Services segment in fiscal year 2019. Consolidation adjustments between the segments amounted to €35 million.

REPORTING SEGMENTS 2018

€ million	Industrial Business	Financial Services	Other segments	Recon–ciliation	TRATON GROUP
Sales revenue by segment	**24,963**	**760**	**585**	**–381**	**25,927**
Intersegment sales revenue	–380	–1	0	381	–
Sales revenue, TRATON GROUP	24,583	758	585	0	25,927
Depreciation and amortization	–1,855	–4	–1	0	–1,859
Impairment losses	–51	0	–2	–	–53
Segment profit (operating profit)	**1,346**	**138**	**34**	**–6**	**1,513**
Financial result	**98**	**10**	**–24**	**–32**	**53**
of which share of profits and losses of equity-method investments	209	–	–	–	209
Capital expenditures	**1,404**	**4**	**0**	**–13**	**1,395**
Equity-method investments	1,223	–	–	–	1,223

The reconciliation of aggregate sales revenue of the segments to the sales revenue of the TRATON GROUP and of aggregate operating profit of the segments to profit before tax and discontinued operations of the TRATON GROUP is presented in the following table:

€ million	2019	2018
Reporting segments sales revenue	**27,294**	**25,722**
Other segments	–	585
Reconciliation	–392	–381
Sales revenue (TRATON GROUP)	**26,901**	**25,927**
Total segment profit (operating profit)	**1,884**	**1,485**
Other segments	–	34
Reconciliation	0	–6
Operating profit (TRATON GROUP)	**1,884**	**1,513**
Financial result	81	53
Profit before tax from continuing operations (TRATON GROUP)	**1,965**	**1,566**

SEGMENT REPORTING BY REGIONS

€ million	Germany	EU–28+2 (excl. Germany)	Brazil	South America (excl. Brazil)	Other regions[2]	Total
2019						
Noncurrent assets (excl. financial instruments, equity investments, and deferred taxes) as of December 31	5,757	12,766	1,720	131	717	21,091
Sales revenue[1]	4,337	13,533	2,773	745	5,514	26,901
2018						
Noncurrent assets (excl. financial instruments, equity investments, and deferred taxes) as of December 31	4,972	11,881	1,862	100	563	19,377
Sales revenue[1]	4,773	12,422	1,977	782	5,972	25,927

1 Allocation of sales revenue to the regions follows the destination principle.

2 Also includes sales revenue from hedging transactions

7. Noncurrent assets held for sale and discontinued operations

DISPOSAL OF THE POWER ENGINEERING BUSINESS AREA

On October 25, 2018, the Group announced its intention to sell the Power Engineering business area (PE business) to a subsidiary of Volkswagen AG that is not a member of the TRATON GROUP. The purchase price was based on the carrying amounts of the PE business. The PE business includes the companies of the former segments MAN Energy Solutions (formerly MAN Diesel & Turbo) and Renk, as well as HABAMO Verwaltung GmbH & Co. Objekt Sterkrade KG.

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

The 2018 sale proceeds correspond to the carrying amount of the related net assets. Accordingly, no impairment was recognized upon reclassification of these business areas as held for sale.

ANALYSIS OF THE PROFIT ATTRIBUTABLE TO THE DISCONTINUED OPERATION

The accumulated profit of the discontinued operation in the prior-year reporting period that is contained in profit after tax is presented separately in the TRATON GROUP's income statement and is broken down as shown in the following.

€ million	2019	2018
Sales revenue	**–**	**3,588**
Other operating income	–	173
Expenses	–	–3,519
Profit before tax from discontinued operations	**–**	**242**
Attributable income taxes	–	–41
Disposal gain/loss, net of tax	–2	48
Profit/loss from discontinued operations, net of tax	**–2**	**250**

Taking account of noncontrolling interests, the reclassification of amounts of €36 million recognized in accumulated other comprehensive income, and income tax expense of €89 million on the proceeds of the sale, and based on consideration received of €1,980 million, there was a disposal gain of €48 million, net of tax, for fiscal year 2018. The purchase price was paid in the first quarter of 2019 following a purchase price adjustment of €2 million that was recognized in profit or loss. The final purchase price was thus €1,978 million. The payment is presented under "Disposal of subsidiaries" in net cash provided by/used in investing activities.

The assets and liabilities of the PE business are not contained in the 2018 balance sheet, as they were reclassified as "held for sale" in October 2018, and the PE business was sold as of December 31, 2018.

The carrying amounts of the assets and liabilities of the PE business were as follows at the transaction date:

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

Cash and cash equivalents of €862 million were sold with the PE business. These included a cash pool receivable of €759 million from TRATON, which did not affect TRATON's cash flow for 2018. Cash pool receivables of €525 million arose at TRATON from the deconsolidation, which are contained in TRATON's net cash provided by/used in investing activities in 2018.

DISPOSAL OF VOLKSWAGEN GEBRAUCHTFAHRZEUGHANDELS UND SERVICE GMBH (VGSG)

On December 6, 2018, TRATON entered into an agreement with a Volkswagen AG subsidiary outside the TRATON GROUP to sell its subsidiary, VGSG, effective January 1, 2019. Volkswagen Gebrauchtfahrzeughandels und Service GmbH was expected to be sold within 12 months, and the associated assets and liabilities were therefore classified as held for sale and presented separately in the consolidated balance sheet as of December 31, 2018.

The following assets and liabilities in relation to VGSG were disposed of effective January 1, 2019:

€ million	January 1, 2019
Inventories	149
Miscellaneous assets	8
Total assets	**157**
Trade payables	86
Miscellaneous liabilities	37
Total liabilities and provisions[1]	**123**
Net assets	**34**

1 The liabilities shown exclude intercompany liabilities of €34 million.

The transaction was completed on January 1, 2019. No gain was recognized. The consideration received and the amount of cash disposed of in this transaction were each below €1 million.

OTHER DISPOSAL GROUPS

The restructuring of the Indian operations of MAN Truck & Bus was initiated in the 3rd quarter of 2018 and completed in the 4th quarter of 2018. The €64 million impairment loss for fiscal year 2018 recognized for the sale of assets contains €30 million for property, plant, and equipment, and intangible assets, which was recognized in cost of sales. The total sale price received amounted to €11 million, whereas cash and cash equivalents sold amounted to €27 million.

Effective August 28, 2019, the 49% interest in the Tactical Wheeled Vehicles division of Rheinmetall MAN Military Vehicles GmbH, Munich (RMMV), was sold to Rheinmetall AG. Further information can be found in "Equity-method investments."

Income Statement Disclosures

8. Sales revenue

STRUCTURE OF GROUP SALES REVENUE

Reporting period January 1 to December 31, 2019

€ million	Industrial Business	Financial Services	Other segments	Recon–ciliation	2019
Vehicles	17,387	–	–	–1	17,386
Spare parts	3,464	–	–	–1	3,463
Used vehicles	1,415	–	–	0	1,415
Engines, powertrains, and parts deliveries	641	–	–	0	641
Workshop services	1,501	–	–	–1	1,500
Rental and leasing business[1]	1,735	444	–	–385	1,794
Interest and similar income[1]	5	405	–	–1	409
Other sales revenue	295	–	–	–3	292
	26,444	**849**	**–**	**–392**	**26,901**

Reporting period January 1 to December 31, 2018

€ million	Industrial Business	Financial Services	Other segments	Recon–ciliation	2018
Vehicles	16,216	–	–	–1	16,215
Spare parts	3,316	–	–	–1	3,315
Used vehicles	1,387	–	557	0	1,944
Engines, powertrains, and parts deliveries	676	–	–	0	676
Workshop services	1,414	–	0	0	1,414
Rental and leasing business[1]	1,651	411	–	–374	1,688
Interest and similar income[1]	6	349	–	–1	353
Other sales revenue	296	–	28	–3	321
	24,963	**760**	**585**	**–381**	**25,927**

1 Not sales revenue within the scope of IFRS 15

Other sales revenue includes revenue from product-related royalties. Sales revenue of the other segments in the "Used vehicles" item in the previous year related to the activities of VGSG, a company that was sold in January 2019 (see disclosure on "Noncurrent assets held for sale and discontinued operations"). The "Reconciliation" column contains consolidation adjustments between the reporting segments.

Sales revenue recognized in the reporting period that was included in contract liabilities at the beginning of the reporting period (see disclosure "Other liabilities") amounted to €1,124 million (previous year: €1,716 million).

€7 million of the sales revenue recognized in the reporting period (previous year: €26 million) is attributable to performance obligations satisfied in previous periods. This relates primarily to the reversal of provisions for sales allowances.

REVENUE FROM CONTRACTS WITH CUSTOMERS

Information about the Group's performance obligations

The Group's performance obligations primarily comprise sales of trucks, heavy-duty special-purpose vehicles, buses, and related spare parts, as well as provisions for repair and maintenance services. As well as standard statutory warranties, the Group also offers service guarantees.

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

In line with standard business practice, payment terms are 30 days, although a payment term of up to 140 days is granted in certain markets. Contracts do not contain any significant financing components. Customers can decide to purchase a vehicle by means of financing solutions from TRATON Financial Services or from a Volkswagen Group subsidiary (e.g., Volkswagen Financial Services). If a third party outside the TRATON GROUP is used, the Group receives the payment from that party shortly after the customer has received the vehicle.

Performance obligations relating to service contracts and service guarantees are recognized over the term of the contract. In the case of prepayments received for these services, the allocated transaction price is recognized as a contract liability at the date of the original sale transaction and recognized as revenue over the period of the service. If payments of service fees match the services provided, the sales revenue recognized corresponds to the fees paid.

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

Allocation of transaction price to the remaining performance obligations

The total transaction price for unsatisfied or partly satisfied performance obligations at the end of the reporting period and the expected timing of revenue recognition are as follows:

€ million	2019	2018
Expected timing of revenue recognition		
Up to one year	6,923	7,482
1 to 5 years	1,785	1,640
More than 5 years	202	6
	8,910	**9,128**

The transaction price for the remaining performance obligations resulting in revenue recognition within one year relates primarily to the delivery of vehicles. Revenue recognition expected after more than one year relates primarily to long-term service agreements and extended warranties.

REVENUE FROM FINANCING ARRANGEMENTS

TRATON's Financial Services segment offers a wide range of financing solutions, normally with maturities of between three and five years, in which the vehicles serve as the underlying collateral. The type of financing solution offered often depends on market conditions as well as civil and tax law rules in the country concerned. Financing arrangements consist largely of finance leases in which legal title to the vehicle remains with TRATON over the lease term, but significant risks and rewards are transferred to the lessee. If hire purchase agreements are offered, title passes to the customer at the sale date, but the Group's Financial Services segment receives collateral in the form of liens. Leases offered by the Financial Services segment in which the significant risks remain with TRATON when vehicles are delivered are recognized as operating leases.

9. Functional expenses

COST OF SALES

Cost of sales includes nonstaff overheads and personnel costs, as well as depreciation and amortization applicable to production. These include expenses of €547 million attributable to the Financial Services segment for the fiscal year ended December 31, 2019 (previous year: €489 million).

Research and development costs are contained in cost of sales and are broken down as follows:

€ million	2019	2018
Total research and development costs	1,376	1,411
of which capitalized development costs	467	449
Capitalization ratio in %	34	32
Amortization of capitalized development costs	192	170
Research and development costs	**1,101**	**1,132**

To enhance comparability, the prior-period research and development costs only contain the amounts attributable to continuing operations.

ADMINISTRATIVE EXPENSES

The administrative expenses mainly include nonstaff overheads and personnel costs, as well as depreciation and amortization applicable to the administrative functions. The €38 million year-on-year decline is due primarily to lower nonstaff overheads. Costs of €31 million (previous year: €68 million) were also incurred in conjunction with making the TRATON GROUP ready for the capital markets and for its IPO.

PERSONNEL

Personnel expenses

PERSONNEL EXPENSES OF CONTINUING OPERATIONS:

€ million	2019	2018
Wages and salaries	4,336	4,259
Social security, post-employment, and other benefit costs	1,177	1,134
Personnel expenses	**5,513**	**5,393**

PERSONNEL EXPENSES OF CONTINUING AND DISCONTINUED OPERATIONS:

€ million	2019	2018
Wages and salaries	4,336	5,403
Social security, post-employment, and other benefit costs	1,177	1,363
Personnel expenses	**5,513**	**6,766**

Post-employment benefit costs amounted to €427 million (previous year: continuing operations €395 million, and continuing and discontinued operations €451 million).

Average annual number of employees

AVERAGE ANNUAL NUMBER OF EMPLOYEES OF CONTINUING OPERATIONS:

	2019	2018
Performance-related wage-earners	37,391	35,413
Salaried staff	45,590	44,261
Total number of employees	**82,981**	**79,674**
of which in the passive phase of partial retirement	539	551
Vocational trainees	3,697	3,457
Total headcount	**86,678**	**83,131**

AVERAGE ANNUAL NUMBER OF EMPLOYEES OF CONTINUING AND DISCONTINUED OPERATIONS:

	2019	2018
Performance-related wage-earners	37,391	43,073
Salaried staff	45,590	50,526
Total number of employees	**82,981**	**93,599**
of which in the passive phase of partial retirement	539	689
Vocational trainees	3,697	3,952
Total headcount	**86,678**	**97,551**

10. Other operating income

€ million	2019	2018
Foreign exchange gains	236	418
Income from reversal of provisions and accruals	67	16
Income from cost allocations	42	56
Rental and lease income	16	19
Income from foreign currency derivatives not included in hedge accounting	40	66
Gains on disposal of noncurrent assets	19	30
Miscellaneous income	204	186
	624	**792**

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

Income from the reversal of provisions in the reporting period contains €20 million relating to provisions for restructurings attributable to the Industrial Business segment.

Miscellaneous income contains income from the reversal of valuation allowances on indirect tax receivables of €65 million at Volkswagen Caminhões e Ônibus. It also contains royalty income of MAN Energy Solutions amounting to €24 million. The reversal of social security liabilities of €144 million was contained in the previous year.

Income from the reversal of valuation allowances on indirect tax receivables is a result of the discontinuation of the impairment requirement at the Brazilian cash-generating unit MAN Latin America Indústria e Comércio de Veículos Ltda., which is allocated to the Industrial Business segment. The discontinuation of the impairment requirement affecting indirect tax receivables resulted from a higher ability to offset this indirect tax.

Government grants related to income amounted to €5 million in fiscal year 2019 (previous year: €7 million).

11. Other operating expenses

€ million	2019	2018
Foreign exchange losses	219	381
Losses from foreign currency derivatives not included in hedge accounting	57	99
Losses on disposal of noncurrent assets	8	9
Expenses for litigation and legal risks	121	56
Miscellaneous expenses	122	268
	526	**814**

Expenses for litigation risks relate primarily to expenses relating to the antitrust proceedings launched against European truck manufacturers, including MAN and Scania, by the European Commission.

Miscellaneous expenses include expenses for other personnel costs. In 2018, they included in particular valuation allowances on indirect tax receivables of €88 million at Volkswagen Caminhões e Ônibus and expenses of €71 million for restructuring of the Indian operations of MAN Truck & Bus (see also the disclosure on "Noncurrent assets held for sale and discontinued operations").

12. Net interest expense

Reporting period January 1 to December 31

€ million	2019	2018
Interest and similar income	93	83
Interest and similar expenses	–180	–186
Interest expense for lease liabilities	–37	–
Net interest on the net liability for pensions and other post-employment benefits	–37	–34
Unwinding of discount and effect of change in discount rate on liabilities and other provisions	–8	–25
Net interest expense	**–170**	**–162**

Net interest expense mainly contains interest expense for financial liabilities and, in the previous year, interest from unwinding the discount on the put options/compensation rights granted to noncontrolling interest shareholders of MAN SE. In fiscal year 2019, it also includes interest expense for lease liabilities.

Interest income and expenses contain realized income and expenses from interest rate derivatives on net liquidity positions. The increase in interest income is attributable to higher income from interest rate derivatives.

Capitalized borrowing costs amounted to €2 million in the reporting period (previous year: €1 million) and related primarily to capitalized development costs. The underlying cost of debt was 1.6%.

13. Other financial result

Reporting period January 1 to December 31

€ million	2019	2018
Other income from equity investments	67	190
Other expenses from equity investments	0	–24
Income and expense from profit and loss transfer agreements	0	1
Realized income and expense of loan receivables and payables in foreign currency	102	79
Gains/losses from remeasurement of financial instruments	4	–213
Gains/losses from changes in the fair value of derivatives not included in hedge accounting	–130	–27
	43	**6**

Other income from equity investments in 2019 contains the reversal of the impairment loss on the investment in RMMV in the amount of €67 million and, in the prior-year period, the reversal of the impairment loss on the investment in Sinotruk (see disclosure on "Equity-method investments").

In fiscal year 2019, gains from remeasurement of financial instruments did not contain any expenses or income from the measurement of put options and compensation rights granted to noncontrolling interest shareholders (in the prior-year period: expenses of €142 million). The fair value changes from derivatives not included in hedge accounting and largely offset the currency translation effects on net debt in both items.

14. Income taxes

COMPONENTS OF TAX INCOME AND EXPENSE

€ million	2019	2018
Current tax expense (+)/income (–), Germany	–70	–3
Current tax expense (+)/income (–), outside Germany	438	452
Current income tax expense	**368**	**449**
of which prior-period expense (+)/income (–)	–86	–37
Deferred tax expense (+)/income (–), Germany	42	–37
Deferred tax expense (+)/income (–), outside Germany	–9	3
Deferred tax expense (+)/income (–)	**33**	**–34**
Income taxes	**401**	**415**

The statutory corporate income tax rate in Germany for the 2019 assessment period was 15%. Including trade tax and the solidarity surcharge, this produces an aggregate tax rate of 29.8% (previous year: 29.9%).

The measurement of deferred taxes in the German consolidated tax group as of December 31, 2019, is based on a tax rate of 33.0% (previous year: 29.8%). The reason for the increase is the expiration of the domination and profit and loss transfer agreements with Volkswagen AG effective the end of December 31, 2019, and the related termination of the consolidated tax group with Volkswagen AG.

The local income tax rates applied to foreign companies vary between 0 and 40%. In cases of split tax rates, the tax rate applicable to undistributed profits is applied. The deferred tax expense/income resulting from changes in tax rates amounted to €2 million at Group level in 2019 (previous year: €–20 million).

The realization of tax loss carryforwards from previous years reduced current income taxes in fiscal 2019 by €10 million (previous year: €6 million).

Previously unrecognized tax losses and credits contributed to a €0 million reduction in deferred tax expense in 2019 (previous year: €37 million).

TAX LOSS CARRYFORWARDS

€ million	12/31/2019	12/31/2018
Available for an indefinite period	1,793	1,654
Limit on utilization within the next 10 years	169	141
Limit on utilization between 11 and 20 years	–	8
Total currently unused tax loss carryforwards	**1,962**	**1,804**
Indefinite tax loss carryforwards	1,632	1,507
Expire within the next 10 years	148	109
Expire between 11 and 20 years	–	–
Total unusable tax loss carryforwards	**1,781**	**1,616**

WRITE-DOWNS OF DEFERRED TAX ASSETS

€ million	12/31/2019	12/31/2018
Deferred tax expense resulting from the write-down of a deferred tax asset	11	77
Deferred tax income resulting from the reversal of a write-down of a deferred tax asset	19	3

Tax credits granted by various countries amounted to €9 million as of December 31, 2019 (previous year: €10 million).

NONRECOGNITION OF DEFERRED TAX ASSETS

€ million	12/31/2019	12/31/2018
for deductible temporary differences	–	–
for tax credits that would expire in the next 20 years	–	–
for tax credits that will not expire	–	–

No deferred tax assets are recognized for retained earnings of €25.3 billion (previous year: €24.7 billion) at foreign subsidiaries because these profits are largely expected to be reinvested in the operations of the companies concerned. As a general rule, distribution would lead to additional income tax expense. Calculation of the aggregate amount of underlying taxable temporary differences for these undistributed foreign profits would lead to undue effort.

Deferred taxes in respect of temporary differences and tax loss carryforwards of €33 million were recognized as of December 31, 2019 (previous year: €18 million) without any offsetting deferred tax liabilities in the same amount. The existing deferred tax assets of the companies in the German consolidated tax group that were recognized due to profits in past periods were included in this analysis. The companies concerned are expecting positive taxable income in the future, following losses in the current or previous fiscal year.

In fiscal year 2019, total deferred taxes of €99 million (previous year: €10 million) were recognized directly in equity. Changes in deferred taxes classified by balance sheet item are presented in the statement of comprehensive income.

DEFERRED TAXES CLASSIFIED BY BALANCE SHEET ITEM

The following recognized deferred tax assets and liabilities were attributable to recognition and measurement differences in the individual balance sheet items and to tax loss carryforwards:

DEFERRED TAX ASSETS

€ million	2019	2018
Intangible assets	4	4
Property, plant, and equipment, and assets leased out	22	25
Noncurrent financial assets	2	1
Inventories	25	24
Receivables and other assets (incl. Financial Services)	153	57
Other current assets	0	0
Pensions and other post-employment benefits	470	365
Liabilities and other provisions	2,124	1,776
Loss allowances on deferred tax assets from temporary differences	–5	0
Temporary differences, net of loss allowances	2,796	2,253
Tax loss carryforwards, net of loss allowances	52	55
Tax credits, net of loss allowances	9	10
Value before consolidation and offset	**2,857**	**2,318**
of which noncurrent	2,115	1,625
Offset	–2,290	–1,789
Consolidation	404	410
Amount recognized	**970**	**939**

DEFERRED TAX LIABILITIES

€ million	2019	2018
Intangible assets	866	817
Property, plant, and equipment, and assets leased out	1,774	1,428
Noncurrent financial assets	19	25
Inventories	38	20
Receivables and other assets (incl. Financial Services)	178	129
Other current assets	0	0
Pensions and other post-employment benefits	0	0
Liabilities and other provisions	177	149
Temporary differences	3,052	2,569
Value before consolidation and offset	**3,052**	**2,569**
of which noncurrent	2,823	2,392
Offset	–2,290	–1,789
Consolidation	25	45
Amount recognized	**787**	**824**

IAS 12 requires deferred tax assets and liabilities to be offset if, and only if, they relate to income taxes levied by the same taxation authority and relate to the same period.

RECONCILIATION OF EXPECTED TO EFFECTIVE INCOME TAX EXPENSE

€ million	2019	2018
Profit before income tax	1,965	1,566
Expected income tax expense (tax rate: 29.8%; previous year: 29.9%)	**586**	**468**
Reconciliation:		
Effect of different tax rates outside Germany	–112	–99
Proportion of taxation relating to:		
tax-exempt income	–98	–106
expenses not deductible for tax purposes	76	151
effects of loss carryforwards and tax credits	12	37
Tax credits	0	–5
Prior-period tax expense	–86	–37
Effect of tax rate changes	2	–20
Nondeductible withholding tax	16	9
Other taxation changes	6	15
Effective income tax expense (+)/income (–)	**401**	**415**
Effective tax rate (in %)	**20**	**26**

15. Earnings per share

€ million	2019	2018
Profit after tax (attributable to shareholders of TRATON SE)	1,518	1,390
of which profit/loss from discontinued operations, net of tax[1]	–2	239
Profit from continuing operations, net of tax (attributable to shareholders of TRATON SE)	**1,520**	**1,151**
Number of shares outstanding	500,000,000	500,000,000
Earnings per share from continuing operations in €	3.04	2.30
Earnings per share from discontinued operations (in €)[1]	0.00	0.48
Total (in €)	**3.04**	**2.78**

1 Noncontrolling interests attributable to discontinued operations

Earnings per share are calculated by dividing consolidated profit after tax from continuing operations attributable to TRATON SE shareholders by the number of shares outstanding after the increase in subscribed capital. TRATON SE's share capital amounts to €500,000,000 and is composed of 500,000,000 (December 31, 2018: 10,000,200) no-par value bearer shares. The capital increase was entered in the commercial register on March 12, 2019, and thus took effect on that date. The prior-year period was adjusted on the basis of the increased number of shares to enhance comparability. Further information is available under "Equity."

The computation of diluted earnings per share is identical to that of basic earnings per share because TRATON SE has not issued any financial instruments that could result in dilutive effects. Dilution may arise in the future if TRATON SE's contingent capital is exercised.

Balance Sheet Disclosures

16. Intangible assets

CHANGES IN INTANGIBLE ASSETS IN THE PERIOD JANUARY 1 TO DECEMBER 31, 2019

€ million	Brand names	Goodwill	Capitalized development costs	Other intangible assets	Total
Cost					
Balance as of 01/01/2019	**1,002**	**3,406**	**4,307**	**1,089**	**9,804**
Currency translation differences	–18	–60	–45	–14	–137
Changes in basis of consolidation	–	–	–	–3	–3
Additions	–	–	467	21	488
Transfers	–	–	–3	13	11
Disposals	–	–	–6	–20	–26
Balance as of 12/31/2019	**983**	**3,347**	**4,722**	**1,086**	**10,137**
Amortization and impairment					
Balance as of 01/01/2019	**53**	**68**	**2,237**	**849**	**3,207**
Currency translation differences	–1	0	–26	–12	–39
Changes in basis of consolidation	–	–	–	–3	–3
Additions to cumulative amortization	–	–	192	51	242
Transfers	–	–	–	0	0
Disposals	–	–	–5	–21	–26
Balance as of 12/31/2019	**52**	**69**	**2,397**	**865**	**3,383**
Carrying amount as of 12/31/2019	**932**	**3,278**	**2,325**	**221**	**6,755**

CHANGES IN INTANGIBLE ASSETS IN THE PERIOD JANUARY 1 TO DECEMBER 31, 2018

€ million	Brand names	Goodwill	Capitalized development costs	Other intangible assets	Total
Cost					
Balance as of 01/01/2018	**1,049**	**3,675**	**4,354**	**1,274**	**10,352**
Currency translation differences	–47	–152	–117	–76	–393
Changes in basis of consolidation	–	0	0	–1	–1
Additions	–	–	483	29	511
Transfers	–	–	–	6	6
Disposals	–	–	–44	–42	–86
Reclassified as assets held for sale[1]	–	–116	–368	–101	–585
Balance as of 12/31/2018	**1,002**	**3,406**	**4,307**	**1,089**	**9,804**
Amortization and impairment					
Balance as of 01/01/2018	**59**	**78**	**2,234**	**962**	**3,333**
Currency translation differences	–6	1	–61	–51	–118
Changes in basis of consolidation	–	0	0	–1	–2
Additions to cumulative amortization	–	–	186	56	242
Additions to cumulative impairment losses	–	–	–	10	10
Transfers	–	–	–	0	0
Disposals	–	–	–18	–42	–60
Reclassified as assets held for sale[1]	–	–10	–105	–84	–198
Balance as of 12/31/2018	**53**	**68**	**2,237**	**849**	**3,207**
Carrying amount as of 12/31/2018	**949**	**3,338**	**2,070**	**239**	**6,597**

1 Primarily attributable to the reclassification of the PE business as “held for sale” in October 2018. The PE business was sold subsequently in December 2018. A minor share is attributable to the reclassification of VGSG as “held for sale” in 2018. VGSG was sold in January 2019, see also “Noncurrent assets held for sale and discontinued operations.”

