TRATON GROUP

2020

HALF-YEAR FINANCIAL REPORT

EDITORIAL

Dear Ladies and Gentlemen,

Despite its relatively short history, the TRATON GROUP has already achieved a lot. A year after going public, we as a company are on the right track: we have strong new products, global partners, and have established our name on the market. That is why I am proud to be given the opportunity to continue the success story of the TRATON GROUP as its CEO. After all, despite everything we have already achieved, we still have a lot of potential that I would like to leverage together with the TRATON team.

So what is important in those famous first 100 days? Over the next few weeks, I will be listening carefully to our employees to find out where they themselves see opportunities for taking TRATON to the next level. There will be no taboos as we analyze where we are right now. We will clearly define our fields of action and determine concrete measures that will enable us to shape the future of TRATON. The strength and experience of our three brands Scania, MAN, and Volkswagen Caminhões e Ônibus will help us to do so. TRATON has a very strong foundation, something we will build on together with the whole team. We have, after all, set out to actively shape the future of transportation.

I look forward to the journey ahead.

Sincerely,

Matthias Gründler
CEO of the TRATON GROUP

MANAGEMENT BOARD

MATTHIAS GRÜNDLER

Chief Executive Officer
TRATON SE

CHRISTIAN SCHULZ

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

CHRISTIAN LEVIN

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

HENRIK HENRIKSSON

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

DR. ANDREAS TOSTMANN

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

ANTONIO ROBERTO CORTES

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

2 SEGMENTS

The business activities of the TRATON GROUP are divided into the two segments Industrial Business and Financial Services. The Industrial Business segment combines the three operating units MAN Truck & Bus, Scania Vehicles & Services, and Volkswagen Caminhões e Ônibus. The Financial Services segment offers customers a broad range of financial services, including dealer and customer financing, leasing, and insurance products.

17 COUNTRIES

The TRATON GROUP offers light-duty commercial vehicles, trucks, and buses at 29 production and assembly sites in 17 countries.

29 LOCATIONS

FIRST HALF OF 2020:

€413 MILLION

sales revenue in the Financial Services segment

€9,854 MILLION

sales revenue in the Industrial Business segment

83,000 EMPLOYEES

The TRATON GROUP employs around 83,000 employees worldwide across its commercial vehicle brands (as of December 31, 2019).

AT A GLANCE

Operating profit/loss down around €1.3 billion to

€–220

million

Decline in operating return on sales to

–2,2%

Sales revenue decreased by 26% to around

€10.1

billion

Unit sales 37% lower at

77,738

trucks and buses

Incoming orders down by

27%

TRATON GROUP

Trucks and buses (units)	H1 2020	H1 2019	Change	Q2 2020	Q2 2019	Change
Incoming orders	87,431	120,491	–27%	33,270	56,134	–41%
Unit sales	77,738	123,336	–37%	31,748	66,173	–52%
of which trucks[1]	70,489	113,112	–38%	28,529	60,159	–53%
of which buses	7,249	10,224	–29%	3,219	6,014	–46%
TRATON GROUP						
Sales revenue (€ million)	10,073	13,541	–26%	4,394	7,128	–38%
Operating profit/loss (€ million)	–220	1,075	–1,295	–382	585	–967
Operating profit/loss (adjusted) (€ million)	–220	1,062	–1,283	–382	573	–954
Operating return on sales (in %)	–2.2	7.9	–10.1 pp	–8.7	8.2	–16.9 pp
Operating return on sales (adjusted) (in %)	–2.2	7.8	–10.0 pp	–8.7	8.0	–16.7 pp
Earnings per share (€)	–0.54	1.54	–2.09	–0.74	0.79	–1.52
Industrial Business						
Sales revenue (€ million)	9,854	13,320	–26%	4,290	7,015	–39%
Operating profit/loss (€ million)	–265	1,008	–1,273	–400	551	–951
Operating profit/loss (adjusted) (€ million)	–265	996	–1,260	–400	538	–939
Operating return on sales (in %)	–2.7	7.6	–10.3 pp	–9.3	7.9	–17.2 pp
Operating return on sales (adjusted) (in %)	–2.7	7.5	–10.2 pp	–9.3	7.7	–17.0 pp
Adjusted EBITDA (€ million)	315	1,549	–80%	–99	783	–113%
Primary R&D costs (€ million)	558	663	–16%	273	354	–23%
Capex (€ million)	438	356	23%	220	201	9%
Net cash flow (€ million)	–347	1,784	–2,131	–179	182	–361
Cash conversion rate (in %)	n/a	258	n/a	n/a	53	n/a
Net liquidity/net financial debt (€ million)[2]	–376	1,500	–1,876	–376	1,500	–1,876
Financial Services						
Sales revenue (€ million)	413	419	–2%	197	216	–9%
Operating profit/loss (€ million)	44	70	–25	19	37	–18
Net portfolio (€ million)[2]	9,270	9,936	–666	9,270	9,936	–666

1 Incl. MAN TGE vans (H1 2020: 6,355 units, H1 2019: 7,266 units; Q2 2020: 2,927 units, Q2 2019: 4,144 units)
2 As of June 30, 2020, and December 31, 2019

CONTENTS

TRATON SE's half-year financial report meets the requirements set out in the applicable provisions of the *Wertpapierhandelsgesetz* (WpHG — German Securities Trading Act) and, in accordance with section 115 of the WpHG, comprises the condensed half-yearly consolidated financial statements, the interim Group management report, and a responsibility statement. This half-year financial report should be read in conjunction with our Annual Report for fiscal year 2019, which contains a comprehensive description of our business activities.

Our half-year financial report contains certain forward-looking statements for the remaining months of fiscal year 2020. 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 figures for the prior-year period are presented in parentheses alongside the figures for the fiscal year under review.

In connection with the United Kingdom's withdrawal from the EU on January 31, 2020, the "EU28+2" region has been renamed the "EU27+3" region starting in 2020 (defined as the EU27 countries excluding Malta, plus the United Kingdom, Norway, and Switzerland).

1

TO OUR SHAREHOLDERS

TO OUR SHAREHOLDERS

TRATON on the Capital Markets

Rollercoaster ride on the stock markets

In an unusually tumultuous first half of 2020, the global stock markets recorded extreme volatility, ranging from record highs before the outbreak of the COVID-19 pandemic through the "Corona crash" in mid-March, down to the significant recovery rally that ran until the end of June.

A number of leading equity indices were still posting all-time highs at some points in February. The spread of the COVID-19 pandemic in the large industrial nations and the escalation of the epidemic into a global pandemic saw global share prices collapse between the end of February and the middle of March. The Dow Jones Industrial Average plummeted by almost 37% between February 19 and March 23, while the Dax slumped by more than 5,000 points, reaching a multiyear low on March 18. According to estimates by the IMF (International Monetary Fund), the COVID-19 pandemic will most likely result in one of the worst recessions in economic history, against which unprecedented countermeasures have now been launched worldwide. Nevertheless, the IMF is projecting a dramatic 4.9% decline in global economic activity for 2020.

All the same, many stock markets experienced a bull market from April to June, recovering significantly from their annual lows. Massive monetary and fiscal policy support measures by governments and central banks spurred on the financial markets and gave investors hope that the crisis could be overcome more quickly. In addition, the first signs of success in combating the pandemic, above all in Europe, enabled the economy to restart slowly. Nevertheless, volatility on the global stock markets remained high in light of the tremendous uncertainty about how the crisis will develop, as well as its economic consequences.

The Stoxx Europe 50, which is the index of the largest listed European companies, ultimately fell by 12.2% in the first six months of 2020. The Dax, Germany's benchmark index, closed the period down 7.1%. The SDax, which comprises the 70 largest companies in Germany outside the Dax and the MDax, declined by 7.8%. 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 a drop of 14.9% in the first six months of 2020.

TRATON experiences volatile share price performance

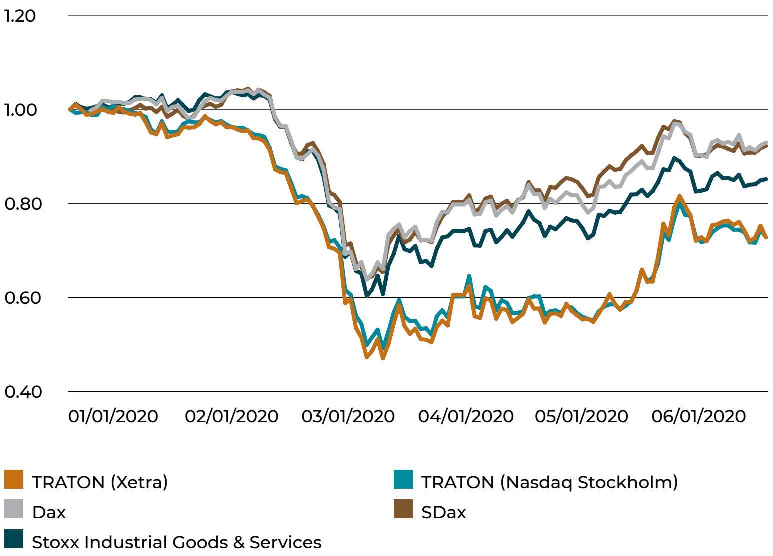
At the beginning of 2020, TRATON shares benefited from a friendly stock market environment. The shares reached their current 2020 high of €24.15 on the Frankfurt Stock Exchange on January 2, 2020. TRATON shares were unable to escape the collapse in the global stock markets from the end of February as a result of the spread of the COVID-19 pandemic and the related measures to curb the pandemic and reached a low of €11.23 on March 23, 2020. The share price on the Nasdaq Stockholm in Sweden reached a high of SEK 254.85 on January 13, 2020, and a low for 2020 of SEK 123.98 on March 23, 2020.

Beginning in April, TRATON shares benefited from the significantly improved stock market environment, buoyed by the support measures launched by governments and central banks. The restart of production from the end of April and positive analyst comments supported this price trend. TRATON shares were priced at €17.39 and SEK 184.00 on June 30, 2020. This represented a share price decrease of 27.3% and 27.2%, respectively, compared with the year-end.

TRATON SE's market capitalization at the end of the first six months of 2020 was €8.7 billion. The free float calculated in accordance with the criteria used by Deutsche Börse was 10.3% on June 30, 2020. The largest single shareholder is Volkswagen Finance Luxemburg S.A., Luxembourg, a Volkswagen Group company, which holds 89.72% of the share capital.

Currently, 18 financial analysts have issued an investment recommendation for TRATON shares. As of the end of the first half of 2020, six analysts voted for "Buy" and ten for "Hold."

TRATON SHARE PRICE PERFORMANCE COMPARED WITH SELECTED INDICES SINCE JANUARY 1, 2020 (INDEXED)



TRATON's investor relations activities

Following the initial public offering (IPO) at the end of June 2019, we further intensified our investor relations activities in the current year. We provided timely information to institutional investors and analysts, as well as retail investors, about the TRATON GROUP's business performance and strategic focus. Despite the pandemic-related restrictions in recent months, we also held continuous talks with institutional investors and analysts, most recently in the course of virtual roadshows and virtual investor conferences in Europe and the USA.

TRATON investor relations information

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

KEY FIGURES FOR TRATON SHARES

	06/30/2020	06/30/2019
Earnings per share from continuing operations in € (diluted/basic)	–0.54	1.55
Earnings per share from continuing and discontinued operations in € (diluted/basic)	–0.54	1.54
Xetra closing price (€)	17.39	26.45
Nasdaq Stockholm closing price (SEK)	184.00	278.55
Number of shares (million)	500	500
Market capitalization (€ billion)	8.7	13.2

Highlights in the First Half of 2020

At the end of January, TRATON SE made an offer to the shareholders of US commercial vehicle manufacturer Navistar International Corporation to acquire all outstanding shares at a price of USD 35 per share. TRATON currently holds a 16.7% interest in its cooperation partner Navistar.

Since 2017, TRATON and Navistar have benefited from a strategic alliance that leverages synergies in procurement and the integration of new technologies. In light of the future evolution of the global commercial vehicle sector, the proposed transaction is the next logical step in our Global Champion Strategy. Although the COVID-19 pandemic has delayed the process, the strategic direction remains relevant.

To simplify the TRATON GROUP's overall structure, MAN SE (MAN) will be merged with TRATON SE, as TRATON announced at the end of February. In connection with this merger, TRATON intends to implement the procedure for transferring the shares held by MAN's noncontrolling interest shareholders to TRATON in exchange for an appropriate cash settlement (squeeze-out under merger law).

TRATON currently holds 94.36% of MAN's share capital and will pay MAN's noncontrolling interest shareholders an appropriate cash settlement for the purchase of the outstanding 5.64% of MAN's shares. The appropriate cash settlement has not yet been decided.

Despite the effects of the COVID-19 pandemic and the economic consequences of the measures taken globally to curb the pandemic, the TRATON GROUP brands were able to record numerous highlights:

SCANIA:

- Scania has received a major order for 75 battery-electric trucks from leading Norwegian food wholesaler ASKO, which will be delivered between 2020 and 2022 under the terms of a three-year master agreement. ASKO had already added four Scania trucks with fuel cell electric drives to its fleet at the beginning of the year.
- Scania is striving to become the leading global provider of sustainable trucks and buses and has pledged to achieve the goals of the Paris climate agreement to limit global warming to 1.5°C above preindustrial levels. Scania's far-reaching climate goals have now been officially confirmed by the Science Based Targets initiative (SBTi). The Swedish brand will cut the carbon footprint of its business activities by 50% by 2025 and reduce the emissions of its products by 20% over the same period.
- Scania delivered the first four gas-powered trucks from its Brazilian production plant in São Bernardo do Campo. Two Scania R 410 compressed gas trucks went to two Brazilian transportation companies RN Express and Jomed LOG.

MAN:

- MAN Truck & Bus presented an entirely newly developed generation of trucks for the first time in 20 years. It is systematically aligned with the shifting needs of the transportation industry and sets standards for assistance systems, driver guidance, and digital networking. Thanks to improved concepts for powertrains, aerodynamics, and the MAN EfficientCruise efficiency assistant, this new generation of trucks is up to 8% more economical than the previous generation, as confirmed by TÜV Süd.

- MAN Truck & Bus also celebrated a premiere in the bus segment in the first half of the year: sales of the MAN Lion's City 18 E, optimized for urban transportation, started in April. The 18-meter-long electric articulated bus brings up to 120 passengers to their destination safely and comfortably, with zero local emissions. This electric articulated bus will make its debut in scheduled operations in Barcelona and Cologne.
- The MAN Lion's City E already picked up prominent design awards as a solo 12-meter-long bus. This fully electric city bus received the iF Gold Award from the iF International Forum Design jury for its ergonomic, aesthetically pleasing, and systematically well thought-out design, as well as the high-quality appeal of its materials. This saw the bus design team winning for the fifth time in a row. The Automotive Brand Contest jury also awarded the internationally coveted design prize to the Lion's City E in the "Commercial Vehicle" category.

