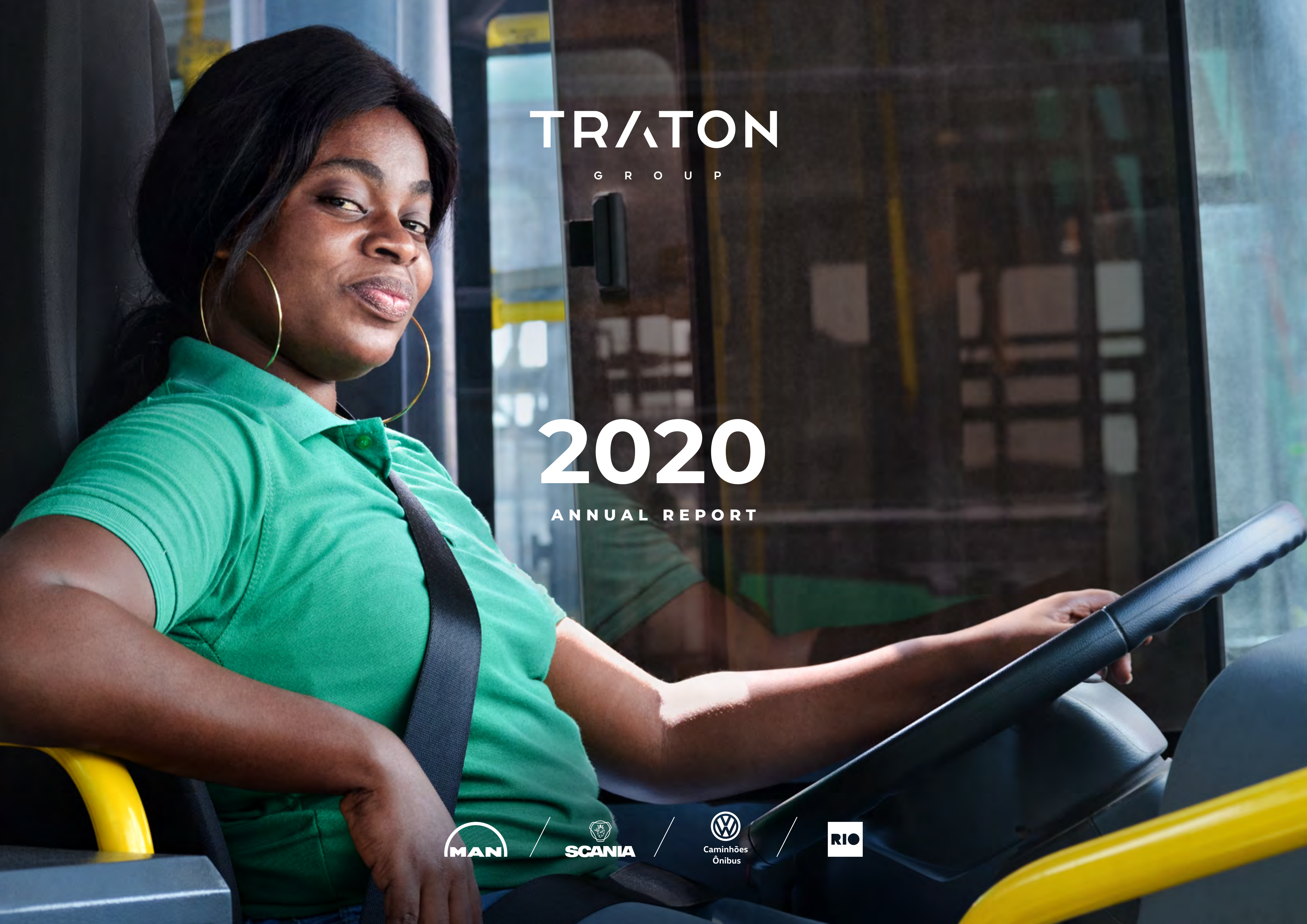
TRATON

GROUP

2020

ANNUAL REPORT



"For TRATON, sustainable economic growth always includes treating people and nature with respect. We call this the People, Planet, and Performance triad, which will shape the future of our Company."

MATTHIAS GRÜNDLER,
CEO of the TRATON GROUP

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Equal opportunities at the wheel

Grace Adomako, the woman on our cover, is a bus driver in Accra, the capital city of Ghana. She stands for around 140 other women who have been trained as bus and truck drivers thanks to the support of Scania and Deutsche Gesellschaft für Internationale Zusammenarbeit (GIZ) GmbH, a German agency for sustainable development. The aim is to promote equal opportunities in the West African country.

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Pluralism & Inclusion (P&I)

Sofia Vahlne, responsible for the P&I program at TRATON, talks to conductor Jonathan Nott about how diversity and success tie together — in the new TRATON podcast “Sustainability Stories.”

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Electric city

The Munich Transport Corporation aims to operate all its buses with zero local emissions by 2030 and is also relying on the MAN Lion’s City 12E for this purpose.

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Batteries in everyday use

To reduce CO_2 emissions, Norwegian grocery wholesaler ASKO relies on battery-powered trucks from Scania.

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Digital, efficient, transparent

RIO is developing a cloud-based platform solution that organizes all processes for Volkswagen Group Logistics — and the potential is huge.

p. 8

Assembly 4.0

Volkswagen Caminhões e Ônibus is using Industry 4.0 principles to align production of the new Meteor truck even more closely with customer requirements.

TRATON

Fiscal year
2020

29
PRODUCTION AND ASSEMBLY SITES

IN
17
COUNTRIES

ON
4
CONTINENTS

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

82,600
Employees
(As of December 31, 2020)

81
Operating result
(€ million)

216,251
Incoming orders
(units)

190,180
Sales
(units)

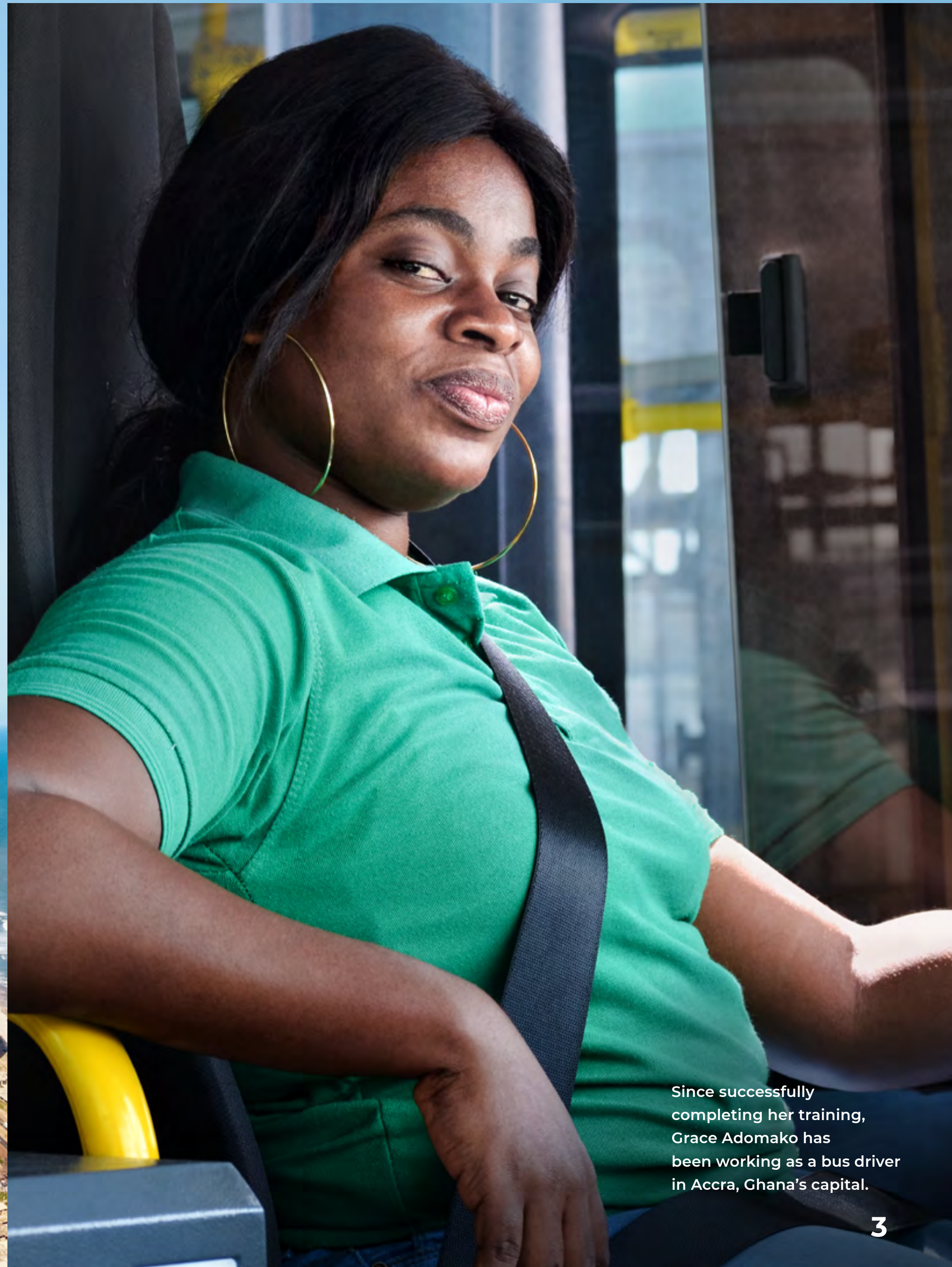
22,580
Sales revenue
(€ million)

0.4%
Operating return on sales

EQUAL OPPORTUNITIES AT THE WHEEL

Six months is all it takes to lay the foundation for a new life: in Ghana, the West African Transport Academy is training women to become truck and bus drivers in a bid to ensure greater equality of opportunity between men and women. Scania and Deutsche Gesellschaft für Internationale Zusammenarbeit (GIZ) GmbH, a German agency for sustainable development, founded the vocational training center in 2016, and the demand for a training slot has been enormous from day one. By now, around 140 women have earned a bus or truck license. Many of them did not even have a license to drive a car before they began. Successful completion of the training is a ticket to a fairly paid job. This was also the case for Grace Adomako, who now drives a city bus in Accra, the capital of Ghana. She recalls: “In the beginning, driving a large city bus felt strange, but I really wanted to succeed.” Scania is planning to launch a similar project in neighboring Cote d’Ivoire in 2021 to offer training for both women and men in vehicle maintenance and upkeep as well as operation.