Other intangible assets comprise in particular licenses, software, similar rights, and customer relationships. Along with capitalized development costs, these are finite-lived assets. Amortization and impairment losses are included in the functional expenses, in particular cost of sales and distribution expenses.

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

The allocation of the brand names and goodwill to the operating units is shown in the following table:

€ million	12/31/2019	12/31/2018
Brand names by operating unit	**932**	**949**
Scania Vehicles & Services	932	949
Goodwill by operating unit	**3,278**	**3,338**
MAN Truck & Bus	222	222
Scania Vehicles and Services	2,699	2,755
Volkswagen Caminhões e Ônibus	357	361

Goodwill and brand names are tested for impairment at least once a year by comparing the carrying amounts of the units to which goodwill or brands are allocated with their value in use. Value in use is determined using the discounted cash flow method. Impairment testing is based on the current five-year planning for the unit concerned. Even if the growth forecast for the perpetuity or the discount rate varies by +/–0.5 percentage points, there is no requirement to recognize an impairment loss for goodwill or brand names.

17. Property, plant, and equipment

CHANGES IN PROPERTY, PLANT, AND EQUIPMENT IN THE PERIOD JANUARY 1 TO DECEMBER 31, 2019

€ million	Land, land rights and buildings, including buildings on third-party land	Technical equipment and machinery	Other equipment, operating and office equipment	Payments on account and assets under construction	Investment property	Total
Cost Balance as of 01/01/2019 (prior to IFRS 16 restatement)	**3,793**	**3,957**	**2,056**	**815**	**49**	**10,670**
Effect of the initial application of IFRS 16	872	0	143	0	–49	966
Cost Balance as of 01/01/2019 (after IFRS 16 restatement)	**4,665**	**3,957**	**2,199**	**815**	**–**	**11,636**
Currency translation differences	–10	–60	–9	4	–	–76
Changes in basis of consolidation	–11	0	–1	0	–	–12
Additions	223	125	300	592	–	1,239
Transfers	79	414	169	–680	–	–17
Disposals	–68	–69	–80	–1	–	–219
Balance as of 12/31/2019	**4,877**	**4,367**	**2,578**	**731**	**–**	**12,553**
Depreciation and impairment Balance as of 01/01/2019 (prior to IFRS 16 restatement)	**1,302**	**2,484**	**1,376**	**2**	**39**	**5,202**
Effect of the initial application of IFRS 16	0	0	0	–	–39	–38
Depreciation and impairment Balance as of 01/01/2019 (after IFRS 16 restatement)	**1,302**	**2,484**	**1,376**	**2**	**–**	**5,163**
Currency translation differences	–9	–35	–7	0	–	–51
Changes in basis of consolidation	–13	0	–1	0	–	–14
Additions to cumulative depreciation	235	330	246	–	–	811
Additions to cumulative impairment losses	1	0	0	0	–	1
Transfers	–1	–1	0	–	–	–1
Disposals	–11	–62	–73	–	–	–146
Reversals of impairment losses	0	0	–	0	–	0
Balance as of 12/31/2019	**1,503**	**2,716**	**1,542**	**2**	**–**	**5,763**
Carrying amount as of 12/31/2019	**3,374**	**1,650**	**1,036**	**729**	**–**	**6,789**

CHANGES IN PROPERTY, PLANT, AND EQUIPMENT IN THE PERIOD JANUARY 1 TO DECEMBER 31, 2018

€ million	Land, land rights and buildings, including buildings on third–party land	Technical equipment and machinery	Other equipment, operating and office equipment	Payments on account and assets under construction	Investment property	Total
Cost						
Balance as of 01/01/2018	**4,144**	**4,797**	**2,297**	**881**	**49**	**12,167**
Currency translation differences	–67	–94	–43	–28	–	–233
Changes in basis of consolidation	0	5	1	–1	–	5
Additions	63	138	171	617	–	989
Transfers	193	211	156	–567	1	–7
Disposals	–32	–144	–96	–4	–1	–278
Reclassified as assets held for sale[1]	–507	–956	–429	–83	–	–1,974
Balance as of 12/31/2018	**3,793**	**3,957**	**2,056**	**815**	**49**	**10,670**
Amortization and impairment						
Balance as of 01/01/2018	**1,501**	**3,008**	**1,614**	**3**	**38**	**6,164**
Currency translation differences	–25	–49	–26	0	–	–99
Changes in basis of consolidation	–1	4	–1	–	–	2
Additions to cumulative amortization	116	315	195	–	0	626
Additions to cumulative impairment losses	22	8	5	0	0	36
Transfers	0	–1	1	–	0	0
Disposals	–26	–136	–85	–	0	–247
Reversals of impairment losses	0	0	–1	–1	–	–2
Reclassified as assets held for sale[1]	–285	–665	–327	–	–	–1,277
Balance as of 12/31/2018	**1,302**	**2,484**	**1,376**	**2**	**39**	**5,202**
Carrying amount as of 12/31/2018	**2,492**	**1,473**	**681**	**814**	**10**	**5,469**
of which assets leased under finance leases Carrying amount as of 12/31/2018	2	1	0	0	–	3

1 Primarily attributable to the reclassification of the PE business as "held for sale" in October 2018. The PE business was sold subsequently in December 2018. A minor share is attributable to the reclassification of VGSG as "held for sale" in 2018. VGSG was sold in January 2019, see also "Noncurrent assets held for sale and discontinued operations."

Starting in 2019, right-of-use assets from rental and lease contracts under IFRS 16 are also presented in property, plant, and equipment. For further information on right-of-use assets, please refer to “The TRATON GROUP as lessee.”

Until the end of fiscal year 2018, investment property contained land and buildings held to earn rentals or for capital appreciation with a fair value of €46 million. This item was reclassified to assets leased out when IFRS 16 was introduced.

The restructuring of the Indian operations of MAN Truck & Bus was initiated in the 3rd quarter of 2018 and completed in the 4th quarter of 2018. In this connection, the value of items of property, plant, and equipment, and in particular land, technical equipment, machinery, and special tools was adjusted. The corresponding impairment losses of €20 million were recognized in cost of sales.

18. Assets leased out

The “Assets leased out” item reports assets for which the TRATON GROUP is the lessor. These include in particular vehicles and real estate marketed in the context of short-term rentals or operating leases, as well as vehicles that continue to be attributable to the TRATON GROUP because of buyback obligations.

The application of IFRS 16 means that investment property is now presented in assets leased out. This item contains land and buildings held to earn rentals or for capital appreciation with a fair value of €45 million (previous year: €46 million). It was presented in property, plant, and equipment in the previous year. Lease income from investment property amounted to €3 million in the reporting period (previous year: €3 million). This real estate was not valued by independent third parties. As a general rule, fair value is calculated using an income capitalization approach based on internal data (Level 3 in the fair value hierarchy). Depreciation and impairment losses are included in the functional expenses.

CHANGES IN ASSETS LEASED OUT IN THE PERIOD JANUARY 1 TO DECEMBER 31, 2019

€ million	Vehicles leased out	Investment property	Other assets leased out	Total
Cost				
Balance as of 01/01/2019 (prior to IFRS 16 restatement)	**8,919**	**–**	**36**	**8,955**
Effect of the initial application of IFRS 16		49	7	56
Cost				
Balance as of 01/01/2019 (after IFRS 16 restatement)	**8,919**	**49**	**43**	**9,011**
Currency translation differences	192	–	–1	191
Changes in basis of consolidation	–	–1	–	–1
Additions	2,924	–	0	2,924
Transfers	6	–	0	6
Disposals	–2,436	0	–	–2,436
Balance as of 12/31/2019	**9,605**	**47**	**43**	**9,695**
Depreciation and impairment				
Balance as of 01/01/2019 (prior to IFRS 16 restatement)	**2,320**	**–**	**36**	**2,356**
Effect of the initial application of IFRS 16	–	39	1	39
Depreciation and impairment				
Balance as of 01/01/2019 (prior to IFRS 16 restatement)	**2,320**	**39**	**37**	**2,395**
Currency translation differences	132	–	–1	131
Additions to cumulative depreciation	1,150	0	0	1,151
Transfers	0	–	1	1
Disposals	–1,098	0	–	–1,098
Reversals of impairment losses	–3	–	–	–3
Balance as of 12/31/2019	**2,500**	**39**	**37**	**2,576**
Carrying amount as of 12/31/2019	**7,105**	**8**	**5**	**7,119**

CHANGES IN ASSETS LEASED OUT IN THE PERIOD JANUARY 1 TO DECEMBER 31, 2018

€ million	Total
Cost	
Balance as of 01/01/2018	**8,474**
Currency translation differences	–149
Changes in basis of consolidation	0
Additions	2,738
Transfers	1
Disposals	–2,109
Balance as of 12/31/2018	**8,955**
Depreciation and impairment	
Balance as of 01/01/2018	**2,370**
Currency translation differences	–135
Changes in basis of consolidation	0
Additions to cumulative depreciation*	1,095
Additions to cumulative impairment losses*	–
Transfers	0
Disposals	–969
Reversals of impairment losses	–5
Balance as of 12/31/2018	**2,356**
Carrying amount as of 12/31/2018	**6,599**

*) Figures were adjusted.

19. Equity-method investments

SINOTRUK

Sinotruk is one of the largest truck manufacturers in the Chinese market. Group companies and Sinotruk have entered into an agreement on a long-term strategic partnership under which the Group participates in the local market. In addition to its cooperation with Sinotruk in the high-volume segment, the TRATON GROUP serves the strongly growing premium truck market by exporting MAN vehicles to China. Sinotruk's principal place of business is in Hong Kong, China.

The impairment loss recognized in previous years on the investment in Sinotruk was reversed as of June 30, 2018, as Sinotruk's business situation had recovered. The reversal for 2018 was recognized in the other financial result (see disclosure on the "Other financial result").

The market price of the Sinotruk shares held by TRATON as of December 31, 2019, was €1,312 million (previous year: €908 million).

Summarized financial information for Sinotruk on a 100% basis and reconciliation to the carrying amounts

Summarized financial information for Sinotruk (on a 100% basis and thus not adjusted for the equity interest held by TRATON) and a reconciliation to the carrying amounts are presented in the following tables:

STATEMENT OF COMPREHENSIVE INCOME

€ million	2019[1]	2018[1]
Sales revenue	8,047	8,047
Profit after tax from continuing operations	627	558
Other comprehensive income	0	0
Total comprehensive income	**627**	**558**
Dividends received[2]	47	53

1 Amounts shown relate to the period from July 1 of the previous year to June 30 of the year in question.

2 As of fiscal year 2019, dividends will be reported net of withholding tax. In 2018, dividends net of withholding tax amounted to €50 million.

BALANCE SHEET

€ million	12/31/2019[1]	12/31/2018[1]
Noncurrent assets	2,351	2,239
Current assets	6,127	6,461
Noncurrent liabilities and provisions	50	54
Current liabilities and provisions	4,669	5,250
Net assets	**3,758**	**3,395**
Reconciliation of the financial information to the carrying amount of the equity-accounted investments		
Net assets	3,758	3,395
Noncontrolling interests	379	347
Net assets attributable to shareholders	3,380	3,048
Interest held by TRATON in %	25	25
Net assets attributable to the TRATON GROUP	**845**	**762**
Impairment losses	–	–
Goodwill, effects of purchase price allocation, currency translation differences, and other changes	–46	–64
Carrying amount as of December 31	**799**	**698**

1 Amounts shown relate to the reporting period ended June 30 of the year in question.

NAVISTAR

NAVISTAR INTERNATIONAL CORPORATION (Navistar) is a U.S. manufacturer of commercial vehicles headquartered in Lisle, Illinois, U.S.A. Master agreements governing strategic technology and supply collaboration and a procurement joint venture have been entered into by Navistar and TRATON GROUP companies.

Due to the appointment of two members of TRATON SE's Executive Board to Navistar's Board of Directors as well as the cooperation agreements, the investment in Navistar is presented in "Equity-method investments" in the consolidated financial statements.

The market price of the Navistar shares held by TRATON as of December 31, 2019, was €429 million (previous year: €377 million).

Summarized financial information for Navistar on a 100% basis and reconciliation to the carrying amounts

Summarized financial information for Navistar (on a 100% basis and thus not adjusted for the equity interest held by TRATON) and a reconciliation to the carrying amounts are presented in the following tables:

STATEMENT OF COMPREHENSIVE INCOME

€ million	2019[1]	2018[1]
Sales revenue	10,004	8,625
Profit after tax from continuing operations	216	310
Other comprehensive income	7	245
Total comprehensive income	**223**	**555**
Dividends received[2]	–	–

1 The income statements for 2018 and 2019 relate to the period November 1 of the previous year to October 31 of the year in question.

2 Dividends net of withholding tax

BALANCE SHEET

€ million	12/31/2019[1]	12/31/2018[1]
Noncurrent assets	1,762	1,846
Current assets	4,441	4,528
Noncurrent liabilities and provisions	6,336	6,478
Current liabilities and provisions	3,206	3,356
Net assets	**–3,339**	**–3,461**
Reconciliation of the financial information to the carrying amount of the equity-accounted investments		
Net assets	–3,339	–3,461
Noncontrolling interests	3	4
Net assets attributable to shareholders	–3,342	–3,465
Interest held by TRATON in %	17	17
Net assets attributable to the TRATON GROUP	**–560**	**–583**
Impairment losses	–	–
Goodwill, effects of purchase price allocation, currency translation differences, anand other changes	1,007	1,013
Carrying amount as of December 31	**447**	**430**

1 Amounts shown relate to the reporting period ended October 31 of the year in question.

Summarized financial information on individually immaterial associates of the TRATON GROUP based on its proportionate interest:
The carrying amounts of other associates amounted to €62 million as of December 31, 2019 (previous year: €43 million). The following table contains summarized financial information on the other associates; the disclosures relate to the Group's share of the investees in all cases:

€ million	2019	2018
Profit after tax from continuing operations	34	20
Profit after tax from discontinued operations	–	–
Other comprehensive income	–2	1
Total comprehensive income	33	21

Effective August 28, 2019, the 49% interest in the Tactical Wheeled Vehicles division of Rheinmetall MAN Military Vehicles GmbH, Munich (RMMV) was sold to Rheinmetall AG for a purchase price of €101 million. In this context, the reason for the total €67 million impairment loss on the equity-method investment in RMMV recognized in fiscal years 2012 and 2013 no longer applied. The €67 million reversal was recognized in the other financial result and is attributable to the Industrial Business segment. The €23 million gain on the disposal of associates is reported in the share of profits and losses of equity-method investments. The TRATON GROUP retains a 49% interest in RMMV's Logistics division.

There were no contingent liabilities to associates.

Summarized financial information on individually immaterial joint ventures of the TRATON GROUP based on its proportionate interest:
The carrying amounts of joint ventures amounted to €57 million as of December 31, 2019 (December 31, 2018: €51 million). The following table contains summarized financial information on the joint ventures; the disclosures relate to the Group's share of the joint ventures in all cases:

€ million	2019	2018
Profit after tax from continuing operations	5	4
Profit after tax from discontinued operations	–	–
Other comprehensive income	–	–
Total comprehensive income	5	4

20. Other equity investments

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

The following table contains financial information about equity investments at fair value through other comprehensive income:

	Fair value		Dividends	
€ million	12/31/2019	12/31/2018	2019	2018
Northvolt AB	9	10	–	–
sennder GmbH	–	9	–	–
Shenzhen Haylion Technologies Co. Ltd.	2	–	–	–
Other investees	3	6	–	0
	14	**25**	**0**	**0**

In fiscal year 2019, the interest in sennder GmbH is no longer presented and measured as an other equity investment, but as an equity-method investment.

21. Financial services receivables

€ million	CARRYING AMOUNT current	non-current	12/31/2019	CARRYING AMOUNT current	non-current	12/31/2018
Receivables from the financing business						
Customer financing	1,108	1,979	3,087	844	1,627	2,471
Dealer financing	393	1	393	343	6	350
	1,501	**1,980**	**3,481**	**1,187**	**1,634**	**2,821**
Receivables from operating leases	5	–	5	2	–	2
Receivables from finance leases	1,614	2,891	4,506	1,499	2,578	4,076
	3,120	**4,871**	**7,991**	**2,688**	**4,212**	**6,900**

Please refer to "The TRATON GROUP as lessor" for further information on leases.

22. Other financial assets

€ million	12/31/2019	12/31/2018
Positive fair value of derivatives	120	146
Receivables from loans (excl. interest)	25	113
Receivables from the profit and loss transfer agreement and the tax allocation procedure with Volkswagen AG	–	4,161
Miscellaneous financial assets	324	2,014
	468	**6,434**

As of December 31, 2018, miscellaneous financial assets contained €1,980 million of consideration receivable from a subsidiary of Volkswagen AG outside the TRATON GROUP relating to the disposal of the Power Engineering business.

As of December 31, 2019, receivables from loans include €7 million (previous year: €104 million) from Volkswagen Group companies.

Derivatives are measured at fair value. They are mainly used to hedge currency risks from customer orders and net liquidity. Further information on derivatives as a whole can be found in "Financial risk management and financial instruments."

Other financial assets are reported as follows:

€ million	12/31/2019	12/31/2018
Other noncurrent financial assets	130	63
Other current financial assets	338	6,371

23. Other receivables

€ million	12/31/2019	12/31/2018
Recoverable taxes	849	785
Miscellaneous receivables	498	817
	1,347	**1,602**

Other receivables are reported in the following balance sheet items. Other current receivables are predominantly noninterest-bearing.

€ million	12/31/2019	12/31/2018
Other noncurrent receivables	384	663
Other current receivables	963	939

24. Inventories

€ million	12/31/2019	12/31/2018
Raw materials, consumables, and supplies	656	548
Work in progress	496	461
Finished goods and purchased merchandise	3,772	3,801
Prepayments	18	13
	4,943	**4,822**

Inventories of €21,469 million (previous year: €19,584 million) were recognized in cost of sales at the same time as the sales revenue. Valuation allowances recognized as expenses in the fiscal year amounted to €80 million (previous year: €137 million). Valuation allowances for 2018 include impairment losses of €21 million in connection with the restructuring of MAN Truck & Bus's activities in India.

25. Trade receivables

€ million	12/31/2019	12/31/2018
Trade receivables from		
Third parties	2,000	2,168
Related parties	144	151
	2,144	**2,319**

€15 million of the trade receivables (previous year: €12 million) is due in more than one year.

26. Marketable securities and investment deposits

The marketable securities and investment deposits serve to safeguard liquidity. Marketable securities and investment deposits are fixed-income securities with short maturity. The item also includes deposits of €3,100 million (previous year: €0 million) as of December 31, 2019, relating to short-term investment deposits at Volkswagen AG. Marketable securities and investment deposits are allocated to the "financial assets at amortized cost" category.

27. Cash and cash equivalents

€ million	12/31/2019	12/31/2018
Cash and bank balances	1,283	1,075
Cash pool receivables from PE companies	417	532
Receivables from Volkswagen Group affiliated companies	213	1,390
	1,913	**2,997**

Most of the receivables from affiliated companies in 2018 were attributable to cash held for payouts relating to the award proceedings for noncontrolling interest shareholders of MAN SE. A small amount was attributable to regular transactions in TRATON's business operations. Receivables from Volkswagen Group companies (demand deposits) decreased by €1,177 million in 2019 due in particular to cash outflows relating to the acquisition of shares of MAN SE tendered to the company (see "Litigation/legal proceedings").

In the purchase agreement for the sale of the PE business, Volkswagen AG committed to settling cash pool receivables from PE companies.

28. Equity

COMPOSITION OF EQUITY

The share capital of TRATON SE amounts to €500,000,000 and is composed of 500,000,000 no-par value bearer shares with a notional value of €1.00 each.

All shares are fully paid up and have the same dividend rights. Under Article 6 (2) sentence 1 of the Articles of Association, shareholders may not claim delivery of physical share certificates.

Changes in share capital in 2019

On February 25, 2019, the Annual General Meeting of TRATON SE resolved to increase the Company's share capital from €10,000,200 to €500,000,000 by converting part of the Company's capital reserves into share capital and issuing 489,999,800 new no-par value bearer shares. The capital increase was entered in the commercial register on March 12, 2019.

On June 4, 2019, the Annual General Meeting of TRATON SE resolved to increase the Company's share capital from €500,000,000 to €16,500,000,000 by converting part of the Company's capital reserves into share capital without issuing any new shares. The capital increase was entered in the commercial register on June 12, 2019.

Also on June 4, 2019, the Annual General Meeting of TRATON SE resolved to reduce the Company's share capital following the effectiveness of the increase to €16,500,000,000 described above, from €16,500,000,000 to €500,000,000, without canceling *(Kraftloserklärung)* any shares. The capital reduction was entered in the commercial register on June 12, 2019.

The number of common shares changed as follows:

Number of common shares	2019	2018
Balance as of January 1	10,000,200	–
Reorganization of the Company as an *Aktiengesellschaft* (stock corporation)	–	10,000,200
Capital increase	489,999,800	–
As of December 31	500,000,000	10,000,200

Authorized capital

Article 5 (3) of the Articles of Association authorizes the Executive Board to increase the Company's share capital on one or several occasions by a total of up to €200,000,000 by issuing up to 200,000,000 bearer shares on a cash or noncash basis on or before May 21, 2024, subject to the Supervisory Board's approval (Authorized Capital 2019). The dividend entitlement of new shares can be determined contrary to the provisions of section 60 (2) of the AktG. Shareholders must be granted preemptive rights unless the Executive Board makes use of one of the following authorizations to disapply preemptive rights, with the consent of the Supervisory Board. The new shares may also be underwritten by a credit institution of an entity operating pursuant to section 53 (1) sentence 1 of the *Kreditwesengesetz* (KWG — German Banking Act) or section 53b (1) sentence 1 or (7) of the KWG (financial institution) to be designated by the Executive Board, or by a consortium of such credit or financial institutions, with the obligation to offer them for sale to shareholders of the Company. The Executive Board is authorized, with the consent of the Supervisory Board, to disapply shareholders' preemptive rights in the following cases:

a) to settle fractions resulting from a capital increase;
b) to the extent necessary to grant holders or creditors of convertible bonds or bonds with warrants, as well as convertible profit participation rights, issued by the Company and/or its direct or indirect majority investees a preemptive right to new shares in the amount to which they would be entitled following the exercise of their options or conversion rights or after meeting their exercise of option or conversion obligations;
c) if the new shares are issued against cash contributions and the issue price of the new shares is not materially lower than the quoted market price of existing listed shares of the Company at the date when the issue price is finally determined, which should be as close as possible to the placement of the shares. However, this authorization to disapply preemptive rights applies only to the extent that the notional amount of the share capital attributable to the shares issued with preemptive rights disapplied in accordance with section 186 (3) sentence 4 of the AktG does not exceed a total of 10% of the share capital, meaning neither the share capital existing when this authorization takes effect, nor the share capital existing at the date when this authorization is exercised. Shares that (i) are sold or issued, with preemptive rights disapplied, during the term of this authorization up to the date of its exercise on the basis of other authorizations in direct application, or application with the necessary modifications, of section 186 (3) sentence 4 of the AktG, or (ii) shares that were issued or will be issued, with preemptive rights disapplied, to settle bonds or profit participation rights with conversion or exercise rights or obligations will be counted toward this limit, to the extent that the bonds or profit participation rights were issued during the term of this authorization up to the date of its exercise, in application, with the necessary modifications, of section 186 (3) sentence 4 of the AktG;

d) to the extent that the capital increase is implemented to grant shares against noncash contributions, in particular for the purposes of acquiring companies, parts of companies, or investments in companies, or other assets.

The Executive Board is also authorized to define the further details of the capital increase and its implementation, with the consent of the Supervisory Board. The Supervisory Board is authorized to amend the version of Article 5 of the Articles of Association following the complete or partial implementation of the capital increase from Authorized Capital 2019 or after the expiration of the authorization period, in line with the scope of the capital increase.