VOLKSWAGEN CAMINHÕES E ÔNIBUS:

- Volkswagen Caminhões e Ônibus significantly extended its market share in Brazil for trucks over 6t in the first six months of 2020 compared with the same period in 2019. It also recorded a success in the bus business: VWCO received more than half of the orders (58%) in a government tender for school buses. VWCO already started delivering the 3,600 buses in the first half of the year.
- Volkswagen Caminhões e Ônibus is celebrating an anniversary this year that is tremendously significant both for the brand and for the Brazilian city of Resende: 25 years ago, Resende was chosen as the site of VWCO's main plant.
- For the first time in its history, Volkswagen Caminhões e Ônibus refreshed its logo, which is used in freight and passenger transportation in more than 30 countries. The new emblem aims to introduce a more modern positioning for the brand. Simpler lines make the symbol appear more contemporary. It has a 2D design, making it more versatile and more flexible.

Postponement of the Annual General Meeting of TRATON SE

At the end of March 2020, the Executive Board of TRATON SE resolved to postpone the Annual General Meeting for fiscal year 2019 scheduled for May 28, 2020, due to the COVID-19 pandemic. In order to protect all attendees at the Annual General Meeting, TRATON SE is following the advice of the Robert Koch Institute and the health authorities to avoid public events so as to prevent coronavirus infections. The new date for the Annual General Meeting will be September 23, 2020.

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INTERIM GROUP MANAGEMENT REPORT

of the TRATON GROUP as of June 30, 2020

INTERIM GROUP MANAGEMENT REPORT

of the TRATON GROUP as of June 30, 2020

Report on Economic Position

1. Macroeconomic environment

The global spread of the SARS-CoV-2 coronavirus, the associated restrictions, and the resulting downturn in demand and supply meant that growth in the world economy was negative in the first half of 2020. The average rate of expansion of gross domestic product (GDP) was far below the previous year's level in both the advanced economies and the emerging markets. At country level, performance in the reporting period depended on the extent to which the negative impacts of the global COVID-19 pandemic were already materializing. The governments and central banks of numerous countries throughout the world responded in some cases with substantial fiscal and monetary policy measures. This meant cuts in the already relatively low interest rates. There was a significant decline in prices for energy resources, while other commodity prices were, on average, down slightly year-on-year. Currencies in some emerging markets suffered palpable depreciation in the first half of 2020. Global trade in goods declined further in the reporting period.

As a whole, the economies of Western Europe recorded a sharp fall in growth from January to June 2020. This trend was seen in all countries in Northern and Southern Europe. The impact of national measures to contain the pandemic was substantial. These included border closures and spatial/physical distancing. In some regions, the measures severely restricted everyday life and also had grave economic consequences. During the second quarter, the governments of many European countries started to partially lift restrictions, thus giving rise to a slow economic recovery.

Germany recorded a markedly negative growth rate over the reporting period. The labor market was in a favorable situation at the start of the year, but many companies introduced short-time working throughout the course of the first half of the year. Both business and consumer sentiment saw only a modest improvement — despite the initial easing of restrictions in everyday life and economic activity as well as government assistance packages enacted to support the economy.

The economies in Central and Eastern Europe reported an overall marked decline in the real absolute GDP in the first six months of 2020. This development was also caused by the impact of national measures aimed at preventing the spread of the COVID-19 pandemic.

In Turkey, the recovery from the first quarter could not be sustained — the GDP growth rate was negative overall. South Africa's GDP growth declined sharply in the reporting period amid persistent structural deficits and political challenges.

Growth in the US economy receded significantly amid rapidly increasing rates of infection in the first two quarters of 2020. To strengthen the economy in light of the negative impact of the COVID-19 pandemic, the US government passed comprehensive support packages. The US Federal Reserve cut interest rates twice, alongside other measures to support the economy. The weekly number of people filing new claims for unemployment benefits rose by several million and led to a soaring increase in the unemployment rate. In the neighboring countries of Canada and Mexico, economic output also fell significantly and sharply respectively compared to the same period of 2019.

Brazil's economy also recorded a sharp drop from January to June 2020, resulting from the rising rate of infections caused by the COVID-19 pandemic. The economic downturn in Argentina intensified amid high inflation and continuing currency depreciation.

Economic output in China, which was exposed to the negative effects of the COVID-19 pandemic much earlier than other economies, fell in the reporting period; however, an increase was recorded in the second quarter. India registered a sharp fall in growth amid the rising number of infections. Japan also recorded a negative GDP growth compared to the same period of the previous year due to the adverse impact of the COVID-19 pandemic.

2. Market environment

The available registration data for the TRATON GROUP's core regions reflects the situation from January through June 2020, January through May 2020 for the bus market in Mexico, and January through April 2020 for the truck market in South Africa.

The most important truck markets (> 6t) for the TRATON GROUP are the EU27+3 region (defined as the EU27 countries excluding Malta, plus the United Kingdom, Norway, and Switzerland) as well as Brazil, South Africa, Russia, and Turkey. Registrations in the EU27+3 region were down substantially year-on-year. The already expected market downturn was reinforced by the COVID-19 pandemic, in particular in the second quarter. The 2019 comparative period additionally contained pull-forward effects from the introduction of the digital tachograph in June 2019 and the potential for a no-deal Brexit.

The other markets were also heavily impacted by the COVID-19 pandemic. In Brazil, truck registrations were down sharply on the prior-year period, in South Africa they decreased substantially. The Russian market recorded a significant decline. Turkey recorded a substantial increase in registrations, albeit based on a very low prior-year period.

The most important bus markets for the TRATON GROUP are the EU27+3 region, Brazil, and Mexico. The bus markets were also heavily impacted by the COVID-19 pandemic. Bus registrations in the EU27+3 region were down substantially year-on-year, with the coach market in particular coming to a virtual standstill. Bus registrations also decreased substantially in Brazil and Mexico. The 2019 prior-year period also contained registrations from the government program for school buses in Brazil.

3. Results of operations

INCOMING ORDERS

INCOMING ORDERS, INDUSTRIAL BUSINESS

Units	H1 2020	H1 2019	Change
Incoming orders, Industrial Business	**87,431**	**120,491**	**–27%**
of which trucks[1]	79,329	109,208	–27%
of which buses	8,102	11,283	–28%

1 Incl. MAN TGE vans (H1 2020: 8,437 units; H1 2019: 7,729 units)

Incoming orders in the Industrial Business segment stood at 87,431 (H1 2019: 120,491) units in the first six months of 2020, down 27% on the previous year's level. This reduction was attributable to both the Truck and the Bus business. The economic downturn already expected for 2020 was amplified by the uncertainty due to the COVID-19 pandemic, especially in the second quarter of 2020. Overall incoming orders in the standalone second quarter were down 41% on the prior-year quarter.

Incoming orders for trucks declined substantially in the EU27+3 region and in South America. The decline in South America was attributable in particular to Brazil. Incoming orders only increased substantially in the Middle East region, resulting from growth in orders in Saudi Arabia, Turkey, and the United Arab Emirates.

Incoming orders in the Bus business amounted to 8,102 (H1 2019: 11,283) units in the first six months of 2020, representing a 28% decline compared with the prior-year period. Incoming orders in the EU27+3 region, South America, and Mexico, in particular, were substantially impacted by the uncertainty resulting from the COVID-19 pandemic. However, incoming orders rose substantially in Russia and the Middle East region, above all in Turkey and Saudi Arabia.

UNIT SALES

UNIT SALES BY COUNTRY

Units	H1 2020	H1 2019	Change
Unit sales, Industrial Business	**77,738**	**123,336**	**–37%**
Unit sales, trucks[1]	**70,489**	**113,112**	**–38%**
EU27+3	39,817	73,462	–46%
of which in Germany	11,525	20,786	–45%
South America	18,079	23,068	–22%
of which in Brazil	15,920	20,732	–23%
Other regions	12,593	16,582	–24%
Unit sales, buses	**7,249**	**10,224**	**–29%**
EU27+3	2,627	3,348	–22%
of which in Germany	549	580	–5%
South America	3,107	4,484	–31%
of which in Brazil	2,329	3,254	–28%
Other regions	1,515	2,392	–37%

1 Incl. MAN TGE vans (H1 2020: 6,355 units; H1 2019: 7,266 units)

Unit sales in the Industrial Business segment amounted to 77,738 (H1 2019: 123,336) units in the first half of 2020, and hence were down 37% on the previous year's level. This decline was attributable to both the Truck and the Bus business. The expected decline in the Truck business in 2020 in the EU27+3 region was further reinforced by the uncertainty and restrictions resulting from the COVID-19 pandemic, especially in the second quarter of 2020. Overall unit sales in the standalone second quarter were down 52% on the prior-year quarter.

The dramatic decline in truck unit sales in the EU27+3 region was attributable to all countries in the region. Truck unit sales in Brazil, in particular, were impacted by the substantial decline in South America. The reduction in the other markets is attributable mainly to Russia and South Africa. Unit sales only increased noticeably in the Middle East region, driven by growth in Turkey and Saudi Arabia.

Unit sales of buses were down substantially year-on-year in both the EU27+3 region and in South America. Because of the COVID-19 pandemic, unit sales were impacted by the decline in almost all countries in the EU27+3 region, with only unit sales of buses in Sweden, Norway, and the Czech Republic recording growth. The downturn in the remaining regions is attributable in particular to Mexico. Unit sales rose substantially in Russia and Turkey.

SALES REVENUE

SALES REVENUE BY PRODUCT GROUP

€ million	H1 2020	H1 2019	Change
TRATON GROUP	**10,073**	**13,541**	**–26%**
Industrial Business	**9,854**	**13,320**	**–26%**
New Vehicles	5,682	8,849	–36%
After Sales[1]	2,301	2,458	–6%
Others	1,871	2,013	–7%
Financial Services	**413**	**419**	**–2%**
Consolidation/others	–194	–199	–

1 Incl. spare parts and workshop services

The TRATON GROUP generated sales revenue of €10.1 billion in the first six months of 2020 (H1 2019: €13.5 billion), a year-on-year decline of 26%. The 26% decline in sales revenue in the Industrial Business segment was attributable primarily to the New Vehicles business, and reflected the slump in truck and bus sales. The After Sales business was also hit by the uncertainty and restrictions resulting from the COVID-19 pandemic, but only recorded a relatively small decline of 6%. The decline in Others is attributable to the used vehicle and engine business. Negative exchange rate effects also weighed on sales revenue.

Sales revenue in the Financial Services segment recorded a slight decline. An average higher net portfolio in the first six months of 2020 was offset by negative exchange rate effects and lower interest rates.

PROFIT AND LOSS

CONDENSED TRATON GROUP INCOME STATEMENT

	TRATON GROUP		Industrial Business		Financial Services		Others/reconciliation	
€ million	**H1 2020**	**H1 2019**	**H1 2020**	**H1 2019**	**H1 2020**	**H1 2019**	**H1 2020**	**H1 2019**
Sales revenue	10,073	13,541	9,854	13,320	413	419	–194	–199
Cost of sales	–8,637	–10,762	–8,567	–10,685	–263	–272	193	195
Gross profit	**1,436**	**2,778**	**1,287**	**2,635**	**150**	**147**	**–1**	**–4**
Distribution expenses	–1,104	–1,214	–1,044	–1,151	–61	–63	1	1
Administrative expenses	–422	–502	–422	–502	–	–	–	–
Other operating result	–130	12	–85	27	–44	–14	0	0
Operating profit/loss	**–220**	**1,075**	**–265**	**1,008**	**44**	**70**	**0**	**–3**
Operating return on sales (in %)	–2.2	7.9	–2.7	7.6	10.8	16.6	–	–
Financial result	–101	–31	–101	–34	0	0	0	3
Profit/loss before tax	**–321**	**1,044**	**–366**	**975**	**45**	**70**	**0**	**0**
Income taxes	32	–251	47	–281	–15	–18	1	48
Loss from discontinued operations, net of tax	–	–2	–	–2	–	–	–	–
Profit/loss after tax	**–289**	**792**	**–319**	**692**	**29**	**52**	**1**	**48**

Operating profit/loss:
Following its outbreak in the first quarter, the full effect of the decline in demand in connection with the continuing COVID-19 pandemic, in particular in Europe and South America, was felt in the entire second quarter, leading to a €1,343 million (–48%) drop in gross profit in the reporting period compared with the prior-year period. A large number of countermeasures were launched to mitigate the economic consequences for the Company. Examples of these steps included cuts in subcontracted work and the worldwide closure of our production sites starting in the second half of March until the successive restart from the end of April. Short-time working arrangements and similar measures to reduce personnel costs were also used, as well as systematic reductions in non-staff-related operating expenses, such as postponing or cancelling events and projects, and cuts to planned expenditures.

The gross margin was 14.3% (H1 2019: 20.5%), falling in particular because of the 26% reduction in sales revenue compared with the prior-year period. The gross margin was also impacted by higher depreciation and amortization charges, as well as additional expenses in connection with the rollout of the new truck generation at MAN Truck & Bus. An increasingly difficult used vehicle business also contributed to this development.

The cooperation between the TRATON GROUP and Navistar International Corporation, Lisle, Illinois, USA (Navistar), takes a variety of forms: a procurement joint venture, technology collaboration, and a range of supply agreements for drive components. The latter cooperation already existed between MAN and Navistar separately from the strategic alliance agreed by TRATON and Navistar in 2016. Navistar's management notified us on June 26, 2020, that the collaboration relating to a diesel engine would be terminated. The resulting expenses incurred in the mid-double digit millions of euros are contained in cost of sales and other operating expenses of the Industrial Business segment. This does not affect the other areas in which Navistar and the TRATON GROUP collaborate.

Distribution and administrative expenses declined significantly year-on-year because of the measures initiated in connection with the COVID-19 pandemic — in particular short-time working and similar measures for reducing personnel costs, as well as systematic reductions in non-staff-related operating expenses. The fact that the expenses incurred in the prior-year period in conjunction with the TRATON GROUP's capital market readiness and its initial public offering (IPO) no longer applied also played a role here. The increase in distribution expenses in connection with the introduction of the new generation of trucks at MAN Truck & Bus was significantly offset overall. The ratio of distribution and administrative expenses to sales revenue rose by 2.5 percentage points year-on-year due to the decline in sales revenue.