→ **traton.com/equal-opportunities**



Since successfully completing her training, Grace Adomako has been working as a bus driver in Accra, Ghana’s capital.

Pluralism and inclusion (P&I) are now fixed corporate principles in the TRATON GROUP. This is because actively and purposefully including the diverse perspectives, knowledge, and talents of all the employees into an organization's daily work increases its innovative power. In the new "Sustainability Stories" podcast, Sofia Vahlne, responsible for P&I at TRATON, and orchestra conductor Jonathan Nott talk about how achieving inclusion in very diverse teams leads to sustainable success.

traton.com/podcast

Sustainability Stories — subscribe to the TRATON podcast now at:

P & I

"An orchestra is about diversity in creative thought. And it's up to me to encourage young musicians to go beyond the boundaries they may have set for themselves."

Jonathan Nott is Principal Conductor and Artistic Advisor of the Junge Deutsche Philharmonie, a youth orchestra sponsored by the TRATON GROUP.

"I like the description of pluralism & inclusion in musical terms. It encapsulates TRATON's goal: to harness the creative perspectives that come from our great employee diversity into perfectly balanced teamwork."

Sofia Vahlne is Head of People Strategy & Labor Relations at Scania and responsible for the Pluralism & Inclusion program in the TRATON GROUP.

270 kilometers — the maximum range offered by the current generation of the MAN Lion's City E.

Together with MAN, the Munich Transport Corporation (MVG) is testing the use of all-electric buses in its regular service.

electric city

In more and more cities, electric bus fleets play an important role in providing sustainable local public transportation — this is also the case for the Munich Transport Corporation (MVG). While the company is currently testing the MAN Lion's City E to see how suitable e-buses are for everyday use, the head of MVG's Bus division is already planning further ahead. His goal is to reduce local emissions from the company's operations to zero by 2030. To achieve this, all diesel vehicles are to be replaced by electric buses.

What sounds like a major challenge is actually something that can be tackled already. After all, the MAN Lion's City E went into series production in October 2020, with the current generation offering a practicable range of 200 to 270 kilometers. And with the new generation of batteries, the range is expected to increase to up to 400 kilometers within the next five years. This would mean that MAN customers could already operate around 90 percent of all routes electrically — good prospects for all transportation operators who, like MVG, want to convert their fleets to zero-local-emission drive systems in the coming years.

90% of all regular service requirements: that's how much the next generation of the MAN Lion's City E will be able to handle, with a range of up to 400 kilometers.

→ **traton.com/e-buses**

BATTERIES IN EVERYDAY USE

Scania is rigorously driving the shift toward a sustainable transport system. By 2040, the company plans to equip all the new trucks it produces with fossil-free drive systems. Battery-powered vehicles like the new, medium-duty Scania trucks, which have a range of up to 250 kilometers, play a central role here.

Scandinavian grocery wholesaler ASKO is currently testing two of the trucks in Oslo, delivering fresh produce to several supermarkets every day. The charging infrastructure in the Norwegian capital is relatively good, but even so, the ASKO drivers do not need to recharge at all while on the road: thanks to sophisticated route planning, one battery charge is enough for an entire day's trip — with the traction batteries even supplying energy to the air conditioning units in the cargo area. Over the next three years, ASKO plans to acquire a total of 75 additional battery-powered delivery vehicles from Scania, with the aim of operating a completely zero-emission truck fleet in Norway by 2026.

➔ **traton.com/everyday-use**

When delivering groceries in cities, Norwegian grocery wholesaler ASKO increasingly relies on battery-powered trucks from Scania to reduce CO_2 emissions.

DIGITAL

TRANSPARENT

EFFICIENT

Every day, Volkswagen Group Logistics delivers around 200 million parts to the right place at the right time. This requires close coordination, precise planning, and reliable information. RIO, the digital brand of the TRATON GROUP, is developing a cloud-based platform solution that will enable logistics staff in the Volkswagen Group to master this challenge even more efficiently and cost-effectively in the future.

RIO intends to establish its logistics platform as an industry solution, since the newly developed services — including shipment tracking that integrates all parties involved — are attractive for other industries as well. It could provide a great deal of benefits for the manufacturing industry, in particular, with its highly serialized production. And RIO is already working on the next steps. For example, artificial intelligence could enable even more accurate delivery time forecasts in the future.

→ **traton.com/logistics-platform**

Assembly 4.0

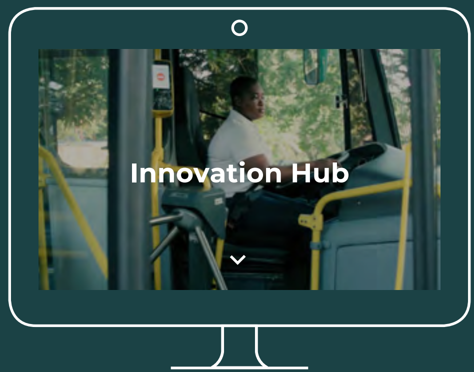
Robots in action: thanks to digital methods, customers' requests can be integrated into the production process even at the last minute.

The service providers that are part of the Consórcio Modular work independently under the roof of Volkswagen Caminhões e Ônibus.

Volkswagen Caminhões e Ônibus (VWCO) has added an innovative assembly facility for the new Meteor heavy-duty truck to its plant in Resende, Brazil. The production line is based on the principles of Industry 4.0, with extensive connectivity, flexible processes, and the targeted use of big data.

The suppliers within the Consórcio Modular also benefit from this development. They remain integrated in the production chain as partners and, together with VWCO, drive the further development of the modules that are installed in the vehicles. This unique manufacturing approach, which combines the traditional close collaboration with digital methods, enables VWCO to tailor its vehicles even more consistently to individual market needs and specific customer requirements.

→ **traton.com/assembly-4-0**



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This report contains certain forward-looking statements for the fiscal year 2021 that are based on present assumptions and forecasts by the Company’s management. A range of known and unknown risks, uncertainties, and other factors may result in the actual results, financial position, development, or performance of the TRATON GROUP differing materially from the estimates given here. Such factors include those that TRATON has described in published reports. These reports are available on our website at www.traton.com. The Company does not assume any obligation to update such forward-looking statements or to adapt them to future events or developments.

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

TO OUR SHAREHOLDERS

TO OUR SHAREHOLDERS

Dear Ladies and Gentlemen,

People around the world will not forget the year 2020 for a long time. Across the globe, the COVID-19 pandemic has caused a state of emergency that has challenged societies at all levels: in science, in healthcare, in nursing — but also in logistics and the commercial vehicle industry. Never before has it become so clear in such a short time that road transportation is the lifeline of our society. The TRATON GROUP's brands assessed the situation cautiously right from the start. They shut down plants in March to protect their employees, but at the same time maintained the service network by committing significant human resources. This ensured that our customers' trucks could deliver medical supplies to hospitals and supermarket shelves could be kept stocked even during the lockdown.

When the first wave of the pandemic subsided, production was ramped up again at the end of April. At the same time, our brands Scania, MAN, and Volkswagen Caminhões e Ônibus leveraged opportunities to help master the crisis. MAN Truck & Bus launched the MAN TGE van as a diagnostic vehicle in which people with symptoms can be tested for COVID-19 on site. This van is the outcome of MAN's collaboration with renowned experts in the healthcare sector. To fight the pandemic, Scania entered into a successful cooperation with Swedish medical technology company Getinge, which produces medical ventilators. Since these were urgently needed in the hospitals, 40 Scania employees helped Getinge to triple production.

As expected, the pandemic and the global measures to contain it negatively impacted the TRATON GROUP's figures for the year: we were unable to repeat the strong unit sales, sales revenue, and earnings figures achieved in the previous year. Thanks to strict cost discipline, however, we were able to generate a positive operating result, all things considered. Despite the strains caused by the pandemic, 2020 was a year with many successes for TRATON that extend far beyond our day-to-day business.

We made a lot of progress on our way to becoming a Global Champion. At the end of January 2020, TRATON made an offer to buy the outstanding common shares of US commercial vehicle manufacturer Navistar, in which TRATON already holds a stake of approximately 16.7%. Navistar is currently number four in the US truck market in terms of unit sales. After in-depth negotiations, which were considerably hampered by the pandemic, Navistar and TRATON entered into a binding merger agreement in November and agreed on a price of USD 44.50 per common share. Both companies agree that, together, they can better master the upcoming technological challenges in the areas of alternative drives and autonomous driving. We are now awaiting the approval of Navistar's shareholders as well as the antitrust clearances. We are expecting the acquisition to close in mid-2021. Navistar will then be delisted and become a new member of the TRATON family.

We also further expanded our partnerships last year. The strategic partnership we have had with Japanese commercial vehicle manufacturer Hino since 2018, which already resulted in a purchasing joint venture in 2019, was extended in 2020 by a joint venture in the field of electric mobility. Both parties signed a joint venture agreement to plan and provide electric mobility products. The goal is to drive forward the development of electric mobility with battery electric vehicles, fuel cell vehicles, and components, as well as to develop common platforms for electric vehicles, together with software and interfaces.

As part of its Global Champion Strategy, TRATON is seeking to access all key profit pools. Our existing strong position in the European and South American markets will be boosted by the large North American market through Navistar. The TRATON

GROUP took another important step forward in Asia in 2020. As a first step, Scania has invested in its own truck production facility in China: in Rugao, 150 kilometers northwest of Shanghai. Series production is scheduled to start in early 2022. Scania's long-term substantial investments in China also include building local research and development capabilities.

We also strengthened our position in the forward-looking technology of autonomous driving, and entered into a partnership with TuSimple that will see us collaborating in the future to develop autonomously driving trucks. In a joint development project, TRATON and TuSimple will launch a first hub-to-hub route between Södertälje and Jönköping in Sweden in the spring of 2021. Scania trucks will service this route at SAE Level 4, during which systems will operate the vehicle almost all the time. As part of the partnership, TRATON also acquired a noncontrolling interest in TuSimple.