Contingent capital

Under Article 5 (4) of the Articles of Association, the Company's share capital may be increased by up to €50,000,000 on a contingent basis through the issue of up to 50,000,000 bearer shares (no-par-value shares) (Contingent Capital 2019). The sole purpose of Contingent Capital 2019 is to issue new shares to the holders/creditors of bonds which are issued by the Company or by other companies in which the Company directly or indirectly holds a majority interest in accordance with a resolution passed by the shareholders under item 2 of the agenda for the meeting of May 22, 2019, in the event that conversion and/or option rights are exercised or conversion or option exercise obligations are settled or the Company makes use of its right to grant shares in the Company, either in full or in part, in lieu of payment of the respective cash amount. The shares will be issued at the conversion or option price to be determined in accordance with the aforementioned resolution. The contingent capital increase will only be implemented to the extent that conversion rights or options are exercised or conversion or exercise obligations are discharged, or the Company exercises its right to grant shares of the Company, either in part or in full, in lieu of payment of the cash amount due, and to the extent that other instruments are not used to settle the conversion rights or options.

The new shares carry dividend rights from the beginning of the fiscal year in which they are issued. To the extent permitted by law, the Executive Board may, with the consent of the Supervisory Board, determine the dividend rights in derogation of the above and of section 60 (2) of the AktG, including for a fiscal year that has already closed.

The Executive Board is authorized to define the further details of the implementation of the contingent capital increase, with the consent of the Supervisory Board.

Domination and profit and loss transfer agreements

The domination and profit and loss transfer agreement dated February 3, 2004 (as most recently amended on February 25, 2014) between Volkswagen AG and TRATON SE was terminated by law effective the end of December 31, 2019, in accordance with section 307 of the AktG. By virtue of the domination and profit and loss transfer agreements between Volkswagen AG and TRATON, the net income for the 2019 fiscal year amounting to €1,403,932 thousand (previous year: net loss before loss absorption of €4,161,303 thousand) will be transferred to Volkswagen AG. It was decided to release part of the distributable capital reserves within the meaning of section 272 (2) no. 4 of the HGB. The Executive Board proposes that €500 million of the resulting net profit for the 2019 fiscal year be distributed to the shareholders, and the remainder be carried forward. This would give a payout ratio of around 33% of the earnings after tax attributable to TRATON SE shareholders.

The domination and profit and loss transfer agreement dated April 26, 2013, between TRATON SE and MAN SE was terminated effective January 1, 2019.

Capital reserves

TRATON SE's capital reserves of €20,241,380 thousand (previous year: €21,331,380 thousand) constitute the contributions by Volkswagen AG to TRATON SE, in particular from the contribution of MAN SE and Scania AB.

The change in the capital reserves is presented below:

Opening balance as of 01/01/2019 € thousand	21,331,380
Transfer to the free capital reserves in line with the provisions governing ordinary capital reductions	16,000,000
Withdrawal from the free capital reserves	–17,090,000
of which withdrawn	(–600,000)
of which converted into share capital	(–490,000)
of which converted into share capital	(–16,000,000)
Closing balance as of 12/31/2019	**20,241,380**

The entire capital reserves of €20,241,380 thousand are distributable capital reserves within the meaning of section 272 (2) no. 4 of the HGB.

Retained earnings and other comprehensive income

The retained earnings of €–4,150 million reported as of December 31, 2019 (previous year: €–2,064 million) constitute amounts recognized as profit after tax in prior periods. They also contain the difference between the value of MAN SE shares at the date of their contribution to TRATON SE and the recognized carrying amount of the corresponding assets and liabilities. An amount of €3,250 million was transferred to Volkswagen AG in 2019 with the distribution of some of the retained earnings. This was equivalent to €324.99 per share.

As of December 31, 2019, the accumulated other comprehensive income of €–2,727 million (December 31, 2018: €–2,478 million) contains the accumulated amounts of transactions recognized in other comprehensive income, in particular currency translation differences and differences from pension plan remeasurements. Further information can be found in the statement of comprehensive income.

Following the Company's successful IPO, the domination and profit and loss transfer agreement between TRATON SE and Volkswagen AG ended automatically at the end of fiscal year 2019 in accordance with section 307 of the AktG. As a result, TRATON SE will transfer its annual profit (calculated in accordance with German GAAP) to Volkswagen AG for the last time for fiscal year 2019. Further information is available under "Related party disclosures." The Executive Board and Supervisory Board of TRATON SE are also proposing to the Annual General Meeting to be held on May 28, 2020, to pay a dividend of €1.00 per share for fiscal year 2019. This proposal corresponds to a total distribution of €500 million.

NONCONTROLLING INTERESTS

In August 2018, the domination and profit and loss transfer agreement with MAN SE was terminated by way of notice of extraordinary termination effective January 1, 2019. Following the entry of the termination of the domination and profit and loss transfer agreement in the commercial register, the noncontrolling interest shareholders of MAN SE had the right to tender their shares to TRATON SE, pursuant to the provisions of the domination and profit and loss transfer agreement, within a two-month period. This resulted in cash outflows of €1,063 million in the first quarter of 2019 for the acquisition of shares tendered and compensation payments. There was a corresponding reduction in the "Put options/compensation rights granted to noncontrolling interest shareholders" reported in the balance sheet. The put options granted to noncontrolling interest shareholders of MAN SE expired on March 4, 2019. After the deduction of outstanding payments, which are shown in "Other financial liabilities," the remaining liability of €704 million was derecognized and reclassified directly to equity. €230 million of this amount is attributable to noncontrolling interests, representing the carrying amount of MAN's equity not attributable to TRATON SE at the date of reclassification. The residual amount was recorded in retained earnings at a carrying amount of €459 million and in accumulated other comprehensive income at a carrying amount of €14 million.

As of December 31, 2019, noncontrolling interests thus primarily comprise the noncontrolling interest shareholders of MAN SE, Munich. The following table contains further information about the position and course of business of MAN SE in 2019:

€ million	2019
Noncontrolling interests (in %)	**5.64**
Noncurrent assets	13,281
Current assets	5,565
Total assets at December 31	**18,846**
Noncurrent liabilities and provisions	5,414
Current liabilities and provisions	7,384
Total liabilities at December 31	**12,798**
Net assets	**6,048**
Carrying amount of noncontrolling interests	341
Sales revenue	12,663
Profit after tax[1]	712
Other comprehensive income	–348
Total comprehensive income	**363**
Profit after tax attributable to noncontrolling interests	40
Other comprehensive income, net of tax, attributable to noncontrolling interests	–20
Dividends allocated to noncontrolling interests	–
Net cash provided by operating activities[1]	515
Net cash provided by investing activities[1]	1,248
Net cash used in financing activities[1]	–1,741
Changes on cash and cash equivalents recognized in the statement of cash flows	**24**

1 Continuing and discontinued operations

29. Financial liabilities

The details of noncurrent and current financial liabilities are presented in the following table:

€ million	12/31/2019	12/31/2018
Bonds	6,409	4,820
Bank borrowings	3,198	2,770
Cash pool liabilities	570	645
Lease liabilities	1,077	1
Loans and miscellaneous liabilities	1,244	2,577
	12,497	**10,814**

Financial liabilities from bonds mainly relate to European Medium Term Notes (EMTN). Bond issuances in 2019 amounted to €3,082 million (previous year: €2,162 million) and related primarily to EMTNs. They serve the Financial Services segment's financing activities.

Liabilities to banks contain the utilization of committed credit lines of €3,081 million (previous year: €2,612 million) and uncommitted credit lines of €116 million (previous year: €158 million).

Loans and miscellaneous liabilities include loans from Volkswagen AG in the amount of €1,000 million (previous year: €2,293 million).

TRATON's credit facilities include standard change-of-control clauses, under which the counterparty can require repayment if there is any significant change in the ownership structure due to a change of control.

The €1,077 million increase in lease liabilities is attributable to the initial application of IFRS 16. Further information is available in "The TRATON GROUP as lessee."

€ million	12/31/2019	12/31/2018
Noncurrent financial liabilities	5,966	5,449
Current financial liabilities	6,531	5,366

30. Other financial liabilities

€ million	12/31/2019	12/31/2018
Liabilities from buyback obligations	3,634	3,407
Liabilities from the profit and loss transfer agreement and the tax allocation procedure with Volkswagen AG	1,404	0
Negative fair value of derivatives	214	176
Interest rate liabilities	61	87
Miscellaneous financial liabilities	128	283
	5,441	**3,953**

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

Other financial liabilities include negative fair value of derivatives. Because these instruments are used mainly to hedge currency risk in customer orders and net liquidity, they are matched by offsetting gains and losses of the underlyings. Further information on derivatives as a whole can be found in “Financial risk management and financial instruments.”

For information on liabilities under the profit and loss transfer agreement, please refer to the “Domination and profit and loss transfer agreements” disclosures in the “Equity” section of the notes, and to the related party disclosures.

Other financial liabilities are reported in the following balance sheet items:

€ million	12/31/2019	12/31/2018
Other noncurrent financial liabilities	2,604	2,333
Other current financial liabilities	2,837	1,620

Further information on derivatives as a whole can be found in the disclosures on “Financial risk management and financial instruments.”

31. Other liabilities

€ million	12/31/2019	12/31/2018
Deferred purchase price payments for assets leased out	2,526	2,289
Contract liabilities	1,232	1,124
Payroll liabilities	746	724
Miscellaneous tax payables	369	389
Liabilities related to social security contributions	179	161
Miscellaneous other liabilities	607	356
	5,660	**5,043**

The increase in other liabilities in 2019 is due primarily to an increase in liabilities from buyback transactions.

Other liabilities are reported in the following balance sheet items:

€ million	12/31/2019	12/31/2018
Other noncurrent liabilities	2,034	1,780
Other current liabilities	3,626	3,263

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

€ million	2019	2018
Contract liabilities at January 1	**1,124**	**1,716**
Additions and disposals	86	91
Currency translation adjustments	22	–18
Changes in basis of consolidation	–	–665
Contract liabilities at December 31	**1,232**	**1,124**

32. Provisions for pensions and other post-employment benefits

Depending on the situation in specific countries, the TRATON GROUP grants its employees pension benefits in the form of defined benefit or defined contribution pension plans.

DEFINED CONTRIBUTION PLANS IN THE TRATON GROUP

Under defined contribution plans, contributions are paid to public or private pension providers on the basis of legislative or contractual requirements. There are no benefit obligations over and above the payment of contributions. Current contribution payments are recognized as an expense in the period in which they are incurred; in the TRATON GROUP, they amounted to a total of €330 million in 2019 (previous year: €276 million). In addition to the contributions to the statutory pension insurance system in Germany, these primarily relate to Swedish defined contribution pension plans and defined benefit multi-employer pension plans that are accounted for as defined contribution pension plans (see “Multi-employer plans”).

MULTI-EMPLOYER PLANS

There are multi-employer pension plans in the TRATON GROUP in Sweden, Switzerland, and the Netherlands. These plans are mostly defined benefit plans.

A small proportion of these multi-employer pension plans are accounted for as defined contribution plans because the TRATON GROUP is unable to obtain the information required to account for them as defined benefit plans. This applies to the Dutch pension funds Pensioenfonds Metaal en Techniek and Bedrijfstakpensioenfonds Metal Elektro, which are administered by MN Services, and to part of the Swedish ITP occupational pensions, which are administered by Alecta, a pensions insurer. Alecta’s insurance obligations are calculated using actuarial techniques and assumptions. These techniques and assumptions are different to those required by IAS 19 for measuring defined benefit pension plans.

No probable material risks are known from the multi-employer defined benefit pension plans that are accounted for as defined contribution plans.

The contributions to these plans expected for fiscal year 2020 amount to €25 million. Under the terms of the multi-employer plans, the TRATON GROUP only has a very limited liability for the obligations of the other employers. In the case of the defined benefit plans accounted for as defined contribution plans, the TRATON GROUP's share of the obligations represents a small proportion of the total obligations.

DEFINED BENEFIT PLANS IN THE TRATON GROUP

For the period after their active working life, the TRATON GROUP offers its employees benefits under attractive, modern occupational pension arrangements. Most of the pension entitlements in the TRATON GROUP are classified as defined benefit plans under IAS 19, which are funded by external plan assets to a considerable extent.

The significant pension plans are described in the following.

SCANIA'S PLANS IN SWEDEN

Scania's employees in Sweden are covered through post-employment benefit plans that offer benefits in the form of retirement pensions, early retirement pensions, surviving dependents' pensions, healthcare, and severance payments.

Employees born before 1979 are covered by the defined benefit ITP2 pension plan, which is funded by recognized provisions and, since 2019, also partly by plan assets, and is secured by credit insurance taken out with Försäkringsbolaget PRI Pensionsgaranti, a mutual insurance company that also administers the plan. In 2019, a foundation *(Pensionsstiftelse)* was established for external funding of the plan assets. The first contribution was made in the third quarter of 2019. The fair value of plan assets was €95 million as of December 31, 2019. Another part of ITP2 is secured by contributions to Alecta, a pensions insurer (see "Multi-employer plans").

In addition to these obligations, there are also defined benefit obligations for employees taking early retirement who have reached the age of 62 and were employed by the company for 30 years, or who have reached the age of 63 and were employed by the company for 25 years, as well as for a limited number of former executives.

For obligations that are funded entirely by recognized provisions, the company bears the risks associated with lifelong pension benefits.

TRATON AND MAN PLANS IN GERMANY

Once their active working life is over, TRATON SE and the German companies of the MAN Group grant their employees in Germany benefits provided by a modern, attractive occupational pension system that constitute one of the key elements of its remuneration policy. Occupational pensions provide reliable additional retirement benefits as well as risk protection in the event of invalidity or death.

Under the current pension plans, all active employees receive employer contributions that are tied to their remuneration and can also make additional provision through deferred compensation — which is employer-subsidized for staff subject to collective bargaining agreements. The employer- and employee-funded contributions plus returns on capital market investments allow staff to accumulate plan assets during their active employment that are paid out as a lump sum or in installments on retirement, or that can be annuitized in certain cases. The risk of the investments is gradually reduced as employees get older (lifecycle concept). The performance of the plan assets is based on the return on capital investments. In line with the legislative requirements, the total amount of contributions paid in for the employee is paid out as a minimum when the employee retires.

Former employees, pensioners, or employees with vested benefits who have left also have benefit entitlements from discontinued pension plans, which are designed to provide lifelong pension payments. These commitments are exposed to the standard longevity and inflation risks, which are regularly monitored and assessed.

MAN's German pension assets are managed by MAN Pension Trust e.V. and Willis Towers Watson Pensionsfonds AG. These assets are irrevocably protected from recourse by the Group companies and may only be used to fund current pension benefit payments or to settle claims by employees in the event of insolvency. Proper management and utilization of the trust assets is supervised by independent trustees. Additionally, Willis Towers Watson Pensionsfonds AG is regulated by the *Bundesanstalt für Finanzdienstleistungsaufsicht* (BaFin — German Federal Financial Supervisory Authority).

The pension assets are invested by professional investment managers in accordance with investment rules laid down by MAN's Investment Committee. Strategic allocation of the pension assets is based on regular asset/liability management studies.

There is a general prohibition on acquiring securities issued by companies in the Volkswagen Group and on investing in real estate used by MAN Group companies.

PLANS IN OTHER COUNTRIES

Employees in the United Kingdom, Switzerland, and Brazil receive pension benefits under defined benefit funded pension plans.

The pension plans granting lifelong pensions in the United Kingdom have been closed to new entrants, and existing members cannot acquire additional entitlements. Trustee boards, which have appointed professional administrators and advisers, are responsible for administering the pension plans, including investing the assets. Regular asset/liability management studies form the basis of investment and risk management. The investment risk at MAN is being gradually reduced as part of a defined derisking strategy as funding ratios improve.

Employees in Switzerland accrue entitlements through employer and employee contributions to multi-employer (MAN) or occupational pension providers (Scania) that are converted into a lifelong pension at retirement at the terms in force at that time. The pension institutions are managed conservatively on the basis of standards imposed by the government. If the plan assets are insufficient to meet the pension entitlements because of adverse market developments, the member employers and their employees may be required to make "stabilization contributions."

Employees in Brazil are entitled to benefits under defined benefit pension plans funded largely by plan assets and have entitlements under healthcare plans funded by provisions.

Furthermore, other countries have pension plans with a low level of benefits or grant mandatory post-employment benefits. Some of these benefits are funded by plan assets, either in full (the Netherlands) or in part (Belgium, France, India), or only funded by provisions (Austria, Turkey, Poland, Italy).

The following amounts were recognized in the balance sheet for defined benefit plans:

€ million	12/31/2019	12/31/2018
Present value of funded obligations	3,261	1,996
Fair value of plan assets	1,888	1,647
Funded status (net)	1,373	349
Present value of unfunded obligations	390	1,139
Not recognized as an asset because of the ceiling in IAS 19	1	4
Net liabilities recognized in the balance sheet	**1,765**	**1,493**
of which pension provisions	1,769	1,506
of which other assets	4	14

Measurement of the pension provisions was based on the following actuarial assumptions:

	Germany		Sweden		Other countries	
%	2019	2018	2019	2018	2019	2018
Discount rate as of December 31	0.90	1.71	1.50	2.50	2.00	2.98
Payroll trend	3.66	3.47	2.50	2.75	1.25	1.16
Pension trend	1.50	1.50	1.80	2.00	0.90	0.99
Staff turnover rate	4.22	4.27	4.80	6.60	2.94	3.13

These amounts are averages that were weighted using the present value of the defined benefit obligation. With regard to longevity, the most recent mortality tables in each country are used. As a general principle, the discount rates are defined to reflect the yields on highly-rated (AA) corporate bonds with matching maturities and currencies. The payroll trends cover expected wage and salary trends, which also include increases due to career development. The pension trends either reflect the contractually defined guaranteed pension adjustments or are based on the rules on pension adjustments in force in each country. The employee turnover rates are based on past experience and future expectations.

The following table shows changes in the net defined benefit liability recognized in the balance sheet:

€ million	2019	2018
Net liability recognized in the balance sheet at January 1	**1,493**	**1,528**
Current service cost	98	118
Net interest expense	37	36
Actuarial gains (–)/losses (+) arising from changes in demographic assumptions	2	–15
Actuarial gains (–)/losses (+) arising from changes in financial assumptions	402	–20
Actuarial gains (–)/losses (+) arising from experience adjustments	67	16
Income/expense from plan assets not included in interest income	–122	85
Change in amount not recognized as an asset because of the ceiling in IAS 19	–3	3
Employer contributions to the fund	–140	–45
Employee contributions to the fund	6	9
Pension payments from company assets	–50	–47
Pension payments from the fund	–2	0
Past service cost (including plan curtailments)	–1	–16
Gains (–) or losses (+) arising from plan settlements	0	0
Changes in basis of consolidation	–3	–124
Other changes	–1	3
Currency translation differences from foreign plans	–18	–38
Net liability recognized in the balance sheet at December 31	**1,765**	**1,493**

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

€ million	2019	2018
Present value of obligations at January 1	**3,135**	**4,297**
Current service cost	98	118
Interest cost	67	83
Actuarial gains (–)/losses (+) arising from changes in demographic assumptions	2	–15
Actuarial gains (–)/losses (+) arising from changes in financial assumptions	402	–20
Actuarial gains (–)/losses (+) arising from experience adjustments	67	16
Employee contributions to the fund	8	17
Pension payments from company assets	–50	–47
Pension payments from the fund	–72	–88
Past service cost (including plan curtailments)	–1	–16
Gains (–) or losses (+) arising from plan settlements	0	–1
Changes in basis of consolidation	–7	–1,134
Other changes	–1	–46
Currency translation differences from foreign plans	3	–29
Present value of obligations at December 31	**3,651**	**3,135**

The reduction due to changes in the basis of consolidation in 2018 is attributable to the sale of the PE business.

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

		12/31/2019		12/31/2018	
Present value of defined benefit obligation if		**€ million**	**Change in %**	**€ million**	**Change in %**
Discount rate	is 0.5 percentage points higher	3,388	–7.20	2,921	–6.83
	is 0.5 percentage points lower	3,950	8.19	3,378	7.74
Pension trend	is 0.5 percentage points higher	3,804	4.19	3,279	4.57
	is 0.5 percentage points lower	3,527	–3.39	3,004	–4.19
Payroll trend	is 0.5 percentage points higher	3,742	2.49	3,232	3.09
	is 0.5 percentage points lower	3,570	–2.21	3,063	–2.32
Longevity	increases by one year	3,776	3.43	3,224	2.82

The sensitivity analysis shown above considers the change in one assumption at a time, leaving the other assumptions unchanged versus the original calculation, i.e., any correlation effects between the individual assumptions are ignored. To examine the sensitivity of the present value of the defined benefit obligation to a change in assumed life expectancy, the age of the beneficiaries was reduced by one year as part of a comparative calculation. The average duration of the defined benefit obligation weighted by the present value of the defined benefit obligation (Macaulay duration) is 16 years (previous year: 15 years).

The maturity profile of payments attributable to the defined benefit obligations is presented in the following table by classifying the present value of the obligations by the maturity of the underlying payments:

€ million	12/31/2019	12/31/2018
Payments due within the next fiscal year	101	111
Payments due in two to five years	461	432
Payments due in more than five years	3,089	2,592
	3,651	**3,135**

Changes in plan assets are shown in the following table:

€ million	2019	2018
Fair value of plan assets at January 1	**1,647**	**2,770**
Interest income on plan assets determined using the discount rate	30	47
Income/expense from plan assets not included in interest income	122	–85
Employer contributions to the fund	140	45
Employee contributions to the fund	2	8
Pension payments from the fund	–70	–88
Gains (+) or losses (–) arising from plan settlements	–	0
Changes in basis of consolidation	–5	–1,010
Other changes	0	–49
Currency translation differences from foreign plans	21	10
Fair value of plan assets at December 31	**1,888**	**1,647**

The reduction due to changes in the basis of consolidation in 2018 is attributable to the sale of the PE business.

Employer contributions to plan assets are expected to amount to €117 million in the next year (previous year: €53 million).

Plan assets are invested in the following asset classes:

	12/31/2019			12/31/2018		
€ million	Quoted prices in active markets	No quoted prices in active markets	Total	Quoted prices in active markets	No quoted prices in active markets	Total
Cash and cash equivalents	44	–	44	52	2	54
Equity instruments	119	–	119	45	–	45
Debt instruments	74	5	79	168	4	172
Direct investments in real estate	–	4	4	11	4	15
Equity funds	474	1	474	375	–	375
Bond funds	587	0	587	441	–	441
Real estate funds	92	–	92	76	–	76
Other funds	11	19	30	24	0	24
Other instruments	13	445	458	29	418	446
Fair value of plan assets	**1,414**	**474**	**1,888**	**1,220**	**428**	**1,647**

26% (previous year: 29%) of the plan assets are invested in Germany, 49% (previous year: 50%) in other European countries, and 25% (previous year: 21%) in other regions.

Plan assets as of December 31, 2019, include investments of €9 million within the TRATON GROUP, of which €5 million is attributable to financial positions and €4 million to nonfinancial positions (previous year: €7 million, of which €4 million attributable to financial and €4 million to nonfinancial positions).

Changes in the effects of the asset ceiling are as follows:

€ million	2019	2018
Effects of the asset ceiling at January 1	**4**	**1**
Interest expense	0	0
Change in amount not recognized as an asset because of the ceiling in IAS 19	–3	3
Currency translation differences from foreign plans	0	0
Effects of the asset ceiling at December 31	**1**	**4**

The following amounts were recognized in the income statement:

€ million	2019	2018
Current service cost	–98	–89
Net interest expense	–37	–34
Past service cost (including plan curtailments)	1	8
Gains (+)/losses (–) arising from plan settlements	0	0
Balance of expenses (–) and income (+) recognized in the income statement	**–134**	**–115**

The above amounts are generally contained in the personnel costs of the functions. Net interest on the net defined benefit liability is reported in interest expense.

33. Other provisions

€ million	Obligations arising from sales	Employee expenses	Litigation and legal risks	Miscellaneous provisions	Total
Balance as of 01/01/2019	**1,056**	**184**	**415**	**467**	**2,122**
Currency translation differences	2	–1	–6	–2	–6
Changes in basis of consolidation	–	–1	–	0	–1
Utilization	–392	–47	–19	–167	–624
Additions/new provisions	543	85	60	159	847
Unwinding of discount/effect of change in discount rate	–5	1	–	0	–4
Reversals	–129	0	–10	–99	–239
Balance as of 12/31/2019	**1,076**	**222**	**440**	**358**	**2,094**
of which current	574	58	16	222	869
of which noncurrent	502	164	424	135	1,225

Obligations arising from sales contain provisions that cover all risks attributable to the sale of vehicles and spare parts. These primarily relate to provisions for warranties and statutory or contractual guarantee obligations. The timing of the settlement of provisions for warranties depends on the timing of the warranty claim. They also include provisions for discounts, bonuses, and similar allowances incurred after the reporting date, but for which there is a legal or constructive obligation attributable to sales revenue before the reporting date.

Provisions for employee expenses are recognized for long-service awards, partial retirement arrangements, severance payments, and similar obligations, among other things.

Provisions for litigation and legal risks are largely the result of the antitrust proceedings that the European Commission launched against European truck manufacturers in 2011. In addition, the provisions for litigation and legal risks contain amounts related to a large number of legal disputes and official proceedings in which TRATON GROUP companies become involved in Germany and internationally in the course of their operating activities. In particular, such legal disputes and other proceedings may occur in relation to suppliers, dealers, customers, and employees. Further information about legal risks and antitrust proceedings can be found in “Litigation/legal proceedings.”

Miscellaneous provisions relate to a large number of identifiable specific risks and uncertain obligations arising from operating activities that are measured at the expected settlement amount. Miscellaneous provisions also contain provisions for litigation in connection with indirect and other taxes. As of December 31, 2019, they additionally contain restructuring provisions of €6 million (previous year: €38 million).