Other operating result declined by €142 million. The main drivers of this decline were increased expenses from bad debt allowances on receivables — which rose in particular in the Financial Services segment due to the economic impact of the COVID-19 pandemic on our customers —, increased expenses for provisions, and net higher expenses from the measurement and realization of foreign currency items. Other positive factors in the prior-year period were income from insurance payments and the partial reversal of an impaired indirect tax receivable in Brazil.

The TRATON GROUP's operating profit fell by €1,295 million to an operating loss of €220 million due to the factors described above. The TRATON GROUP's operating return on sales decreased by 10.1 percentage points to –2.2%.

Financial result:
At €–101 million, financial result was down €70 million year-on-year. This was driven primarily by the lower share of profits and losses of equity-method investments — mainly the investment in Sinotruk (Hong Kong) Limited, Hong Kong, China (Sinotruk) — and measurement losses from foreign exchange rate changes.

Taxes:
Income taxes fell by €283 million to a reported tax income of €32 million, primarily consisting of future tax benefits from the planned partial utilization of tax loss carryforwards. This corresponds to a tax rate of 10% (H1 2019: 24%), which represents a year-on-year decrease primarily because of the partial nonrecognition of deferred tax assets in respect of current losses.

Profit/loss after tax:
The loss after tax was €289 million in the first six months of 2020 and thus €1,081 million lower than the result in the prior-year period (H1 2019: profit of €792 million). Earnings per share fell from €1.54 to €–0.54. Calculation of earnings per share was based on 500 million shares.

The Executive and Supervisory Boards of TRATON SE are proposing to the Annual General Meeting to be held on September 23, 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, was already transferred to Volkswagen AG, Wolfsburg (Volkswagen AG), under the domination and profit and loss transfer agreement in the first quarter of 2020. 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	H1 2020	H1 2019	Change
Operating profit/loss	–265	1,008	–1,273
Operating profit/loss (adjusted)	–265	996	–1,260
Operating return on sales (in %)	–2.7	7.6	–10.3 pp
Operating return on sales (adjusted) (in %)	–2.7	7.5	–10.2 pp
Capex	438	356	82
Primary R&D costs	558	663	–104

Operating profit/loss:
The operating loss in the reporting period was driven in particular by the downturn in demand in connection with the continuing COVID-19 pandemic and the resulting decline in unit sales. Higher depreciation and amortization charges, additional costs in conjunction with the introduction of the new generation of trucks at MAN Truck & Bus, increased expenses for provisions, net higher expenses from the measurement and realization of foreign currency items, and increased expenses from bad debt allowances on receivables also contributed to the operating loss. An increasingly difficult used vehicle business also played a part in this development.

A large number of countermeasures were launched to mitigate the economic consequences for the Company. Examples of these steps included cuts in subcontracted work and the worldwide closure of our production sites starting in the second half of March until the gradual restart from the end of April. Short-time working arrangements and similar measures to reduce personnel costs were also used, as well as systematic reductions in non-staff-related operating expenses, such as postponing or cancelling events and projects, and cuts to planned expenditures.

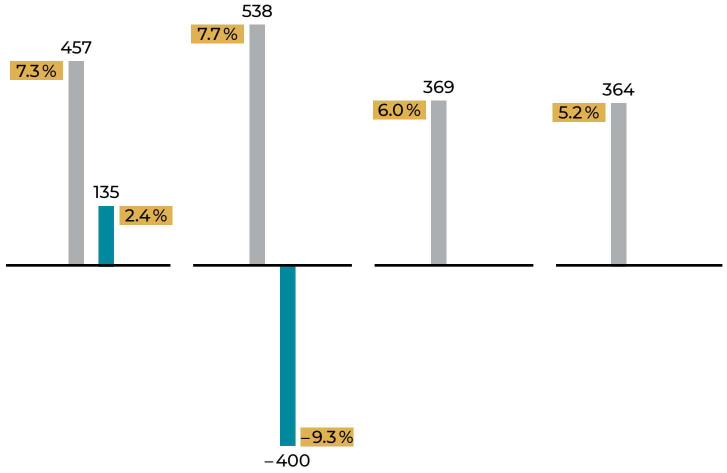
Operating profit/loss (adjusted):
There were no adjustments in the reporting period from January to June 2020, so the reported operating loss of €265 million and the operating return on sales of –2.7% are the same as the adjusted operating loss and the adjusted operating return on sales. In the prior-year comparative period, operating profit included adjustments of €13 million from the reversal of provisions for restructurings. Adjusted operating profit in the prior-year period was €996 million and the adjusted operating return on sales was 7.5%.

Capex:
Capex rose by €82 million in the first six months of 2020. The primary investing activities related to replacement investments, capital expenditures in conjunction with new products, such as engine platforms and transmissions, as well as capital expenditures in facility expansions, e.g., foundry equipment. The targeted prioritization of investment activities slowed capex growth in the second quarter compared with the prior-year period.

Primary research and development costs:
Primary research and development costs declined by €104 million in the reporting period. This was mainly achieved by the targeted reprioritization of projects. In addition, high R&D expenses in connection with the development of the new truck and bus generations at MAN Truck & Bus also had an effect in the prior-year period.

Overview by quarter:

OPERATING PROFIT/LOSS INDUSTRIAL BUSINESS (ADJUSTED)



	Q1		Q2		Q3		Q4	
	2019	2020	2019	2020	2019		2019	
Operating profit/loss, Industrial Business	457	135	551	–400	369		364	
Adjustments, Industrial Business	–	–	–13	–	–		–	
Operating profit/loss, Industrial Business (adjusted)	**457**	**135**	**538**	**–400**	**369**		**364**	

BUSINESS PERFORMANCE: FINANCIAL SERVICES

KEY PERFORMANCE INDICATORS, FINANCIAL SERVICES

	H1 2020	H1 2019	Change
Operating profit (€ million)	44	70	–25
Operating return on sales (in %)	10.8	16.6	–5.9 pp

The Financial Services segment's operating profit declined to €44 million in the first half of 2020 (H1 2019: €70 million). The decline was the result of lower margins, negative exchange rate effects, and higher bad debt allowances.

The number of financing contracts fell from around 175,700 as of December 31, 2019, to around 175,400 as of June 30, 2020. 17,804 (H1 2019: 26,978) new contracts were entered into in the first six months of 2020. The year-on-year drop in new contracts is primarily attributable to the lower unit sales.

4. Financial position

CASH FLOW

CONDENSED TRATON GROUP STATEMENT OF CASH FLOWS

	TRATON GROUP		Industrial Business		Financial Services		Others/reconciliation	
€ million	**H1 2020**	**H1 2019**	**H1 2020**	**H1 2019**	**H1 2020**	**H1 2019**	**H1 2020**	**H1 2019**
Cash and cash equivalents as of January 1	**1,913**	**2,997**	**1,853**	**2,945**	**60**	**53**	**0**	**0**
Gross cash flow	620	1,825	560	1,780	219	248	–159	–203
Change in working capital	–155	–2,155	–307	–1,407	–28	–933	181	186
Net cash provided by/used in operating activities	**465**	**–330**	**252**	**373**	**190**	**–685**	**22**	**–17**
Net cash provided by/used in investing activities attributable to operating activities	–591	1,410	–599	1,412	–1	–2	9	0
Change in marketable securities, investment deposits, and loans	1,177	–1,313	1,285	–689	0	–31	–108	–593
Net cash provided by/used in investing activities	**586**	**97**	**686**	**723**	**–1**	**–33**	**–99**	**–593**
Net cash provided by/used in financing activities	**–319**	**–105**	**–234**	**–1,443**	**–161**	**728**	**76**	**610**
Effect of exchange rate changes on cash and cash equivalents	–73	10	–70	8	–4	2	1	0
Change in cash and cash equivalents	**659**	**–328**	**635**	**–339**	**24**	**12**	**0**	**0**
Cash and cash equivalents as of June 30	**2,572**	**2,670**	**2,488**	**2,605**	**84**	**64**	**0**	**0**
Gross cash flow	620	1,825	560	1,780	219	248	–159	–203
Change in working capital	–155	–2,155	–307	–1,407	–28	–933	181	186
Net cash provided by/used in investing activities attributable to operating activities	–591	1,410	–599	1,412	–1	–2	9	0
Net cash flow	**–126**	**1,080**	**–347**	**1,784**	**189**	**–687**	**31**	**–17**

Gross cash flow fell by €1,205 million to €620 million in the first half of 2020, primarily due to earnings-related factors. The TRATON GROUP introduced short-time working and similar measures in order to cushion the consequences of the COVID-19 pandemic.

The change in funds tied up in working capital had a negative impact of €155 million on net cash provided by/used in operating activities in the reporting period, €2 billion less than in the prior-year period. The production stop at all plants caused by the COVID-19 pandemic and other steps taken resulted in a €657 million lower increase in inventories and a slight €64 million reduction in financial services receivables, following a €617 million increase in the prior-year period. The crisis-driven reduction in unit sales caused trade receivables to decline by €361 million in the first six months of 2020, whereas trade receivables had risen by €212 million in the prior-year period.

Working capital was negatively impacted by the €305 million decline in liabilities (H1 2019: €251 million increase). In the reporting period, this was primarily due to the €323 million decrease (H1 2019: €199 increase) in liabilities from sales with buyback obligations due to the decline in unit sales. This decrease should be seen in conjunction with the €378 million decline in assets leased out (H1 2019: €219 million increase). The aforementioned changes in assets leased out result from the net additions and disposals reported in working capital and depreciation charges reported in gross cash flow. Working capital was also impacted by the €139 million (H1 2019: €87 million) reduction in trade payables.

Net cash provided by investing activities attributable to operating activities in the first quarter of 2019 was marked by the proceeds from the disposal of the Power Engineering business amounting to €1,978 million. Other capital expenditures in the first six months of 2020 increased by €23 million year-on-year due to higher spending on property, plant, and equipment. TRATON is reviewing all investments in light of the new situation.

The TRATON GROUP's net cash flow decreased overall by €1,206 million to €–126 million.

Following the significantly negative impact of the consequences of the COVID-19 pandemic on the TRATON GROUP's net cash flow in April, significantly positive net cash flow was generated again in May and June.

Inflows from marketable securities and investment deposits in net cash provided by investing activities in the first half of 2020 amounted to €1,177 million (H1 2019: outflows of €1,313 million), primarily because of the lower investments of cash funds by TRATON SE with Volkswagen AG as of the June 30, 2020, reporting date.

Net cash used in financing activities amounted to €319 million (H1 2019: €105 million) in the reporting period.

In 2020, this reflected the profit transfer of €1,404 million to Volkswagen AG for the previous year and a contribution of €54 million to capital reserves by Volkswagen AG in conjunction with the Relationship Agreement dated June 14, 2019. In 2019, it included the loss absorption by Volkswagen AG for 2018 amounting to €4,161 million and a distribution from retained earnings to Volkswagen AG in the amount of €3,250 million.

Moreover, bonds amounting to €441 million (net) were issued in the first six months of 2020 (H1 2019: €1,045 million) and miscellaneous financial liabilities of €589 million (net) were originated (H1 2019: net repayments of €953 million). This includes payments of lease liabilities amounting to €103 million (H1 2019: €79 million).

CASH CONVERSION RATE IN THE INDUSTRIAL BUSINESS SEGMENT

€ million	H1 2020	H1 2019	Change
Net cash flow	–347	1,784	–2,131
Profit/loss after tax	–319	692	–1,011
Cash conversion rate (in %)	**n/a**	**258**	**n/a**

The cash conversion rate in the prior-year period was positively affected by the proceeds of €1,978 million from the disposal of the Power Engineering business. In the first six months of 2020, the negative net cash flow did not result in any meaningful cash conversion rate. For a description of the material factors affecting net cash flow and profit/loss after tax, refer to the disclosures in the sections "Profit and loss" and "Cash flow."

NET LIQUIDITY

TRATON GROUP NET LIQUIDITY

	TRATON GROUP		Industrial Business	
€ million	06/30/2020	12/31/2019	06/30/2020	12/31/2019
Cash and cash equivalents	2,572	1,913	2,488	1,853
Marketable securities, investment deposits, and loans to affiliated companies	2,014	3,195	2,014	3,288
Gross liquidity	**4,586**	**5,108**	**4,502**	**5,141**
Total third-party borrowings	–13,236	–12,497	–4,878	–3,641
Net liquidity/net financial debt	**–8,650**	**–7,390**	**–376**	**1,500**

Net debt rose by €1,260 million to €8,650 million in the first half of 2020.

Investment deposits as of June 30, 2020, contained deposits by TRATON SE of €2,000 million (December 31, 2019: €3,100 million) with Volkswagen AG.

The liquidity reserve available to the TRATON GROUP consists of undrawn credit lines from banks and Volkswagen AG amounting to €5.6 billion, including €3 billion from Volkswagen AG.

During the second quarter of 2020, TRATON SE agreed new uncommitted credit lines of an additional €0.6 billion in order to enhance flexibility in financing decisions.

The COVID-19 pandemic resulted in a significant deterioration in market conditions. The existing €1 billion financing by Volkswagen AG at a fixed rate of interest was already agreed before the outbreak of the COVID-19 pandemic.

5. Net assets

BALANCE SHEET ANALYSIS

CONDENSED TRATON GROUP BALANCE SHEET

	TRATON GROUP		Industrial Business		Financial Services		Others/reconciliation	
€ million	**06/30/2020**	**12/31/2019**	**06/30/2020**	**12/31/2019**	**06/30/2020**	**12/31/2019**	**06/30/2020**	**12/31/2019**
Intangible assets	6,563	6,755	6,559	6,750	5	4	–	–
Property, plant, and equipment	6,622	6,789	6,610	6,778	24	25	–12	–13
Assets leased out	6,581	7,119	6,574	7,115	748	826	–742	–821
Equity-method investments	1,345	1,365	1,345	1,365	–	–	–	–
Other equity investments	35	34	397	386	0	0	–362	–352
Income tax receivables	112	167	85	141	28	26	0	–
Deferred tax assets	1,040	970	1,001	935	57	48	–18	–13
Financial services receivables	7,465	7,991	9	10	7,456	7,981	0	0
Inventories	4,790	4,943	4,790	4,943	–	–	–	–
Trade receivables	1,666	2,144	1,710	2,216	22	34	–66	–106
Other assets	2,002	1,816	1,831	1,727	1,235	1,320	–1,064	–1,231
Marketable securities and investment deposits	2,005	3,178	2,005	3,178	–	–	–	–
Cash and cash equivalents	2,572	1,913	2,488	1,853	84	60	–	0
Total assets	**42,798**	**45,183**	**35,401**	**37,396**	**9,660**	**10,324**	**–2,263**	**–2,536**
Equity	13,448	14,134	12,718	13,365	957	971	–227	–201
Financial liabilities	13,236	12,497	4,878	3,641	8,380	8,998	–22	–141
Provisions for pensions and other post-employment benefits	1,742	1,769	1,732	1,759	10	10	–	–
Income tax payables	86	278	76	265	11	13	0	–
Deferred tax liabilities	685	787	630	733	70	63	–15	–9
Income tax provisions	66	51	62	47	4	4	–	–
Other provisions	2,047	2,094	2,045	2,092	2	3	–	–
Other liabilities	9,270	11,101	11,057	13,042	146	138	–1,933	–2,079
Trade payables	2,219	2,472	2,205	2,453	80	125	–66	–106
Total equity and liabilities	**42,798**	**45,183**	**35,401**	**37,396**	**9,660**	**10,324**	**–2,263**	**–2,536**

The first six months of 2020 were shaped by the global COVID-19 pandemic and the often weeks-long lockdowns in many of the TRATON GROUP's markets. The TRATON GROUP therefore took a wide range of steps to mitigate the effects, such as cutting subcontracted work, using short-time working and similar measures to reduce personnel costs, the temporary closure of our production sites, postponing or cancelling events and projects, as well as cuts to planned expenditures.