2020 was also expected to be the year of TRATON SE's first Annual General Meeting as a public company. However, the COVID-19 pandemic meant that we could only hold a virtual shareholder meeting. The new leadership team used this special format to outline TRATON's future strategy, as Andreas Renschler handed over the chairmanship of the Executive Board to me in mid-July 2020. At this point, I would like to offer him my sincere thanks for his tremendous commitment as the head of the TRATON GROUP. At the same time, Dr. Ing. h.c. Andreas Tostmann followed Joachim Drees as MAN's new Chief Executive Officer, and I would also like to thank Joachim Drees for his commitment to the brand and as part of TRATON's Executive Board. We also wish to thank TRATON's Chief Human Resources Officer Professor Carsten Intra, who left the TRATON GROUP on July 15, 2020.

The virtual Annual General Meeting also resolved on TRATON SE's first dividend. €1 per share was distributed to shareholders, for a total of €500 million. The confidence of the financial markets in the TRATON GROUP's strategy and management, even in times of the COVID-19 pandemic, was demonstrated by the successful completion of the first syndicated revolving credit facility with a volume of €3.75 billion. The facility amount is provided by a consortium of 21 banks, all of which are also the TRATON GROUP's primary banks. Before that, TRATON had received its first ratings from rating agencies Moody's and S&P. Both agencies awarded a solid investment-grade credit rating.

Following the significant decline in TRATON's share price in the wake of the COVID-19 pandemic, its value almost doubled over the course of the year from its low on March 23. In Xetra trading, TRATON shares had an extremely difficult year in 2020, in which a decline in unit sales of 10 to 20% had already been expected for the European truck market before the outbreak of the pandemic, and closed with a slight decline of only 5.5%. We intend to continue the very positive share price performance in the recent past through our clear focus on our Global Champion Strategy.

The fact that we were able to close the difficult year 2020 with a respectable result is also thanks to the solidarity of our team. Treating people fairly and the diversity of our team are just as important for us as expanding climate-friendly technologies for drives and in production. Additionally, for TRATON, sustainable economic growth always includes treating people and nature with respect. We call this the People, Planet, and Performance triad, which will shape the future of our Company.

I would like to thank you, our shareholders, for your trust in the TRATON GROUP in 2020. We would be delighted for you to continue accompanying us on our journey.

Sincerely,

Matthias Gründler
CEO of TRATON SE

Executive Board

MATTHIAS GRÜNDLER

Chief Executive Officer of TRATON SE

HENRIK HENRIKSSON

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

CHRISTIAN SCHULZ

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

DR. ING. H.C. ANDREAS TOSTMANN

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

CHRISTIAN LEVIN

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

ANTONIO ROBERTO CORTES

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

Report of the Supervisory Board[1]

Dear Shareholders,

The Company's Supervisory Board addressed the Company's position and performance regularly and in detail in fiscal year 2020. In accordance with the recommendations of the German Corporate Governance Code, the statutory requirements, the Articles of Association, and the Rules of Procedure, we regularly advised the Executive Board in its management of the Company and monitored its activities. We were involved in an advisory capacity in all matters and decisions of major importance for the TRATON GROUP.

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

During regular talks with the Chief Executive Officer outside the Supervisory Board meetings, I also discussed matters and issues relevant to the Company, such as the development of the business, planning and strategic projects (in particular the planned acquisition of Navistar International Corporation (Navistar)), the risk position, risk management, and compliance.

The Supervisory Board held eight regular meetings in fiscal year 2020, four of which had to be held as conference calls due to the ongoing COVID-19 pandemic. The Supervisory Board additionally discussed by phone the impact of the COVID-19 pandemic and the measures taken. In addition, resolutions on urgent matters were adopted in writing.

The attendance rate of the members at the meetings of the Supervisory Board and its committees was 95% in fiscal year 2020. The individualized attendance of the members of the Supervisory Board at the meetings of the Supervisory Board and its committees is shown in the following overview:

	Supervisory Board		**Presiding Committee**		**Audit Committee**		**Special Committee**	
	No.	**%**	**No.**	**%**	**No.**	**%**	**No.**	**%**
Mr. Pötsch	7/8	88	7/8	88			1/1	100
Mr. Stimoniaris	8/8	100	8/8	100			1/1	100
Mr. Witter	8/8	100			4/4	100		
Mr. Bechstädt	8/8	100			4/4	100		
Ms. Carlquist	7/8	88						
Dr. Döss	7/8	88						
Mr. Kerner	8/8	100					1/1	100
Mr. Kilian	8/8	100	8/8	100				
Dr. Kirchmann	8/8	100					1/1	100
Dr. Kuhn-Piëch	7/8	88			4/4	100		
Ms. Lorentzon	8/8	100			4/4	100		
Mr. Luthin	6/8	75						
Mr. Lyngsie	8/8	100	8/8	100			1/1	100
Ms. Macpherson	8/8	100			4/4	100	1/1	100
Mr. Osterloh	6/8	75	8/8	100				
Dr. Dr. Porsche	8/8	100	8/8	100				
Dr. Schmid	8/8	100						
Ms. Schnur	7/8	88			4/4	100		
Ms. Werner	8/8	100						
Mr. Zieger	7/8	88						

1 In acc. with section 171 (2) of the AktG

Committee activities

The Supervisory Board established two committees — the **Presiding Committee** and the **Audit Committee** — on which shareholders and employees are represented equally, with three representatives in each case, as well as the **Nomination Committee**, which consists solely of shareholder representatives. Additionally, a Special Committee consisting of an equal number of shareholder and employee representatives was established in the course of the decision about financing the planned Navistar transaction. This committee was dissolved after the resolution was adopted. The main role of the committees is to prepare Supervisory Board resolutions. In some cases, the Supervisory Board's decision-making powers or tasks are transferred to committees. The Nomination Committee is tasked with identifying candidates for Supervisory Board positions and recommending suitable candidates to the Supervisory Board as the latter's proposals for election at the Annual General Meeting. In this capacity, the shareholder representatives on the Presiding Committee act as the Nomination Committee.

Mr. Frank Witter was Chairman of the Audit Committee. I chaired the Presiding Committee in my capacity as Chairman of the Supervisory Board. At the Supervisory Board meetings, the Chairman of the Audit Committee and I provided regular reports on the work of the committees. The names of the members of the committees as of the end of 2020 can be found in the "Corporate Governance Statement" section and in the list in Note "53. Supervisory Board committees" to the Consolidated Financial Statements.

The **Presiding Committee** held a total of eight meetings in 2020. Four of the meetings were face-to-face-meetings, three were conference calls, and there was an option for attendance by phone for one meeting. The Presiding Committee dealt, in particular, with all the key issues to be discussed at the following full Supervisory Board meetings and prepared resolutions for them. Additionally, it took decisions about planned secondary activities of members of the Executive Board, for example, within the scope of the powers delegated to it by the Supervisory Board.

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

The **Audit Committee** held a total of four meetings in the year under review. Three meetings were held as video conferences.

It dealt in detail with financial reporting issues, the Annual Financial Statements of TRATON SE and the TRATON GROUP, and the audit reports submitted by the auditors, PricewaterhouseCoopers GmbH Wirtschaftsprüfungsgesellschaft, Munich ("PwC"), until the first quarter of 2020, and Ernst & Young GmbH Wirtschaftsprüfungsgesellschaft, Munich ("EY") starting with the 2020 half-yearly financial statements.

The Committee discussed the half-year financial report with the Executive Board prior to its publication. EY reviewed the TRATON GROUP's interim financial statements for the period ending June 30, 2020. This did not lead to any objections. The Committee discussed the findings of the review with the auditors in detail.

The Audit Committee also addressed the engagement of auditors starting in 2020, the engagement of the auditors to audit the Annual Financial Statements for 2020, and the areas of emphasis of the audit. The Committee regularly addressed the course of business in the TRATON GROUP, the internal control system, risk management and the risk management system, and the TRATON GROUP's risk position, among other issues. The Audit Committee also addressed compliance and internal audit issues, such as the TRATON GROUP's internal audit system and the audit plans for the TRATON GROUP's Corporate Audit function, as well as its implementation status. The head of Corporate Audit of the TRATON GROUP and the Chief Compliance Officer of the TRATON GROUP reported in person to the Committee.

The members of the Supervisory Board are themselves responsible for obtaining the education and training necessary for them to perform their duties, for example with regard to changes in the legal environment. They are supported by the Company if necessary. In addition, issues affecting the Company are periodically dealt with in depth on the basis of an annual schedule determined by the Supervisory Board (for example, software development in the field of autonomous driving and the status of the GDPR). When they take office, new members of the Supervisory Board have an opportunity to attend an internal training session covering their obligations as a Supervisory Board member.

Issues addressed by the Supervisory Board

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

In general, the shareholder and employee representatives met for separate preliminary discussions before each of the Supervisory Board meetings. The following additional information relates to the Supervisory Board meetings held in 2020:

SUPERVISORY BOARD CONFERENCE CALL ON JANUARY 30, 2020

In the conference call on January 30, 2020, we addressed the Company's Global Champion Strategy. Specifically, we dealt with the strategic focus, a takeover bid for Navistar, and the commencement of negotiations with Navistar on a potential merger agreement.

SUPERVISORY BOARD MEETING ON FEBRUARY 20, 2020

Our meeting on February 20, 2020, focused on the Consolidated Financial Statements for 2019. After detailed examination, we approved the Consolidated Financial Statements of the TRATON GROUP for 2019, which were prepared by the Executive Board. In addition, we resolved to engage EY to audit TRATON SE's 2020 Annual Financial Statements — provided the 2020 Annual General Meeting elects EY as the auditors for the year under review. We also addressed a strategic project relating to autonomous driving.

SUPERVISORY BOARD CONFERENCE CALL ON FEBRUARY 28, 2020

During the conference call, we addressed in detail the status of, and the next steps in, the squeeze-out of MAN SE shareholders by TRATON SE under merger law.

SUPERVISORY BOARD MEETING ON MAY 27, 2020

The primary focus of the May 2020 meeting was on deliberations relating to the TRATON GROUP's order, revenue, and earnings development, among other things, including in connection with the ongoing COVID-19 pandemic. We also discussed the appointment by court of the auditors for the half-year financial report due to the postponement of TRATON SE's Annual General Meeting. The course of business and potential measures affecting MAN Truck & Bus SE were also discussed. We additionally addressed the issue of data protection (with a focus on the implementation status of the GDPR) in the TRATON GROUP, a project on the possible structure of a syndicated revolving credit facility for the Company, as well as software developments in the field of autonomous driving.