34. The TRATON GROUP as lessee

The TRATON GROUP acts as a lessee in many areas of the Company. These transactions primarily relate to leases of real estate, office equipment, passenger cars, and other production resources. The leases are individually negotiated and feature a wide range of contractual terms. Right-of-use assets from leases are reported in property, plant, and equipment in the balance sheet and changed as follows:

€ million	Right-of-use assets contained in land, land rights, and buildings, including buildings in third-party land	Right-of-use assets contained in technical equipment and machinery	Right-of-use assets contained in other equipment, operating and office equipment	Total right-of-use assets
Cost				
Balance as of 01/01/2019	**881**	**0**	**144**	**1,025**
Currency translation differences	4	0	0	4
Changes in basis of consolidation	2	–	0	2
Additions	171	0	92	264
Disposals	–46	0	–5	–51
Balance as of 12/31/2019	**1,013**	**1**	**230**	**1,243**
Depreciation and impairment				
Balance as of 01/01/2019	**0**	**–**	**1**	**2**
Currency translation differences	0	0	0	1
Changes in basis of consolidation	1	–	0	1
Additions to cumulative depreciation	127	0	69	197
Disposals	–3	0	–3	–5
Balance as of 12/31/2019	**126**	**0**	**68**	**195**
Carrying amount as of 12/31/2019	**886**	**1**	**162**	**1,049**

The TRATON GROUP uses a best estimate of the exercise of extension and termination options to assess the lease term underlying the lease liability. This estimate is updated if there is any material change in the conditions governing the estimate or a contract modification. The following tables show the allocation of lease liabilities in the balance sheet and provide an overview of the contractual maturities of those liabilities:

€ million	12/31/2019	01/01/2019
Noncurrent financial liabilities	877	883
Current financial liabilities	200	152

Taking into account future interest payable, the maturity structure of the lease liabilities is as follows:

	Contractual maturities			
€ million	Up to one year	1 to 5 years	More than 5 years	Total
Lease liabilities	232	593	462	1,287

Interest expenses of €37 million were incurred for lease liabilities in the reporting period.

No right-of-use assets are recognized for low-value and short-term leases. Expenses for low-value underlying assets amounted to €45 million in the reporting period. This figure does not include any expenses for short-term leases, which amounted to a total of €31 million in the reporting period.

Overall, leases resulted in aggregate cash outflows of €287 million in the reporting period.

The following table shows an overview of potential future cash outflows from leases that were not included in the measurement of lease liabilities:

€ million	12/31/2019
Potential future cash outflows due to	
Extension options	496
Termination options	0
Leases not yet commenced (contractual obligation)	58

Expenses of €288 million were recognized in the prior-year period for minimum lease payments for assets leased through operating leases. Among other things, these related to lease expenses for buildings. In addition, expenses of €4 million were recognized in the prior-year period for contingent lease payments.

35. The TRATON GROUP as lessor

The TRATON GROUP acts as a lessor in both finance and operating leases. These transactions mainly relate to commercial vehicles, as well as land and buildings, and technical equipment and machinery. Vehicles sold with a buyback obligation are also accounted for as operating leases. The sale price obtained on sale of the vehicle is recognized ratably in profit or loss over the term of the lease, net of the present value of the buyback price. The underlying asset continues to be recognized in the balance sheet.

OPERATING LEASES

The following payments are expected in the years shown from outstanding undiscounted lease payments arising from operating leases:

€ million	2020	2021	2022	2023	2024	From 2025	Total
Lease payments	413	310	201	103	43	29	1,099

The following cash flows were expected from noncancelable leases and rental agreements in the previous year:

€ million	2018
Lease payments	
due within one year	359
due between one and five years	525
due in more than five years	9
	893

Income from operating leases is classified as follows in 2019:

€ million	2019
Lease income	1,270
Income from variable lease payments	0
Income from operating leases	**1,270**

Changes in the underlying assets in operating leases are described in "Assets leased out."

FINANCE LEASES

Finance lease receivables relate to commercial vehicle leases and are recognized at the net investment in the lease. They are reported in financial services receivables. The €430 million increase in the net investment in leases is attributable to the good business performance of the Financial Services segment.

The TRATON GROUP takes into account the entire default risk associated with lease receivables by recognizing specific loss allowances and portfolio-based loss allowances in accordance with the requirements of IFRS 9.

Interest income from the net investment in the leases amounted to €205 million and is reported in sales revenue.

RECONCILIATION OF LEASE PAYMENTS FROM FINANCE LEASES

€ million	12/31/2019
Undiscounted lease payments	**4,917**
Unearned interest income	–331
Net investment in the lease	**4,586**
Loss allowance for lease receivables	–80
Carrying amount	**4,506**

The following payments are expected in the years shown from expected outstanding undiscounted lease payments arising from finance leases:

€ million	2020	2021	2022	2023	2024	From 2025	Total
Lease payments	1,812	1,325	924	531	226	99	**4,917**

In the previous year, the following payments were expected over the years shown and reconciled to the carrying amount as shown below:

€ million	2019	2020–2023	From 2024	Total
Future receipts from finance leases	1,654	2,670	62	4,386
Unearned finance income (discounted)	–155	–152	–1	–309
Present value of outstanding minimum lease payments at the reporting date	**1,499**	**2,517**	**61**	**4,076**

36. Statement of cash flows

Cash flows are presented in the statement of cash flows, classified into cash flows from operating activities, investing activities, and financing activities.

The change in cash and cash equivalents attributable to changes in exchange rates is presented in a separate line item. Cash flows from operating activities are calculated using the indirect method. Profit before tax is adjusted to eliminate noncash expenses (primarily depreciation, amortization, and impairment losses) and income, as well as gains and losses from asset disposals. Other noncash income and expenses result chiefly from measurement effects relating to financial instruments and fair value changes relating to derivatives (see “Other financial result”). After accounting for changes in working capital, in which changes in assets leased out and changes in financial services receivables are also reported, this results in cash flows from operating activities.

Starting in fiscal year 2019, reversals of impairment losses on equity-method investments are presented in “Reversals and impairment losses on equity investments.” In the previous year, they were contained in “Share of the result of equity-method investments.” The prior-year period was adjusted to conform to the new presentation, because this corresponds to the presentation in the income statement.

Investing activities include additions to property, plant, and equipment and equity investments, additions to capitalized development costs, and investments in securities and loans. Payments received from these positions are offset. Payments from the disposal of subsidiaries are reported net of cash disposed at the date of disposal.

In addition to outflows and inflows of funds from profit transfers to and loss absorption by Volkswagen AG, financing activities also include inflows from capital increases and the issuance of bonds, as well as outflows from the repayment of bonds and changes in miscellaneous financial liabilities.

Cash and cash equivalents in the statement of cash flows contain bank balances and highly liquid financial investments of a temporary nature that are exposed to no more than minor risks of fluctuation in value. Current account overdraft facilities are not presented as a component of cash and cash equivalents in the statement of cash flows, but are reported in net cash used in/provided by financing activities if they are used.

In 2019, cash flows from operating activities contained interest received of €467 million (previous year: €400 million) and interest paid of €433 million (previous year: €275 million). Cash flows from operating activities in 2019 also contained dividends received from joint ventures and associates amounting to €65 million (previous year: €54 million). No dividends from financial investments and other equity investments were received in 2019. These receipts amounted to less than €1 million in 2018.

Based on the existing domination and profit and loss transfer agreement between Volkswagen AG and TRATON SE, the 2018 loss of €4,161 million was absorbed in 2019 (the 2017 loss of €28 million was absorbed in 2018).

The following reconciliation shows the changes in financial liabilities, classified by changes affecting cash flows and noncash changes.

Further Information

€ million	01/01/2019 (prior to IFRS 16 restatement)	Effect of the initial application of IFRS 16	01/01/2019 (after IFRS 16 restatement)	Changes affecting cash flows	Noncash changes: Foreign exchange differences	Noncash changes: Changes in basis of consolidation	Noncash changes: Other changes	12/31/2019
Bonds	4,820	–	4,820	1,618	–29	–	–	6,409
Other total third-party borrowings	5,993	–	5,993	–971	–14	3	–	5,012
Lease liabilities[1]	1	1,034	1,035	–181	3	2	218	1,077
Total third-party borrowings	**10,814**	**1,034**	**11,848**	**466**	**–40**	**5**	**218**	**12,497**
Put options/compensation rights granted to noncontrolling interest shareholders[2]	1,827	–	1,827	–1,109	–	–	–718	–
Other financial assets and liabilities	18	–	18	–87	0	–	158	89
Financial assets and liabilities in financing activities	**12,659**	**1,034**	**13,693**	**–729**	**–40**	**5**	**–343**	**12,586**

1 Other changes in lease liabilities largely contain noncash additions of lease liabilities.

2 Other changes in put options/compensation rights granted to noncontrolling interest shareholders largely contain the reclassification of the residual liability to equity after the put options granted expired on March 4, 2019.

€ million	01/01/2018	Changes affecting cash flows – continuing operations	Changes affecting cash flows – discontinued operations	Noncash changes: Foreign exchange differences	Noncash changes: Changes in basis of consolidation	Noncash changes: Other changes	12/31/2018
Bonds	3,448	1,442	–	–70	–	–	4,820
Other total third-party borrowings	5,520	–126	–6	–152	757	0	5,993
Lease liabilities	3	1	0	0	–	–3	1
Total third-party borrowings	**8,971**	**1,317**	**–6**	**–223**	**757**	**–3**	**10,814**
Put options/compensation rights granted to noncontrolling interest shareholders	3,795	–2,132	–	–	–	164	1,827
Other financial assets and liabilities	81	–72	0	9	–	–	18
Financial assets and liabilities in financing activities	**12,847**	**–886**	**–6**	**–214**	**757**	**161**	**12,659**

37. Additional financial instruments disclosures in accordance with IFRS 7

CLASSES OF FINANCIAL INSTRUMENTS

Financial instruments are divided into the following classes in the TRATON GROUP:

- financial instruments at fair value,
- financial instruments at amortized cost,
- derivative financial instruments included in hedge accounting, and
- financial instruments not allocated to any measurement category.

In addition to investments in associates and joint ventures, starting in fiscal year 2019 financial instruments not allocated to any measurement category also include lease receivables (2018: current receivables of €1,501 million and noncurrent receivables of €2,578 million) and liabilities (2018: current liabilities of €1 million and noncurrent liabilities of €1 million). In the previous year, these were still reported as financial instruments at amortized cost. The prior-year presentation was adjusted accordingly to enhance comparability.

NET GAINS OR LOSSES ON FINANCIAL INSTRUMENTS BY MEASUREMENT CATEGORIES

€ million	2019	2018
Net gains and losses:		
Financial instruments at fair value through profit or loss	–258	–62
Financial assets at amortized cost	435	444
Financial liabilities at amortized cost	–367	–636
Assets at fair value through other comprehensive income (equity instruments)	–	1

€ million	2019	2018
Gains on derecognition of financial assets at amortized cost	5	3
Losses on derecognition of financial assets at amortized cost	–35	–20
Gains/losses on derecognition of financial assets at amortized cost	**–30**	**–17**

Net gains and losses on financial assets and liabilities at fair value through profit or loss comprise derivatives not included in a hedging relationship.

Net gains and losses on financial assets and liabilities at amortized cost comprise interest income and expenses measured using the effective interest method under IFRS 9, including currency translation effects. In addition, net gains and losses on financial assets include impairment losses as well as related reversals.

Net gains and losses on financial assets at fair value through other comprehensive income (equity instruments) largely comprise dividend income received from equity investments.

TOTAL INTEREST INCOME AND EXPENSE FROM FINANCIAL INSTRUMENTS NOT MEASURED AT FAIR VALUE THROUGH PROFIT OR LOSS

€ million	2019	2018
Interest income:		
Assets at amortized cost	208	182
Interest expense:		
Liabilities at amortized cost	–205	–234

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

CARRYING AMOUNT OF FINANCIAL INSTRUMENTS BY MEASUREMENT CATEGORIES

€ million	12/31/2019	12/31/2018
Assets at amortized cost	11,063	14,525
Assets at fair value through other comprehensive income (equity instruments)	14	25
Assets at fair value through profit or loss	114	137
Total financial assets	**11,191**	**14,687**
Liabilities at amortized cost	19,120	19,386
Liabilities at fair value through profit or loss	197	158
Total financial liabilities	**19,316**	**19,544**

RECONCILIATION OF BALANCE SHEET ITEMS TO CLASSES OF FINANCIAL INSTRUMENTS

The following table shows the reconciliation of the balance sheet items to the relevant classes of financial instruments, broken down by the carrying amount and fair value of the financial instruments.

The fair value of financial instruments at amortized cost is measured by discounting using a market rate of interest for a similar risk and matching maturity. For reasons of materiality, the fair value of current balance sheet items is generally considered to be their carrying amount.

RECONCILIATION OF BALANCE SHEET ITEMS TO CLASSES OF FINANCIAL INSTRUMENTS AS OF DECEMBER 31, 2019

	Measured at fair value		Measured at amortized cost		Derivative financial instruments within hedge accounting	Not allocated to any measurement category	Balance sheet item as of 12/31/2019
€ million	Recognized in other comprehensive income	Through profit or loss	Carrying amount	Fair value	Carrying amount	Carrying amount	
Noncurrent assets							
Other equity investments	14	–	–	–	–	20	34
Financial services receivables	–	–	1,980	1,992	–	2,891	4,871
Other financial assets	–	50	76	76	4	–	130
Current assets							
Trade receivables	–	–	2,144	2,144	–	–	2,144
Financial services receivables	–	–	1,501	1,501	–	1,619	3,120
Other financial assets	–	64	272	272	2	–	338
Marketable securities and investment deposits	–	–	3,178	3,178	–	–	3,178
Cash and cash equivalents	–	–	1,913	1,913	–	–	1,913
Noncurrent liabilities							
Financial liabilities	–	–	5,090	5,120	–	877	5,966
Other financial liabilities	–	109	2,495	2,495	1	–	2,604
Current liabilities							
Put options/compensation rights granted to noncontrolling interest shareholders	–	–	–	–	–	–	–
Financial liabilities	–	–	6,331	6,331	–	200	6,531
Trade payables	–	–	2,472	2,472	–	–	2,472
Other financial liabilities	–	88	2,732	2,732	17	–	2,837

RECONCILIATION OF BALANCE SHEET ITEMS TO CLASSES OF FINANCIAL INSTRUMENTS AS OF DECEMBER 31, 2018

	Measured at fair value		Measured at amortized cost		Derivative financial instruments within hedge accounting	Not allocated to any measurement category	Balance sheet item as of 12/31/2018
€ million	Recognized in other comprehensive income	Through profit or loss	Carrying amount	Fair value	Carrying amount	Carrying amount	
Noncurrent assets							
Other equity investments	25	–	–	–	–	12	37
Financial services receivables	–	–	1,634	1,601	–	2,578	4,212
Other financial assets	–	28	33	33	3	–	63
Current assets							
Trade receivables	–	–	2,319	2,319	–	–	2,319
Financial services receivables	–	–	1,187	1,187	–	1,501	2,688
Other financial assets	–	109	6,256	6,256	6	–	6,371
Marketable securities and investment deposits	–	–	98	98	–	–	98
Cash and cash equivalents	–	–	2,997	2,997	–	–	2,997
Noncurrent liabilities							
Financial liabilities	–	–	5,448	5,455	–	1	5,449
Other financial liabilities	–	39	2,289	2,289	6	–	2,333
Current liabilities							
Put options/compensation rights granted to noncontrolling interest shareholders	–	–	1,827	1,827	–	–	1,827
Financial liabilities	–	–	5,365	5,365	–	1	5,366
Trade payables	–	–	2,969	2,969	–	–	2,969
Other financial liabilities	–	119	1,488	1,488	12	–	1,620

FINANCIAL ASSETS AND LIABILITIES AT FAIR VALUE BY LEVEL

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:

- Stage 1: quoted prices (unadjusted) in active markets for identical assets and liabilities;
- Stage 2: inputs other than quoted prices included within Level 1 that are observable for the asset or liability, either directly or indirectly;
- Stage 3: inputs for the asset or liability that are not based on observable market data (unobservable inputs).

The fair value of put options/compensation rights granted to noncontrolling interest shareholders is calculated using a present value model based on the cash settlement determined by the Munich Regional Court in the award proceedings, including cash compensation, as well as the minimum statutory interest rate and a risk-adjusted discount rate for a matching maturity. Further information can be found in the section entitled "Litigation/legal proceedings."

Other equity investments at fair value are classified in Level 3. All other financial assets and liabilities at fair value as well as the derivative financial instruments included in hedging relationships are classified in Level 2 of the fair value hierarchy. 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. Other equity investments mainly comprise shares in unlisted companies for which there are no quoted market values as there is no active market. The fair value of these investments is calculated using discounted cash flow models. Due to the small carrying amount of these investments, a change in unobservable inputs would not result in a significantly lower or higher measurement of the instruments' fair value.

The following table shows changes in other equity investments at fair value that are classified in Level 3:

€ million	Other equity investments classified in Level 3
Balance as of January 1, 2018	**13**
Fair value changes recognized in "Fair value measurement of other equity investments and marketable securities, net of tax" in other comprehensive income	–1
Additions	17
Disposals	–3
Balance as of December 31, 2018	**25**
Balance as of January 1, 2019	**25**
Fair value changes recognized in "Fair value measurement of other equity investments and marketable securities, net of tax" in other comprehensive income	–4
Reclassified to equity-method investments	–8
Additions	2
Currency translation differences	–1
Balance as of December 31, 2019	**14**

FAIR VALUES OF THE FINANCIAL ASSETS AND LIABILITIES MEASURED AT AMORTIZED COST BY LEVEL:

€ million	12/31/2019	Level 1	Level 2	Level 3
Financial services receivables	3,493	–	–	3,493
Trade receivables	2,144	–	2,144	–
Other financial assets	348	–	348	0
Marketable securities and investment deposits	3,178	–	3,178	–
Cash and cash equivalents	1,913	1,913	–	–
Fair values of financial assets measured at amortized cost	**11,075**	**1,913**	**5,670**	**3,493**
Put options/compensation rights granted to noncontrolling interest shareholders	–	–	–	–
Trade payables	2,472	–	2,472	–
Financial liabilities	11,451	–	11,451	–
Other financial liabilities	5,227	0	5,227	0
Fair values of financial liabilities measured at amortized cost	**19,150**	**0**	**19,149**	**0**

€ million	12/31/2018	Level 1	Level 2	Level 3
Financial services receivables	2,788	–	–	2,788
Trade receivables	2,319	–	2,319	–
Other financial assets	6,289	0	6,288	0
Marketable securities and investment deposits	98	–	98	–
Cash and cash equivalents	2,997	2,997	–	–
Fair values of financial assets measured at amortized cost	**14,492**	**2,997**	**8,706**	**2,788**
Put options/compensation rights granted to noncontrolling interest shareholders	1,827	–	–	1,827
Trade payables	2,969	–	2,969	–
Financial liabilities	10,820	–	10,817	3
Other financial liabilities	3,777	41	3,736	0
Fair values of financial liabilities measured at amortized cost	**19,392**	**41**	**17,522**	**1,830**

The lease receivables have a carrying amount of €4,511 million (previous year: €4,079 million) and a fair value (fair value hierarchy Level 3) of €4,519 million (previous year: €4,080 million).

The transfers between the levels of the fair value hierarchy are reported at the respective reporting dates. There were no transfers between Level 1, Level 2, and Level 3 in fiscal year 2019.

OFFSETTING FINANCIAL ASSETS AND LIABILITIES

The following tables present information about the effects of offsetting on the consolidated balance sheet and the potential financial effects of offsetting in the case of instruments that are subject to a legally enforceable master netting arrangement or a similar agreement. The gross amounts correspond to the net amounts, because they were not offset in the consolidated balance sheet.

€ million	Net amounts of financial assets presented in the balance sheet	Amounts that are not offset in the balance sheet Financial instruments	Net amount as of 12/31/2019
Derivatives	120	–63	57
Financial services receivables	7,991	–	7,991
Trade receivables	2,144	–	2,144
Marketable securities	3,178	–	3,178
Cash and cash equivalents	1,913	–	1,913
Other financial assets	348	–	348

€ million	Net amounts of financial assets presented in the balance sheet	Amounts that are not offset in the balance sheet Financial instruments	Net amount as of 12/31/2018
Derivatives	146	–62	84
Financial services receivables	6,900	–	6,900
Trade receivables	2,319	–	2,319
Marketable securities	98	–	98
Cash and cash equivalents	2,997	–	2,997
Other financial assets	6,289	–	6,289

€ million	Net amounts of financial liabilities presented in the balance sheet	Amounts that are not offset in the balance sheet Financial instruments	Net amount as of 12/31/2019
Put options/compensation rights granted to noncontrolling interest shareholders	–	–	–
Derivatives	214	–63	151
Financial liabilities	12,497	–	12,497
Trade payables	2,472	–	2,472
Other financial liabilities	5,227	–	5,227

€ million	Net amounts of financial liabilities presented in the balance sheet	Amounts that are not offset in the balance sheet Financial instruments	Net amount as of 12/31/2018
Put options/compensation rights granted to noncontrolling interest shareholders	1,827	–	1,827
Derivatives	176	–62	114
Financial liabilities	10,814	–	10,814
Trade payables	2,969	–	2,969
Other financial liabilities	3,777	–	3,777

The “Financial instruments” column shows the amounts that are subject to a master netting arrangement but that have not been set off in the consolidated balance sheet because they do not meet the offsetting criteria.

TRANSFERS OF FINANCIAL ASSETS

As of the reporting date, financial liabilities included asset-backed securities transactions implemented to refinance the Financial Services segment with a carrying amount of €294 million. The corresponding carrying amount of financial services receivables is €333 million. Collateral totaling €333 million was provided in connection with asset-backed securities transactions. The expected payments to structured entities are assigned in this process and ownership of the financed vehicles pledged as collateral is transferred. These asset-backed securities transactions did not lead to the derecognition of financial services receivables in the balance sheet, because the TRATON GROUP retains the bad debt and payment date risk. The difference between the amount of receivables assigned and the associated liabilities is the result of different terms and conditions and the proportion of bonds held by TRATON itself.

Under certain conditions, the asset-backed securities transactions implemented by the TRATON GROUP may be repaid early (clean-up call). The assigned receivables cannot be assigned a second time or used as collateral in any other way. The bondholders' claims are limited to the assigned receivables, the cash inflows arising from these receivables are intended for the settlement of the corresponding liability. As of December 31, 2019, the fair value of assigned receivables that continue to be recognized in the balance sheet was €333 million. The fair value of the associated liabilities amounted to €294 million as of that date. The resulting net position is €40 million.

No asset-backed securities transactions were implemented in the previous year.

Other Disclosures

38. Financial risk management and financial instruments

1. HEDGING GUIDELINES AND FINANCIAL RISK MANAGEMENT PRINCIPLES

Because of the TRATON GROUP's business activities and international focus, its assets, liabilities, and forecast transactions are exposed to market, credit, and liquidity risk.

The Group's market risks are hedged with banks on the basis of internally defined limits. The TRATON GROUP uses suitable financial instruments such as derivatives to do this. Financial risks from balance sheet items, the order backlog, and other projected transactions are hedged. Such market risks are not managed centrally, but directly by TRATON SE and each of its brands. The relevant requirements of each company are considered since different functional currencies and business environments apply.

Counterparty risk is diversified as much as possible and monitored centrally. Liquidity risk is minimized by diversifying the sources of funding and ensuring a balanced mix of funding with different maturities, currencies, and interest rate agreements.

The Group's activities in the Financial Services segment are managed to largely match assets and liabilities in order to minimize interest rate mismatches. Appropriate value-at-risk methods apply. TRATON GROUP management is notified regularly about the financial risk position. Compliance with the applicable Group policies is reviewed by the Internal Audit function.

2. CREDIT AND DEFAULT RISK

The TRATON GROUP is exposed to credit risk through its business operations and financing activities.

From the Group's perspective, credit risk entails the risk that a party to a financial instrument will fail to meet its contractual obligations and thus cause a financial loss for the Group. Credit risk comprises both the direct default risk and the risk of a deterioration in credit quality.

Credit risk related to credit commitments to customers is managed decentrally, considering certain limits and using local credit quality assessments. Decisions on major credit commitments for the TRATON GROUP are made in subgroup credit committees. The maximum credit risk is reflected in the carrying amount of the financial assets recognized in the balance sheet; see note "Additional financial instruments disclosures in accordance with IFRS 7." The TRATON GROUP holds collateral and other credit enhancements to further mitigate credit risk. Assets assigned as security, credit insurance, and guarantees are used as collateral. The risk from nonderivative financial instruments is additionally accounted for by recognizing bad debt allowances.

The financial institutions and investment forms are carefully selected when investing cash funds, while a central limit system ensures diversification. Significant investments and derivatives are only entered into with national and international prime-rated banks. Due to the TRATON GROUP's relationship with the Volkswagen Group's central financial management, a significant portion of the TRATON GROUP's investments are concentrated in Volkswagen AG. Volkswagen AG's good credit rating and the existing risk mechanisms justify this credit risk. There are no other material concentrations of credit risk in the TRATON GROUP.

There is also credit risk from financial guarantees issued. The maximum exposure to credit risk is determined by the amount that the TRATON GROUP would have to pay in the event of claims under these guarantees. The corresponding amounts are presented under liquidity risk.