Both the COVID-19 pandemic and the resulting measures substantially impacted the TRATON GROUP's net assets.

The TRATON GROUP's total assets declined by €2,385 million compared with December 31, 2019. This decline was due primarily to the reduction in marketable securities and investment deposits by €1,173 million, in products leased out by €538 million, in financial services receivables by €526 million, and in trade receivables by €478 million.

Property, plant, and equipment fell by €168 million compared with December 31, 2019. This was mainly attributable to the translation of property, plant, and equipment accounted for in foreign currencies, in particular the Brazilian real.

Equity-method investments declined slightly due to dividends received or resolved, which were not offset by the lower share of profits or losses of material investees included in the consolidated financial statements.

Cash and cash equivalents amounted to €2,572 million as of the reporting date (December 31, 2019: €1,913 million). The reduction in marketable securities and investment deposits and the origination of financial liabilities resulted in a cash inflow, while the transfer of the profit for 2019 to Volkswagen AG, among other factors, resulted in a cash outflow.

The TRATON GROUP's total equity decreased from €14,134 million as of December 31, 2019, to €13,448 million as of June 30, 2020. This is due primarily to the loss after tax of €289 million. There were also negative effects from the translation of financial statements of foreign operations, in particular due to the negative exchange rate movement for the Brazilian real. The €54 million contribution by Volkswagen AG as a result of the Relationship Agreement dated June 14, 2019, had an offsetting effect.

Financial liabilities increased by €739 million. This chiefly reflected the increase in bonds and bank borrowings.

Income tax payables declined by €191 million year-on-year. This was mainly the result of payments relating to the consolidated tax group with Volkswagen AG in place until the end of 2019.

Other liabilities decreased by €1,831 million. This reflected the payment of the profit transfer liability to Volkswagen AG in the amount of €1,404 million and the reduction in buyback obligations in line with the decline in assets leased out.

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.

Off-balance-sheet commitments as of June 30, 2020, related to guarantees and sureties amounting to €96 million (December 31, 2019: €128 million), other contingent liabilities of €776 million (December 31, 2019: €1,059 million), and buyback guarantees (mainly to Volkswagen Group companies) of €2,388 million (December 31, 2019: €2,489 million). Other 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 irrevocable credit commitments as well as purchase commitments.

As of February 28, 2020, TRATON SE announced its intention to merge MAN SE with TRATON in order to simplify the overall structure of the TRATON GROUP. In connection with this merger, TRATON intends to implement the procedure for transferring the shares held by MAN's noncontrolling interest shareholders to TRATON in exchange for an appropriate cash settlement (squeeze-out under merger law). This proposed merger depends on its approval by MAN's Annual General Meeting.

Opportunities and Risks

The Report on Opportunities and Risks should be read in conjunction with our guidance in the 2019 Annual Report. The TRATON GROUP's risk position changed considerably compared with the guidance in the 2019 Combined Management Report. The global impact of the COVID-19 pandemic results in a very high level of uncertainty about future developments, which is reflected in particular in the risk categories of operations, markets, and finance. This may also adversely affect net assets, financial position, and results of operations in the remaining quarters of fiscal year 2020.

The focus in our operations continues to be on minimizing the health risks to our employees and business partners. Appropriate measures have been implemented across the Group (including hygiene and distancing rules, the use of face masks, working from home, avoiding business travel, employee training) that are regularly reviewed and adjusted if necessary, in all cases in accordance with official local requirements. So far, we have been able to avoid any serious outbreaks of COVID-19 at the TRATON GROUP's sites.

Production was restarted successively from the end of April. Nevertheless, there are continued considerable risks in the event that the reclosure of plants or critical production areas were to become necessary as a result of the COVID-19 pandemic. This could happen if the safety measures taken prove not to be sufficiently effective, or if general infection rates lead to renewed restrictive measures being introduced by the competent authorities.

Additionally, great attention was paid during the restart to the stability of our supply chains, which have mainly proven to be robust. Despite this, there are still considerable risks that problems at individual suppliers could lead to supply bottlenecks for purchased parts or components. TRATON counters these risks through enhanced monitoring and close consultation with its suppliers.

Notwithstanding this, there are still considerable risks that the safety measures likely to be needed in the longer term, accompanied by the plants' reduced production capacity, could lead to higher costs and lower productivity. TRATON has therefore implemented measures across the Group to safeguard our financial room for maneuver. These include introducing short-time working and similar measures, reducing subcontracted work, postponing or cancelling events and projects, as well as cuts to planned expenditures.

Over the further course of the crisis, uncertainty about economic developments is now taking center stage, which is resulting in considerable market risks for TRATON. These relate to the new and used vehicle business as well as the after-sales business, and can negatively impact sales revenue and profits. Estimates by market researchers and analysts range from a rapid economic recovery to a crisis that will last for many years (V-, U-, or L-shaped recovery). Due to the volatile market environment, TRATON regularly assesses different scenarios so that it can respond quickly to changes. Another rise in the number of COVID-19 infections with corresponding restrictions would lead to a further deterioration in market developments.

Depending on further developments, TRATON is therefore readying itself for any necessary structural changes, which could lead to a significant reduction in the number of employees. TRATON is also scrutinizing planned investments and research and development projects in all areas of the Company. The need to prioritize available resources is systematically aligned with safeguarding the Company's future prospects of success.

In the finance category, we are continuing to pay particular attention to safeguarding our liquidity if the expected lower cash inflows cannot be fully offset by a corresponding reduction in current costs. In addition, our liabilities must be settled on the due dates. As well as the instruments described in detail in the 2019 Annual Report, we have adopted additional measures in the current environment in order to monitor liquidity even more closely, identify bottlenecks at an early stage, and make additional liquidity reserves available.

Additional financial burdens may arise for the TRATON GROUP if our customers are no longer able to meet their financial obligations or if other business partners (e.g., suppliers, dealers) get into financial difficulty. Additionally, we cannot rule out effects on our strategic partnerships and initiatives.

In addition to the short- and medium-term risks described above, we assume that the COVID-19 pandemic will also have a long-term impact in the economic, political, and social environment. The ensuing consequences — positive or negative — for the TRATON GROUP continue to be unforeseeable.

An aggregated representation on the basis of risk categories is also found in the remarks in the 2019 Annual Report. Due to the extraordinary and profound repercussions of the COVID-19 pandemic, we consider it appropriate to report COVID-19 as an additional risk category until further notice. As a result, we assign the COVID-19 risk category to the "high" risk class. COVID-19 is the most significant risk for the TRATON GROUP in the aggregated representation.

Important Legal Cases

Note 41 in the notes to the consolidated financial statements in TRATON SE's Annual Report for fiscal year 2019 contains detailed information on important litigation and legal proceedings. There have been no other material developments since the publication of the Annual Report. As a result of currency fluctuations, the risk relating to the tax proceedings initiated by the Brazilian tax authorities against MAN Latin America Indústria e Comércio de Veículos Ltda. fell from €685 million to €517 million due to the translation of the risk amount, which remained unchanged at 3,129 million Brazilian real as of June 30, 2020.

Future Development

Due to the continuing spread of the COVID-19 pandemic worldwide, the related crisis measures taken by the affected countries, their drastic effects on the economy, and the associated high level of uncertainty, the Report on Expected Developments dated February 10, 2020, which TRATON SE published on March 23, 2020, as part of its 2019 Annual Report, was declared to be no longer valid in an ad hoc release published on the same day.

The TRATON GROUP took extensive measures in response to the crisis. In addition to establishing contingency plans and temporary production stops, these also include safeguarding the Company's liquidity. Through capital expenditures 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. Nevertheless, current developments as a result of the COVID-19 pandemic require us to reprioritize our capital expenditures and our research and development projects.

The impact of the COVID-19 pandemic on customer demand and supply chains still cannot be estimated with any degree of reliability, not least because of the possibility of a further rise in infection rates in Europe or other regions of the world. For our core markets, in particular, we can currently only anticipate a decline in the expected number of new registrations for 2020 as a whole in broad terms. The course of action we take in the second half of 2020 may differ accordingly. A holistic monetary assessment of all these options and their mutual dependencies is not feasible for us at this point in time.

Provided there is no further increase in the number of COVID-19 cases and no associated countermeasures are adopted by the relevant countries, we are assuming a gradual recovery in our business activity in the second half of 2020. Overall, however, we continue to expect a dramatic fall in unit sales for the fiscal year, and cannot rule out an operating loss for the TRATON GROUP in 2020.

3

OPERATING UNITS

This section does not form part of the interim Group management report or the condensed half-yearly consolidated financial statements.

Scania Vehicles & Services

	H1 2020	H1 2019	Change	Q2 2020	Q2 2019	Change
Trucks and buses (units)						
Incoming orders	34,273	48,789	–30%	13,602	22,086	–38%
Unit sales	30,437	51,524	–41%	12,253	27,948	–56%
of which trucks	27,655	47,995	–42%	11,050	25,809	–57%
of which buses	2,782	3,529	–21%	1,203	2,139	–44%
Financial key performance indicators (€ million)						
Sales revenue	5,269	7,115	–26%	2,287	3,765	–39%
Operating profit/loss	221	828	–607	–35	458	–493
Operating return on sales (in %)	4.2	11.6	–7.4 pp	–1.5	12.2	–13.7 pp

The uncertainty associated with the COVID-19 pandemic heavily impacted incoming orders and unit sales, especially in the second quarter of 2020. The market downturn already expected for 2020, especially in the EU27+3 region, was further reinforced by the COVID-19 pandemic.

Incoming orders at Scania Vehicles & Services in the first six months of 2020 came in at 34,273 (H1 2019: 48,789) units. Incoming orders for trucks fell by 30% year-on-year to 31,427 (H1 2019: 44,654) units, due primarily to decreases in the EU27+3 region and in South America. Incoming orders for trucks increased in the Asia-Pacific and the Middle East regions, as well as in Russia. Incoming orders for buses also dropped to 2,846 (H1 2019: 4,135) units. This was due chiefly to declining orders in the EU27+3 and the Asia-Pacific regions, and in Mexico.

Total unit sales of vehicles in the first six months of 2020 fell to 30,437 (H1 2019: 51,524) units. Unit sales of trucks decreased by 42% year-on-year to 27,655 (H1 2019: 47,995) units. This decline was attributable to almost all regions. Unit sales of buses dropped by 21% to 2,782 (H1 2019: 3,529) units, and were primarily attributable to South America, Africa, and Mexico. Unit sales of buses grew slightly in the EU27+3 and Asia-Pacific regions, and in Russia.

Scania Vehicles & Services' sales revenue decreased by 26% to €5,269 million (H1 2019: €7,115 million) in the reporting period. This decline was primarily attributable to the Truck business. The After Sales business was also impacted by the effects of the COVID-19 pandemic, but the 6% decline was comparatively low. Sales revenue in the Bus business saw a noticeable increase. Exchange rate effects also weighed on sales revenue.

Operating profit after the first six months of the year was €221 million (H1 2019: €828 million), representing a €607 million decrease compared with the prior-year period. This corresponds to an operating return on sales of 4.2% (H1 2019: 11.6%). Operating profit was impacted in the reporting period by the volume-driven decline in sales revenue and the measures taken in response to the COVID-19 pandemic, in particular the temporary closure of our plants. Positive factors, on the other hand, included a favorable product mix, cost savings, and slightly positive exchange rate effects. Additional costs were also incurred in the prior-year period because of the parallel production of the old and new vehicle generations.

Scania Vehicles & Services is working continuously on short-term measures to mitigate the negative impact of the continuing COVID-19 pandemic as well as on structural measures to safeguard future growth and achieve profitability targets.

MAN Truck & Bus

	H1 2020	H1 2019	Change	Q2 2020	Q2 2019	Change
Trucks and buses (units)						
Incoming orders	38,192	54,878	–30%	14,094	25,012	–44%
Unit sales	31,662	54,028	–41%	13,496	29,056	–54%
of which trucks[1]	29,531	50,890	–42%	12,471	27,332	–54%
of which buses	2,131	3,138	–32%	1,025	1,724	–41%
Financial key performance indicators (€ million)						
Sales revenue	4,079	5,523	–26%	1,812	2,908	–38%
Operating profit/loss	–387	253	–640	–310	130	–440
Operating return on sales (in %)	–9.5	4.6	–14.1 pp	–17.1	4.5	–21.6 pp

1 Incl. MAN TGE vans (H1 2020: 6,355 units, H1 2019: 7,266 units; Q2 2020: 2,927 units, Q2 2019: 4,144 units)

The uncertainty associated with the COVID-19 pandemic heavily impacted incoming orders and unit sales, especially in the second quarter of 2020. The market downturn already expected for 2020, especially in the EU27+3 region, was further reinforced by the COVID-19 pandemic.

At 38,192 (H1 2019: 54,878) vehicles, incoming orders at MAN Truck & Bus in the first six months of 2020 were down 30% year-on-year. At 26,813 (H1 2019: 43,616) units, incoming orders for trucks (> 6t) were 39% lower than in the first half of 2019. The decline was attributable to almost all regions. Incoming orders for trucks only recorded a substantial increase in the Middle East region. Incoming orders for MAN TGE vans rose noticeably to 8,437 (H1 2019: 7,729) units. Incoming orders in the Bus business were down 17% at 2,942 (H1 2019: 3,533) units, due mainly to substantial declines in the Africa and Asia-Pacific regions and a moderate decrease in the EU27+3 region. Incoming orders for buses in the Middle East region and in Russia recorded substantial growth.