SUPERVISORY BOARD MEETING ON JULY 7, 2020

During our meeting on July 7, which some of the members attended by phone, we addressed the composition of the TRATON GROUP's Executive Board and the associated change in the Company's management, among other things.

SUPERVISORY BOARD MEETING ON SEPTEMBER 16, 2020

At our September meeting, we also took a closer look at the German Corporate Governance Code, among other things, as well as discussing TRATON SE's course of business in the first half of the year, the current status of the TRATON GROUP's strategic priorities, and the status of the negotiations with Navistar. The Supervisory Board also discussed issues relating to the investment in TuSimple Cayman Ltd. We also addressed the advancement of women in the TRATON GROUP.

SUPERVISORY BOARD CONFERENCE CALL ON NOVEMBER 7, 2020

During the first conference call in November, we again addressed the takeover bid for Navistar and the necessary borrowings. For the latter purpose, we established a committee of six members in order to resolve on the intragroup credit line with Volkswagen Aktiengesellschaft or one of its subsidiaries. The members of this committee were Mr. Stimoniaris and myself, as well as Ms. Macpherson, Dr. Kirchmann, Mr. Lyngsie, and Mr. Kerner. The committee was dissolved after the resolution was adopted.

SUPERVISORY BOARD CONFERENCE CALL ON NOVEMBER 20, 2020

As well as discussing the course of business, we decided on the objectives for the corporate planning 2020–2025. We also addressed the revision of the remuneration system for the Executive Board and the Declaration of Conformity by the Executive Board and Supervisory Board of the Company relating to the recommendations by the Government Commission on the German Corporate Governance Code in accordance with section 161 of the *Aktiengesetz* (AktG — German Stock Corporation Act) ("Declaration of Conformity"). The resolutions on the last two items were adopted in writing on December 21, 2020, following further deliberation. Additionally, we discussed a bond issuance program, and reports were presented on the current status of electrification and fuel cells, as well as the antitrust proceedings involving Scania and MAN.

Conflicts of interest

No conflicts of interest involving members of the Supervisory Board within the meaning of recommendation E.1 of the German Corporate Governance Code were reported in the year under review.

Corporate governance and Declaration of Conformity

In December 2020, the Executive Board and the Supervisory Board issued the annual Declaration of Conformity. This is permanently available on TRATON SE's website at (https://ir.traton.com/download/companies/traton/Declaration/TRATON_SE_Declaration_of_Conformity_2020_EN.pdf). Detailed explanations of and the reasoning behind the departures from the recommendations of the German Corporate Governance Code can be found in the Declaration of Conformity dated December 2020.

Further information on corporate governance at TRATON is available in the "Corporate Governance" section of this Annual Report.

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

There were no changes in the Supervisory Board in fiscal year 2020.

Effective the end of July 15, 2020, Mr. Andreas Renschler, Mr. Joachim Drees, and Professor Carsten Intra resigned their posts as members of the Executive Board. Mr. Matthias Gründler and Dr. Ing. h.c. Andreas Tostmann were appointed to be their successors as members of the Executive Board of TRATON SE effective July 16, 2020. Mr. Gründler was also appointed as Chairman of the Executive Board and assumed responsibility for the central Human Resources division in addition to the existing functions of the Chairman of the Executive Board. In addition to his position as a member of the Executive Board of TRATON SE, Dr. Ing. h.c. Tostmann also assumed the chairmanship of the Executive Boards of MAN SE and MAN Truck & Bus SE. In addition to his existing Executive Board functions, Mr. Christian Schulz also assumed responsibility for the IT division.

Audit of the Annual and Consolidated Financial Statements and of the Dependent Company Report

In line with our proposal, the Annual General Meeting of TRATON SE elected Ernst & Young GmbH Wirtschaftsprüfungsgesellschaft, Munich, as the auditor for fiscal year 2020 on September 23, 2020. The Supervisory Board issued the concrete audit engagement letter to EY in line with the Audit Committee's recommendations and specified the areas of emphasis of the audit.

The auditors issued unqualified audit opinions on the 2020 Annual Financial Statements of TRATON SE and the 2020 Consolidated Financial Statements for the TRATON GROUP, plus the Combined Management Report.

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

The Executive Board of TRATON SE prepared a report on relationships with affiliated companies (Dependent Company Report) in accordance with section 312 of the AktG for fiscal year 2020. The auditor audited the Dependent Company Report and issued the following opinion:

"Based on the results of our audit, the dependent company report does not give rise to any reservations. We have therefore issued the following audit opinion:

1. the factual statements made in the report are correct
2. the payments made by the Company in connection with legal transactions detailed in the report were not unreasonably high
3. there are no circumstances that would require a materially different assessment of the measures listed in the report than that of the Managing Board."

The Supervisory Board concurred with the result of the audit of the Dependent Company Report by the auditor.

The members of the Audit Committee and the members of the Supervisory Board received the documents relating to the Annual Financial Statements, including the Dependent Company Report, and the audit reports prepared by the auditor in good time for the meetings of these committees on February 22, 2021.

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

Based on the audit reports by the auditors and its discussion with them as well as its own findings, the Audit Committee prepared the Supervisory Board's examination of the Consolidated Financial Statements and the Annual Financial Statements of TRATON SE, as well as the Combined Management Report and the Dependent Company Report, and reported on them in the Supervisory Board meeting on February 22, 2021. After this, it recommended that the Supervisory Board approve the Annual Financial Statements.

We examined these documents in depth in the knowledge of, and taking into account, the report by the Audit Committee and the auditors' report, and in our discussions with them. We came to the conclusion that these reports comply with the applicable requirements and that the assessments by the Executive Board of the position of the Company and the Group presented in the Combined Management Report correspond to those of the Supervisory Board.

We therefore concurred with the results of the audit by the auditors in our meeting on February 22, 2021, and approved the Annual Financial Statements prepared by the Executive Board and the Consolidated Financial Statements. The Annual Financial Statements are thus adopted.

We examined the Executive Board's proposal on the appropriation of net earnings after considering in particular the interests of the Company and its shareholders and concurred with the proposal.

On completion of our examination, we raise no objections to the declaration by the Executive Board at the end of the Dependent Company Report.

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

Munich, February 22, 2021

On behalf of the Supervisory Board:

Hans Dieter Pötsch
Chairman of the Supervisory Board

At a Glance

	2020	2019	Change
Trucks and buses (units)			
Incoming orders	216,251	227,240	–5%
Unit sales	190,180	242,219	–21%
of which trucks[1]	174,006	220,723	–21%
of which buses	16,174	21,496	–25%
TRATON GROUP			
Sales revenue (€ million)	22,580	26,901	–16%
Operating result (€ million)	81	1,884	–1,803
Operating result (adjusted) (€ million)	135	1,871	–1,736
Operating return on sales (in %)	0.4	7.0	–6.6 pp
Operating return on sales (adjusted) (in %)	0.6	7.0	–6.4 pp
Earnings per share (€)	–0.20	3.04	–3.24
Employees[2]	82,567	82,679	–112
Industrial Business			
Sales revenue (€ million)	22,156	26,444	–16%
Operating result (€ million)	–26	1,741	–1,768
Operating result (adjusted) (€ million)	28	1,729	–1,701
Operating return on sales (in %)	–0.1	6.6	–6.7 pp
Operating return on sales (adjusted) (in %)	0.1	6.5	–6.4 pp
Return on investment (in %)	–0.1	9.7	–9.8 pp
Adjusted EBITDA (€ million)	1,300	3,022	–57%
Primary R&D costs (€ million)	1,165	1,376	–15%
Capex (€ million)	992	993	0%
Net cash flow (€ million)	676	2,711	–2,036
Cash conversion rate (in %)	n/a	179	n/a
Net liquidity/net financial debt (€ million)[2]	27	1,500	–1,473
Financial Services			
Sales revenue (€ million)	820	849	–3%
Operating result (€ million)	107	142	–35
Net portfolio (€ million)[2]	9,520	9,936	–416

1 Including MAN TGE vans (2020: 17,635 units; 2019: 14,788 units)

2 As of December 31, 2020, and December 31, 2019

TRATON on the Capital Markets

Roller coaster ride on the stock markets as a result of the coronavirus crisis

In an unusually tumultuous 2020, the global stock markets recorded extreme volatility, ranging from record highs in February before the outbreak of the COVID-19 pandemic through the "Corona crash" in mid-March, down to a significant recovery rally, and record highs again on some markets toward the end of the year.

A number of leading equity indices were still posting all-time highs in February. The spread of coronavirus in the large industrial nations and the escalation of the epidemic into a global pandemic saw global share prices collapse sharply 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, 2020, while the Dax slumped by more than 5,000 points, reaching a multi-year low on March 18, 2020. What came to be known as the COVID-19 pandemic starting in March 2020 then led to the one of the deepest recessions in economic history, against which unprecedented countermeasures were launched worldwide. Nevertheless, the IMF (International Monetary Fund) is projecting a 3.5% decline in global economic activity for 2020.

Despite this, many indices experienced a bull market after the crash, running from April to December, recovering considerably from their annual lows, and in some cases even reaching new record highs after news of the speedy introduction of a vaccine against SARS-CoV-2. Substantial monetary and fiscal policy support measures by governments and central banks in unprecedented levels lifted the financial markets and gave investors hope that the crisis can be overcome quickly. In addition, the success already achieved in combating the pandemic, above all in Europe and Asia, enabled the economy to restart slowly.

The revival of economic activity in the third quarter in particular was faster than expected. However, the final quarter was marked by uncertainty triggered by the further rapid increase in the number of coronavirus infections and the US Presidential election. Nevertheless, sentiment on the global stock markets brightened further starting in November. Among other things, this was because the first promising vaccine options against coronavirus had been identified, and both companies and investors were becoming increasingly upbeat about 2021. In light of the tremendous uncertainty about the future development of the coronavirus crisis and its economic consequences, volatility remained high on the global stock markets throughout 2020.

The Stoxx Europe 50, which is the index of the largest listed European companies, ultimately fell by 8.7% in 2020. By contrast, the Dax, Germany's benchmark index, closed the year up 3.5%. The SDax, which comprises the 70 largest companies in Germany outside the Dax and the MDax, grew by 18.0%. The Stoxx Europe 600 Industrial Goods & Services (SXNP) index, whose members are the largest listed European companies in the industrial goods and services sector, gained 4.6% in 2020.