RECONCILIATION OF LOSS ALLOWANCE FOR FINANCIAL ASSETS AT AMORTIZED COST

	General approach				
€ million	12–month expected credit losses (Stage 1)	Lifetime expected credit losses – not impaired (Stage 2)	Lifetime expected credit losses – impaired (Stage 3)	Simplified approach	Total
Loss allowance as of 01/01/2019	**7**	**5**	**30**	**99**	**140**
Transfer into Stage 1	0	–1	–1	–	–2
Transfer into Stage 2	–2	4	0	–	2
Transfer into Stage 3	–2	–1	6	–	3
Utilization	–	–	–1	–8	–9
Reversals	–3	–3	–10	–35	–50
Financial assets issued/acquired (additions)	8	–	–	44	51
Changes in models or inputs	–	–	–	2	2
Other changes (mainly changes due to exchange rate movements)	0	1	5	1	7
Loss allowance as of 12/31/2019	**7**	**4**	**29**	**103**	**144**
Loss allowance as of 01/01/2018	**7**	**10**	**19**	**145**	**180**
Transfer into Stage 1	0	–2	–1	–	–2
Transfer into Stage 2	–2	3	0	–	1
Transfer into Stage 3	–2	–5	18	–	12
Utilization	–	–	–1	–21	–22
Reversals	–3	–2	–6	–16	–27
Financial assets issued/acquired (additions)	10	–	–	25	35
Changes in models or inputs	0	–	–	3	3
Changes in basis of consolidation	0	–	–	–36	–36
Other changes (mainly changes due to exchange rate movements	0	0	–1	0	–1
Loss allowance as of 12/31/2018	**7**	**5**	**30**	**99**	**140**

CHANGES IN LOSS ALLOWANCE FOR LEASE RECEIVABLES

€ million	Simplified approach
Loss allowance as of 01/01/2019	**78**
Utilization	–9
Reversals	–42
Financial assets issued/acquired (additions) and changes to models or risk parameters	38
Changes in basis of consolidation	–
Other changes (mainly changes due to exchange rate movements)	15
Loss allowance as of 12/31/2019	**80**
Loss allowance as of 01/01/2018	**105**
Utilization	–4
Reversals	–51
Financial assets issued/acquired (additions) and changes to models or risk parameters	32
Changes in basis of consolidation	–17
Other changes (mainly changes due to exchange rate movements)	14
Loss allowance as of 12/31/2018	**78**

The loss allowance relates mainly to credit risk from trade receivables and financial services receivables. For financial assets in Stage 3 with objective indications of impairment at the reporting date, collateral provided mitigates the risk by €70 million (previous year: €57 million).

RECONCILIATION OF GROSS CARRYING AMOUNTS OF FINANCIAL ASSETS AT AMORTIZED COST

	General approach				
€ million	12-month expected credit losses (Stage 1)	Lifetime expected credit losses – not impaired (Stage 2)	Lifetime expected credit losses – impaired (Stage 3)	Simplified approach	Total
Gross carrying amount as of 01/01/2019	**12,327**	**116**	**113**	**2,411**	**14,968**
Transfer into Stage 1	20	–19	–2	–	0
Transfer into Stage 2	–51	51	–1	–	0
Transfer into Stage 3	–9	–17	25	–	0
Changes due to modifications not resulting in derecognition	–	–	–	–	–
Changes due to financial assets issued/acquired or derecognized	–3,694	2	–42	–182	–3,917
Changes in basis of consolidation	32	–	0	–2	30
Foreign exchange gains/losses	27	2	2	21	51
Gross carrying amount as of 12/31/2019	**8,653**	**136**	**96**	**2,247**	**11,132**
Gross carrying amount as of 01/01/2018	**7,638**	**147**	**56**	**2,988**	**10,843**
Transfer into Stage 1	25	–23	–2	–	0
Transfer into Stage 2	–45	46	–1	–	0
Transfer into Stage 3	–44	–33	77	–	0
Changes due to modifications not resulting in derecognition	–	–	–	–	–
Changes due to financial assets issued/acquired or derecognized	4,705	–12	–9	251	4,935
Changes in basis of consolidation	193	–	–	–780	–587
Foreign exchange gains/losses	–145	–9	–8	–47	–223
Gross carrying amount as of 12/31/2018	**12,327**	**116**	**113**	**2,411**	**14,968**

CHANGE IN GROSS CARRYING AMOUNTS OF LEASE RECEIVABLES

€ million	Simplified approach
Carrying amount as of 01/01/2019	**4,157**
Changes due to modifications not resulting in derecognition	–
Changes due to financial assets issued/acquired or derecognized	358
Changes in basis of consolidation	–
Foreign exchange gains/losses	75
Carrying amount as of 12/31/2019	**4,591**
Carrying amount as of 01/01/2018	**4,033**
Changes due to modifications not resulting in derecognition	–
Changes due to financial assets issued/acquired or derecognized	432
Changes in basis of consolidation	–201
Foreign exchange gains/losses	–106
Carrying amount as of 12/31/2018	**4,157**

GROSS CARRYING AMOUNTS OF FINANCIAL ASSETS BY RATING GRADE

€ million	12-month expected credit losses (Stage 1)	Lifetime expected credit losses – not impaired (Stage 2)	Lifetime expected credit losses – impaired (Stage 3)	Simplified approach	12/31/2019
Rating grade					
Credit risk rating grade 1	8,653	0	–	6,094	14,748
Credit risk rating grade 2	–	136	–	579	715
Credit risk rating grade 3	–	–	96	165	260
	8,653	**136**	**96**	**6,838**	**15,723**

€ million	12-month expected credit losses (Stage 1)	Lifetime expected credit losses – not impaired (Stage 2)	Lifetime expected credit losses – impaired (Stage 3)	Simplified approach	12/31/2018
Rating grade					
Credit risk rating grade 1	12,327	–	–	5,882	18,209
Credit risk rating grade 2	–	116	–	517	633
Credit risk rating grade 3	–	–	113	166	280
	12,327	**116**	**113**	**6,565**	**19,122**

Credit risk rating grade 1 consists of financial instruments not exposed to any credit risk. Credit risk rating grade 2 consists of financial instruments that are subject to intensive credit management. Credit risk rating grade 3 consists of impaired financial instruments.

3. LIQUIDITY RISK

Liquidity risk describes the risk that the TRATON GROUP will have difficulty in meeting its obligations associated with financial liabilities or that it can only procure liquidity at a higher price.

To counter this risk, cash inflows and outflows and due dates are continuously monitored and managed. Cash requirements are primarily met by our operating business and by external financing arrangements. There were no material concentrations of liquidity risk in the past fiscal year.

The TRATON GROUP's solvency and liquidity are assured at all times by rolling liquidity planning, a liquidity reserve in the form of cash, credit lines with financial institutions and Volkswagen AG, and the issuance of securities on international money and capital markets.

Special issuance programs and financing lines have been established for the companies in the Financial Services segment to cover their funding requirements.

Cash and cash equivalents as of December 31, 2019, amounted to €1.9 billion (previous year: €3.0 billion).

In addition, as of December 31, 2019, undrawn lines of credit from banks and Volkswagen AG were available to TRATON GROUP in an amount of €4.8 billion (previous year: €4.2 billion).

Local cash funds in certain countries (e.g., China, Russia) are only available to the Group for cross-border transactions subject to exchange controls. Such amounts are used locally to cover the financing needs of the operating business.

Other than that, no significant restrictions exist.

The following table shows how the cash flows relating to liabilities, derivatives, and contingent liabilities affect the TRATON GROUP's liquidity position:

	2019			2018		
Maturity overview	Remaining contractual maturities			Remaining contractual maturities		
€ million	2020	2021–2024	>2024	2019	2020–2023	>2023
Put options/compensation rights granted to noncontrolling interest shareholders	–	–	–	1,827	–	–
Financial liabilities[1,3]	6,613	5,639	566	5,416	5,417	78
Trade payables[1]	2,472	0	–	2,969	0	–
Other financial liabilities[1,2]	2,732	2,340	135	1,488	2,160	109
Derivatives	10,425	3,351	33	4,735	2,501	10
Financial guarantees	31	–	–	26	–	–
	22,273	**11,331**	**735**	**14,634**	**10,079**	**197**

1 The amounts were calculated as follows:
- If there is no agreement on contractual maturity, the liability refers to the earliest possible maturity date.
- In the case of variable interest rate agreements, interest reflects the conditions at the reporting date.
- It is assumed that the cash outflows will not occur earlier than shown.

2 The undiscounted maximum cash outflows from buyback obligations are recognized as a financial liability.

3 The increase in cash outflows from financial liabilities is due in particular to the initial application of IFRS 16.

Derivatives comprise both cash outflows from derivatives with negative fair values and cash outflows from derivatives with positive fair values for which gross settlement has been agreed. Derivatives entered into through offsetting transactions are also accounted for as cash outflows. The cash outflows from derivatives for which gross settlement has been agreed are matched by cash inflows that are not disclosed in the maturity analysis. If these cash inflows had also been recognized, the cash outflows presented would be significantly lower. This also applies in particular if hedges have been closed out through offsetting transactions.

The cash outflows from irrevocable credit commitments are presented in "Other financial obligations," classified by contractual maturities.

4. MARKET RISK

4.1 Hedging policy and financial derivatives

During the course of its general business activities, the TRATON GROUP is exposed to currency, interest rate, and commodity price risks. TRATON's current policy is to continuously monitor these risks by means of its risk management systems. Measures to mitigate the risks are then taken by the treasury departments at MAN and Scania. There were no significant concentrations of risk in the past fiscal year.

4.2 Market risk in the TRATON GROUP

4.2.1 Currency risk

Currency risk describes the risk of negative effects on earnings and balance sheet items due to exchange rate movements. The TRATON GROUP's currency risk is a result of its investments, financing measures, and operating activities. Currency forwards, currency options, currency swaps, and cross-currency swaps are used to mitigate risks to future cash flows. The TRATON GROUP therefore conducts hedging of currencies arising from order backlog, receivables, and liabilities, and partly hedges currency risk arising from forecast transactions. Companies that enter into hedging transactions choose the hedge ratio for expected sales revenue on the basis of past experience in order to avoid inefficiency. The inclusion of subsidiaries or other affiliated companies in countries outside the euro zone in the consolidated financial statements also represents a risk as a result of currency translation. As a general rule, TRATON does not use derivatives to hedge these translation risks.

The Group's market risks are hedged with banks on the basis of internally defined limits. The TRATON GROUP uses suitable financial instruments such as derivatives to do this. Financial risks from balance sheet items, the order backlog, and other projected transactions are hedged.

Assets in the Financial Services segment should generally be funded by liabilities in the same currency. There are no fair value hedges.

Hedging transactions entered into as part of foreign exchange risk management were mainly in Swedish kronor, Brazilian real, and U.S. dollars.

The nonderivative and derivative financial instruments at the end of the reporting period were measured in a hypothetical scenario as part of a sensitivity analysis. The effects of a 10% increase/decrease in an exchange rate were as follows:

	12/31/2019				12/31/2018			
	Equity		Profit for the period		Equity		Profit for the period	
€ million	+10%	–10%	+10%	–10%	+10%	–10%	+10%	–10%
Exchange rate								
EUR/SEK	1	–1	–114	114	–9	9	–254	254
SEK/GBP	0	0	92	–92	0	0	81	–81
SEK/RUB	0	0	58	–58	0	0	55	–55
SEK/USD	0	0	41	–41	0	0	29	–29
SEK/ZAR	0	0	35	–35	0	0	35	–35
SEK/BRL	0	0	29	–29	0	0	21	–21
SEK/DKR	0	0	27	–27	0	0	24	–24
EUR/USD	2	–2	21	–21	–1	1	15	–15

Derivatives included in hedge accounting relate solely to currency risk. The following tables show details of these derivatives:

AMOUNT, TIMING, AND UNCERTAINTY OF CASH FLOWS

	Maturity				
€ million	< 1 year	1 to 5 years	> 5 years	Total notional amount	Average hedging rate
2019					
Currency risk:					
Currency forwards BRL/USD	164	128	–	293	3.1–4.2
Currency forwards EUR/GBP	152	–	–	152	0.8–0.9
Currency forwards EUR/CHF	52	9	–	61	1.1
Currency forwards EUR/DKK	47	–	–	47	7.5
Currency forwards EUR/ZAR	37	–	–	37	16.1–16.4
Currency forwards EUR/USD	30	–	–	30	1.1
Currency forwards EUR/NOK	23	–	–	23	9.7–10.2
Currency forwards EUR/CNY	11	–	–	11	7.7–7.9
Currency forwards – other currencies	26	–	–	26	N/A
	542	**137**	**–**	**679**	
2018					
Currency risk:					
Currency forwards BRL/USD	140	140	–	280	2.7–4.2
Currency forwards EUR/GBP	178	–	–	178	0.9–0.9
Currency forwards EUR/CHF	54	10	–	64	1.1–1.2
Currency forwards EUR/DKK	48	–	–	48	7.4–7.5
Currency forwards EUR/ZAR	44	–	–	44	15.6–17.5
Currency forwards EUR/USD	36	–	–	36	1.1–1.2
Currency forwards EUR/NOK	29	–	–	29	9.4–9.7
Currency forwards EUR/CNY	23	–	–	23	7.8–8.0
Currency forwards – other currencies	58	0	–	58	N/A
	610	**150**	**0**	**760**	

INFORMATION ON HEDGING INSTRUMENTS INCLUDED IN HEDGE ACCOUNTING

€ million	2019	2018
Currency risk:		
Fair value change to determine hedge ineffectiveness	–23	–23
Carrying amount of other financial assets	6	9
Carrying amount of other financial liabilities	18	18
Nominal amount	679	760

INFORMATION ON HEDGED ITEMS INCLUDED IN HEDGE ACCOUNTING

€ million	2019	2018
Currency risk:		
Fair value change to determine hedge ineffectiveness	23	23
Carrying amount of cash flow hedge reserve: continued hedges	–23	–23

INFORMATION ABOUT THE EFFECTS OF HEDGE ACCOUNTING ON THE STATEMENT OF COMPREHENSIVE INCOME

€ million	2019	2018
Currency risk:		
Hedging instruments included in hedge accounting		
Unrealized gains and losses on hedging instruments	–13	–16
Reclassification of realized gains and losses to profit or loss	13	–4
Cost of hedging		
Unrealized gains and losses relating to hedging expenses	0	–2
Reclassification of realized gains and losses to profit or loss	–1	3

RECONCILIATION OF CASH FLOW HEDGE RESERVES

€ million	2019	2018
As of January 1	**–23**	**11**
Gains and losses from cost of hedging	–19	–20
Reclassifications due to adjustments to underlyings	–	–
Reclassification to profit or loss		
because the hedged future cash flows are no longer expected to materialize	–	–
due to recognition of hedged item in profit or loss	20	–12
Other changes (foreign exchange effects)	0	–2
Balance as of December 31	**–23**	**–23**

RECONCILIATION OF THE RESERVE FOR HEDGING EXPENSES

€ million	2019	2018
As of January 1	**13**	**12**
Gains and losses from cost of hedging	0	–3
Reclassifications due to adjustments to underlyings for transaction-related hedged items	–	–
Reclassification to profit or loss		
because the hedged future cash flows are no longer expected to materialize	–	–
due to recognition of hedged item in profit or loss	–3	5
Other changes (foreign exchange effects)	0	–1
Balance as of December 31	**11**	**13**

4.2.2 Interest rate risk

Interest rate risk describes the risk of negative effects of movements in interest rates on interest income and expenses. Financial instruments that are sensitive to movements in interest rates are exposed to interest rate risk in the form of fair value risk or cash flow risk. Fair value risk is a measure of the sensitivity of the carrying amount of a financial instrument to changes in market rates of interest. Cash flow risk describes the exposure to variability in future interest payments in response to interest rate movements. Interest rate swaps and cross-currency swaps are used to implement the risk management strategy. Hedge accounting is not used.

The TRATON GROUP is exposed to interest rate risk from interest rate-sensitive assets and liabilities. Intragroup financing arrangements are mainly funded at matching maturities. Departures from the Group's standards are subject to centrally defined limits and monitored continuously.

Interest rate risk within the meaning of IFRS 7 is calculated for the companies using sensitivity analyses. Any earnings effects attributable to interest rate sensitivity would be recognized exclusively in profit or loss for the period.

If market interest rates had been 100 basis points (bps) higher as of December 31, 2019, profit after tax would have been €40 million (previous year: €34 million) higher. If market interest rates had been 100 bps lower as of December 31, 2019, profit after tax would have been €41 million (previous year: €34 million) lower.

4.2.3 Commodity price risk

The TRATON GROUP is primarily exposed to commodity price risk from fluctuations in the price and availability of commodities.

Commodity price risks are captured centrally at regular intervals for the MAN Group and hedged externally based on defined risk limits, provided there are liquid markets. This approach also considers whether changes in commodity prices will be reflected in higher selling prices for the products. The TRATON GROUP enters into cash-settled commodity futures to mitigate these risks. There were no material concentrations of risk in the past fiscal year. Cash-settled commodity futures had been entered into at the balance sheet date to hedge commodity price risks relating to gas, nonferrous metals, precious metals, and rubber with a fair value of €0 million (previous year: €–1 million). Hedge accounting is not used at present.

The maximum remaining term of hedges of forecast transactions was 6 months (previous year: 18 months) at the end of fiscal 2019. A hypothetical 10% increase/decrease in commodity prices is assumed, in line with the sensitivity analysis of currency risks. The potential effect on profit after tax from changes in the fair value of the commodity futures is €1 million (previous year: €2 million) as of December 31, 2019, for +10% or €–1 million (previous year: €–2 million) for –10%.

39. Capital management

The Group's capital management ensures that the goals and strategies can be achieved in the interests of its owners, employees, and other stakeholders. In particular, management focuses on generating the minimum return on invested capital in the Industrial Business segment that is required by the capital markets, and on increasing the return on equity in the Financial Services segment. The overall objective is to maximize the value of the Group and its subdivisions. This benefits all of the Company's stakeholder groups.

In order to maximize the use of resources in the Industrial and measure our success in doing so, we use return on investment (ROI) as a value-based control concept. ROI indicates the return on invested capital: in a period, based on operating profit after tax. It ROI exceeds the market cost of capital, the value of invested capital increases. Operating profit after tax is calculated by applying a flat average tax rate of 30% — based on the different international income tax rates of our companies — to the operating profit of the Industrial Business segment. Invested capital is calculated as total recognized operating assets (intangible assets, property, plant, and equipment, assets leased out, inventories, and receivables) less noninterest-bearing liabilities (trade payables and contract liabilities). Average invested capital is derived from the balance at the beginning and the end of the reporting period. The calculation methodology corresponds to the methodology used in the Volkswagen Group.

Due to the specific characteristics of the Financial Services segment, its management focuses on return on equity, a special target linked to invested capital. This measure is calculated as the ratio of profit before tax to average equity. Average equity is calculated from the balance at the beginning and the end of the reporting period. In addition, the goals of the Financial Services segment are to meet the banking supervisory authorities' regulatory capital requirements and to procure equity for the growth planned in the coming fiscal years. To ensure compliance with prudential requirements at all times, a planning procedure integrated into internal reporting has been put in place in the Financial Services segment, allowing the capital requirements to be continuously determined based on actual and expected business performance. In the reporting period, this again ensured that regulatory minimum capital requirements were always met both at Group level and at the level of individual lower-tier companies subject to specific capital requirements.

The ROI in the Industrial Business segment as well as the return on equity and the equity ratio in the Financial Services segment are shown in the following table:

€ million	**2019**	**2018**
Industrial Business segment		
Operating profit after tax	1,219	942
Capital invested (average)	12,584	11,013
Return on investment in %	**9.7**	**8.6**
Financial Services segment		
Profit before tax	151	148
Average equity	893	772
Return on equity before tax in %	**16.9**	**19.2**
Equity ratio in %	**9.4**	**8.9**

40. Contingent liabilities and commitments

€ million	**12/31/2019**	**12/31/2018**
Liabilities under buyback guarantees	2,489	2,149
Contingent liabilities under guarantees	128	205
Other contingent liabilities	1,059	936
	3,676	**3,290**

Contingent liabilities under guarantees relate mainly to guarantees issued for trade obligations of investees, former investees, and other companies. As of December 31, 2019, they also include financial guarantees of €45 million (previous year: €39 million).

As of December 31, 2019, guarantees of €26 million (previous year: €21 million) are in place for the benefit of subsidiaries and other investees of Volkswagen AG that are not part of the TRATON GROUP. There are also guarantees for consolidated and unconsolidated subsidiaries of Volkswagen AG outside the TRATON GROUP in the amount of €91 million as of December 31, 2019 (previous year: €174 million). The decrease in 2019 is primarily due to the expiration of these guarantees.

Other contingent liabilities relate mainly to contingent liabilities for potential charges from tax risks, which exist for Volkswagen Caminhões e Ônibus. See "Litigation/legal proceedings" for further information.

Customer liabilities to financial services companies of the Volkswagen Group and, to a small extent, third parties are covered by standard industry buyback guarantees under which TRATON is obliged to buy back vehicles from the financial services company in the event of default. The maximum expenses from such obligations amounted to €2,489 million as of December 31, 2019 (previous year: €2,149 million). However, based on experience, the majority of these guarantees expire without being drawn upon.

41. Litigation/legal proceedings

After unannounced inspections at the premises of several European truck manufacturers including MAN and Scania in 2011, the European Commission initiated proceedings in 2014 for suspected violations of EU antitrust rules in the European truck sector. On July 19, 2016, the European Commission issued a settlement decision (the "Settlement Decision") against MAN and four other European truck manufacturers (excluding Scania) holding that collusive arrangements on pricing and gross price increases for medium- and heavy-duty trucks in the European Economic Area and the timing and the passing on of costs for the introduction of emission technologies for medium- and heavy-duty trucks required by EURO III to EURO VI standards had lasted from January 17, 1997 to January 18, 2011 (for MAN: until September 20, 2010). While the other four truck manufacturers were fined, MAN was granted immunity from fines since it had acted as a key witness and informed the European Commission of the antitrust infringements in September 2010. Scania decided not to apply for leniency and not to settle this antitrust case and, by decision of the European Commission dated September 27, 2017 (the "Scania Decision"), received a fine in the amount of approximately €880.5 million. Scania has appealed the Scania Decision to the General Court of the European Union, asking for full annulment and will use all means at its disposal to defend itself. Depending on how the legal proceedings develop, the eventual fine may differ from the original one. In place of paying the fines, Scania has offered a financial guarantee covering the entire amount of fines. The guarantee was accepted by the Accounting Officer of the European Commission. The Group set aside a €403 million provision in connection with these administrative proceedings in the previous years.

Following the Settlement Decision, a significant number of (direct and indirect) truck customers in various jurisdictions have initiated or joined lawsuits against MAN and/or Scania. In one case, a claim has also been filed against TRATON SE. Further claims may follow. The claims against MAN differ significantly in scope as some truck customers only bought or leased a single truck while other cases concern a multitude of trucks. Furthermore, some truck customer damages claims have been combined in class actions or through claim aggregators to which the truck customers assigned their respective damages claims.

In Germany, seven "judgments on the merits of the claim" *(Grundurteile)* have been rendered against one or more MAN companies. There was no need in these cases to resolve the issue of whether any damages were actually sustained. The defendant MAN companies have appealed all of these decisions. In individual proceedings, courts of appeal issued "orders for evidence to be taken" *(Beweisbeschlüsse)* so that an expert can clarify the question of whether any damage has been sustained and, if so, in what amount. By contrast, a range of lawsuits against MAN have been dismissed — some of them already finally. In addition to a series of dismissals of lawsuits — some of them already final — in Spain and Hungary, individual courts in Spain have upheld a total of twelve lawsuits in part and one in full. The defendant MAN companies have already appealed all of the decisions or will do so within the statutory period. In one case, the court of appeal has already dismissed the decision of the court of first instance. In Belgium, in addition to a judgment on the merits by which the court upheld MAN SE's underlying liability for alleged damages, another decision was issued in which the court ordered MAN SE to pay damages on an equitable basis. MAN SE has already appealed both of the decisions or will do so within the statutory period.

A relatively small number of (direct and indirect) customers in various jurisdictions have initiated or joined lawsuits against Scania. Further, Scania has received a number of third-party notices from other defendant truck manufacturers. As is the case for MAN, the claims against Scania differ significantly in scope as some customers only bought or leased one truck while others operate a whole fleet of trucks. Furthermore, some customer damages claims in other jurisdictions have been combined in class actions or through claim aggregators. The exact number of trucks involved is however unknown.

The Annual General Meeting of MAN SE approved the conclusion of a domination and profit and loss transfer agreement (the "TRATON/MAN DPLTA") between MAN SE and Truck & Bus GmbH (now TRATON SE) in June 2013. In July 2013, appraisal proceedings were instituted to review the appropriateness of the guaranteed dividend for the fiscal year 2013 and the recurring fixed compensation payment for the following fiscal years, both set out in the TRATON/MAN domination and profit and loss transfer agreement in accordance with section 304 of the *Aktiengesetz* (AktG — German Stock Corporation Act) and the cash redemption set out in the TRATON/MAN DPLTA in accordance with section 305 of the AktG. It is common for noncontrolling interest shareholders to institute such proceedings. In its final decision announced on June 26, 2018 (and corrected in July and December 2018), the Higher Regional Court *(Oberlandesgericht)* of Munich set the guaranteed dividend and the recurring fixed compensation payment at €5.47 gross per share (minus potential corporate taxes and solidarity surcharges at the rates as applicable to the respective fiscal year). The cash redemption payable to the noncontrolling interest shareholders in exchange for their shares was confirmed to be €90.29 per share which had been determined by the Regional Court *(Landgericht)* Munich I in 2015 as an adequate amount. The decisions of the Higher Regional Court of Munich were published in the Federal Gazette *(Bundesanzeiger)* on August 6, 2018, and January 10, 2019. In accordance with section 305 (4) of the AktG, noncontrolling interest shareholders had the right to tender their shares to TRATON AG (now TRATON SE) in consideration for a cash redemption of €90.29 per share plus interest within two months of this publication date and thereby cease to be shareholders. Upon expiry of the tender window on October 8, 2018, the free float for MAN SE's shares amounted to 13.13%.

Following the legal effect of the court decisions in June/July 2018, TRATON AG (now TRATON SE) terminated the TRATON/MAN domination and profit and loss transfer agreement for cause in accordance with section 304 (4) of the AktG with effect as of January 1, 2019. After the publication of the registration of the termination of the TRATON/MAN DPLTA in the commercial register by MAN in January 2019, the noncontrolling interest shareholders of MAN SE were, in accordance with clause 5.6 of the TRATON/MAN DPLTA, during a two-month period again entitled to tender their shares to TRATON AG (now TRATON SE) in consideration for a cash redemption of €90.29 per share without additional interest. Upon expiry of the tender window on March 4, 2019, the free float for MAN SE's shares was reduced to below 6%.