Total unit sales at MAN Truck & Bus fell by 41% to 31,662 (H1 2019: 54,028) units in the first six months of 2020. Unit sales of trucks (> 6t) fell by 47% year-on-year to 23,176 (H1 2019: 43,624) units. The decrease was attributable to almost all regions, with strong growth in unit sales recorded only in the Middle East region. Unit sales of the MAN TGE van declined by 13% to 6,355 (H1 2019: 7,266) units. Unit sales of buses dropped by 32% to 2,131 (H1 2019: 3,138) units. Almost all regions were affected by this decline, with only Russia posting a substantial increase in unit sales.

MAN Truck & Bus generated sales revenue of €4,079 million (H1 2019: €5,523 million) in the first half of 2020, a year-on-year decrease of 26%. This was attributable primarily to the new and used vehicle business. The After Sales business was also impacted by the effects of the COVID-19 pandemic, but the 6% decline was comparatively low. We recorded a moderate increase in sales revenue from engines.

Operating loss after the first six months of the year was €387 million (H1 2019: operating profit of €253 million), representing a €640 million decrease compared with the prior-year period. This corresponds to an operating return on sales of –9.5% (H1 2019: 4.6%). In addition to the volume-driven decline in sales revenue, operating profit was also negatively impacted by additional costs in connection with the launch of the new truck generation and the increasingly difficult used vehicle business. The operating loss also reflects steps taken in response to the COVID-19 pandemic, in particular the temporary closure of our plants. Expenses in the mid-double digit millions of euros were incurred in conjunction with the announced termination of the cooperation with Navistar relating to a diesel engine.

MAN Truck & Bus is working continuously on short-term measures to mitigate the negative impact of the continuing COVID-19 pandemic as well as on structural measures to safeguard future growth and achieve profitability targets.

Caminhões Ônibus

Volkswagen Caminhões e Ônibus

	H1 2020	H1 2019	Change	Q2 2020	Q2 2019	Change
Trucks and buses (units)						
Incoming orders	15,175	19,362	–22%	5,658	10,445	–46%
Unit sales	15,887	20,384	–22%	6,027	10,542	–43%
of which trucks	13,540	16,681	–19%	5,035	8,339	–40%
of which buses	2,347	3,703	–37%	992	2,203	–55%
Financial key performance indicators (€ million)						
Sales revenue	612	860	–29%	229	444	–49%
Operating profit/loss	–10	18	–28	–22	10	–32
Operating profit/loss (adjusted)	–10	5	–16	–22	–3	–20
Operating return on sales (in %)	–1.7	2.1	–3.8 pp	–9.8	2.2	–12.0 pp
Operating return on sales (adjusted) (in %)	–1.7	0.6	–2.3 pp	–9.8	–0.6	–9.2 pp

The uncertainty associated with the COVID-19 pandemic heavily impacted incoming orders and unit sales, especially in the second quarter of 2020.

Incoming orders at Volkswagen Caminhões e Ônibus in the first six months of 2020 fell by 22% to 15,175 (H1 2019: 19,362) vehicles. At 12,833 (H1 2019: 15,654) units, orders for trucks were down 18% on the prior-year period. This was due to the weaker demand in Brazil and most other countries in South America, as well as Mexico. Incoming orders in Argentina rose substantially due to the very weak state of the market in 2019. Incoming orders for buses decreased by 37% to 2,342 (H1 2019: 3,708) units. This was due to the downturn in demand in Brazil and the export markets.

Total unit sales at Volkswagen Caminhões e Ônibus in the first six months of 2020 fell by 22% to 15,887 (H1 2019: 20,384) vehicles. Truck unit sales declined by 19% to 13,540 (H1 2019: 16,681) units. This was due to the weaker demand in Brazil and most other countries in South America, as well as in Mexico. Unit sales of trucks in Argentina rose substantially due to the very weak state of the market in 2019. Bus unit sales declined by 37% to 2,347 (H1 2019: 3,703) units due to lower unit sales in Brazil and the export markets.

Volkswagen Caminhões e Ônibus generated sales revenue of €612 million (H1 2019: €860 million) in the first half of 2020, a year-on-year decrease of 29%. This decline was attributable to both the Truck and the Bus business. In addition, exchange rate effects from translation into the Group currency (euros) negatively impacted sales revenue.

Operating loss after the first six months of 2020 was €10 million (H1 2019: operating profit of €18 million). This corresponds to an operating return on sales of –1.7% (H1 2019: 2.1%). Operating profit was negatively impacted in the reporting period by the volume-driven decline in sales revenue and the measures taken in response to the COVID-19 pandemic, in particular the temporary closure of our plants. By contrast, improved product positioning and overall favorable exchange rate effects in the measurement of receivables and liabilities were positive factors. In addition, a positive effect from the partial reversal of an impaired indirect tax receivable and income of €13 million from the reversal of a restructuring provision were recorded in the 2019 comparative period.

Volkswagen Caminhões e Ônibus is working continuously on short-term measures to mitigate the negative impact of the continuing COVID-19 pandemic, and continues to focus on strengthening the company in a competitive market environment with the goal of systematically improving its earnings quality.

4

CONDENSED HALF-YEARLY CONSOLIDATED FINANCIAL STATEMENTS

as of June 30, 2020

CONDENSED HALF-YEARLY CONSOLIDATED FINANCIAL STATEMENTS AS OF JUNE 30, 2020

Income Statement

of the TRATON GROUP for the period January 1 to June 30

€ million	H1 2020	H1 2019
Sales revenue	**10,073**	**13,541**
Cost of sales	–8,637	–10,762
Gross profit	**1,436**	**2,778**
Distribution expenses	–1,104	–1,214
Administrative expenses	–422	–502
Net impairment losses on financial assets	–58	–26
Other operating income	434	288
Other operating expenses	–506	–249
Operating profit/loss	**–220**	**1,075**
Share of profits and losses of equity-method investments	18	70
Interest income	34	38
Interest expense	–112	–122
Other financial result	–42	–16
Financial result	**–101**	**–31**
Profit/loss before tax	**–321**	**1,044**
Income tax expense	32	–251
current	–149	–193
deferred	181	–57
Profit/loss from continuing operations, net of tax	–289	794
Loss from discontinued operations, net of tax	-	–2
Profit/loss after tax	**–289**	**792**
of which attributable to shareholders of TRATON SE	–272	772
of which attributable to noncontrolling interests	–17	20
Earnings per share from continuing operations in € (diluted/basic)	–0.54	1.55
Earnings per share from continuing and discontinued operations in € (diluted/basic)	–0.54	1.54

Statement of Comprehensive Income

of the TRATON GROUP for the period January 1 to June 30

€ million	H1 2020	H1 2019
Profit/loss after tax	**–289**	**792**
Pension plan remeasurements recognized in other comprehensive income		
Pension plan remeasurements recognized in other comprehensive income, before tax	16	–239
Deferred taxes on pension plan remeasurements recognized in other comprehensive income	–11	66
Pension plan remeasurements recognized in other comprehensive income, net of tax	5	–173
Fair value measurement of other equity investments and marketable securities		
Fair value measurement of other equity investments and marketable securities, before tax	0	8
Deferred taxes relating to the fair value measurement of other equity investments and marketable securities	0	–2
Fair value measurement of other equity investments and marketable securities, net of tax	0	6
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	5	18
Deferred taxes relating to the share of other comprehensive income of equity-method investments that will not be reclassified subsequently to profit or loss	0	0
Share of other comprehensive income of equity-method investments that will not be reclassified subsequently to profit or loss, net of tax	6	18
Items that will not be reclassified subsequently to profit or loss	**11**	**–149**
Currency translation differences		
Unrealized currency translation gains/losses	–439	–122
Transferred to profit or loss	0	–
Currency translation differences, before tax	–439	–122
Deferred taxes relating to currency translation differences	5	0
Currency translation differences, net of tax	–435	–122
Cash flow hedges		
Fair value changes recognized in other comprehensive income	–46	2
Transferred to profit or loss	17	11
Cash flow hedges, before tax	–29	14
Deferred taxes relating to cash flow hedges	12	–5

€ million	H1 2020	H1 2019
Cash flow hedges, net of tax	–17	9
Cost of hedging		
Fair value changes recognized in other comprehensive income (cost of hedging)	0	–2
Cost of hedging transferred to profit or loss	–2	–1
Cost of hedging, before tax	–2	–3
Deferred taxes relating to cost of hedging	0	1
Cost of hedging, net of tax	–1	–2
Share of other comprehensive income of equity-method investments that may be reclassified subsequently to profit or loss		
Share of other comprehensive income of equity-method investments that may be reclassified subsequently to profit or loss	–17	14
Share of other comprehensive income of equity-method investments transferred to profit or loss	8	–
Share of other comprehensive income of equity-method investments that may be reclassified subsequently to profit or loss, before tax	–9	14
Deferred taxes relating to the share of other comprehensive income of equity-method investments that may be reclassified subsequently to profit or loss	0	1
Share of other comprehensive income of equity-method investments that may be reclassified subsequently to profit or loss, net of tax	–9	15
Items that may be reclassified subsequently to profit or loss	**–462**	**–100**
Other comprehensive income, before tax	–458	–311
Deferred taxes relating to other comprehensive income	7	62
Other comprehensive income, net of tax	**–451**	**–249**
Total comprehensive income	**–741**	**543**
of which attributable to shareholders of TRATON SE	–711	527
of which attributable to noncontrolling interests	–29	16

Balance Sheet

Assets of the TRATON GROUP as of June 30, 2020, and December 31, 2019

€ million	06/30/2020	12/31/2019
Noncurrent assets		
Intangible assets	6,563	6,755
Property, plant, and equipment	6,622	6,789
Assets leased out	6,581	7,119
Equity-method investments	1,345	1,365
Other equity investments	35	34
Noncurrent income tax receivables	2	44
Deferred tax assets	1,040	970
Noncurrent financial services receivables	4,689	4,871
Other noncurrent financial assets	359	130
Other noncurrent receivables	274	384
	27,510	**28,461**
Current assets		
Inventories	4,790	4,943
Trade receivables	1,666	2,144
Current income tax receivables	110	124
Current financial services receivables	2,776	3,120
Other current financial assets	441	338
Other current receivables	929	963
Marketable securities and investment deposits	2,005	3,178
Cash and cash equivalents	2,572	1,913
	15,288	**16,722**
Total assets	**42,798**	**45,183**

Balance Sheet

Equity and liabilities of the TRATON GROUP as of June 30, 2020, and December 31, 2019

€ million	06/30/2020	12/31/2019
Equity		
Subscribed capital	500	500
Capital reserves	20,295	20,241
Retained earnings	–4,422	–4,150
Accumulated other comprehensive income	–3,166	–2,727
Equity attributable to shareholders of TRATON SE	**13,207**	**13,865**
Noncontrolling interests	240	270
	13,448	**14,134**
Noncurrent liabilities		
Noncurrent financial liabilities	6,447	5,966
Provisions for pensions and other post-employment benefits	1,742	1,769
Noncurrent income tax payables	2	125
Deferred tax liabilities	685	787
Noncurrent income tax provisions	62	17
Other noncurrent provisions	1,183	1,225
Other noncurrent financial liabilities	2,372	2,604
Other noncurrent liabilities	1,866	2,034
	14,359	**14,527**
Current liabilities		
Current financial liabilities	6,789	6,531
Trade payables	2,219	2,472
Current income tax payables	85	153
Current income tax provisions	4	34
Other current provisions	864	869
Other current financial liabilities	1,419	2,837
Other current liabilities	3,612	3,626
	14,991	**16,522**
Total equity and liabilities	**42,798**	**45,183**

Statement of Changes in Equity

of the TRATON GROUP for the period January 1 to June 30

				Accumulated other comprehensive income		
				Items that may be reclassified subsequently to profit or loss		
€ million	**Subscribed capital**	**Capital reserves**	**Retained earnings**	**Currency translation**	**Cash flow hedges**	**Equity-method investments**
Balance as of 01/01/2019	**10**	**21,331**	**–2,064**	**–1,762**	**–6**	**–62**
Profit after tax	–	–	772	–	–	–
Other comprehensive income, net of tax	–	–	0	–121	7	14
Total comprehensive income	–	–	772	–121	7	14
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
Distribution of retained earnings	–	–	–3,250	–	–	–
Other changes[2]	–	–	–1,489	–	–	–
Balance as of 06/30/2019	**500**	**20,841**	**–5,573**	**–1,877**	**0**	**–46**
Balance as of 01/01/2020	**500**	**20,241**	**–4,150**	**–1,806**	**–8**	**–37**
Loss after tax	–	–	–272	–	–	–
Other comprehensive income, net of tax	–	–	–	–424	–18	–9
Total comprehensive income	–	–	–272	–424	–18	–9
Capital increase[3]	–	54	–	–	–	–
Other changes	–	–	0	0	–	0
Balance as of 06/30/2020	**500**	**20,295**	**–4,422**	**–2,230**	**–26**	**–46**

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, of which €230 million is attributable to noncontrolling interests.

2 Retained earnings included the share of profit/loss attributable to Volkswagen AG in the event of profit/loss transfer based on profit/loss under German GAAP.

3 Contribution of additional profit from profit transfer by Volkswagen AG under the Relationship Agreement dated June 14, 2019

	Accumulated other comprehensive income					
	Items that will not be reclassified to profit or loss					
€ million	Pension plan remeasurements	Equity-method investments	Other equity investments	Equity attributable to shareholders of TRATON SE	Noncontrolling interests	Total
Balance as of 01/01/2019	**–770**	**124**	**–1**	**16,799**	**2**	**16,801**
Profit after tax	–	–	–	772	20	792
Other comprehensive income, net of tax	–169	18	6	–245	–4	–249
Total comprehensive income	–169	18	6	527	16	543
Capital increase from capital reserves	–	–	–	–	–	–
Reduction in subscribed capital into capital reserves	–	–	–	–	–	–
Capital transactions involving a change in ownership interest[1]	8	0	–1	473	230	704
Distribution of retained earnings	–	–	–	–3,250	–	–3,250
Other changes[2]	0	0	4	–1,485	0	–1,485
Balance as of 06/30/2019	**–931**	**142**	**8**	**13,065**	**248**	**13,313**
Balance as of 01/01/2020	**–998**	**124**	**–2**	**13,865**	**270**	**14,134**
Loss after tax	–	–	–	–272	–17	–289
Other comprehensive income, net of tax	6	6	0	–439	–12	–451
Total comprehensive income	6	6	0	–711	–29	–741
Capital increase[3]	–	–	–	54	–	54
Other changes	–	–1	1	0	0	0
Balance as of 06/30/2020	**–993**	**129**	**0**	**13,207**	**240**	**13,448**

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, of which €230 million is attributable to noncontrolling interests.

2 Retained earnings included the share of profit/loss attributable to Volkswagen AG in the event of profit/loss transfer based on profit/loss under German GAAP.