TRATON experiences volatile share price performance

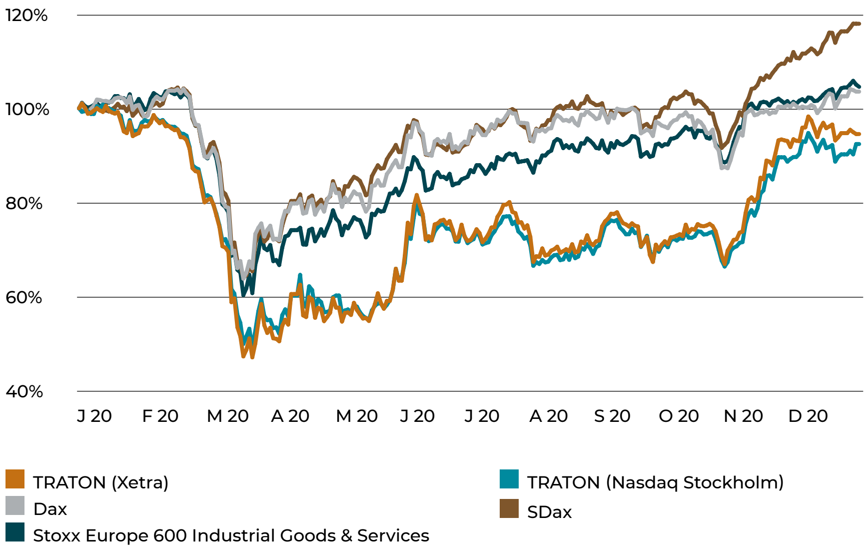
TRATON shares benefited from positive analyst comments and a friendly stock market environment at the beginning of 2020. The shares reached their high of €24.15 on the Frankfurt Stock Exchange on January 2, 2020. TRATON shares were unable to escape the collapse in the global stock markets from the end of February as a result of the spread of coronavirus 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 considerably improved stock market environment, buoyed by the support measures launched by governments and central banks, and associated hopes that the coronavirus crisis could be overcome. The slow restart of production from the end of April and the success already achieved in combating the pandemic also supported the growth in the share price. A better than expected market development and first signs of a sustainable increase in business in the third quarter led to the announcement of financial figures for the first nine months of 2020 that exceeded market expectations. Together with positive analyst comments — including in the context of the intended takeover of US commercial vehicle manufacturer Navistar — and improved sentiment on the global stock markets, this spurred on the share price starting in November. By the end of November, the share price had virtually recovered its low and was quoted at €21.95.

TRATON shares were priced at €22.61 and SEK 233.55 on December 31, 2020. This resulted in a decrease of 5.5% and 7.6% in the share price compared with the end of 2019. TRATON shares on the Frankfurt Stock Exchange thus performed 10% weaker than the Stoxx Europe 600 Industrial Goods & Services (SXNP) and 23.5% weaker than the SDax. TRATON SE's market capitalization at the end of 2020 was €11.3 billion.

Currently, 19 financial analysts cover TRATON shares. At the end of 2020, eight analysts voted for "Buy," eight for "Hold," and one for "Sell."

TRATON SHARE PRICE PERFORMANCE IN 2020 COMPARED WITH SELECTED INDICES SINCE JANUARY 1, 2020 (INDEXED JANUARY 1, 2020 = 100%)



Significant decline in earnings per share

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

Earnings per share fell to €–0.20 due to the sharp decline in operating result in the year under review.

Proposed dividend of €0.25 per share

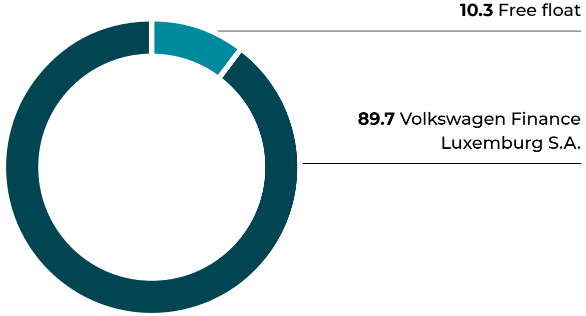
Despite the negative consolidated earnings after tax, the Executive and Supervisory Boards of TRATON SE are proposing to the Annual General Meeting to be held on June 30, 2021, to pay a dividend of €0.25 per share for fiscal year 2020. On the basis of its balance sheet structure, TRATON wishes to also allow its shareholders to participate in the growth in net cash flow in its second year as a listed company in line with its policy of dividend continuity.

Based on the proposed dividend for the year under review, the dividend yield for TRATON shares, calculated at the closing rate on the last day of trading in 2020, was 1.1%.

Free float at 10.3%

TRATON has an international investor base, including from Germany, Sweden, the United Kingdom, and the USA, comprising both institutional and retail investors. The largest single shareholder is Volkswagen Finance Luxemburg S.A., Strassen, Luxembourg, a Volkswagen Group company, which holds 89.7% of the share capital. The free float calculated in accordance with the criteria used by Deutsche Börse was unchanged at 10.3% on December 31, 2020.

SHAREHOLDER STRUCTURE AS OF DECEMBER 31, 2020 (AS % OF THE SHARE CAPITAL)



TRATON receives first credit rating

Following TRATON's IPO in June 2019, TRATON SE started preparations with Moody's Investors Service (Moody's) and S&P Global Ratings (S&P) in order to set up inaugural issuer credit ratings. The ratings were published on June 17, 2020, after being updated by the agencies.

TRATON SE started off with two investment-grade ratings, which underscored the strong balance sheet structure and created a solid basis for corporate finance activities. Moody's awarded its first credit rating of Baa1 (outlook negative), while S&P rated TRATON SE at BBB (outlook stable).

S&P confirmed its BBB rating on October 22, 2020, but lowered the outlook to negative due to the planned Navistar acquisition. Moody's confirmed its Baa1 rating (outlook negative) on November 12, 2020, following the publication of the figures for the first nine months of 2020 and the signing of a binding merger agreement with Navistar.

RATINGS

Ratings	Moody's	S&P
June 17, 2020	Baa1 negative	BBB stable
October 22, 2020		BBB negative
November 12, 2020	Baa1 negative	

TRATON SE takes out debut syndicated credit facility

At the end of July 2020, TRATON SE took out its first syndicated revolving credit facility with a volume of €3.75 billion, despite the impact of the COVID-19 pandemic. It has a term of three years and can be extended twice for one year each. The facility amount was provided by a banking consortium consisting of 21 banks, all of which are also TRATON's banks. The credit facility served to safeguard liquidity and streamline the financing structure. To underscore TRATON's commitment to sustainability issues and create further financial incentives for sustainable business performance, ESG (Environmental, Social and Governance) and sustainability criteria were integrated into the credit facility.

TRATON share capital

TRATON SE's share capital remained unchanged at the end of fiscal year 2020 at €500 million. It is composed of 500,000,000 no-par value shares, each with a notional value of €1.00. All shares carry full dividend rights in euros.

BASIC DATA FOR TRATON SHARES

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

TRATON's investor relations activities

Following the initial public offering (IPO) at the end of June 2019, we further intensified and expanded 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, we also held continuous talks with institutional investors and analysts in the course of virtual roadshows and virtual investor conferences in Europe and the USA.

TRATON SE held its first public Annual General Meeting without any shareholders or their representatives being physically present in Munich on September 23, 2020. Around 600 shareholders attended the virtual meeting of shareholders.

TRATON investor relations information

Further information about TRATON shares and TRATON's rating, as well as financial news, financial reports, presentations, information about the Annual General Meeting, information about the planned takeover of Navistar Inc., and contact details can be found at http://ir.traton.com.

KEY PERFORMANCE INDICATORS FOR TRATON SHARES

	2020	2019
Earnings per share from continuing operations in € (diluted/basic)	–0.20	3.04
Earnings per share from continuing and discontinued operations in € (diluted/basic)	–0.20	3.04
Price-earnings ratio (PE ratio)[1]	n/a	7.9
Dividend per share (€)[2]	0.25	1.00
Dividend yield (in %)[3]	1.1	4.2
Distribution ratio (in %)	n/a	33
Xetra (€)		
Year-end closing price	22.61	23.92
Annual average price	18.18	24.37
Annual high	24.15	27.27
Annual low	11.23	22.20
Nasdaq Stockholm (SEK)		
Year-end closing price	233.55	252.80
Annual average price	190.35	260.29
Annual high	254.85	287.00
Annual low	123.98	239.80
Number of shares (million)[4]	500	500
Market capitalization (€ billion)[4]	11.3	12.0

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

2 For 2020: proposed dividend, subject to approval by the 2021 Annual General Meeting; for 2019: dividend distributed in 2020

3 Dividend per share based on the year-end closing price of TRATON shares (Xetra trading)

4 As of December 31, 2020

Responsibility in the TRATON GROUP

Sustainability

For TRATON, being fit for the future means understanding and managing global challenges. We have to identify where opportunities and risks for both sustainable development and for our business success present themselves and focus our actions accordingly. Our goal is to actively shape the transportation and logistics industry of the future and thus to make TRATON a Global Champion. In order to achieve this goal, we have to consistently act in a sustainable manner and fulfill our responsibility as a company. That applies to both our processes and our products. In doing so, we are laying the foundation for strengthening our market position in the long term. In 2020, our sustainability efforts were again rewarded with a Prime status from the Institutional Shareholder Services Environment, Social and Governance (ISS ESG) rating agency. With a rating of C+ (scale of A+ to D–) and a very good classification of 1 (out of 10), TRATON ranks in the top 14% of companies in the relevant transportation sector. A total of 269 companies were compared.

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

Sustainability is an integral component within the entire TRATON GROUP. Due to the decentralized organization of the Group, the brands set their priorities, resources, and methods individually, according to their respective corporate culture and strategy. The main subjects for the TRATON GROUP are determined based on the materiality analyses of the brands. In this context, a TRATON Sustainability Board consisting of representatives from the brands and from TRATON defines the minimum standards for the Group and acts as a platform for promoting communication. Our strong brands Scania, MAN, and Volkswagen Caminhões e Ônibus (VWCO) are in the best position to make the transportation and logistics sector more sustainable with their products and services. For more than ten years, sustainability has been firmly established within the brands of the TRATON GROUP and there are continuing and consistent efforts to drive the issue forward.