In the tax proceedings between MAN Latin America Indústria e Comércio de Veículos Ltda., São Paulo/Brazil, and the Brazilian tax authorities, the Brazilian tax authorities took a different view of the tax implications of the acquisition structure chosen by MAN SE for the acquisition of MAN Latin America in 2009. The tax proceedings have been divided into two auditing periods, covering the years 2009/2011 ("Phase 1") and 2012/2014 ("Phase 2"). In December 2017, an adverse third instance judgment was rendered by the Brazilian Administrative Court (Phase 1), which was negative for MAN Latin America. MAN Latin America appealed this judgment before a regular judicial court in 2018. The tax proceeding related to Phase 2 is still pending judgment by the Brazilian tax authorities. Because of the potential range of penalties plus interest which could apply under Brazilian law, the estimated size of the risk in the event that the tax authorities are able to prevail overall with their view is uncertain. However, the TRATON GROUP continues to expect a positive outcome for MAN Latin America. If this is not the case, this could result in a risk of about €685 million (as of December 31, 2019) for the contested period from 2009 onward. This assessment is based on the accumulated accounts at the reporting date for the claimed tax liability including the potential penalty surcharges, as well as accumulated interest, but excluding any future interest and without discounting any cash flows. Several banks have issued bank guarantees for the benefit of MAN Latin America as customary in connection with such tax proceedings, which in turn are secured by MAN SE.

In the ordinary course of its business, the TRATON GROUP is involved in various legal disputes and legal proceedings in addition to the cases described above. Although any negative decisions in such cases could have a material effect on the Company's results in a particular reporting period, TRATON GROUP does not believe that they could have a material adverse effect on its net assets, financial position, and results of operations. The TRATON GROUP does not tolerate compliance violations.

42. Other financial obligations

Other financial obligations declined during 2019, mainly due to the initial application of IFRS 16 (see "Accounting policies"). Obligations from leasing and rental contracts therefore declined from €1,202 million to €60 million. Obligations from credit commitments had an offsetting effect, rising from €354 million to €416 million.

2019 € million	Due 2020	Due 2021–2024	Due from 2025	Total 12/31/2019
Purchase commitments for				
property, plant, and equipment	403	108	–	511
intangible assets	1	0	–	1
Obligations from				
irrevocable credit and lease commitments to customers	377	36	3	416
long-term rental and lease contracts	36	23	1	60
Miscellaneous financial obligations	25	5	0	30

2018 € million	Due 2019	Due 2020–2023	Due from 2024	Total 12/31/2018
Purchase commitments for				
property, plant, and equipment	447	85	–	532
intangible assets	1	–	–	1
Obligations from				
irrevocable credit and lease commitments to customers	290	59	5	354
long-term rental and lease contracts	238	546	418	1,202
Miscellaneous financial obligations	25	3	0	28

43. Related party disclosures

Related parties within the meaning of IAS 24 are persons or entities that can be influenced by the TRATON GROUP, that can exercise influence over the TRATON GROUP, or that are influenced by another related party of the TRATON GROUP.

Related parties from the TRATON GROUP's perspective as of December 31, 2019, are:

- Volkswagen Finance Luxemburg S.A., Luxembourg,
- Volkswagen AG and its subsidiaries, together with its significant investees outside the TRATON GROUP,
- Porsche Automobil Holding SE, Stuttgart, which has significant influence on the Volkswagen Group's operating policy decisions, together with its affiliated companies and related parties (Porsche Stuttgart),
- Other individuals or entities that can be influenced by the TRATON GROUP or that can influence the TRATON GROUP, such as
  - members of the TRATON GROUP's Executive and Supervisory Boards,
  - members of the Board of Management and Supervisory Board of Volkswagen Finance Luxemburg S.A.,
  - members of the Board of Management and Supervisory Board of Volkswagen AG,
  - associates and joint ventures,
  - and unconsolidated subsidiaries.

Members of the Executive and Supervisory Boards of the TRATON GROUP are members of supervisory and executive boards or shareholders of other companies with which the TRATON GROUP has relations in the normal course of business.

On December 31, 2019, Volkswagen Finance Luxemburg S.A. held 89.72% of TRATON SE's share capital. Additionally, on December 31, 2019, Mr. Renschler held 20,000 shares of TRATON SE, Mr. Schulz held 4,050 shares, Mr. Drees held 2,700 shares, and Mr. Henriksson held 1,036 shares.

The PE business was sold in 2018 to a subsidiary of Volkswagen AG that is not part of the TRATON GROUP. The total amount of €1,978 million was paid in 2019. In addition, TRATON SE sold VGSG as of January 1, 2019, to a subsidiary of Volkswagen AG for an amount of less than €1 million. Both transactions are described in greater detail in “Noncurrent assets held for sale and discontinued operations.” Starting in fiscal year 2019, related party disclosures on these entities are presented in information about other subsidiaries and equity investments of Volkswagen AG that are not part of the TRATON GROUP.

The following tables present the amounts of supplies and services transacted, as well as outstanding receivables and obligations, between consolidated companies of the TRATON GROUP and related parties, including Volkswagen AG. There were no transactions with Volkswagen Finance Luxemburg S.A. and Porsche Stuttgart in any of the periods shown.

RELATED PARTIES

Reporting period January 1 to December 31	Sales and services rendered		Purchases and services received	
€ million	**2019**	**2018**	**2019**	**2018**
Volkswagen AG	2	18	124	132
Other subsidiaries and equity investments of Volkswagen AG that are not part of the TRATON GROUP	1,588	1,658	676	454
Unconsolidated subsidiaries	14	41	8	5
Associates and their majority interests	154	159	105	106
Joint ventures and their majority interests	16	17	71	85

Reporting period January 1 to December 31	Receivables from		Liabilities (including obligations) to	
€ million	**12/31/2019**	**12/31/2018**	**12/31/2019**	**12/31/2018**
Volkswagen AG	3,236	5,650	2,590	2,543
Other subsidiaries and equity investments of Volkswagen AG that are not part of the TRATON GROUP	674	2,724	3,428	3,495
Unconsolidated subsidiaries	11	8	24	39
Associates and their majority interests	74	89	12	21
Joint ventures and their majority interests	1	2	2	1

Part of the retained earnings of TRATON SE amounting to €3,250 million was distributed to Volkswagen AG in 2019.

Volkswagen AG and TRATON SE had a domination and profit and loss transfer agreement in place in 2019 and 2018. The loss under German GAAP of €4,161 million for fiscal 2018 was absorbed on March 15, 2019 (previous year: loss absorption of €28 million). As a result of the Company’s IPO in June 2019, this domination and profit and loss transfer agreement ended at the end of fiscal year 2019.

In addition, Volkswagen AG has reached an agreement with TRATON SE under which Volkswagen AG will be liable for certain liability claims filed against TRATON SE in conjunction with the IPO. In a Relationship Agreement dated June 14, 2019, Volkswagen AG and TRATON SE determined that the profit after tax of TRATON SE in accordance with German GAAP is expected to be €1.35 billion, and that this amount will be transferred to Volkswagen in 2019 under the terms of the domination and profit and loss transfer agreement. If the profit deviates from this amount by €20 million or more, the full deviation shall be offset by way of the following mechanism:

a) Volkswagen AG will contribute an amount equaling the excess profits transferred under the domination and profit and loss transfer agreement to the capital reserves of TRATON SE under section 272 (2) no. 4 of the HGB;

b) TRATON will procure extraordinary distributions from subsidiaries (and subsequently transfer them under the domination and profit and loss transfer agreement) to the extent legally permissible and necessary to cancel out any decreases of the expected 2019 German GAAP profit (or even losses in the financial year 2019).

Supplies and services rendered to other subsidiaries and investees of Volkswagen AG that are not part of the TRATON GROUP mainly relate to the sales financing business of MAN Truck & Bus, in which customer finance for vehicles is provided by Volkswagen Financial Services. Supplies and services received from other subsidiaries and investees of the Volkswagen AG that are not part of the TRATON GROUP relate mainly to unfinished goods and products. The increase in purchases from other Volkswagen AG subsidiaries and investees that are not part of the TRATON GROUP is primarily attributable to the higher sales volume for the MAN TGE van series.

Receivables from Volkswagen AG mainly comprise finance transaction balances and receivables from the profit and loss transfer agreement and the tax allocation procedure. In 2019, the TRATON GROUP made short-term investment deposits at Volkswagen AG, amounting to €3,100 million (previous year: €0 million) as of December 31, 2019. Receivables from other subsidiaries and investees of Volkswagen AG that are not part of the TRATON GROUP in 2018 also included the purchase price in conjunction with the sale of the PE business.

Liabilities to Volkswagen AG include loans granted by Volkswagen AG in the amount of €1,000 million (previous year: €2,293 million) resulting from a €4,000 million credit facility (previous year: €4,800 million). Liabilities to other subsidiaries and investees of Volkswagen AG that are not part of the TRATON GROUP mainly relate to liabilities to Volkswagen Financial Services AG and to companies of the former Power Engineering business.

The sale of receivables to subsidiaries of Volkswagen AG that are not part of the TRATON GROUP amounted to €1,091 million in fiscal 2019 (previous year: €1,118 million). This relates to the volume of receivables that were transferred and derecognized in each reporting period. Furthermore, customer liabilities to Volkswagen Financial Services are covered by standard industry buyback guarantees, see "Contingent liabilities and commitments."

Liabilities to the Executive Board comprise outstanding balances for the fair values of performance shares granted to members of the Executive Board and for variable remuneration in the amount of €5,566 thousand. Disclosures on the pension provisions for members of the Executive Board can be found in "Remuneration of the Executive Board and the Supervisory Board" and in the Remuneration Report, which is part of the Combined Management Report.

The following expenses were recognized for the benefits and remuneration granted to members of the Executive and Supervisory Boards of TRATON SE in the course of their activities as members of governing bodies:

€ thousand	2019	2018
Short-term benefits	10,489	6,030
Benefits based on performance shares	1,953	–
Post-employment benefits	2,180	823
Total	**14,621**	**6,853**

The employee representatives on the Supervisory Board who are employed by TRATON SE or other TRATON GROUP companies also receive their regular salaries as specified in their employment contracts. If they are members of German works councils, this is based on the provisions of the *Betriebsverfassungsgesetz* (BetrVG — German Works Council Constitution Act).

Benefits based on performance shares include the expenses for the performance shares granted to Executive Board members under the remuneration system in place as from 2019.

Post-employment benefits relate to additions to pension provisions, expenses for defined contribution pension plans, and — depending on the social security system — contributions to the Swedish pension system for current members of the Executive Board.

44. Remuneration of the Executive Board and the Supervisory Board

€ thousand	2019	2018
Executive Board remuneration		
Non-performance-related remuneration components	4,375	2,286
Performance-related remuneration components	3,613	3,635
Long-term incentive components	3,267	–
	11,255	**5,921**
Supervisory Board remuneration		
Non-performance-related remuneration components	2,324	–
	2,324	–

The individual remuneration of the members of the Executive and Supervisory Boards is described in the Remuneration Report in the Combined Management Report on pages 76 to 93. It also contains a comprehensive assessment of the individual remuneration components, including the LTI in the form of the performance share plan.

NON-PERFORMANCE-RELATED REMUNERATION OF THE EXECUTIVE BOARD

The non-performance-related remuneration of the Executive Board comprises fixed remuneration and fringe benefits. Appointments assumed at Group companies are not remunerated separately; instead, they are deemed to be included in the remuneration. The fringe benefits result from the grant of noncash benefits. These include in particular the provision of company cars and the payment of insurance premiums.

PERFORMANCE-RELATED REMUNERATION OF THE EXECUTIVE BOARD

The performance-related remuneration comprises the bonus with a two-year assessment period and the performance-related remuneration components in place until January 16, 2019.

LONG-TERM INCENTIVE COMPONENTS

At the end of 2018, the Supervisory Board of TRATON SE decided to modify the remuneration system for the Executive Board with effect from the effective date of the reorganization of TRATON AG as TRATON SE (January 17, 2019) by introducing a performance share plan with a forward-looking three-year term (share-based payment).

Each performance period of the performance share plan has a term of three years. At the time the LTI is granted, the annual target amount under the LTI is converted into Volkswagen AG performance shares (pre-IPO phase) or TRATON SE shares (post-IPO phase) on the basis of the initial reference price of Volkswagen AG's preferred shares and allocated to the beneficiary purely for calculation purposes. A cash settlement is made after the end of the three-year term of the performance share plan. The payment amount corresponds to the number of specified performance shares, multiplied by the closing reference price at the end of the three-year period, plus a dividend equivalent for the relevant term. The payment amount under the Performance Share Plan is limited to 200% of the target amount. If 100% of the agreed targets are reached, the target amount for the members of the Executive Board, extrapolated to 100%, is €310 thousand (Mr. Cortes), €650 thousand (Mr. Drees, Dr. Intra, Mr. Levin, and Mr. Schulz), or €996 thousand (Mr. Henriksson) in the pre-IPO phase, and €310 thousand (Mr. Cortes), €930 thousand (Mr. Drees, Dr. Intra, Mr. Levin, and Mr. Schulz), or €996 thousand (Mr. Henriksson) in the post-IPO phase.

A total of 25,395 performance shares were awarded to the members of the Executive Board for 2019, and their fair value was €3,267 thousand at the grant date. Under German GAAP, this must be included in the remuneration. The carrying amount of the obligation as of December 31, 2019, was €1,953 thousand. The remuneration expense of €1,953 thousand was recognized as a personnel expense. This does not constitute remuneration under German GAAP and is therefore not included in the above tables. If the members of the Executive Board had left the Company as of

December 31, 2019, the obligation (intrinsic value) would have amounted to a total of €0 thousand.

For further details on performance shares, please refer to our disclosures in the Remuneration Report, which is part of the Combined Management Report.

No interest-free advances were paid to members of the Executive Board.

SUPERVISORY BOARD REMUNERATION

The remuneration of the members of the Supervisory Board of TRATON SE does not contain performance-related remuneration components, but is comprised entirely of non-performance-related remuneration components.

PENSION RIGHTS OF MEMBERS OF THE EXECUTIVE BOARD

The pension provisions for members of Executive Board amounted to €4,555 thousand as of December 31, 2019 (previous year: €1,066 thousand). €1,238 thousand (previous year: €307 thousand) was added to the provision in the reporting period. An additional amount of €942 thousand (previous year: €478 thousand) was spent on defined contribution plans that are not included in total benefits. In the previous year, an amount of €38 thousand had also been recharged to TRATON.

45. Supervisory Board

Until the reorganization as a European company (SE) on January 17, 2019, the Company's Supervisory Board consisted of twelve members: six shareholder representatives and six employee representatives. The six shareholder representatives were Mr. Hans Dieter Pötsch, Dr. Manfred Döss, Mr. Gunnar Kilian, Dr. Ferdinand Oliver Porsche, Ms. Hiltrud Werner, and Mr. Frank Witter. The employee representatives were Mr. Athanasios Stimoniaris, Mr. Torsten Bechstädt, Ms. Lisa Lorentzon, Mr. Michael Lyngsie, Mr. Bernd Osterloh, and Mr. Günther Pröbster.

Since the Company's reorganization, the Supervisory Board has been composed of twenty members: ten shareholder representatives and ten employee representatives. With the exception of Dr. Ferdinand Oliver Porsche and Mr. Günther Pröbster, the Supervisory Board members of TRATON AG were also appointed as Supervisory Board members of TRATON SE. The following persons additionally became members of the Supervisory Board of TRATON SE. As shareholder representatives: Dr. Albert Kirchmann, Dr. Julia Kuhn-Piëch, Ms. Nina Macpherson, Dr. Dr. Christian Porsche, and Dr. Wolf-Michael Schmidt; as employee representatives: Ms. Mari Carlquist, Mr. Jürgen Kerner, Mr. Bo Luthin, Ms. Karina Schnur, and Mr. Steffen Zieger.

The newly constituent Supervisory Board elected Hans Dieter Pötsch as its Chairman and Athanasios Stimoniaris as its Deputy Chairman.

46. Executive Board

The size and composition of the Executive Board were also changed in the course of the Company's reorganization. The Executive Board of TRATON AG had the following five members until the reorganization: Mr. Andreas Renschler, Mr. Antonio Roberto Cortes, Mr. Joachim Drees, Mr. Henrik Henriksson, Mr. Christian Schulz. The number of Executive Board members rose to seven at the time of the reorganization. Dr. Carsten Intra and Mr. Christian Levin were appointed to the Executive Board of TRATON SE. The other members of TRATON AG's Executive Board were appointed as Executive Board members of TRATON SE.

47. Fees paid to the auditors of the consolidated financial statements

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

€ million	2019	2018
Audit of the financial statements	8	10
Other assurance services	2	3
Tax advisory services	0	0
Other services	0	1
Total expenses for fees	**10**	**13**

The fees charged for the work performed by the auditors, PwC, and its related German companies, are shown in the following table.

€ million	2019	2018
Audit of the financial statements	2	4
Other assurance services	2	2
Tax advisory services	0	0
Other services	0	1
Total expenses for fees	**4**	**7**

Most of the fees charged for the work of the auditors in 2019 were the result of the audit of TRATON SE's consolidated financial statements and of the annual financial statements of Group companies in Germany, as well as intraperiod reviews of the interim financial statements of TRATON SE and the German Group companies.

The other assurance services relate mainly to the audits in connection with the TRATON SE's IPO and preparations for its capital market listing.

48. German Corporate Governance Code

The Executive Board and Supervisory Board of TRATON SE issued their annual Declaration of Conformity in accordance with section 161 of the *Aktiengesetz* (AktG — German Stock Corporation Act) in December 2019. The Declaration of Conformity is included in the Corporate Governance Statement as a separate part of the Combined Management Report, and has been published on TRATON SE's website at www.traton.com.

The Executive Board and Supervisory Board of MAN SE also issued the annual Declaration of Conformity in December 2019 and published it on MAN SE's website at www.corporate.man.eu.

49. Events after the reporting period

On January 30, 2020, TRATON SE offered to acquire all outstanding common shares of NAVISTAR INTERNATIONAL CORPORATION ("Navistar") (NYSE: NAV) not already owned by TRATON SE at a price of USD 35.00 per share in cash. This corresponds to an offering price of around €2.6 billion. TRATON SE held 16.8% of the outstanding common shares of Navistar as of December 31, 2019.

50. Members of the Executive Board and their appointments

Andreas Renschler
Stuttgart,
Chairman of the Executive Board

1 Deutsche Messe AG
2 MAN Energy Solutions SE (Chairman)
MAN Truck & Bus SE (Chairman)
MAN SE (Chairman)
Dr. Ing. h.c. F. Porsche AG
3 NAVISTAR INTERNATIONAL CORPORATION, U.S.A.
Sinotruk (Hong Kong) Ltd., China
4 MAN Latin America Indústria e Comércio de Veículos Ltda., Brazil
Porsche Holding Stuttgart GmbH
Scania AB, Sweden (Chairman)
Scania CV AB, Sweden (Chairman)

Joachim Drees
Stuttgart,
Member of the Executive Board

1 MAN Energy Solutions SE
Renk Aktiengesellschaft
Rheinmetall MAN Military Vehicles GmbH
Volkswagen Financial Services AG
2 MAN Truck & Bus Deutschland GmbH (Chairman)
3 Sinotruk (Hong Kong) Ltd., China

Antonio Roberto Cortes
São Paulo-Indianópolis, Brazil
Member of the Executive Board

4 Volkswagen Financial Services Brazil

Henrik Henriksson
Stockholm, Sweden
Member of the Executive Board

Dr. Carsten Intra
Karlsfeld,
Member of the Executive Board

4 MAN Latin America Indústria e Comércio de Veículos Ltda., Brazil

Christian Levin
Lidingö, Sweden
Member of the Executive Board

2 MAN Truck & Bus SE
4 Laxå Special Vehicles AB
OOO Scania-Rus

Christian Schulz
Stuttgart,
Member of the Executive Board

2 MAN Truck & Bus SE
4 Scania AB, Sweden
Scania CV AB, Sweden

As of December 31, 2019, or date of departure
1 Membership of statutory German supervisory boards
2 Membership of statutory German supervisory boards, Group appointments
3 Membership of comparable German or foreign governing bodies
4 Membership of comparable German or foreign governing bodies, Group appointments

51. Members of the Supervisory Board and their appointments

Hans Dieter Pötsch
Wolfsburg,
Chairman of the Executive Board of Porsche Automobil Holding SE and Chairman of the Supervisory Board of Volkswagen AG

Chairman of the Supervisory Board

1 Bertelsmann SE & Co. KGaA
Bertelsmann Management SE
2 Volkswagen AG (Chairman)
AUDI AG
Wolfsburg AG
Autostadt GmbH
Dr. Ing. h.c. F. Porsche AG
4 Porsche Austria Gesellschaft m.b.H. (Chairman)
Porsche Holding Gesellschaft m.b.H. (Chairman)
Porsche Retail GmbH (Chairman)
VfL Wolfsburg-Fußball GmbH (Deputy Chairman)

Athanasios Stimoniaris*
Munich,
Chairman of the Group Works Council of TRATON SE and the SE Works Council, Chairman of the Group Works Council of MAN SE and the SE Works Council, and Chairman of the Group Works Council and the General Works Council of MAN Truck & Bus SE and the SE Works Council

Deputy Chairman of the Supervisory Board

1 MAN Truck & Bus SE
MAN SE
MAN Truck & Bus Deutschland GmbH
Volkswagen AG
Rheinmetall MAN Military Vehicles GmbH

Torsten Bechstädt*
Helmstedt,
Special Adviser to the Group Works Council of Volkswagen AG

Mari Carlquist*
Södertälje, Sweden
Representative of PTK (*Privattjänstemannakartellen*, Confederation of Labor Unions in Sweden) at Scania

3 Scania AB
Scania CV AB
Dynamate AB (formerly DIS AB)

Dr. Manfred Döss
Mülheim,
Member of the Executive Board of Porsche Automobil Holding SE and General Counsel of Volkswagen AG

1 PTV Planung Transport Verkehr AG

Jürgen Kerner*
Frankfurt,
Executive Board member of IG Metall

1 MAN SE (Deputy Chairman)
MAN Truck & Bus SE (Deputy Chairman)
Premium Aerotec GmbH (Deputy Chairman)
Siemens AG
Airbus Operations GmbH
Flender GmbH

Gunnar Kilian
Lehre,
Member of the Board of Management of Volkswagen AG

2 Wolfsburg AG (Chairman)
Autostadt GmbH (Chairman)
Volkswagen Group Services GmbH (Chairman)
AUDI AG
Dr. Ing. h.c. F. Porsche AG
MAN Energy Solutions SE
3 Grizzlys Wolfsburg GmbH
4 Allianz für die Region GmbH
Volkswagen Pension Trust e.V. (Chairman)
Porsche Holding Stuttgart GmbH

Dr. Albert X. Kirchmann
Lindau/Bodolz,
Chief Executive Advisor

3 MCE Bank GmbH

Dr. Julia Kuhn-Piëch
Salzburg, Austria
Real estate manager

1 MAN Truck & Bus SE
MAN SE
AUDI AG

Lisa Lorentzon*
Huddinge, Sweden
Chair of the Labor Unions for Graduate Employees at Scania

3 Scania AB
Scania CV AB

Bo Luthin*
Södertälje, Sweden
Head of Occupational Health and Safety at Scania Södertälje and Coordinator for IF Metall (labor union in Sweden)

Michael Lyngsie*
Gnesta, Sweden
Chair of IF Metall (labor union in Sweden) at Scania

3 Scania AB
Scania CV AB

Nina Macpherson
Stocksund, Sweden
Board director & advisor

3 M&K Industrials AB (Deputy)
Scania AB
Scania CV AB

Bernd Osterloh*
Wolfsburg, Fallersleben,
Chairman of the General and Group Works Councils of Volkswagen AG

1 Volkswagen AG
Autostadt GmbH
Wolfsburg AG
3 Volkswagen Immobilien GmbH
Porsche Holding Gesellschaft m.b.h.
Skoda Auto a.s.
SEAT, S.A.
VfL Wolfsburg-Fußball GmbH
Allianz für die Region GmbH

Dr. Dr. Christian Porsche
Salzburg, Austria
Specialist in Neurology

Dr. Ferdinand Oliver Porsche
(until January 16, 2019)
Salzburg, Austria
Executive Board of Familie Porsche AG Beteiligungsgesellschaft

1 AUDI AG
Dr. Ing. h.c. F. Porsche AG
Porsche Automobil Holding SE
3 Porsche Holding Gesellschaft m.b.H.
Porsche Lizenz- und Handelsgesellschaft mbH & Co. KG
Porsche Holding Stuttgart GmbH

Günter Pröbster*
(until January 16, 2019)
Schwabach,
Chair of the Works Council at the Nuremberg plant

Dr. Wolf-Michael Schmid
Helmstedt,
Businessman (Managing Director of the Schmid Group)

1 BRW AG (Chairman)
Öffentliche Versicherung Braunschweig Anstalt des öffentlichen Rechts (institution under public law)

Karina Schnur*
Reichertshofen,
General Secretary of the Works Council of MAN Truck & Bus SE and TRATON SE

1 MAN SE
MAN Truck & Bus SE
MAN Truck & Bus Deutschland GmbH
RENK AG

Hiltrud Werner
Munich,
Member of the Board of Management of Volkswagen AG

2 AUDI AG
Dr. Ing. h.c. F. Porsche AG
3 Grizzlys Wolfsburg GmbH
4 SEAT S.A.
Porsche Holding Stuttgart GmbH

Frank Witter
Braunschweig,
Member of the Board of Management of Volkswagen AG

2 Volkswagen Financial Services AG (Chairman)
Dr. Ing. h.c. F. Porsche AG
Volkswagen Group Services GmbH
4 Volkswagen Immobilien GmbH (Chairman)
VfL Wolfsburg-Fußball GmbH (Chairman)
Skoda Auto a.s.