3 Contribution of additional profit from profit transfer by Volkswagen AG under the Relationship Agreement dated June 14, 2019

Statement of Cash Flows

of the TRATON GROUP for the period January 1 to June 30

€ million	H1 2020	H1 2019
Cash and cash equivalents as of January 1	**1,913**	**2,997**
Profit/loss before tax	–321	1,044
Income taxes paid	–273	–256
Depreciation and amortization of, and impairment losses on, intangible assets, property, plant, and equipment, and investment property[1]	460	411
Amortization of, and impairment losses on, capitalized development costs[1]	144	92
Impairment losses on equity investments[1]	2	0
Depreciation of products leased out[1]	569	564
Change in pension obligations	–7	1
Loss on disposal of noncurrent assets and equity investments	2	–4
Share of the result of equity-method investments	–20	–70
Other noncash income/expense	66	43
Change in inventories	–123	–780
Change in receivables (excl. financial services)	361	–212
Change in liabilities (excl. financial liabilities)	–305	251
Change in provisions	38	–13
Change in products leased out	–191	–784
Change in financial services receivables	64	–617
Net cash provided by/used in operating activities	**465**	**–330**
Capital expenditures in intangible assets (excluding capitalized development costs) and property, plant, and equipment[2]	–440	–358
Additions to capitalized development costs	–168	–223
Capital expenditures to acquire other investees	–3	–5
Proceeds from the disposal of subsidiaries, net of cash disposed	0	1,978
Proceeds from the disposal of intangible assets, property, plant, and equipment, and investment property	20	18
Change in marketable securities and investment deposits	1,173	–1,381
Change in loans	4	68

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€ million	H1 2020	H1 2019
Net cash provided by/used in investing activities	**586**	**97**
Profit transfer to/loss absorption by Volkswagen AG	–1,404	4,161
Capital increase by Volkswagen AG	54	–
Distribution of retained earnings	–	–3,250
Noncontrolling interest shareholders of MAN SE: compensation payments and acquisition of shares tendered	2	–1,109
Proceeds from the issuance of bonds	1,916	1,640
Repayment of bonds	–1,475	–595
Change in miscellaneous financial liabilities	692	–874
Repayment of lease liabilities	–103	–79
Net cash used in financing activities	**–319**	**–105**
Effect of exchange rate changes on cash and cash equivalents	–73	10
Change in cash and cash equivalents	**659**	**–328**
Cash and cash equivalents as of June 30	**2,572**	**2,670**

1 Net of impairment reversals

2 Of which in the Industrial Business segment: €–438 million (H1 2019: €–356 million)

NOTES

to the Condensed Half-Yearly 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 ("the Group"). TRATON is registered in the commercial register at the Munich Local Court under no. 246068.

In accordance with Regulation 1606/2002 of the European Parliament and of the Council, the TRATON GROUP prepared its consolidated financial statements for fiscal year 2019 in compliance with International Financial Reporting Standards (IFRSs), as adopted by the European Union. The accompanying condensed half-yearly consolidated financial statements and selected explanatory notes (half-yearly consolidated financial statements) of TRATON SE as of June 30, 2020, comply with the applicable requirements of the *Wertpapierhandelsgesetz* (WpHG — German Securities Trading Act) and were prepared in compliance with IFRSs, as adopted by the European Union, and in particular with IAS 34 "Interim Financial Reporting." They do not contain all the information and disclosures required by IFRSs for full-year consolidated financial statements. The half-yearly consolidated financial statements should therefore be read in conjunction with the consolidated financial statements for the fiscal year ended December 31, 2019, and the additional information contained therein. All figures shown are rounded, so minor discrepancies may arise from addition of these amounts.

From the Executive Board's perspective, the accompanying half-yearly consolidated financial statements reflect all standard intraperiod adjustments required for the presentation of a true and fair view of the Group's net assets, financial position, and results of operations. The results presented for the first six months of fiscal year 2020 are not necessarily indicative of future results. Unless expressly indicated otherwise, the accounting policies applied to these half-yearly consolidated financial statements are identical to those adopted for the most recent consolidated financial statements.

Preparation of the half-yearly consolidated financial statements requires the Executive Board to make certain assumptions and estimates affecting the measurement and presentation of assets and liabilities and income and expenses for the period. Actual amounts may differ from these estimates.

The accompanying half-yearly consolidated financial statements were reviewed by an auditor within the meaning of section 115 of the WpHG.

2. Basis of consolidation

In addition to TRATON SE, the consolidated half-yearly financial statements comprise all significant subsidiaries that are controlled directly or indirectly by TRATON SE.

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

	06/30/2020	12/31/2019
TRATON SE and consolidated subsidiaries		
Germany	22	22
Other countries	257	257

The effects of changes in the basis of consolidation on the half-yearly consolidated financial statements were immaterial.

3. Accounting policies

TRATON has applied all accounting pronouncements adopted by the EU and required to be applied for periods beginning on or after January 1, 2020.

The IASB issued a narrow-scope amendment to IAS 1 on January 23, 2020. It introduces clarifications for the classification of liabilities under IAS 1 as current or noncurrent that depend on the contractual arrangements and objective circumstances at the relevant reporting date. The amendments are effective for annual periods beginning on or after January 1, 2022 (the IASB has postponed the effective date to January 1, 2023). In its 2020 half-yearly consolidated financial statements, the TRATON GROUP did not apply this amendment to IAS 1, which was already adopted by the IASB but was not yet required to be applied for the fiscal year. Application of this amendment is not expected to result in any material effects.

The IASB issued amendments to IFRS 16 “Leases” on May 28, 2020. Lessees have the option not to account for rent concessions that are related directly to COVID-19 as lease modifications as defined in IFRS 16. The amendments are effective for annual periods beginning on or after June 1, 2020, subject to endorsement by the EU. Earlier application is permitted. The TRATON GROUP will not exercise this option.

Other accounting policies

As a result of the COVID-19 pandemic, many governments have launched economic support packages that meet the classification of IAS 20 "Accounting for Government Grants and Disclosure of Government Assistance." Recognition of government grants is based on the assessment of whether there is reasonable assurance that the Group companies will comply with the conditions attaching to them and that the grants will also be received.

The income tax expense for the half-yearly consolidated financial statements was calculated on the basis of the average annual tax rate that is expected for the entire fiscal year, in accordance with IAS 34.

A discount rate of 0.9% (December 31, 2019: 0.9%) was applied to German pension provisions and a discount rate of 1.3% (December 31, 2019: 1.5%) to Swedish pension provisions in these half-yearly consolidated financial statements.

The effects of changes in exchange rates are presented in the following income statement disclosures and in the "Net assets" chapter of the interim Group management report as of June 30, 2020.

In all other respects, the same accounting policies and consolidation principles were generally applied to the preparation of the half-yearly consolidated financial statements and the computation of the prior-year comparative figures as to the 2019 consolidated financial statements. A detailed description of these accounting policies is given in the notes to the 2019 consolidated financial statements under "Accounting policies." Certain prior-period information was adjusted to reflect the current period presentation to improve comparability. In addition, the effects of the new standards are described in more detail under the disclosures on "New or amended IFRSs not applied." The amendment to IFRS 3 "Business Combinations" was endorsed for use in the EU in the first half of 2020. Application of these amendments did not materially affect the TRATON GROUP's half-yearly consolidated financial statements.

Estimates and management's judgment in connection with the COVID-19 pandemic

Estimates and management's judgment applied to fiscal year 2019 were reviewed and supplemented as follows for the 2020 half-yearly consolidated financial statements due to the COVID-19 pandemic and the associated effects on both the global economy and the TRATON GROUP's financial position and results of operations:

The recoverability of intangible assets, in particular goodwill, and of property, plant, and equipment was reviewed as of June 30, 2020, as a result of the COVID-19 pandemic. Since the TRATON GROUP currently takes the view that the COVID-19 pandemic is a temporary event that will not have any sustained negative impact on the Group's long-term business development, years 2020 through 2024 of last year's impairment tests were adjusted to reflect current expectations with regard to the overall market developments and the unit sales estimates derived from the latter. For information on the expected development of the TRATON GROUP in 2020, refer to our remarks in the interim Group management report. The weighted cost of capital rates (WACC) were also adjusted as of June 30, 2020. Overall, the review did not indicate any need for additional impairment losses to be recognized on assets.

To reflect an expected rise in defaults in connection with the COVID-19 pandemic, the provision rates used to estimate the lifetime expected credit loss (ECL) of trade receivables were increased by 20% for the half-yearly consolidated financial statements as of June 30, 2020.

When the contractual cash flows of a financial asset are renegotiated or modified (e.g., changes in the timing and/or amount of the cash flows) and this change results in a significant modification, the financial asset is derecognized and a new asset is recognized to reflect the adjusted cash flows and the adjusted effective interest rate. If changes in the contractual cash flows do not result in a significant modification, the financial asset is not derecognized. Instead, the gross carrying amount is recalculated using the original effective interest rate and a modification gain or loss is recognized in profit or loss. Approximately 25% of the financing contracts in the Financial Services segment were modified in the second quarter of 2020. The modifications relate to various forms of moratorium and deferral with a corresponding extension of the contractual period that do not affect the present value of the cash flows. The reason for the agreed modifications is temporary liquidity shortages experienced by our customers due to the COVID-19 pandemic. Credit risk is continuously analyzed. A risk premium was applied for this purpose, taking account of macroeconomic factors. This resulted in a higher loss allowance of €30 million.

The expectations with regard to market developments disclosed in the 2019 consolidated financial statements have now been overtaken by the impact of the COVID-19 pandemic. For up-to-date information, refer to our remarks in the “Future Development” section in the interim Group management report as of June 30, 2020.

4. Segment reporting

For information on the basis used for identifying and assessing the performance of reportable segments, refer to the TRATON GROUP’s consolidated financial statements for the period ended December 31, 2019. The adjustments to the accounting policies described under “Accounting policies” are also applied in the segments.

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.

The management of Navistar International Corporation, Lisle, Illinois, USA (Navistar), notified us on June 26, 2020, that the collaboration relating to a diesel engine would be terminated. Based on this notification, impairment losses on capitalized development costs amounting to €31 million and on items of property, plant, and equipment amounting to €5 million were recognized and reported in cost of sales in the second quarter of fiscal year 2020. The cash-generating unit allocated to the Industrial Business segment includes the development and production of a diesel engine for the North American market. The recoverable amount was estimated at €45 million and reported as a receivable. In addition to this, further expenditures were incurred in other operating expenses. In total, an amount in the mid-double digit millions of euros was expensed.

The following tables contain segment-related information for the first six months of 2020.

Reporting segments 2020

H1 2020

€ million	Industrial Business	Financial Services	Reconciliation	TRATON GROUP
Segment sales revenue	**9,854**	**413**	**–194**	**10,073**
Intersegment sales revenue	–192	–2	194	–
Sales revenue, TRATON GROUP	9,662	411	–	10,073
Segment profit/loss (operating profit/loss)	**–265**	**44**	**0**	**–220**

Reporting segments 2019

H1 2019

€ million	Industrial Business	Financial Services	Reconciliation	TRATON GROUP
Segment sales revenue	**13,320**	**419**	**–199**	**13,541**
Intersegment sales revenue	–198	–1	199	–
Sales revenue, TRATON GROUP	13,122	419	–	13,541
Segment profit (operating profit)	**1,008**	**70**	**–3**	**1,075**

The reconciliation of the total profit/loss of the segments to the TRATON GROUP profit/loss before tax and discontinued operations is presented in the following:

€ million	H1 2020	H1 2019
Total segment profit/loss (operating profit/loss)	**–220**	**1,078**
Reconciliation	0	–3
Operating profit/loss (TRATON GROUP)	**–220**	**1,075**
Financial result	–101	–31
Profit/loss before tax from continuing operations (TRATON GROUP)	**–321**	**1,044**

5. Noncurrent assets held for sale and discontinued operations

Disposal of the Power Engineering business area

On October 25, 2018, the TRATON GROUP announced its intention to sell the Power Engineering business to a subsidiary of Volkswagen AG, Wolfsburg (Volkswagen AG), outside the TRATON GROUP against payment of cash funds. The purchase price was based on the carrying amounts of the Power Engineering business.

The Power Engineering business comprises the two former operating segments of MAN Energy Solutions (formerly MAN Diesel & Turbo) and Renk, as well as HABAMO Verwaltung GmbH & Co. Objekt Sterkrade KG.

MAN Energy Solutions is a leading global manufacturer of marine diesel engines and stationary engines, and one of the leading turbomachinery providers. Renk is a globally recognized manufacturer of high-quality special gear units, propulsion components, and testing systems. Control of the Power Engineering business passed to the buyer when the transaction closed as of December 31, 2018.

The purchase price was €1,978 million and was settled in the first half of 2019. The payment is presented under “Proceeds from the disposal of subsidiaries, net of cash disposed” in net cash provided by/used in investing activities.

6. Sales revenue

Structure of sales revenue

H1 2020

€ million	Industrial Business	Financial Services	Reconciliation	H1 2020
Vehicles	5,682	–	0	5,682
Genuine parts	1,592	–	–1	1,591
Used vehicles	624	–	0	624
Engines, powertrains, and parts deliveries	281	–	–	281
Workshop services	709	–	–1	708
Rental and leasing business	851	218	–190	880
Interest and similar income	4	194	–1	197
Other sales revenue	110	–	–1	109
	9,854	**413**	**–194**	**10,073**

H1 2019

€ million	Industrial Business	Financial Services	Reconciliation	H1 2019
Vehicles	8,849	–	–1	8,848
Genuine parts	1,719	–	–1	1,718
Used vehicles	716	–	0	716
Engines, powertrains, and parts deliveries	320	–	–	320
Workshop services	739	–	0	739
Rental and leasing business	858	223	–195	885
Interest and similar income	2	197	–1	199
Other sales revenue	117	–	–1	115
	13,320	**419**	**–199**	**13,541**

Sales revenue for the first six months of 2020 includes revenue from operating leases of €623 million (H1 2019: €616 million).

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	06/30/2020	12/31/2019
Expected timing of revenue recognition		
Up to one year	7,579	6,923
1 to 5 years	1,743	1,785
More than 5 years	197	202
	9,519	**8,910**

7. Functional expenses

Research and development costs are attributable to the Industrial Business segment. They are contained in cost of sales and are broken down as follows:

RESEARCH AND DEVELOPMENT COSTS

€ million	H1 2020	H1 2019
Total research and development costs	558	663
of which capitalized development costs	168	222
Capitalization ratio in %	30%	34%
Amortization of, and impairment losses on, capitalized development costs	144	92
Research and development costs	**534**	**532**

Many governments launched short-time working programs and similar measures to support workforce employment in response to the COVID-19 pandemic. As a result of those programs, the number of employees in the TRATON GROUP was kept constant, and personnel expenses declined year-on-year.