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

Committed to climate protection

The TRATON GROUP is committed to the sustainability goals of the United Nations and in particular the measures for combatting climate change.

Scania's goal is to drive the transformation to a sustainable transportation system and create a world of mobility that is better for companies, society, and the environment. In order to fulfill its environmental responsibility, to achieve the targets of the Paris Agreement, and to limit global warming, Scania has set itself ambitious targets. These targets have been officially recognized by the Science Based Targets initiative (SBTi) and consist of two separate targets: the first target is a 50% reduction in absolute numbers in CO_2 emissions from Scania's own operations (scope 1 and 2) by 2025, with 2015 as the base year.

Since in general more than 90% of greenhouse gas emissions result from vehicle operation, the second target concerns the use phase of Scania vehicles (scope 3). Scania plans to reduce the emissions that result from the use of Scania vehicles by customers by 20% between 2015 and 2025. This target is an intensity target and is measured as CO_2/km from a well-to-wheel perspective, so that production of the fuel is also included.

MAN already adopted a Group-wide Climate Strategy back in 2011. It entails the binding goal of reducing absolute CO_2 emissions at MAN production sites by 25% by 2020 as against the 2008 baseline. It was possible to reach this goal early in 2018 with a reduction of 26% compared to 2008. In light of increased use of renewable energies and the introduction of new energy supply concepts, MAN adopted a new, revised, and enhanced MAN climate protection strategy in 2020. It aims to cut CO_2 emissions in production by 50% by 2025 as against the 2015 baseline. MAN is also striving to switch to CO_2-neutral production by 2030.

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

Future-proof solutions

Scania is committed to a fossil-free commercial transportation system, and electric vehicles are a critical element of this journey. Scania launched its first all-electric truck on the market in September 2020. With a range of up to 250 kilometers, this electric truck can be operated all day long and be fully charged overnight at its home depot. If a longer range is needed, the battery can be charged quickly and sufficiently during a break or stops that occur naturally underway.

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

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

TRATON Global Champion Strategy

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

TRATON’s Global Champion Strategy consists of four key pillars: **(i) Brand Performance** — profitable growth and increased performance of our brands Scania, MAN, and VWCO; **(ii) Cooperation & Synergies** — exploiting those across our brands; **(iii) Global Expansion** — to leverage further economies of scale; and **(iv) Customer-**

Focused Innovation — to address future challenges in our industry and transform transportation. The TRATON GROUP's Global Champion Strategy is based on a set of shared values and common beliefs, i.e., customer focus, determination, respect, team spirit, and integrity.

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

(i) Brand Performance

The TRATON GROUP's leading brands Scania, MAN, and VWCO form the foundation of the Group. The brands' focus is sustaining and further developing the business in the Group's core markets. This includes maintaining leading market positions in Europe and Brazil and generating further growth by increasing the market share in existing and new markets. Going forward, the TRATON GROUP brands will be given greater earnings responsibility so that they can achieve the target operating return on sales over the commercial vehicle industry cycle.

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

Above all, the brands aim to improve their profitability and achieve their target returns. We assume there is still potential to further advance brand performance and increase the TRATON GROUP's profitability. Therefore, the brands continue to focus on improving their earnings power with additional programs. So that it can continue investing in forward-looking fields such as alternative drives, digitalization, and automation, MAN will first have to undergo an extensive restructuring process. The goal is a sustained improvement in MAN's performance. Scania and VWCO are also working continuously to achieve the goals they have set themselves.

(ii) Cooperation & Synergies

As part of its Global Champion Strategy, the TRATON GROUP plans to further improve long-term cooperation between the brands. This cooperation aims to realize synergies across the Group's brands and alliance partners, which will contribute to our profitability. Further bundling purchasing power is expected to deliver a particularly strong contribution to this.

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

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

In all of these categories a multitude of projects have been established to materialize the identified synergies.

(iii) Global Expansion

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

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

The signing of a binding merger agreement with Navistar to acquire all outstanding Navistar shares not already held by TRATON at a cash price of USD 44.50 per share was an important milestone in TRATON's global expansion. The transaction builds on the existing success story of the strategic partnership with Navistar by adding Navistar's presence in North America to TRATON's strong position in Europe and South America. Together, we would create a global company that could benefit from optimized brand performance, greater innovative strength, and industry-leading capabilities. Additionally, our Scania and MAN brands aim to further strengthen their presence in the Chinese market. As a first step, Scania has invested in its own truck production facility in Rugao, Jiangsu Province.

(iv) Customer-Focused Innovation

We expect that creating a Global Champion will enable us to successfully address future technological challenges and to seize opportunities associated with three megatrends that are currently transforming the transportation industry: globalization, digitalization, and sustainability. The TRATON GROUP is developing solutions in the areas of autonomous driving, connectivity, and electrification/alternative drives that address these megatrends. These solutions are set to reduce inefficiencies and enhance customer value and TCO, which is a key factor in customers' purchase decisions. When developing new technologies, the brands will focus even more strongly on becoming more agile and more efficient in the future. Their particular focus will be on e-mobility, in which TRATON is planning to invest €1.6 billion between 2021 and 2025.

For TRATON, sustainability is a prerequisite for business success. TRATON intends to make a contribution to sustainability by expanding the use of climate-friendly technology in its drive systems and new technology solutions to make transportation more efficient.

Highlights 2020

The TRATON GROUP reached new milestones in its Global Champion Strategy in 2020. Since the Company was formed a short time ago, it has pursued the goal of being represented in all relevant global markets. In the important North American market, it already entered into a strategic partnership with US commercial vehicle manufacturer Navistar in 2017, which since then has generated considerable benefits in purchasing and through the integration of new technologies. At the end of January 2020, the TRATON GROUP Executive Board decided to take the next logical step in the US market by means of a takeover bid for Navistar.

TRATON is confident that together with Navistar, the Group is better positioned to meet the challenges of new regulatory requirements and dynamically developing technologies in the areas of digital connectivity, drives, and autonomous driving. The combination of TRATON's strong position in Europe and significant presence in South America with Navistar's presence in North America offers an opportunity to create a leading company with a global reach and complementary capabilities.

The two partners entered into a binding agreement in early November 2020. It sets out that TRATON SE will acquire all outstanding common shares of Navistar not already held by TRATON at a cash price of USD 44.50 per common share. TRATON held 16.7% of Navistar's outstanding common shares at the end of the reporting period.

The transaction is expected to close in mid-2021 and is subject to approval by Navistar's shareholders, standard closing conditions, and regulatory approvals. Major shareholders Icahn Capital LP and MHR Fund Management LC have already agreed to vote in favor of the transaction.

Driving innovation is another pillar of the Global Champion Strategy. TRATON posted an important success in 2020 in the forward-looking field of alternative drives. As part of their strategic partnership, TRATON and Hino Motors signed a joint venture agreement for the planning and supply of e-mobility products. TRATON and Hino will join forces to drive forward the development of electric mobility with battery electric vehicles, fuel cell vehicles, and components. Additionally, joint platforms are to be developed for electric vehicles, including software and interfaces. The alliance between TRATON and Hino will shorten the lead times for e-mobility products with battery and fuel cell technology.

So that it can play a leading role in the autonomous transportation of the future, TRATON also entered into a global partnership with US startup TuSimple in 2020. As the first partnership of its kind in Europe, it will bring together a global commercial vehicle manufacturer and a producer of Level 4 (L4) highly automated driving technologies. In a joint development project, TRATON and TuSimple will launch a first hub-to-hub route between Södertälje and Jönköping in Sweden in the spring of 2021. Scania trucks will service this route at SAE Level 4, during which systems will operate the vehicle almost all the time. As part of the partnership, TRATON also acquired a noncontrolling interest in TuSimple.

Following TRATON SE's IPO on June 28, 2019, the Company's first public Annual General Meeting was held on September 23, 2020. Payment of a dividend of €1 per share was resolved at that meeting. Due to the COVID-19 pandemic, TRATON decided to hold the Annual General Meeting virtually.

Scania

With the launch of its first all-electric truck, Scania underpinned its position as one of the leading companies in the commercial vehicle sector in the area of alternative drives. Scania's electric truck is designed for use in urban environments and offers an electric range of 250 kilometers. Scania also presented a hybrid truck with an electric range of 60 kilometers.

The new alternative drive products contribute to Scania's climate targets, which were officially confirmed by the SBTi in 2020. Scania is the first large manufacturer of heavy-duty trucks to achieve this success. Scania is committed to contributing to achieving the Paris climate protection target to limit global warming to 1.5°C above preindustrial levels. Scania 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.

Hydrogen-powered vehicles also contribute to reducing CO_2 emissions in Scania's vehicle fleet. Norwegian wholesaler ASKO is testing hydrogen-powered Scania trucks with a fuel cell electric drive.

Scania aims to make further rapid progress in the electrification of its model range and is therefore planning to invest well over SEK 1 billion in a battery assembly plant in Södertälje in the coming years. The first step will be an 18,000-square-meter plant. Construction of the plant will start in early 2021, and it is expected to be fully operational by 2023. The plant, which will be built next door to the chassis assembly plant in Södertälje, will assemble battery modules and battery packs using cells supplied by the company Northvolt. The assembled packs will become battery systems tailored to Scania's modular production.

Scania also intends to significantly expand its presence in the Chinese and Asian markets. As a first step, Scania has invested in its own truck production facility in Rugao, Jiangsu Province, 150 kilometers northwest of Shanghai. Series production is scheduled to start in early 2022. Scania's long-term substantial investments in China also include the development of local research and development capabilities, and will ensure that the TRATON GROUP is more strongly represented in the world's largest commercial vehicle market in the future.

MAN

For the first time in 20 years, MAN Truck & Bus presented an entirely newly developed generation of trucks. It is systematically aligned with the shifting needs of the transportation industry and sets standards for assistance systems, driver guidance, and digital connectivity. Thanks to improved concepts for powertrains, aerodynamics, and the MAN EfficientCruise efficiency assistant, this new generation of trucks uses up to 8% less fuel than the previous generation, as confirmed by TÜV Süd. The MAN TGX was voted "International Truck of the Year 2021" by 24 trade journalists from all over the world. This award is considered to be one of the most important prizes in the transportation industry.