Steffen Zieger*
Leipzig,
Chairman of the General Works Council of MAN Truck & Bus Deutschland GmbH

1 MAN SE
MAN Truck & Bus Deutschland GmbH (Deputy Chairman)

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* Elected by the workforce

As of December 31, 2019, or date of departure
1 Membership of statutory German supervisory boards
2 Membership of statutory German supervisory boards, Group appointments
3 Membership of comparable German or foreign governing bodies
4 Membership of comparable German or foreign governing bodies, Group appointments

52. Supervisory Board committees

(As of December 31, 2019)

Presiding Committee
Hans Dieter Pötsch (Chairman)
Gunnar Kilian
Michael Lyngsie
Bernd Osterloh
Dr. Dr. Christian Porsche
Athanasios Stimoniaris

Audit Committee
Frank Witter (Chairman)
Torsten Bechstädt
Dr. Julia Kuhn-Piëch
Lisa Lorentzon
Nina Macpherson
Karina Schnur

Nomination Committee
Hans Dieter Pötsch (Chairman)
Gunnar Kilian
Dr. Dr. Christian Porsche

53. Shareholdings of the TRATON GROUP as of December 31, 2019

Name and domicile of the company	Equity interest in %
I. PARENT	
TRATON SE, Munich	
II. SUBSIDIARIES	
A. Consolidated companies	
1. Germany	
B. + V. Grundstücks- Verwaltungs- und Verwertungs-GmbH, Koblenz	100.00%
B. + V. Grundstücksverwertungs-GmbH & Co. KG, Koblenz	100.00%
GETAS Verwaltung GmbH & Co. Objekt Verwaltung Nürnberg KG, Pullach i. Isartal	100.00%
KOSIGA GmbH & Co. KG, Pullach i. Isartal	94.00%
M A N Verwaltungs-Gesellschaft mbH, Munich	100.00%
MAN GHH Immobilien GmbH, Oberhausen	100.00%
MAN Grundstücksgesellschaft mbH & Co. Epsilon KG, Munich	100.00%
MAN SE, Munich	94.36%
MAN Service und Support GmbH, Munich	100.00%
MAN Truck & Bus Deutschland GmbH, Munich	100.00%
MAN Truck & Bus SE, Munich	100.00%
Scania CV Deutschland Holding GmbH, Koblenz	100.00%
SCANIA DEUTSCHLAND GmbH, Koblenz	100.00%
Scania Finance Deutschland GmbH, Koblenz	100.00%
SCANIA Real Estate Deutschland GmbH, Koblenz	100.00%
SCANIA Real Estate Deutschland Holding GmbH, Koblenz	100.00%
Scania Versicherungsvermittlung GmbH, Koblenz	100.00%
SCANIA Vertrieb und Service GmbH, Koblenz	100.00%
TARONA Verwaltung GmbH & Co. Alpha KG, Pullach i. Isartal	100.00%
TB Digital Services GmbH, Munich	100.00%

→

Name and domicile of the company	Equity interest in %
TORINU Verwaltung GmbH & Co. Beta KG, Pullach i. Isartal	100.00%
2. Other countries	
AB Dure, Södertälje	100.00%
AB Folkvagn, Södertälje	100.00%
AB Scania-Vabis, Södertälje	100.00%
Ainax AB, Södertälje	100.00%
Centurion Truck & Bus (Pty) Ltd. t/a, Centurion	70.00%
CNC Factory AB, Värnamo	100.00%
Codema Comercial e Importadora Ltda., Guarulhos	99.98%
Dynamate AB, Södertälje	100.00%
DynaMate IntraLog AB, Södertälje	100.00%
Fastighetsaktiebolaget Flygmotorn, Södertälje	100.00%
Fastighetsaktiebolaget Hjulnavet, Södertälje	100.00%
Fastighetsaktiebolaget Vindbron, Södertälje	100.00%
Ferruform AB, Luleå	100.00%
Griffin Automotive Ltd., Road Town	100.00%
Griffin Lux S.à r.l.	–
Italscania S.p.A., Trento	100.00%
Kai Tak Holding AB, Södertälje	100.00%
Laxå Specialvehicles AB, Laxå	90.10%
LOTS Group AB, Södertälje	100.00%
LOTS Latin América Logística de Transportes Ltda., São Bernardo do Campo	100.00%
Lots Logistics (Guangxi) Co.Ltd., Beihai	100.00%
Mälardalens Tekniska Gymnasium AB, Södertälje	80.00%
MAN Automotive (South Africa) (Pty) Ltd., Johannesburg	100.00%
MAN Bus & Coach (Pty) Ltd., Olifantsfontein	100.00%
MAN Bus Sp. z o.o., Starachowice	100.00%
MAN Capital Corp., Pompano Beach, Florida	100.00%

Name and domicile of the company	Equity interest in %
MAN Engines & Components Inc., Pompano Beach, Florida	100.00%
MAN Finance and Holding S.A., Strassen	100.00%
MAN Hellas Truck & Bus A.E., Aspropygros	100.00%
MAN Kamion és Busz Kereskedelmi Kft., Dunaharaszti	100.00%
MAN Kamyon ve Otobüs Ticaret A.S., Ankara	100.00%
MAN Latin America Indústria e Comércio de Veículos Ltda., São Paulo	100.00%
MAN Nutzfahrzeuge Immobilien GmbH, Steyr	100.00%
MAN Shared Services Center Sp. z o.o., Poznan	100.00%
MAN Truck & Bus (Korea) Ltd., Yongin	100.00%
MAN Truck & Bus (M) Sdn. Bhd., Rawang	70.00%
MAN Truck & Bus (S.A.) (Pty) Ltd., in liquidation, Isando	100.00%
MAN Truck & Bus Asia Pacific Co. Ltd., Bangkok	99.99%
MAN Truck & Bus Czech Republic s.r.o., Cestlice	100.00%
MAN Truck & Bus Danmark A/S, Greve	100.00%
MAN Truck & Bus France S.A.S., Evry	100.00%
MAN Truck & Bus Iberia S.A., Coslada	100.00%
MAN Truck & Bus Italia S.p.A., Dossobuono di Villafranca	100.00%
MAN Truck & Bus Mexico S.A. de C.V., El Marqués	100.00%
MAN Truck & Bus Middle East FZE, Dubai	100.00%
MAN Truck & Bus N.V., Kobbegem	100.00%
MAN Truck & Bus Norge A/S, Lorenskog	100.00%
MAN Truck & Bus Österreich GmbH, Steyr	100.00%
MAN Truck & Bus Polska Sp. z o.o., Nadarzyn	100.00%
MAN Truck & Bus Portugal S.U. Lda., Lisbon	100.00%
MAN Truck & Bus Schweiz AG, Otelfingen	100.00%
MAN Truck & Bus Slovakia s.r.o., Bratislava	100.00%
MAN Truck & Bus Slovenija d.o.o., Ljubljana	100.00%
MAN Truck & Bus Sverige AB, Kungens Kurva	100.00%
MAN Truck & Bus Trading (China) Co., Ltd., Beijing	100.00%

Name and domicile of the company	Equity interest in %
MAN Truck & Bus UK Ltd., Swindon	100.00%
MAN Truck & Bus Vertrieb Österreich GmbH, Vienna	100.00%
MAN Trucks Sp. z o.o., Niepolomice	100.00%
MAN Türkiye A.S., Ankara	99.99%
MW-Hallen Restaurang AB, Södertälje	100.00%
Norsk Scania A/S, Oslo	100.00%
Norsk Scania Eiendom A/S, Oslo	100.00%
OOO MAN Truck & Bus Production RUS, St. Petersburg	100.00%
OOO MAN Truck and Bus RUS, Moscow	100.00%
OOO Scania Finance, Moscow	100.00%
OOO Scania Leasing, Moscow	100.00%
OOO Scania Peter, St. Petersburg	100.00%
OOO Scania Service, Golitsino	100.00%
OOO Scania Strachovanie, Moscow	100.00%
OOO Scania-Rus, Golitsino	100.00%
Power Vehicle Co. Ltd., Bangkok	100.00%
PT Scania Parts Indonesia, Balikpapan	100.00%
Reliable Vehicles Ltd., Milton Keynes	100.00%
Sågverket 6 AB, Södertälje	100.00%
Santa Catarina Veículos e Serviços Ltda., Biguaçu	100.00%
Scan Siam Service Co. Ltd., Bangkok	100.00%
Scanexpo International S.A., Montevideo	100.00%
Scania (Hong Kong) Ltd., Hong Kong	100.00%
Scania (Malaysia) Sdn. Bhd., Shah Alam	100.00%
Scania AB, Södertälje	100.00%
Scania Administradora de Consórcios Ltda., Cotia	99.99%
Scania Argentina S.A., Buenos Aires	100.00%
Scania Australia Pty. Ltd., Melbourne	100.00%
Scania Banco S.A., São Bernardo do Campo	100.00%

Name and domicile of the company	Equity interest in %
Scania Belgium N.V., Neder-Over-Heembeek	100.00%
Scania BH d.o.o., Sarajevo	100.00%
Scania Botswana (Pty) Ltd., Gaborone	100.00%
Scania Bulgaria EOOD, Sofia	100.00%
Scania Bus & Coach UK Ltd., Milton Keynes	100.00%
Scania Bus Financing AB, Södertälje	100.00%
Scania Central Asia LLP, Almaty	100.00%
Scania Chile S.A., Santiago de Chile	100.00%
Scania Colombia S.A.S., Bogotá	100.00%
Scania Comercial, S.A. de C.V., Querétaro	99.99%
Scania Commercial Vehicles India Pvt. Ltd., Bangalore	100.00%
Scania Commercial Vehicles Renting S.A., San Fernando de Henares	100.00%
Scania Commerciale S.p.A., Trento	100.00%
Scania Corretora de Seguros Ltda., São Bernardo do Campo	100.00%
Scania Credit (Malaysia) Sdn. Bhd., Shah Alam	100.00%
Scania Credit AB, Södertälje	100.00%
Scania Credit Hrvatska d.o.o., Lucko (Zagreb)	100.00%
Scania Credit Romania IFN S.A., Ciorogârla	100.00%
Scania Credit Singapore Pte. Ltd., Singapore	100.00%
Scania Credit Solutions Pty Ltd., Aeroton	100.00%
Scania Credit Taiwan Ltd., New Taipei City	100.00%
Scania CV AB, Södertälje	100.00%
Scania Czech Republic s.r.o., Prague	100.00%
Scania Danmark A/S, Ishöj	100.00%
Scania Danmark Ejendom ApS, Ishöj	100.00%
Scania del Perú S.A., Lima	100.00%
Scania Delivery Center AB, Södertälje	100.00%
Scania East Africa Ltd., Nairobi	100.00%
Scania Eesti AS, Tallinn	100.00%

Name and domicile of the company	Equity interest in %
Scania Finance Australia Pty. Ltd., Melbourne	100.00%
Scania Finance Belgium N.V., Neder-Over-Heembeek	100.00%
Scania Finance Bulgaria EOOD, Sofia	100.00%
Scania Finance Chile S.A., Santiago de Chile	100.00%
Scania Finance Colombia S.A.S., Bogotá	100.00%
Scania Finance Czech Republic spol. s r.o., Prague	100.00%
Scania Finance France S.A.S., Angers	100.00%
Scania Finance Great Britain Ltd., London	100.00%
Scania Finance Hispania EFC S.A., San Fernando de Henares	100.00%
Scania Finance Holding AB, Södertälje	100.00%
Scania Finance Ireland Ltd., Dublin	100.00%
Scania Finance Italy S.p.A., Milan	100.00%
Scania Finance Korea Ltd., Chung-Ang	100.00%
Scania Finance Luxembourg S.A., Münsbach	100.00%
Scania Finance Magyarország Zrt., Biatorbágy	100.00%
Scania Finance Nederland B.V., Breda	100.00%
Scania Finance Polska Sp. z o.o., Nadarzyn	100.00%
Scania Finance Schweiz AG, Kloten	100.00%
Scania Finance Slovak Republic s.r.o., Senec	100.00%
Scania Finance Southern Africa (Pty) Ltd., Aeroton	100.00%
Scania Financial Leasing (China) Co., Ltd, Shanghai	100.00%
Scania Finans AB, Södertälje	100.00%
Scania France S.A.S., Angers	100.00%
Scania Great Britain Ltd., Milton Keynes	100.00%
Scania Group (Thailand) Co., Ltd., Samut Prakan	100.00%
Scania Growth Capital AB, Södertälje	90.10%
Scania Hispania Holding S.L., San Fernando de Henares	100.00%
Scania Hispania S.A., San Fernando de Henares	100.00%
Scania Holding France S.A.S., Angers	100.00%

Name and domicile of the company	Equity interest in %
Scania Holding Inc., Columbus, Indiana	100.00%
Scania Hrvatska d.o.o., Lucko (Zagreb)	100.00%
Scania Hungaria Kft., Biatorbágy	100.00%
Scania Industrial Maintenance AB, Södertälje	100.00%
Scania Insurance Nederland B.V., Middelharnis	100.00%
Scania Insurance Polska Sp. z o.o., Nadarzyn	100.00%
Scania Investimentos Imobiliários S.A., Vialonga	100.00%
Scania IT AB, Södertälje	100.00%
Scania IT France S.A.S., Angers	100.00%
Scania IT Nederland B.V., Zwolle	100.00%
Scania Japan Ltd., Tokyo	100.00%
Scania Korea Group Ltd., Seoul	100.00%
Scania Latin America Ltda., São Bernardo do Campo	100.00%
Scania Latvia SIA, Riga	100.00%
Scania Leasing d.o.o., Ljubljana	100.00%
Scania Leasing Ltd., Dublin	100.00%
Scania Leasing Österreich GmbH, Brunn am Gebirge	100.00%
Scania Leasing RS d.o.o., Krnješevci	100.00%
Scania Lízing Kft., Biatorbágy	100.00%
Scania Location S.A.S., Angers	100.00%
Scania Logistics Netherlands B.V., Zwolle	100.00%
Scania Luxembourg S.A., Münsbach	100.00%
Scania Makedonija d.o.o.e.l., Ilinden	100.00%
Scania Manufacturing (Thailand) Co., Ltd., Samut Prakan	100.00%
Scania Maroc S.A., Casablanca	100.00%
Scania Middle East FZE, Dubai	100.00%
Scania Milano S.p.A., Lainate	100.00%
Scania Moçambique, S.A., Beira	100.00%
Scania Namibia (Pty) Ltd., Windhoek	100.00%

Name and domicile of the company	Equity interest in %
Scania Nederland B.V., Breda	100.00%
Scania New Zealand Ltd., Wellington	100.00%
Scania Omni AB, Södertälje	100.00%
Scania Österreich GmbH, Brunn am Gebirge	100.00%
Scania Österreich Holding GmbH, Brunn am Gebirge	100.00%
Scania Overseas AB, Södertälje	100.00%
Scania Polska S.A., Nadarzyn	100.00%
Scania Portugal S.A., Santa Iria de Azóia	100.00%
Scania Power Polska Sp. z o.o., Warsaw	100.00%
Scania Production Angers S.A.S., Angers	100.00%
Scania Production Meppel B.V., Meppel	100.00%
Scania Production Slupsk S.A., Slupsk	100.00%
Scania Production Zwolle B.V., Zwolle	100.00%
Scania Properties Ltd., Milton Keynes	100.00%
Scania Real Estate (UK) Ltd., Milton Keynes	100.00%
Scania Real Estate Belgium N.V., Neder-Over-Heembeek	100.00%
Scania Real Estate Bulgaria EOOD, Sofia	100.00%
Scania Real Estate Czech Republic s.r.o., Prague	100.00%
Scania Real Estate d.o.o. Beograd, Belgrade	100.00%
Scania Real Estate Finland Oy, Helsinki	100.00%
Scania Real Estate France S.A.S., Angers	100.00%
Scania Real Estate Hispania S.L., San Fernando de Henares	100.00%
Scania Real Estate Holding Luxembourg S.àr.l, Münsbach	100.00%
Scania Real Estate Holding Oy, Helsinki	100.00%
Scania Real Estate Hong Kong Ltd., Hong Kong	100.00%
Scania Real Estate Hungaria Kft., Biatorbágy	100.00%
Scania Real Estate Kenya Ltd., Nairobi	100.00%
Scania Real Estate Lund AB, Södertälje	100.00%
Scania Real Estate Österreich GmbH, Brunn am Gebirge	100.00%

Name and domicile of the company	Equity interest in %
Scania Real Estate Polska Sp. z o.o., Nadarzyn	100.00%
Scania Real Estate Romania S.R.L., Ciorogârla	100.00%
Scania Real Estate Schweiz AG, Kloten	100.00%
Scania Real Estate Services AB, Södertälje	100.00%
Scania Real Estate Slovakia s.r.o., Senec	100.00%
Scania Real Estate The Netherlands B.V., Breda	100.00%
Scania Regional Agent de Asigurare S.R.L., Ciorogârla	100.00%
Scania Rent Romania S.R.L., Ciorogârla	100.00%
Scania Romania S.R.L., Ciorogârla	100.00%
Scania Sales (China) Co., Ltd., Beijing	100.00%
Scania Sales and Service (Guangzhou) Co., Ltd., Guangzhou	100.00%
Scania Sales and Services AB, Södertälje	100.00%
Scania Schweiz AG, Kloten	100.00%
Scania Senegal S.U.A.R.L., Dakar	100.00%
Scania Services del Perú S.A., Lima	100.00%
Scania Servicios, S.A. de C.V., Querétaro	99.99%
Scania Siam Co. Ltd., Bangkok	99.99%
Scania Siam Leasing Co. Ltd., Bangkok	100.00%
Scania Singapore Pte. Ltd., Singapore	100.00%
Scania Slovakia s.r.o., Senec	100.00%
Scania Slovenija d.o.o., Ljubljana	100.00%
Scania South Africa (Pty) Ltd., Aeroton	100.00%
Scania Srbija d.o.o., Krnješevci	100.00%
Scania Suomi Oy, Helsinki	100.00%
Scania Sverige AB, Södertälje	100.00%
Scania Sverige Bussar AB, Södertälje	100.00%
Scania Tanzania Ltd., Dar es Salaam	100.00%
Scania Thailand Co. Ltd., Bangkok	99.99%
Scania Transportlaboratorium AB, Södertälje	100.00%

Name and domicile of the company	Equity interest in %
Scania Treasury AB, Södertälje	100.00%
Scania Trucks & Buses AB, Södertälje	100.00%
Scania USA Inc., San Antonio, Texas	100.00%
Scania Used Vehicles AB, Södertälje	100.00%
Scania West Africa Ltd., Accra	100.00%
Scania-Kringlan AB, Södertälje	100.00%
Scanlink Ltd., Milton Keynes	100.00%
Scanrent – Alguer de Viaturas sem Condutor, S.A., Santa Iria de Azóia	100.00%
Scantruck Ltd., Milton Keynes	100.00%
Södertälje Bilkredit AB, Södertälje	100.00%
SOE Busproduction Finland Oy, Lahti	100.00%
Southway Scania Ltd., Milton Keynes	100.00%
SST Sustainable Transport Solutions India Pvt. Ltd., Nagpur	99.99%
Suvesa Super Veics Pesados Ltda., Eldorado do Sul	99.98%
TimmerLogistikVäst AB, Amal	100.00%
TOV Donbas-Scan-Service, Makijivka	100.00%
TOV Kyiv-Scan, Kiev	100.00%
TOV MAN Truck & Bus Ukraine, Kiev	100.00%
TOV Scania Credit Ukraine, Kiev	100.00%
TOV Scania Ukraine, Kiev	100.00%
TOV Scania-Lviv, Lviv	100.00%
TRATON AB, Södertälje	100.00%
UAB Scania Lietuva, Vilnius	100.00%
Union Trucks Ltd., Milton Keynes	100.00%
Vabis Bilverkstad AB, Södertälje	100.00%
Vabis Försäkringsaktiebolag, Södertälje	100.00%
Vindbron Arendal AB, Södertälje	100.00%
Westrucks Ltd., Milton Keynes	100.00%

Name and domicile of the company	Equity interest in %
B. Unconsolidated companies	
1. Germany	
GETAS Verwaltung GmbH & Co. Objekt Ausbildungszentrum KG, Pullach i. Isartal	100.00%
LoadFox GmbH, Munich	87.00%
MAN Erste Beteiligungs GmbH, Munich	100.00%
MAN Grundstücksgesellschaft mbH & Co. Gamma KG, Munich	100.00%
MAN Grundstücksgesellschaft mbH, Oberhausen	100.00%
MAN HR Services GmbH, Munich	100.00%
MAN Personal Services GmbH, Dachau	100.00%
MAN-Unterstützungskasse GmbH, Munich	100.00%
Ortan Verwaltung GmbH & Co. Objekt Karlsfeld KG, Pullach i. Isartal	100.00%
2. Other countries	
ERF (Holdings) plc, Swindon	100.00%
ERF Ltd., Swindon	100.00%
Lauken S.A., Montevideo	100.00%
LKW Komponenten s.r.o., Bánovce nad Bebravou	100.00%
MAN Financial Services Administrators (S.A.) (Pty) Ltd., Isando	100.00%
MAN Latin America Importacao, Industria e Comércio de Veículos Ltda., Resende	100.00%
MAN Truck & Bus India Pvt. Ltd., Pune	100.00%
OOO Truck Production RUS, St. Petersburg	100.00%
S.A. Trucks Ltd., Bristol	100.00%
Scanexpo S.A., Montevideo	100.00%
Scania Credit (Hong Kong) Ltd., in liquidation, Hong Kong	100.00%
Scania de Venezuela S.A., Valencia	100.00%
Scania Finance Israel Ltd., Tel Aviv	100.00%
Scania Rent Bulgaria EOOD, in liquidation, Sofia	100.00%

Name and domicile of the company	Equity interest in %
Scania-MAN Administration ApS, Copenhagen	100.00%
TRATON, LLC, Herndon, Virginia	100.00%
III. JOINT VENTURES	
1. Germany	
HINO & TRATON Global Procurement GmbH, Munich	51.00%
2. Other countries	
Cummins-Scania XPI Manufacturing, LLC, Columbus, Indiana	50.00%
Global Truck & Bus Procurement LLC, Lisle, Illinois	51.00%
Oppland Tungbilservice A/S, Fagernes	50.00%
Tynset Diesel A/S, Tynset	50.00%
IV. ASSOCIATES	
1. Germany	
Rheinmetall MAN Military Vehicles GmbH, Munich	49.00%
sennder GmbH, Berlin	16.85%
2. Other countries	
AKOA Stockholm AB, Stockholm	26.30%
BITS DATA i Södertälje AB, Södertälje	33.00%
Corebon AB, Arlöv	24.20%
Innokraft AB, Sundsvall	46.00%
JV MAN AUTO – Uzbekistan LLC, Samarkand City	49.00%
N.W.S. S.r.l., Trento	46.50%
Navistar International Corporation, Lisle, Illinois	16.77%
ScaValencia, S.A., Ribarroja del Turia	26.00%
Sinotruk (Hong Kong) Ltd., Hong Kong	25.00%
Södertälje Science Park AB, Södertälje	25.00%

Name and domicile of the company	Equity interest in %
V. OTHER EQUITY INVESTMENTS	
1. Germany	
Car2Car Communication Consortium, Braunschweig	5.55%
FFK Fahrzeugservice Förtsch GmbH Kronach, Kronach	30.00%
Grundstücksgesellschaft Schlossplatz 1 mbH & Co. KG, Berlin	8.16%
Roland Holding GmbH, Munich[1]	22.83%
Verwaltungsgesellschaft Wasseralfingen mbH, Aalen	50.00%
2. Other countries	
AMEXCI AB, Karlskoga	9.10%
Barkarby Science AB, Järfälla	14.29%
Enersize OY, Helsinki	2.75%
Kiinteistö Oy Kairapolanne, Saariselkä	34.00%
Maghreb Truck Industry SpA, Sidi M'Hamed	10.00%
NorthVolt AB, Stockholm	1.72%
Shenzhen Haylion Technologies Co. Ltd., Shenzhen	2.00%

1 Share of voting rights: 32.82%

FURTHER INFORMATION

FURTHER INFORMATION

Responsibility Statement

To the best of our knowledge, and in accordance with the applicable reporting principles, the consolidated financial statements give a true and fair view of the assets, liabilities, financial position, and profit or loss of the Group, and the Combined Management Report includes a fair review of the development and performance of the business and the position of the TRATON GROUP, together with a description of the material opportunities and risks associated with the expected development of the TRATON GROUP.

Munich, February 10, 2020

TRATON SE

The Executive Board

Andreas Renschler	Christian Schulz	Antonio Roberto Cortes
Joachim Drees	Henrik Henriksson	Dr. Carsten Intra
Christian Levin		

Independent Auditor's Report

To TRATON SE, Munich

Report on the audit of the consolidated financial statements and of the Group management report

Audit Opinions

We have audited the consolidated financial statements of TRATON SE, Munich, and its subsidiaries (the Group), which comprise the statement of financial position as at December 31, 2019, and the statement of profit or loss, statement of comprehensive income, statement of changes in equity and statement of cash flows for the financial year from January 1 to December 31, 2019, and notes to the consolidated financial statements, including a summary of significant accounting policies. In addition, we have audited the group management report of TRATON SE, which is combined with the Company's management report, for the financial year from January 1 to December 31, 2019. In accordance with the German legal requirements, we have not audited the content of the statement on corporate governance pursuant to § [Article] 289f HGB [Handelsgesetzbuch: German Commercial Code] and § 315d HGB.