PERSONNEL EXPENSES

€ million	H1 2020	H1 2019
Wages and salaries	1,935	2,209
Social security, post-employment, and other benefit costs	569	612
Personnel expenses	**2,504**	**2,821**

Government grants related to income amounted to €98 million in the first six months of 2020 and were reported as deductions from the related expenses. They originate primarily from government programs for short-time working allowances in Sweden and social security refunds for short-time working in conjunction with the COVID-19 pandemic. No material government grants related to income were recognized in the prior-year comparative period.

8. Other operating income

€ million	H1 2020	H1 2019
Foreign exchange gains	308	124
Income from foreign currency derivatives not included in hedge accounting	41	21
Income from cost allocations	19	31
Income from reversal of provisions and accruals	8	14
Rental and lease income	8	9
Gains on disposal of noncurrent assets	6	10
Miscellaneous income	44	79
	434	**288**

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.

The increase in foreign exchange gains in the first half of 2020 was due primarily to the depreciation of the Brazilian real against the euro and USD and to fluctuations in the Swedish krona and various other currencies as a result of the economic impact of the COVID-19 pandemic.

9. Other operating expenses

€ million	H1 2020	H1 2019
Foreign exchange losses	289	115
Losses from foreign currency derivatives not included in hedge accounting	67	24
Expenses for litigation and legal risks	54	52
Losses on disposal of noncurrent assets	1	4
Miscellaneous expenses	96	54
	506	**249**

Foreign exchange losses rose in the first half of 2020 due to fluctuations in the Swedish krona and Polish zloty against the euro, USD, and other currencies as a result of the economic impact of the COVID-19 pandemic. The effects of changes in exchange rates largely cancelled each other out within other operating result.

The item “Losses from foreign currency derivatives not included in hedge accounting” also includes losses from the reclassification of €7 million from the cash flow hedge reserve to profit or loss, as the originally forecast foreign currency transactions were no longer considered to be probable.

Expenses for litigation risks relate primarily to expenses in connection with the antitrust proceedings launched against European truck manufacturers, including MAN and Scania, by the European Commission.

10. Net interest expense

€ million	H1 2020	H1 2019
Interest and similar income	34	38
Interest and similar expenses	–84	–79
Interest expense for lease liabilities	–16	–24
Net interest on the net liability for pensions and other post-employment benefits	–13	–17
Unwinding of discount and effect of change in discount rate on liabilities and other provisions	0	–1
Net interest expense	**–78**	**–84**

Net interest expense mainly contains interest expense for financial liabilities. Interest income and expenses contain realized income and expenses from interest rate derivatives on net financial debt positions.

11. Other financial result

€ million	H1 2020	H1 2019
Other expenses from equity investments	–2	0
Realized income and expense of loan receivables and payables in foreign currency	–170	103
Gains/losses from remeasurement of financial instruments	–296	53
Gains/losses from changes in the fair value of derivatives not included in hedge accounting	426	–173
	–42	**–16**

The remeasurement gains/losses and realized gains/losses from financial instruments result from the translation of receivables and liabilities contained in net debt. Fair value changes of derivatives not included in hedge accounting largely offset the currency translation effects on net debt. A net expense resulted in the first half of 2020 primarily because of the strong depreciation of Latin American currencies against the euro and USD.

12. Earnings per share

€ million	H1 2020	H1 2019
Profit/loss after tax (attributable to shareholders of TRATON SE)	–272	772
of which loss from discontinued operations, net of tax[1]	–	–2
Profit/loss from continuing operations, net of tax (attributable to shareholders of TRATON SE)	**–272**	**773**
Number of shares outstanding	500,000,000	500,000,000
Earnings per share from continuing operations in €	–0.54	1.55
Earnings per share from discontinued operations in €[1]	–	0.00
Total in €	**–0.54**	**1.54**

1 Noncontrolling interests attributable to discontinued operations

Earnings per share are calculated by dividing consolidated profit/loss after tax from continuing operations attributable to TRATON SE shareholders by the number of shares outstanding. TRATON SE's share capital amounts to €500 million and is composed of 500 (H1 2019: 500) million no-par value bearer shares.

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.

13. Other financial assets

€ million	06/30/2020	12/31/2019
Positive fair value of derivatives	404	120
Receivables from loans, bonds, and profit participation rights (without interest)	16	25
Miscellaneous financial assets	379	324
	800	**468**

The rise in the fair values of derivatives reflects the sharp currency fluctuations. The fair values of derivatives rose primarily because of the depreciation of the Brazilian real against USD, EUR, and SEK, as well as the depreciation of the Russian ruble and the South African rand against SEK.

The increase in miscellaneous financial assets is attributable mainly to a receivable of €45 million (December 31, 2019: €0 million) from Navistar.

As of June 30, 2020, other financial assets contained related party receivables of €112 million (December 31, 2019: €53 million).

Other financial assets are reported as follows:

€ million	06/30/2020	12/31/2019
Other noncurrent financial assets	359	130
Other current financial assets	441	338

14. Inventories

€ million	06/30/2020	12/31/2019
Raw materials, consumables, and supplies	637	656
Work in progress	511	496
Finished goods and purchased merchandise	3,620	3,772
Prepayments	23	18
	4,790	**4,943**

Valuation allowances recognized as expenses in the first half of 2020 amounted to €78 million (H1 2019: €41 million).

15. 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 short-term investment deposits at Volkswagen AG of €2,000 million (December 31, 2019: €3,100 million) as of June 30, 2020. They are allocated to the financial assets measured at amortized cost category.

16. Equity

TRATON SE's share capital is €500 million. It is composed of 500 million no-par value shares with a nominal value of €1 each. The share capital is fully paid-up. Under Article 6 (2) of the Articles of Association, shareholders may not claim delivery of physical share certificates.

In the 2018 fiscal year, the Executive Board converted parts of the capital reserves into retained earnings for an intended distribution to Volkswagen AG amounting to €3,250 million. The payment was made in fiscal year 2019. Additionally, capital reserves in the amount of €490 million were converted into subscribed capital in 2019. A further €16 billion was initially converted into subscribed capital by way of a capital increase. Immediately after this, the share capital was reduced again to €500 million by way of a capital reduction in the same amount.

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 differs from this amount by €20 million or more, the full deviation difference must 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 *Handelsgesetzbuch* (HGB — German Commercial Code).
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 fiscal year 2019).

€1,404 million was transferred to Volkswagen AG for 2019 in the current fiscal year under the domination and profit and loss transfer agreement. The surplus amount of €54 million in accordance with the Relationship Agreement referred to above was contributed by Volkswagen AG to TRATON SE's capital reserves on May 8, 2020.

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 *Aktiengesetz* (AktG — German Stock Corporation Act). As a result, TRATON SE transferred its net income for the year (calculated in accordance with German GAAP) to Volkswagen AG for the last time for fiscal year 2019.

Noncontrolling interests

In August 2018, the domination and profit and loss transfer agreement (DPLTA) with MAN SE was terminated by way of notice of extraordinary termination effective January 1, 2019. Following the entry of the termination of the DPLTA 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 DPLTA, 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 a consequence, noncontrolling interests as of June 30, 2020, mainly comprise the noncontrolling interest shareholders of MAN SE.

17. Financial liabilities

The details of noncurrent and current financial liabilities are presented in the following table:

€ million	06/30/2020	12/31/2019
Bonds	6,778	6,409
Bank borrowings	3,762	3,198
Lease liabilities	1,018	1,077
Loan from Volkswagen AG	1,000	1,000
Cash pool liabilities	597	570
Loans and miscellaneous liabilities	81	244
	13,236	**12,497**

Financial liabilities from bonds mainly relate to European Medium Term Notes (EMTNs). Bond issuances in the first half of 2020 amounted to €1,916 million and related primarily to EMTNs. They serve the Financial Services segment's financing activities. For information on the asset-backed securities contained in the "Bonds" item, refer to the "Additional financial instruments disclosures" section.

The liquidity reserve available to the TRATON GROUP consists of undrawn credit lines from banks and Volkswagen AG amounting to €5.6 billion, including €3 billion from Volkswagen AG. In the context of the COVID-19 pandemic, TRATON SE agreed new uncommitted credit lines of an additional €0.6 billion in order to enhance flexibility in financing decisions. The COVID-19 pandemic resulted in a significant deterioration in market conditions.

€ million	06/30/2020	12/31/2019
Noncurrent financial liabilities	6,447	5,966
Current financial liabilities	6,789	6,531

18. Other financial liabilities

€ million	06/30/2020	12/31/2019
Liabilities from buyback obligations	3,421	3,634
Liabilities from the profit and loss transfer agreement and the tax allocation procedure with Volkswagen AG	–	1,404
Negative fair value of derivative financial instruments	199	214
Interest rate liabilities	31	61
Miscellaneous financial liabilities	141	128
	3,792	**5,441**

Other financial liabilities are reported in the following balance sheet items:

€ million	06/30/2020	12/31/2019
Other noncurrent financial liabilities	2,372	2,604
Other current financial liabilities	1,419	2,837

19. Additional financial instruments disclosures

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 JUNE 30, 2020

	Measured at fair value		Measured at amortized cost		Derivative financial instruments within hedge accounting	Not allocated to any IFRS 9 category	Balance sheet item as of 06/30/2020
€ million	Recognized in other comprehensive income	Through profit or loss	Carrying amount	Fair value	Carrying amount	Carrying amount	
Noncurrent assets							
Other equity investments	15	–	–	–	–	20	35
Financial services receivables	–	–	1,968	1,979	–	2,721	4,689
Other financial assets	–	257	102	102	–	–	359
Current assets							
Trade receivables	–	15	1,650	1,650	–	–	1,666
Financial services receivables	–	–	1,251	1,251	–	1,525	2,776
Other financial assets	–	136	294	294	11	–	441
Marketable securities and investment deposits	–	–	2,005	2,005	–	–	2,005
Cash and cash equivalents	–	–	2,572	2,572	–	–	2,572
Noncurrent liabilities							
Financial liabilities	–	–	5,618	5,736	–	829	6,447
Other financial liabilities	–	75	2,276	2,276	21	–	2,372
Current liabilities							
Financial liabilities	–	–	6,600	6,600	–	189	6,789
Trade payables	–	–	2,219	2,219	–	–	2,219
Other financial liabilities	–	67	1,317	1,317	36	–	1,419

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 IFRS 9 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

Financial assets and liabilities measured 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:

- Level 1: quoted prices (unadjusted) in active markets for identical assets and liabilities.
- Level 2: inputs other than quoted prices included within Level 1 that are observable for the asset or liability, either directly or indirectly. The fair value of Level 2 financial instruments is determined on the basis of the conditions prevailing at the end of the reporting period, such as interest rates or exchange rates, and using recognized models, such as discounted cash flow or option pricing models.
- Level 3: inputs for the asset or liability that are not based on observable market data (unobservable inputs).

The lease receivables have a carrying amount of €4,245 million (December 31, 2019: €4,511 million) and a fair value of €4,221 million (December 31, 2019: €4,519 million).

Due to the expansion of factoring transactions, starting this fiscal year a portion of trade receivables is now measured at fair value through profit or loss and hence classified as “financial instruments measured at fair value.” The factoring portfolio is classified in Level 3 of the fair value hierarchy. Fair value is measured by reference to the original transaction price, taking contractual factoring allowances into account.

Other equity investments at fair value are also 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. Other equity investments mainly comprise shares in unlisted companies for which there is no active market. The fair value of these investments is calculated using discounted cash flow models.

The following table shows changes in other equity investments measured at fair value and classified in Level 3 as well as trade receivables intended to be sold under factoring transactions:

€ million	Other equity investments classified in Level 3	Trade receivables classified in Level 3
Balance as of January 1, 2019	**25**	**–**
Fair value changes in “Fair value measurement of other equity investments and marketable securities, net of tax” recognized in other comprehensive income	8	–
Additions/acquisitions	5	–
Balance as of June 30, 2019	**37**	**–**
Balance as of January 1, 2020	**14**	**–**
Fair value changes in “Fair value measurement of other equity investments and marketable securities, net of tax” recognized in other comprehensive income	0	–
Reclassified to equity-method investments	–1	–
Additions/acquisitions	2	17
Fair value changes in “Other financial result” recognized in profit or loss	–	–2
Balance as of June 30, 2020	**15**	**15**

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 the first half of 2020.

As of the reporting date, financial liabilities included asset-backed securities transactions implemented to refinance the Financial Services segment with a carrying amount of €234 million (December 31, 2019: €294 million). The corresponding carrying amount of financial services receivables is €272 million (December 31, 2019: €333 million). Collateral totaling €276 million (December 31, 2019: €333 million) was provided in connection with asset-backed securities transactions.

No further asset-backed securities transactions were conducted in 2020.

20. Contingent liabilities and commitments

€ million	06/30/2020	12/31/2019
Liabilities under buyback guarantees	2,388	2,489
Contingent liabilities under guarantees	96	128
Other contingent liabilities	776	1,059
	3,260	**3,676**

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 are shown under "Liabilities under buyback guarantees." However, experience shows that the majority of these guarantees expire without being drawn upon.

Other contingent liabilities relate mainly to contingent liabilities for potential charges from tax risks, which exist for Volkswagen Caminhões e Ônibus. See "Litigation/legal proceedings" for further information.

21. Litigation/legal proceedings

In the course of their operating activities, the TRATON GROUP and the companies in which it is directly or indirectly invested become involved in a large number of legal disputes and official proceedings in Germany and in other countries. In particular, such legal disputes and other proceedings may occur in relation to suppliers, dealers, customers, employees, or investors. For the companies involved, these may result in payment or other obligations.

Risks may also emerge in connection with compliance with regulatory requirements. This particularly applies in the case of regulatory vagueness that may be interpreted differently by the TRATON GROUP and the agencies responsible for the respective regulations. In addition, legal risks can arise from the criminal activities of individual persons, which even the best compliance management system can never completely prevent.

Where transparent and economically viable, adequate insurance coverage was taken out for these risks. For the identifiable and measurable risks, provisions considered appropriate are recognized and information about contingent liabilities is disclosed. As some risks cannot be assessed or can only be assessed to a limited extent, the possibility of loss or damage not being covered by the insured amounts and provisions cannot be ruled out.

The TRATON GROUP does not tolerate compliance violations. Neither corruption nor breaches of competition law are tolerated, encouraged, or accepted.