MAN Truck & Bus also celebrated a premiere in the bus segment in 2020. The all-electric MAN Lion's City 18 E, which is optimized for driving in the city, went on sale 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 in 2021. The 12-meter-long solo bus model of the MAN Lion's City E has already collected prominent design prizes.

In cooperation with partner companies, MAN Truck & Bus converted the MAN TGE van into an innovative diagnostic vehicle in the course of the COVID-19 pandemic in 2020. The molecular diagnostic PCR test devices deployed in the van deliver the results of the nasal or throat swab in just 39 minutes. Up to 800 tests can be performed daily and evaluated directly in the vehicle.

MAN Truck & Bus presented its Zero Emission Roadmap for emission-free transportation in 2020. Electric drives and hydrogen technology are set to drive CO_2-free mobility forward. There is already growing demand for battery electric vehicles to be used in local public transportation and for distribution. MAN Truck & Bus already offers the MAN Lion's City E city bus, the eTGE van, and the eTGM electric distribution truck as series vehicles for these applications. The all-electric truck from the new generation is set to be delivered to customers from 2023. For long-haul transportation, hydrogen is a good complementary option as an alternative fuel. MAN is already working on this technology in early development projects, with prototype vehicles expected to be manufactured as early as 2021. MAN is testing the use of both fuel cells and hydrogen combustion engines.

MAN Truck & Bus has entered into a cooperation agreement with the University of Erlangen-Nuremberg and the Nuremberg Institute of Technology to research and develop hydrogen-based vehicle drives. For the first time, university scientists and students will be working together with the developers of a vehicle manufacturer at its factory site to operate a joint laboratory and test rigs for research into hydrogen technology. With the Hydrogen Campus, the MAN diesel engine plant in Nuremberg is laying the foundation for a successful transformation toward alternative drives.

Volkswagen Caminhões e Ônibus (VWCO)

VWCO expanded its product portfolio in 2020, which now features its largest truck model to date. The new Meteor model is used in the heavy-duty sector, a market that is growing particularly strongly in Brazil. BRL 1 billion was invested in the new heavy-duty truck family, and a new assembly line was built in Brazil. Four years of development and more than 20 prototypes were also used to improve the vehicle's characteristics, and thus further reduce the total cost of ownership (TCO). Although the Meteor is the latest model in VWCO's portfolio, it has already set a record for the brand. The one millionth vehicle to run off VWCO's production lines was a VW Meteor.

In addition to the new Meteor model, the successful VW Constellation model also celebrated its premiere with the new generation of the 13-liter MAN D26 engine, which is now being produced in Brazil. The Meteor is powered by the same engine.

In the area of alternative drives, VWCO had already entered into a key agreement with Ambev, the largest beverage manufacturer in Latin America, in 2019. VWCO will start delivering the first 100 e-Delivery electric trucks in 2021. This project was driven forward as planned at VWCO in 2020. Starting in the second half of 2021, Ambev will use the e-Delivery on the roads of São Paulo and Rio de Janeiro. The beverage manufacturer intends to take delivery of 1,600 e-Delivery trucks by 2023.

COMBINED MANAGEMENT REPORT

2

COMBINED MANAGEMENT REPORT OF TRATON SE, MUNICH, FOR THE PERIOD FROM JANUARY 1 TO DECEMBER 31, 2020

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

Key Information about the TRATON GROUP

1. Business activities and organization

With its Scania, MAN, and Volkswagen Caminhões e Ônibus (VWCO) brands, the TRATON GROUP is a leading global commercial vehicle manufacturer. TRATON's Global Champion Strategy seeks to make it a Global Champion of the transportation and logistics industry through profitable growth and synergies, global expansion, and customer-focused innovations. Together with its partners Navistar International Corporation, Lisle, Illinois, USA (Navistar) (interest of 16.7%), Sinotruk (Hong Kong) Limited, Hong Kong, China (Sinotruk) (interest of 25% plus 1 share), and Hino Motors, Ltd., Tokyo, Japan (Hino Motors), the TRATON GROUP forms a strong common platform. It is the basis for future synergies, in particular in purchasing.

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

The TRATON GROUP's business activities are divided into two reportable segments: Industrial Business and Financial Services. The Industrial Business segment combines the three operating units Scania Vehicles & Services (brand name: Scania), MAN Truck & Bus (brand name: MAN), and VWCO, as well as holding companies and the Group's digital brand, RIO. The Financial Services segment consists solely of Scania Financial Services and offers customers a broad range of financial services, including dealer and customer finance, leasing, and insurance products. The TRATON GROUP's overall headcount is approximately 82,600.

The TRATON GROUP's vehicle brands are clearly positioned:

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

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

The core functions of the TRATON GROUP are distributed across the Munich, Germany, and Södertälje, Sweden, locations and are thus situated close to the MAN and Scania brands. Another important site is São Paulo, Brazil, the headquarters of the VWCO brand. Purchasing, strategic product planning, and production management for the entire TRATON GROUP are coordinated in Södertälje in addition to research and development activities.

2. Research and development

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

In fiscal year 2020, primary development costs amounted to €1.2 billion (previous year: €1.4 billion). They were therefore substantially below the prior-year level. The COVID-19 pandemic required ongoing development projects to be prioritized. Lower spending on the new generation of trucks compared with the previous year also contributed to this decline. The new truck generation from MAN Truck & Bus celebrated its market launch in February 2020. Volkswagen Caminhões e Ônibus (VWCO) presented its new Meteor heavy-duty truck to the public in September.

Regardless of the lower primary R&D costs overall, the TRATON GROUP continued to give priority to the development of the cross-brand 13-liter CBE (common base engine) heavy-duty drive platform in fiscal year 2020. In addition, our brands are continuing to systematically align their product portfolio to electric drives, which is also reflected in the increase in the number of employees working in research and development at the end of 2020.

Scania unveiled its future electric and plug-in hybrid trucks in 2020, underlying the brand's ambition to play a leading role in the transformation of the transportation and logistics industry. The growing range of alternative drive systems will accelerate the journey toward greater sustainability. The all-electric truck for urban delivery and distribution from the Scania brand has 165–300 kWh battery packs for an electric motor with an output of 230 kW. This allows it to develop a range of up to 250 kilometers. Scania's plug-in hybrid truck can drive up to 60 kilometers electrically. Over the coming years, Scania will continue to work on developing all-electric trucks for all applications, including long-haul and construction. Since early July 2020, Scania has also been testing pantograph-equipped R450 hybrid trucks on a section of the A5 autobahn near Frankfurt in catenary operation. With its Citywide model, Scania additionally offers a battery electric bus that can accommodate up to 105 passengers.

The MAN eTGM already operates 100% electrically. It is designed for climate-friendly and especially energy- and cost-efficient operation in inner-city goods transportation and delivery operation. The MAN eTGM won the European Transport Award for Sustainability 2020 and is already available in a small batch series. MAN also has electric city bus models in the form of the Lion's City 12 E (the 12-meter-long solo bus) and the longer articulated model, the Lion's City 18 E.

VWCO, together with partners in Brazil, is developing an end-to-end network and infrastructure for electric trucks — from production and charging infrastructure to battery life cycle management.

The trend toward alternative drives is irreversible. TRATON positioned itself accordingly: we want to take a leading position here. Climate protection is one of our primary goals. This aspiration is also reflected in our planning: we will invest €1.6 billion in electric mobility in the period from 2021 to 2025, and hence double the proportion of electric mobility in our product development budgets. Expenditure on conventional drives will decline accordingly.

In 2020, we signed an agreement with our Japanese strategic partner Hino Motors regarding a joint venture in the field of electric mobility. It relates to both battery electric and fuel cell vehicles, as well as components. We also want to develop common platforms for electric vehicles, including software and interfaces.

The TRATON GROUP has also strengthened its position in the important forward-looking field of autonomous driving by entering into a strategic partnership in 2020. We are now collaborating with TuSimple Cayman Ltd. on the development of autonomous trucks. In a joint development project, we will launch a first hub-to-hub route between Södertälje and Jönköping in Sweden. Scania trucks will service this route using Level 4 high driving automation technologies. Systems operate the truck permanently at this level. The driver only intervenes when prompted if the systems are no longer able to manage certain driving tasks. This technology will be made available to all brands in the TRATON GROUP and is intended to further accelerate our path toward autonomous driving.

The TRATON GROUP launched its digital brand RIO in 2016, an open, cloud-based solution for the entire transportation and logistics ecosystem. RIO offers a package of digital services that interconnects everyone involved in the supply chain on a unified platform. RIO is a solution that can be used with vehicles from any manufacturer. In fiscal year 2020, RIO also further intensified its cooperation with Volkswagen relating to the digitalization of Volkswagen Group Logistics processes.

The newly developed modular toolbox includes all elements from the powertrain to the vehicle frame for vehicles in the Group. Inspired by Scania's modular toolbox model, its goal is to also allow simpler and faster customized configuration of trucks in other Group brands in the future.

To summarize, three core topics denote innovation for us: Modularization of components and products, Software and Systems as the byword for networking traditional and new technologies as well as business models, and People and Collaboration to serve as the foundation for collaboration across borders and brands.

RESEARCH AND DEVELOPMENT IN THE INDUSTRIAL BUSINESS SEGMENT IN FIGURES

€ million	2020	2019	Change
Primary R&D costs	1,165	1,376	–211
of which capitalized development costs	316	467	–151
Capitalization ratio (in %)	27.2	34.0	–6.8 pp
Amortization of, and impairment losses on, capitalized development costs	265	192	73
Research and development costs recognized in the income statement	1,114	1,101	13
Sales revenue, Industrial Business	22,156	26,444	–4,289
Primary R&D costs	1,165	1,376	–211
R&D ratio (in %)	5.3	5.2	+0.1 pp
R&D employees (as of 12/31)	7,328	7,067	261

3. Financial management

INTERNAL MANAGEMENT PROCESS WITHIN THE TRATON GROUP

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

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

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

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

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

MOST IMPORTANT KEY PERFORMANCE INDICATORS

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

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

THE TRATON GROUP'S KEY PERFORMANCE FIGURES

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

Core key performance indicators at Group level

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

Unit sales

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

Sales revenue

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

Operating return on sales

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

Core key performance indicators for the Industrial Business segment

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

Return on investment in the Industrial Business segment

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

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

Primary research and development costs in the Industrial Business segment
Primary research and development costs in the Industrial Business segment contain both capitalized development costs and research and development costs not eligible for capitalization. They therefore represent expenditures ranging from blue skies research down to the market-ready development of our products and services.