In our opinion, on the basis of the knowledge obtained in the audit,

- the accompanying consolidated financial statements comply, in all material respects, with the IFRSs as adopted by the EU, and the additional requirements of German commercial law pursuant to § 315e Abs. [paragraph] 1 HGB and, in compliance with these requirements, give a true and fair view of the assets, liabilities, and financial position of the Group as at December 31, 2019, and of its financial performance for the financial year from January 1 to December 31, 2019, and
- the accompanying group management report as a whole provides an appropriate view of the Group's position. In all material respects, this group management report is consistent with the consolidated financial statements, complies with German legal requirements and appropriately presents the opportunities and risks of future development. Our audit opinion on the group management report does not cover the content of the statement on corporate governance referred to above.

Pursuant to § 322 Abs. 3 Satz [sentence] 1 HGB, we declare that our audit has not led to any reservations relating to the legal compliance of the consolidated financial statements and of the group management report.

Basis for the Audit Opinions

We conducted our audit of the consolidated financial statements and of the group management report in accordance with § 317 HGB and the EU Audit Regulation (No. 537/2014, referred to subsequently as "EU Audit Regulation") in compliance with German Generally Accepted Standards for Financial Statement Audits promulgated by the Institut der Wirtschaftsprüfer [Institute of Public Auditors in Germany] (IDW). Our responsibilities under those requirements and principles are further described in the "Auditor's Responsibilities for the Audit of the Consolidated Financial Statements and of the Group Management Report" section of our auditor's report. We are independent of the group entities in accordance with the requirements of European law and German commercial and professional law, and we have fulfilled our other German professional responsibilities in accordance with these requirements. In addition, in accordance with Article 10 (2) point (f) of the EU Audit Regulation, we declare that we have not provided non-audit services prohibited under Article 5 (1) of the EU Audit Regulation. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinions on the consolidated financial statements and on the group management report.

Key Audit Matters in the Audit of the Consolidated Financial Statements

Key audit matters are those matters that, in our professional judgment, were of most significance in our audit of the consolidated financial statements for the financial year from January 1 to December 31, 2019. These matters were addressed in the context of our audit of the consolidated financial statements as a whole and in forming our audit opinion thereon; we do not provide a separate audit opinion on these matters.

In our view, the matters of most significance in our audit were as follows:

1. Measurement of provision for risks relating to an EU antitrust proceeding
2. Completeness and measurement of provisions for warranty obligations arising from sales
3. Accounting treatment of goodwill

Our presentation of these key audit matters has been structured in each case as follows:

(1) Matter and issue

(2) Audit approach and findings

(3) Reference to further information

Hereinafter we present the key audit matters:

1 Measurement of provision for risks relating to an EU antitrust proceeding

(1) In the notes to the consolidated financial statements of TRATON SE, under the line item “Other provisions”, provisions for litigation and legal risks in the amount of EUR 0.4 billion are recognized with respect to the risk of future fines imposed against Scania AB due to alleged violations of antitrust law in the form of a cartel for the purpose of price coordination and a significant exchange of information in connection with an investigation by the European Commission. In September 2017, the EU Commission issued a decision which made Scania AB responsible for the alleged violations of antitrust law. The imposed fine totaled EUR 0.88 billion. Scania AB lodged an appeal in December 2017 with the European Court of Justice. Scania AB has given a bank guarantee as cash collateral for the period until the competent court renders its verdict. The risk assessment to be performed in relation to the outcome of the EU antitrust proceeding and the amount of the provision to cover the risk are subject to significant uncertainty and are influenced by the estimates and assumptions made by the executive directors. In financial year 2019, there was no material change in status. Due to the rules relating to crown witnesses, the fine imposed on MAN Truck & Bus SE by the European Commission was waived in full.

In our view, this matter was of particular significance for our audit, as the investigation itself is a complex matter and the measurement of the provision is significantly exposed to discretion and is influenced significantly by the estimates and assumptions made by the executive directors as to the final outcome of the proceeding.

(2) In the course of our audit we assessed, inter alia, the measures enacted by the Group to handle the substance of the European Commission’s investigation and to estimate the outcome of the proceeding (including the processes for accounting for the risk). Being aware that estimated values result in an increased risk of accounting misstatements and that management’s measurement decisions have a direct effect on consolidated profit, we assessed the appropriateness of the carrying amount of the provision, including the underlying assumptions with the assistance of our internal antitrust experts by reviewing the consistently applied calculation methodology and inspecting the underlying documents and calculations. Furthermore, we regularly had the management and Legal department of the company explain to us the current developments and reasons behind the corresponding assessments of the outcome of the proceeding and obtained and reviewed written statements from the legal advisers at Scania AB as to the status of the investigation by the European Commission on a quarterly basis.

Based on our audit procedures, we were able to satisfy ourselves that the estimates and assumptions made by the executive directors with respect to the measurement of the provision for the risks arising in connection with the alleged violation of antitrust law in connection with an investigation by the European Commission were adequately documented and substantiated.

③ The Company's disclosures on the EU antitrust proceeding are contained in sections "33. Other provisions" and "41. Legal disputes/proceedings" of the notes to the consolidated financial statements.

❷ Completeness and measurement of provisions for warranty obligations arising from sales

① EUR 1,076 million in provisions for obligations arising from sales were recognized under the "Other provisions" balance sheet item in the consolidated financial statements of TRATON SE These obligations arise under statutory and contractual guarantee obligations and for ex gratia settlements with customers. Warranty claims are calculated on the basis of losses to date, estimated future losses and the policy on ex gratia arrangements. An estimate is also made of the discount rate. In addition, assumptions must be made about the nature and extent of future guarantee and ex gratia claims. These assumptions are based on qualified estimates.

We consider this matter to be of particular significance in the context of our audit since the recognition and measurement of this item – which is material in terms of amount – is to a large extent based on estimates and assumptions made by the Company's executive directors.

② With the knowledge that estimated values result in an increased risk of accounting misstatements and that the measurement decisions made by management have a direct and significant effect on consolidated net profit/loss, we assessed the appropriateness of the carrying amounts, including by comparing these figures with historical data and using the measurement bases presented to us. Furthermore, we verified that the interest rates with matching terms were properly derived from market data. We reperformed the entire calculations (including discounting) for the provisions using the applicable measurement inputs and assessed the planned timetable for utilizing the provisions.

In doing so, we were able to verify that the estimates applied and the assumptions made by management were sufficiently documented and supported to justify the recognition and measurement of the provisions for warranty obligations arising from sales.

③ The Company's disclosures pertaining to other provisions are contained in sections 4. "Accounting and valuation principles - Other provisions" and 33. "Other provisions" of the notes to the consolidated financial statements.

❸ Accounting treatment of goodwill

① The intangible assets recognized in TRATON SE's consolidated financial statements included goodwill amounting to EUR 3,278 million. The Company allocates goodwill to the subgroups within the TRATON SE Group. As part of the regular impairment testing of goodwill, the Company compares the carrying amount of the subgroups against their respective recoverable amount. In general, the recoverable amount is calculated on the basis of the value in use. The value in use is calculated using discounted cash flow models on the basis of the respective subgroup's five-year operating plan prepared by management and extrapolated based on assumptions about long-term growth rates. The discount rate used is the weighted average cost of capital for the relevant reporting segment. The result of this measurement depends to a large extent on management's assessment with regard to the future cash inflows of the respective subgroups, and on the discount rate used, and is therefore subject to considerable uncertainty. Against this background and due to the underlying complexity of the measurement models, this matter was of particular importance during our audit.

② As part of our audit, we reviewed, among other things, the method used to perform impairment tests and assessed the calculation of the weighted cost of capital. We evaluated the appropriateness of the future cash inflows used in the measurement by, inter alia, comparing this data with the five-year operating plans prepared by the executive directors, and by reconciling them against general and sector-specific market expectations.

With the knowledge that even relatively small changes in the discount rate applied can have a material impact on the recoverable amounts calculated in this way, we also focused our testing in particular on the parameters used to determine the discount rate applied, and evaluated the measurement model. Furthermore, due to the materiality of goodwill, we also performed our own sensitivity analyses for the subgroups (comparison of carrying and recoverable amounts) and determined that the respective goodwill was sufficiently covered by the discounted future cash flows. Overall, the valuation parameters and assumptions used by the executive directors are in line with our expectations and are also within the ranges considered by us to be reasonable.

3 The Company's disclosures pertaining to goodwill are contained in sections 2. "Scope of consolidation" and 16. "Intangible assets" of the notes to the consolidated financial statements.

Other Information

The executive directors are responsible for the other information. The other information comprises the statement on corporate governance pursuant to § 289f HGB and § 315d HGB, which we obtained prior to the date of our auditor's report.

The annual report is expected to be made available to us after the date of the auditor's report.

Our audit opinions on the consolidated financial statements and on the group management report do not cover the other information, and consequently we do not express an audit opinion or any other form of assurance conclusion thereon.

In connection with our audit, our responsibility is to read the other information and, in so doing, to consider whether the other information

- is materially inconsistent with the consolidated financial statements, with the group management report or our knowledge obtained in the audit, or
- otherwise appears to be materially misstated.

Responsibilities of the Executive Directors and the Supervisory Board for the Consolidated Financial Statements and the Group Management Report

The executive directors are responsible for the preparation of the consolidated financial statements that comply, in all material respects, with IFRSs as adopted by the EU and the additional requirements of German commercial law pursuant to § 315e Abs. 1 HGB and that the consolidated financial statements, in compliance with these requirements, give a true and fair view of the assets, liabilities, financial position, and financial performance of the Group. In addition the executive directors are responsible for such internal control as they have determined necessary to enable the preparation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the consolidated financial statements, the executive directors are responsible for assessing the Group's ability to continue as a going concern. They also have the responsibility for disclosing, as applicable, matters related to going concern. In addition, they are responsible for financial reporting based on the going concern basis of accounting unless there is an intention to liquidate the Group or to cease operations, or there is no realistic alternative but to do so.

Furthermore, the executive directors are responsible for the preparation of the group management report that, as a whole, provides an appropriate view of the Group's position and is, in all material respects, consistent with the consolidated financial statements, complies with German legal requirements, and appropriately presents the opportunities and risks of future development. In addition, the executive directors are responsible for such arrangements and measures (systems) as they have considered necessary to enable the preparation of a group management report that is in accordance with the applicable German legal requirements, and to be able to provide sufficient appropriate evidence for the assertions in the group management report.

The supervisory board is responsible for overseeing the Group's financial reporting process for the preparation of the consolidated financial statements and of the group management report.

Auditor's Responsibilities for the Audit of the Consolidated Financial Statements and of the Group Management Report

Our objectives are to obtain reasonable assurance about whether the consolidated financial statements as a whole are free from material misstatement, whether due to fraud or error, and whether the group management report as a whole provides an appropriate view of the Group's position and, in all material respects, is consistent with the consolidated financial statements and the knowledge obtained in the audit, complies with the German legal requirements and appropriately presents the opportunities and risks of future development, as well as to issue an auditor's report that includes our audit opinions on the consolidated financial statements and on the group management report.

Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with § 317 HGB and the EU Audit Regulation, and in compliance with German Generally Accepted Standards for Financial Statement Audits promulgated by the Institut der Wirtschaftsprüfer (IDW) will always detect a material misstatement. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these consolidated financial statements and this group management report.

We exercise professional judgment and maintain professional skepticism throughout the audit. We also:

- Identify and assess the risks of material misstatement of the consolidated financial statements and of the group management report, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our audit opinions. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal controls.
- Obtain an understanding of internal control relevant to the audit of the consolidated financial statements and of arrangements and measures (systems) relevant to the audit of the group management report in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an audit opinion on the effectiveness of these systems.
- Evaluate the appropriateness of accounting policies used by the executive directors and the reasonableness of estimates made by the executive directors and related disclosures.
- Conclude on the appropriateness of the executive directors' use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Group's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in the auditor's report to the related disclosures in the consolidated financial statements and in the group management report or, if such disclosures are inadequate, to modify our respective audit opinions. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Group to cease to be able to continue as a going concern.
- Evaluate the overall presentation, structure and content of the consolidated financial statements, including the disclosures, and whether the consolidated financial statements present the underlying transactions and events in a manner that the consolidated financial statements give a true and fair view of the assets, liabilities, financial position and financial performance of the Group in compliance with IFRSs as adopted by the EU and the additional requirements of German commercial law pursuant to § 315e Abs. 1 HGB.
- Obtain sufficient appropriate audit evidence regarding the financial information of the entities or business activities within the Group to express audit opinions on the consolidated financial statements and on the group management report. We are responsible for the direction, supervision and performance of the group audit. We remain solely responsible for our audit opinions.
- Evaluate the consistency of the group management report with the consolidated financial statements, its conformity with German law, and the view of the Group's position it provides.
- Perform audit procedures on the prospective information presented by the executive directors in the group management report. On the basis of sufficient appropriate audit evidence we evaluate, in particular, the significant assumptions used by the executive directors as a basis for the prospective information, and evaluate the proper derivation of the prospective information from these assumptions. We do not express a separate audit opinion on the prospective information and on the assumptions used as a basis. There is a substantial unavoidable risk that future events will differ materially from the prospective information.

We communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

We also provide those charged with governance with a statement that we have complied with the relevant independence requirements, and communicate with them all relationships and other matters that may reasonably be thought to bear on our independence, and where applicable, the related safeguards.

Based on the matters communicated with those charged with governance, we determine those matters that were of most significance in the audit of the consolidated financial statements for the current period and are therefore the key audit matters. We describe these matters in our auditor's report, unless law or regulation precludes public disclosure about the matter.

Other legal and regulatory requirements

Further Information pursuant to Article 10 of the EU Audit Regulation

We were elected as group auditor by the annual general meeting on February 20, 2019. We were engaged by the supervisory board on November 10, 2019. We have been the group auditor of TRATON SE, Munich, without interruption since the financial year 2019.

We declare that the audit opinions expressed in this auditor's report are consistent with the additional report to the audit committee pursuant to Article 11 of the EU Audit Regulation (long-form audit report).

German Public Auditor responsible for the engagement

The German Public Auditor responsible for the engagement is Klaus Schuster.

Munich, February 10, 2020

PricewaterhouseCoopers GmbH
Wirtschaftsprüfungsgesellschaft

Frank Hübner	Klaus Schuster
German Public Auditor	German Public Auditor

Financial Diary

03/23/2020
Annual Report 2019

05/04/2020
Q1 2020 Interim Statement

05/28/2020
Annual General Meeting 2020

07/31/2020
Half-Yearly Financial Report 2020

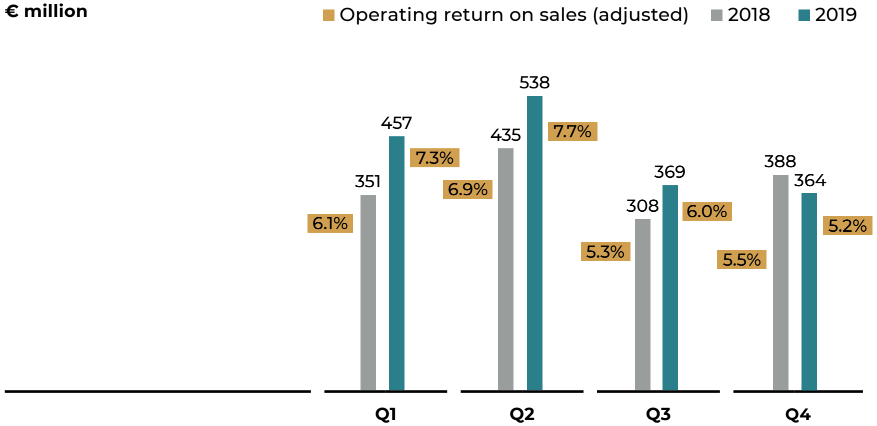
11/02/2020
9M 2020 Interim Statement

Supplementary Information and Glossary

1. Key performance indicators

Our key performance indicators are described on pages 42 to 44 in the Combined Management Report. We also use the following additional indicators to analyze our business situation:

ADJUSTED OPERATING PROFIT IN THE INDUSTRIAL BUSINESS SEGMENT BY QUARTER[1]



	Q1 2018	Q1 2019	Q2 2018	Q2 2019	Q3 2018	Q3 2019	Q4 2018	Q4 2019
Operating profit, Industrial business	351	457	435	551	193	369	366	364
Adjustments, Industrial business	–	–	–	–13	115	–	22	–
Operating profit, Industrial business (adjusted)	**351**	**457**	**435**	**538**	**308**	**369**	**388**	**364**

1 Not audited

ADJUSTED EBITDA IN THE INDUSTRIAL BUSINESS SEGMENT

Adjusted EBITDA (earnings before interest, taxes, depreciation, and amortization) reflects the Industrial Business segment's operating performance before interest, taxes, depreciation, and amortization, after accounting for the use of resources. Because depreciation and amortization may depend on the chosen accounting policies, the carrying amounts, the capital structure, and the way in which an asset was acquired, adjusted EBITDA is used above all as an indicator for peer group comparisons.

ADJUSTED EBITDA

€ million	2019	2018
Operating profit	1,741	1,346
Adjustments	–13	137
Adjusted operating profit[1]	1,729	1,484
plus share of profits and losses of equity-method investments	208	209
plus other financial result	101	54
plus depreciation and amortization of, and impairment losses on, intangible assets, property, plant, and equipment, and investment property, net of impairment reversals	859	634
plus amortization of, and impairment losses on, capitalized development costs, net of impairment reversals	192	170
plus impairment losses on equity investments, net of impairment reversals	–67	–184
Adjusted EBITDA[1]	**3,022**	**2,366**

1 Not audited

FINANCIAL SERVICES: NET PORTFOLIO

The net portfolio is calculated as the aggregate of the following balance sheet items:

- Financial services receivables
- Recognized buyback obligations in the Financial Services segment
- Vehicles with buyback obligations.

It is based on the values from the perspective of the Financial Services segment.

2. Defined terms

BASIS OF CONSOLIDATION:
The basis of consolidation is composed of all companies included in the consolidated financial statements.

BRAND:
The TRATON GROUP's brands are Scania (including Scania Financial Services), MAN (including the MAN SE holding company), Volkswagen Caminhões e Ônibus, and the RIO digital brand.

CAPITALIZATION RATIO:
The capitalization ratio is defined as the ratio of capitalized development costs to total research and development costs in the Industrial Business segment. It represents the share of total primary expenses for research and development that is required to be capitalized.

THE CODE:
The German Corporate Governance Code (the "Code") constitutes key statutory requirements for the management and supervision of listed German companies and contains internationally and nationally recognized standards of good, responsible corporate governance in the form of recommendations and suggestions.

COMMITTEE OF SPONSORING ORGANIZATIONS OF THE TREADWAY COMMISSION (COSO):
Internationally recognized framework for enterprise risk management and internal control (ICS)

COMPLIANCE:
Adherence to statutory provisions, internal corporate policies, and ethical principles

CONTRACT LIABILITY:
Obligation to transfer goods or services to a customer for which it has already provided or is yet to provide a consideration

CORPORATE GOVERNANCE:
A commonly used international term that denotes responsible corporate management and control geared towards long-term value added

DERIVATIVES/DERIVATIVE FINANCIAL INSTRUMENTS:
Financial instruments whose value is derived primarily from the price and price volatility/expectations of an underlying (e.g., stocks, foreign currency, interest-bearing securities)

DISTRIBUTION RATIO:
The distribution ratio is defined as the ratio of total common shares to profit after tax attributable to shareholders of TRATON SE. The distribution ratio provides information about the distribution of profits.

DIVIDEND YIELD:
Dividend yield is defined as the ratio of the dividend for the reporting period to the closing price per share class on the final trading date of the reporting period and indicates the return per share. Dividend yield is used in particular for measuring and comparing shares.

EQUITY METHOD:
Method of including investments that are not consolidated in the investor's consolidated financial statements in cases where the investor has significant influence over the investment's financial and operating policy decisions. The carrying amount of the investment is adjusted for any changes in the investor's share of the investment's equity. These changes are usually reported in the owner's income statement.

EQUITY RATIO:
Indicates the ratio of total equity to total capital

EUROPEAN MEDIUM TERM NOTE (EMTN) PROGRAM:
A master agreement between companies and bond dealers that allows companies to place securities on the European capital markets very quickly to obtain debt capital

FAIR VALUE:
The amount for which an asset could be exchanged, or a liability settled, between knowledgeable, willing parties in an arm's length transaction

FUNCTIONAL EXPENSES:
Functional expenses comprise the cost of sales, distribution expenses, and general and administrative expenses.

IPO:
An Initial Public Offering by a previously unlisted company (AG or SE) to subscribe for shares of the issuing company

OPERATING UNIT:
The three operating units Scania Vehicles & Services, MAN Truck & Bus, and Volkswagen Caminhões e Ônibus belong to the Industrial Business segment. They operate the main business of the TRATON GROUP with the production of trucks, buses, and engines and the provision of services.

OPTION:
Agreement under which the purchaser is entitled, but not obligated, to acquire (call option) or sell (put option) the underlying asset at a future date for a predefined price. By contrast, the seller of the option is obligated to sell or purchase the asset and usually receives a premium for granting the option rights.

OTHER COMPREHENSIVE INCOME:
Other comprehensive income is a special category within equity. It contains gains and losses recognized in the balance sheet, but not yet realized in profit or loss, in particular from the fair value measurement of other equity investments and hedging transactions, from the translation of foreign Group entities included in the consolidated financial statements, and from remeasurements of pension plans, net of deferred taxes.

PRICE-EARNINGS RATIO:
The price-earnings ratio is calculated by dividing the year-end closing price per share by earnings per share. It reflects the earnings power per share and provides information about its development compared over a number of years.

SWAP:
Agreement between two counterparties to swap cash payments over a certain period. Prime examples are currency swaps, under which principal amounts denominated in various currencies are exchanged, and interest rate swaps, which usually entail the exchange of fixed and variable interest payments in the same currency.

TOTAL COST OF OWNERSHIP (TCO):
Sum of all incurred costs, for the acquisition, use, and potential disposal of an asset

UNIT SALES:
Unit sales represent the number of vehicles sold by our brands: Scania, MAN, and Volkswagen Caminhões e Ônibus.

WEIGHTED AVERAGE COST OF CAPITAL (WACC):
WACC is derived from the return required by investors.

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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 version will prevail.

TRATON GROUP Four-Year Overview

TRATON GROUP	2019	2018	2017	2016
Order intake (units)	227,240	243,714	229,074	190,573
of which trucks[1]	206,208	219,825	208,552	172,912
of which buses	21,032	23,889	20,522	17,661
Sales (units)	242,219	232,992	204,911	183,581
of which trucks[1]	220,723	210,363	185,693	165,806
of which buses	21,496	22,629	19,218	17,775
Sales revenue (€ million)	26,901	25,927	24,366	21,915
Operating profit (€ million)	1,884	1,513	1,512	727
Operating profit (adjusted) (€ million)[5]	1,871	1,650	1,462	1,188
Operating return on sales (in %)	7.0	5.8	6.2	3.3
Operating return on sales (adjusted) (in %)[5]	7.0	6.4	6.0	3.6

Industrial Business	2019	2018	2017	2016
Sales revenue (€ million)	26,444	24,963	23,403	21,023
Operating profit (€ million)	1,741	1,346	1,368	596
Operating profit (adjusted) (€ million)[5]	1,729	1,484	1,318	654
Operating return on sales (in %)	6.6	5.4	5.8	2.8
Operating return on sales (adjusted) (in %)[5]	6.5	5.9	5.6	3.1
Return on investment (in %)	9.7	8.6	9.0	4.0
Primary R&D costs (€ million)	1,376	1,411	1,427	1,310
Capital expenditures in property. plant. and equipment. and intangible assets (€ million)	993	931	839	1,054
Net cash flow (€ million)	2,711	221	–162	724
Net liquidity (€ million)[2]	1,500	227	2,262	2,115

Scania Vehicles & Services	2019	2018	2017	2016
Order intake (units)	88,739	97,446	109,415	85,527
Sales (units)	99,457	96,475	90,777	81,346
Sales revenue (€ million)	13,934	12,981	12,427	10,990
Operating profit (€ million)	1,506	1,207	1,167	555
Operating return on sales (in %)	10.8	9.3	9.4	5.0

MAN Truck & Bus	2019	2018	2017	2016
Order intake (units)	100,652	112,915	94,003	85,968
Sales (units)	104,887	102,556	89,987	83,199
Sales revenue (€ million)	11,088	10,815	10,022	9,247
Operating profit (€ million)	371	402	526	405
Operating return on sales (in %)	3.3	3.7	5.3	4.4

Volkswagen Caminhões e Ônibus	2019	2018	2017	2016
Order intake (units)	41,103	36,535	27,381	20,369
Sales (units)	41,891	36,362	25,881	20,369
Sales revenue (€ million)	1,738	1,421	1,162	864
Operating profit/loss (€ million)	55	28	–103	–192
Operating return on sales (in %)	3.2	2.0	–8.8	–22.3

Financial Services	2019	2018	2017	2016
Sales revenue (€ million)	849	760	721	709
Operating profit (€ million)	142	138	111	105
Net portfolio (€ million)[2]	9,936	8,699	–	–

TRATON shares	2019	2018	2017	2016
Earnings per share (€)[3]	3.04	2.78	2.06	0.42
Dividend per share (€)[4]	1.00	–	–	–
Number of common shares at December 31	500,000,000	10,000,200	–	–
Common shares. closing price (Xetra price in €)	23.92	–	–	–

1 Incl. MAN TGE vans

2 As of December 31

3 Comparable earnings per share for 2016 to 2018 calculated on the basis of 500 million shares

4 2019: proposed dividend. subject to approval by the 2020 Annual General Meeting

5 Not audited


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