Important legal cases

Note 41 in the notes to the consolidated financial statements in TRATON SE’s Annual Report for fiscal year 2019 contains detailed information on important litigation and legal proceedings. There have been no other material developments since the publication of the Annual Report. As a result of currency fluctuations, the risk relating to the tax proceedings initiated by the Brazilian tax authorities against MAN Latin America Indústria e Comércio de Veículos Ltda. fell from €685 million to €517 million due to the translation of the risk amount, which remained unchanged at 3,129 million Brazilian real as of June 30, 2020.

22. Related party disclosures

There have been no material changes in relationships with related parties compared with the disclosures in the consolidated financial statements for the period ended December 31, 2019.

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 its related parties, including Volkswagen AG. There were no transactions with Volkswagen Finance Luxemburg S.A., Strassen, and Porsche Automobil Holding SE, Stuttgart, in any of the periods shown.

RELATED PARTIES

€ million	Sales and services rendered H1 2020	Sales and services rendered H1 2019	Purchases and services received H1 2020	Purchases and services received H1 2019
Volkswagen AG	0	1	60	35
Other subsidiaries and equity investments of Volkswagen AG that are not part of the TRATON GROUP	584	818	275	285
Unconsolidated subsidiaries	5	5	3	3
Associates and their majority interests	58	77	29	50
Joint ventures and their majority interests	5	8	4	48

€ million	Receivables from 06/30/2020	Receivables from 12/31/2019	Liabilities (incl. obligations) to 06/30/2020	Liabilities (incl. obligations) to 12/31/2019
Volkswagen AG	2,256	3,236	1,053	2,590
Other subsidiaries and equity investments of Volkswagen AG that are not part of the TRATON GROUP	876	674	3,033	3,428
Unconsolidated subsidiaries	15	11	32	24
Associates and their majority interests	115	74	12	12
Joint ventures and their majority interests	0	1	2	2

On June 30, 2020, Volkswagen Finance Luxemburg S.A., a wholly owned subsidiary of Volkswagen AG, held 89.72% of TRATON SE's share capital. Additionally, on June 30, 2020, Mr. Renschler held 20,000 shares, Mr. Schulz held 4,050 shares, Mr. Drees held 2,700 shares, and Mr. Henriksson held 1,036 shares.

Owing to notification from Navistar ending the collaboration relating to a diesel engine, a receivable of €45 million is reported in receivables from "Associates and their majority interests." Further information is available under "Segment reporting."

Because of the Company's IPO in June 2019, the domination and profit and loss transfer agreement with Volkswagen AG ended at the end of fiscal year 2019. In the context of profit transfer for fiscal year 2019, a payment of €1,404 million was made to Volkswagen AG on February 24, 2020 (previous year: loss absorption payment of €4,161 million for fiscal year 2018). In return, Volkswagen AG made a capital contribution of €54 million on the basis of the Relationship Agreement dated June 14, 2019. Part of the retained earnings of TRATON SE amounting to €3,250 million was distributed to Volkswagen AG in 2019.

Receivables from Volkswagen AG mainly comprise finance transaction balances and receivables from the tax allocation procedure. In 2020, the TRATON GROUP made short-term investment deposits at Volkswagen AG, amounting to €2,000 million (December 31, 2019: €3,100 million) as of June 30, 2020. Liabilities to Volkswagen AG include loans granted by Volkswagen AG in the amount of €1,000 million (December 31, 2019: €1,000 million) resulting from a €4,000 million (December 31, 2019: €4,000 million) credit facility. Liabilities to other subsidiaries and equity investments of Volkswagen AG that are not part of the TRATON GROUP mainly relate to liabilities to Volkswagen Financial Services 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 €445 million in the first half of 2020 (H1 2019: €549 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."

23. Events after the reporting period

The following changes in the Executive Board occurred after the reporting date: effective the end of July 15, 2020, Mr. Andreas Renschler, Mr. Joachim Drees, and Prof. Dr. Carsten Intra left the Executive Board. Effective July 16, 2020, Mr. Matthias Gründler was appointed as a member and Chairman of the Executive Board, succeeding Mr. Renschler. In addition, Dr. Andreas Tostmann was appointed as a member of the Executive Board effective July 16, 2020, succeeding Mr. Drees.

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FURTHER INFORMATION

FURTHER INFORMATION

Responsibility Statement

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

Munich, July 24, 2020

TRATON SE

The Executive Board

Matthias Gründler **Christian Schulz** **Antonio Roberto Cortes**

Henrik Henriksson **Christian Levin** **Dr. Andreas Tostmann**

Review Report

To TRATON SE, Munich

We have reviewed the condensed half-yearly consolidated financial statements comprising the income statement, statement of comprehensive income, balance sheet, statement of changes in equity, statement of cash flows, and selected explanatory notes, and the interim group management report, of TRATON SE, Munich for the period from January 1 to June 30, 2020, which are part of the half-year financial report pursuant to Sec. 115 WpHG ["Wertpapierhandelsgesetz": German Securities Trading Act]. The executive directors are responsible for the preparation of the condensed half-yearly consolidated financial statements in accordance with IFRS applicable to interim financial reporting as adopted by the EU and of the interim group management report in accordance with the requirements of the WpHG applicable to interim group management reports. Our responsibility is to issue a report on the condensed half-yearly consolidated financial statements and the interim group management report based on our review.

We conducted our review of the condensed half-yearly consolidated financial statements and of the interim group management report in compliance with German Generally Accepted Standards for the Review of Financial Statements promulgated by the Institut der Wirtschaftsprüfer [Institute of Public Auditors in Germany] (IDW). Those standards require that we plan and perform the review to obtain a certain level of assurance in our critical appraisal to preclude that the condensed half-yearly consolidated financial statements are not prepared, in all material respects, in accordance with IFRS on interim financial reporting as adopted by the EU and that the interim group management report is not prepared, in all material respects, in accordance with the requirements of the WpHG applicable to interim group management reports. A review is limited primarily to making inquiries of the Company's employees and analytical assessments and therefore does not provide the assurance obtainable from an audit of financial statements. Since, in accordance with our engagement, we have not performed an audit of financial statement, we cannot issue an auditor's report.

Based on our review, nothing has come to our attention that causes us to believe that the condensed half-yearly consolidated financial statements are not prepared, in all material respects, in accordance with IFRS on interim financial reporting as adopted by the EU or that the interim group management report is not prepared, in all material respects, in accordance with the provisions of the WpHG applicable to interim group management reports.

Munich, July 24, 2020

Ernst & Young GmbH
Wirtschaftsprüfungsgesellschaft

Meyer	**Hummel**
Wirtschaftsprüfer	Wirtschaftsprüfer

Key Performance Indicators

INCOMING ORDERS, INDUSTRIAL BUSINESS

Units	H1 2020	H1 2019	Change	Q2 2020	Q2 2019	Change
Incoming orders, Industrial Business	87,431	120,491	–27%	33,270	56,134	–41%
of which trucks[1]	79,329	109,208	–27%	30,726	50,230	–39%
of which buses	8,102	11,283	–28%	2,544	5,904	–57%

1 Incl. MAN TGE vans (H1 2020: 8,437 units, H1 2019: 7,729 units; Q2 2020: 3,888 units, Q2 2019: 3,901 units)

UNIT SALES BY COUNTRY

Units	H1 2020	H1 2019	Change	Q2 2020	Q2 2019	Change
Unit sales, Industrial Business	**77,738**	**123,336**	**–37%**	**31,748**	**66,173**	**–52%**
Unit sales, trucks[1]	**70,489**	**113,112**	**–38%**	**28,529**	**60,159**	**–53%**
EU27+3	39,817	73,462	–46%	15,724	38,476	–59%
of which in Germany	11,525	20,786	–45%	4,505	10,966	–59%
South America	18,079	23,068	–22%	7,214	12,670	–43%
of which in Brazil	15,920	20,732	–23%	6,271	11,506	–45%
Other regions	12,593	16,582	–24%	5,591	9,013	–38%
Unit sales, buses	**7,249**	**10,224**	**–29%**	**3,219**	**6,014**	**–46%**
EU27+3	2,627	3,348	–22%	1,323	1,999	–34%
of which in Germany	549	580	–5%	171	234	–27%
South America	3,107	4,484	–31%	1,278	2,731	–53%
of which in Brazil	2,329	3,254	–28%	981	2,076	–53%
Other regions	1,515	2,392	–37%	618	1,284	–52%

1 Incl. MAN TGE vans (H1 2020: 6,355 units, H1 2019: 7,266 units; Q2 2020: 2,927 units, Q2 2019: 4,144 units)

SALES REVENUE BY PRODUCT GROUP

€ million	H1 2020	H1 2019	Change	Q2 2020	Q2 2019	Change
TRATON GROUP	**10,073**	**13,541**	**–26%**	**4,394**	**7,128**	**–38%**
Industrial Business	**9,854**	**13,320**	**–26%**	**4,290**	**7,015**	**–39%**
New Vehicles	5,682	8,849	–36%	2,393	4,792	–50%
After Sales[1]	2,301	2,458	–6%	1,033	1,212	–15%
Others	1,871	2,013	–7%	865	1,011	–14%
Financial Services	**413**	**419**	**–2%**	**197**	**216**	**–9%**
Consolidation/others	–194	–199	–	–93	–104	–

1 Incl. spare parts and workshop services

CONDENSED TRATON GROUP INCOME STATEMENT

€ million	H1 2020	H1 2019	Q2 2020	Q2 2019
Sales revenue	10,073	13,541	4,394	7,128
Cost of sales	–8,637	–10,762	–3,978	–5,653
Gross profit	**1,436**	**2,778**	**416**	**1,475**
Distribution expenses	–1,104	–1,214	–510	–634
Administrative expenses	–422	–502	–185	–243
Other operating result	–130	12	–103	–12
Operating profit/loss	**–220**	**1,075**	**–382**	**585**
Operating return on sales (in %)	–2.2	7.9	–8.7	8.2
Financial result	**–101**	**–31**	**–71**	**–48**
Profit/loss before tax	**–321**	**1,044**	**–453**	**537**
Income taxes	**32**	**–251**	**68**	**–129**
Loss from discontinued operations, net of tax	**–**	**–2**	**–**	**–**
Profit/loss after tax	**–289**	**792**	**–385**	**408**

KEY PERFORMANCE INDICATORS, INDUSTRIAL BUSINESS

€ million	H1 2020	H1 2019	Change	Q2 2020	Q2 2019	Change
Operating profit/loss	–265	1,008	–1,273	–400	551	–951
Operating profit/loss (adjusted)	–265	996	–1,260	–400	538	–939
Operating return on sales (in %)	–2.7	7.6	–10.3 pp	–9.3	7.9	–17.2 pp
Operating return on sales (adjusted) (in %)	–2.7	7.5	–10.2 pp	–9.3	7.7	–17.0 pp
Capex	438	356	82	220	201	19
Primary R&D costs	558	663	–104	273	354	–81

KEY PERFORMANCE INDICATORS, FINANCIAL SERVICES

	H1 2020	H1 2019	Change	Q2 2020	Q2 2019	Change
Operating profit (€ million)	44	70	–25	19	37	–18
Operating return on sales (in %)	10.8	16.6	–5.9 pp	9.5	17.1	–7.6 pp

CONDENSED STATEMENT OF CASH FLOWS, INDUSTRIAL BUSINESS

€ million	H1 2020	H1 2019	Q2 2020	Q2 2019
Cash and cash equivalents as of January 1	**1,853**	**2,945**	**–**	**–**
Gross cash flow	560	1,780	95	988
Change in working capital	–307	–1,407	16	–497
Net cash provided by operating activities	**252**	**373**	**111**	**491**
Net cash provided by/used in investing activities attributable to operating activities	–599	1,412	–291	–309
Change in marketable securities, investment deposits, and loans	1,285	–689	–201	–203
Net cash provided by/used in investing activities	**686**	**723**	**–492**	**–512**
Net cash provided by/used in financing activities	**–234**	**–1,443**	**1,298**	**–200**
Effect of exchange rate changes on cash and cash equivalents	–70	8	19	4
Change in cash and cash equivalents	**635**	**–339**	**936**	**–217**
Cash and cash equivalents as of June 30	**2,488**	**2,605**	**2,488**	**2,605**
Gross cash flow	560	1,780	95	988
Change in working capital	–307	–1,407	16	–497
Net cash provided by/used in investing activities attributable to operating activities	–599	1,412	–291	–309
Net cash flow	**–347**	**1,784**	**–179**	**182**

NET LIQUIDITY

	TRATON GROUP		Industrial Business	
€ million	**06/30/2020**	**12/31/2019**	**06/30/2020**	**12/31/2019**
Cash and cash equivalents	2,572	1,913	2,488	1,853
Marketable securities, investment deposits, and loans to affiliated companies	2,014	3,195	2,014	3,288
Gross liquidity	**4,586**	**5,108**	**4,502**	**5,141**
Total third-party borrowings	–13,236	–12,497	–4,878	–3,641
Net liquidity/net financial debt	**–8,650**	**–7,390**	**–376**	**1,500**

Definition of Key Performance Indicators

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.

Adjustments to operating profit/loss: In addition to reported operating profit/loss, adjusted operating profit/loss 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/loss to sales revenue. Adjustments to operating profit/loss are also taken into account in determining the adjusted return on investment and adjusted EBITDA.

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 capital expenditures 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 and cash equivalents and is calculated as the ratio of positive net cash flow to positive profit after tax. If net cash flow and/or profit after tax are negative, the indicator is meaningless and is no longer disclosed. The cash conversion rate is presented as a percentage.

Financial Services net portfolio: The net portfolio is calculated as the total of financial services receivables, the value of recognized buyback obligations, and of vehicles with buyback obligations. It is based on the values from the perspective of the Financial Services segment.

Gross cash flow: 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, intangible 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 pension obligations, profit/loss on disposal of noncurrent assets and equity investments, share of profits and losses of equity-method investments, and other noncash expenses/income and lease liabilities.

Gross margin: The gross margin is calculated as the percentage ratio of gross profit to sales revenue in a given period.

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). We do not include changes in loans, marketable securities, and investment deposits in this figure. Net cash flow indicates the excess funds from operating activities.

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.

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

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.

Ratio of distribution and administrative expenses to sales revenue: This is calculated as the ratio of total distribution and administrative expenses to sales revenue.

Financial Diary

09/23/2020	Annual General Meeting 2020 (virtual, no in-person meeting of shareholders)
11/10/2020	Interim Statement 9M 2020

The latest dates and information can be found at www.traton.com

Publication Details

Published by
TRATON SE
Dachauer Str. 641
80995 Munich
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Photographs
Getty Images (cover)
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Dietmar Theis (p. 3, Dr. Andreas Tostmann)
Daniel Hovdahl/Scania (p. 30)
MAN (p. 32)
Malagrine Studio (p. 34)

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