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 earnings after tax generated as cash funds and is calculated as the ratio of net cash flow to earnings after tax. If net cash flow and/or earnings after tax are negative, the indicator is meaningless and is no longer disclosed. The cash conversion rate is presented as a percentage.

Additional key performance figures

Adjustments to operating result
In addition to reported operating result, adjusted operating result (or 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 result to sales revenue. Adjustments to operating result are also taken into account in determining the adjusted EBITDA.

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

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

Equity ratio in the Industrial Business and Financial Services segments
The equity ratio is the extent to which assets are covered by equity. For each segment, it is calculated from that segment's perspective.

Report on Economic Position

1. Macroeconomic environment

GLOBAL SPREAD OF CORONAVIRUS (SARS-COV-2)

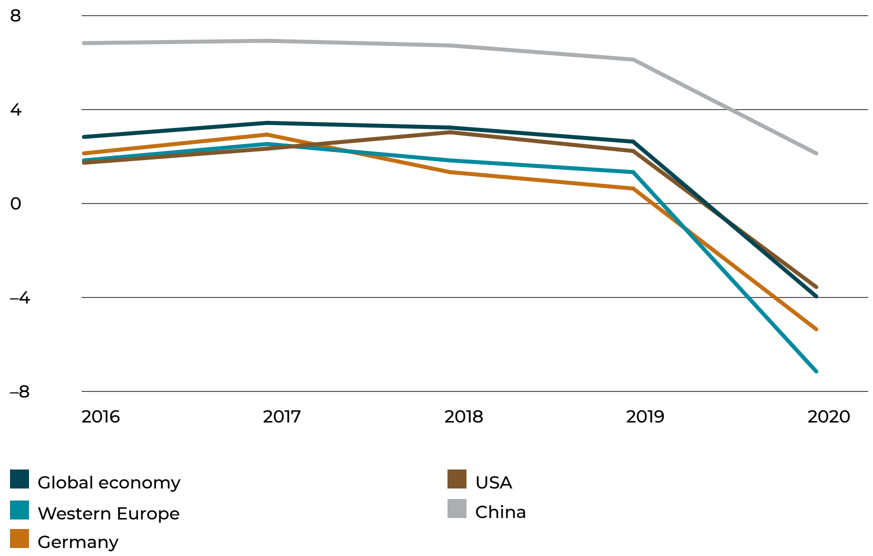
At the end of 2019, initial cases of a potentially fatal respiratory disease became known in Wuhan, in the Chinese province of Hubei. This disease is attributable to a novel coronavirus. Infections also appeared outside China from mid-January 2020. In Europe, the number of people infected rose continuously in the course of February, and especially in March and April 2020. While many European countries recorded declining numbers of new infections as the second quarter of 2020 progressed, the rate of new infections continued to rise in North, Central, and South America, Africa, and parts of Asia. In the second quarter, many of the measures taken to contain the COVID-19 pandemic were gradually relaxed, especially in Europe. This included partially lifting border controls and travel restrictions and relaxing lockdowns as well as the reopening of businesses and public facilities. In addition, the European Commission and numerous European governments approved aid packages to support the economy. In other regions, governments also introduced measures aimed at shoring up the economy to counteract the enormous disruption to everyday life and economic activity caused by the COVID-19 pandemic. During the third quarter, and particularly during the fourth quarter of 2020, many regions around the world, with the exception of China, saw a renewed — and in some cases very rapid — increase in new infections, which led to the easing of restrictions being reversed in certain situations.

Throughout the whole of 2020, the global spread of the SARS-CoV-2 virus brought enormous disruption to all areas of everyday life and the economy.

DEVELOPMENTS IN THE GLOBAL ECONOMY

The global spread of the SARS-CoV-2 virus, the associated restrictions, and the resulting downturn in demand and supply meant that growth in the world economy was negative in 2020, at –4.0% (previous year: positive at 2.6%). 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 impact of the COVID-19 pandemic was being felt. The governments and central banks of numerous countries 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 drop in prices for energy resources, while other commodity prices increased slightly year-on-year on average. On a global average, consumer prices rose at a slower pace than in 2019, and global trade in goods declined in the reporting period.

ECONOMIC GROWTH
PERCENTAGE CHANGE IN GDP



EUROPE/OTHER MARKETS

As a whole, the economies of Western Europe recorded a sharp fall in 2020, contracting by 7.2% (previous year: increase of 1.3%). This trend was seen in virtually all countries in Northern and Southern Europe. The impact of national measures to contain the pandemic was substantial. These included border closures and physical distancing. In some countries, the measures severely restricted everyday life and also had grave economic consequences. Governments of many countries in this region subsequently started to lift some of the restrictions imposed, spawning a gradual economic recovery. Due to the renewed increase in case numbers in many countries as the year went on, several of these measures were tightened again, or at least left in place. In addition, the uncertain outcome of the Brexit negotiations between the United Kingdom and the European Union (EU) generated uncertainty in fiscal year 2020, as did the related question of what form this relationship would take in the future.

The economies in Central and Eastern Europe reported an overall considerable decline in real absolute GDP of 3.7% (previous year: increase of 2.5%) in 2020, with economic output falling by 3.4% (previous year: increase of 2.9%) in Central Europe and by 4.0% (previous year: increase of 2.0%) in Eastern Europe. The same trend was observed in Russia: economic output in Eastern Europe's largest economy contracted by 4.1% (previous year: increase of 1.3%).

Turkey was unable to sustain the recovery seen in the first quarter, with the GDP growth rate falling to –0.2% (previous year: 1.0%) for 2020 as a whole but remaining positive. South Africa's GDP trend declined sharply in the reporting period by 7.3% (previous year: increase of 0.2%) amid persistent structural deficits and political challenges.

GERMANY

Germany's economic output showed a considerable negative trend in the reporting period at –5.3% (previous year: 0.6%). The labor market was in a favorable situation at the start of the year, but the pandemic led many companies to introduce short-time working throughout the course of the year. The temporary easing of restrictions in everyday life and economic activity as well as government assistance packages enacted to support the economy led to improved confidence among consumers and companies over the course of the year, although it only returned to the level of prior years in isolated cases.

NORTH AMERICA

Economic growth in the USA declined by 3.6% (previous year: increase of 2.2%) in the reporting year as rates of infection soared. To strengthen the economy in light of the disruption caused by the COVID-19 pandemic, the US government passed comprehensive stimulus 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 before declining but still remaining at a relatively high level. This was reflected accordingly in the unemployment rate, which more than doubled year-on-year to 8.1% (previous year: 3.7%) in the reporting period. GDP fell by 5.7% (previous year: increase of 1.9%) in neighboring Canada and by 9.0% (previous year: decrease of 0.0%) in Mexico.

SOUTH AMERICA

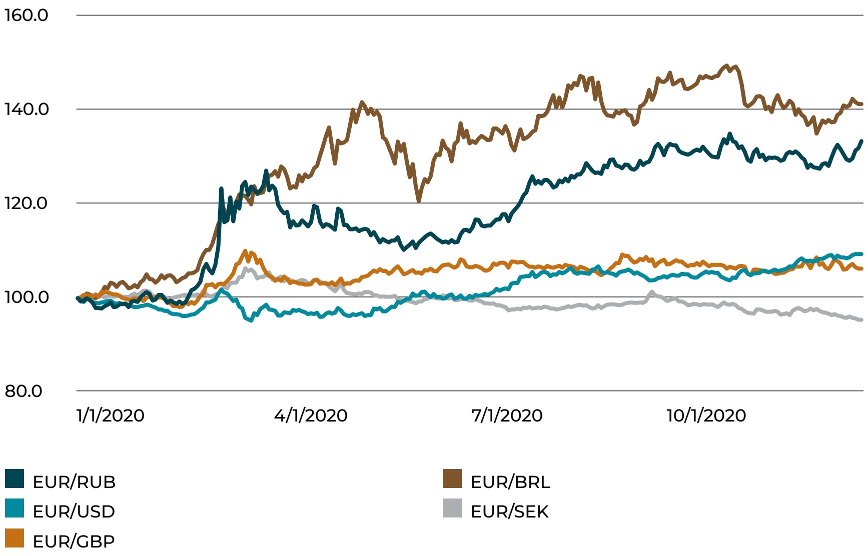
Brazil recorded a decline of 4.6% (previous year: increase of 1.4%) in 2020, resulting from the dynamic rate of infection caused by the COVID-19 pandemic. At –11.1% (previous year: –2.1%), the economic downturn in Argentina intensified amid continued high inflation and substantial depreciation of the local currency compared with the previous year.

ASIA/PACIFIC

The Chinese economy, which had been exposed to the negative effects of the COVID-19 pandemic earlier than other economies and benefited from a relatively small number of new infections as the year progressed, recorded positive growth rates from the second quarter onwards, expanding by 2.1% (previous year: 6.1%) overall. Growth in India fell sharply to –8.9% (previous year: 4.2%) amid relatively high infection rates. Japan also recorded negative growth of 5.4% (previous year: positive growth of 0.3%) compared with the same period of the previous year owing to the adverse impact of the COVID-19 pandemic.

2. Exchange rates

PRIMARY CURRENCIES TRATON 2020



	Opening rate for the year	Year-end closing rate	Average rate for the year
BRL/EUR	4.5135	6.3756	5.8885
RUB/EUR	69.8469	91.7754	82.6358
GBP/EUR	0.8500	0.8993	0.8890
USD/EUR	1.1228	1.2276	1.1413
SEK/EUR	10.4451	10.0247	10.4888

The COVID-19 pandemic affected TRATON's primary currencies in 2020. In particular, the Brazilian real and the Russian ruble recorded volatilities of over 30% at its peak in March 2020.

Reflecting the development of the economy, the Brazilian real suffered strongly from the COVID-19 pandemic and depreciated steadily from 4.51 at the beginning of the year to its most recent level of BRL 6.38 against the euro. The average rate was BRL 5.89 per euro, following 4.41 in the previous year. The Russian economy was also hit hard by the effects of this pandemic and dropped from 69.85 at the beginning of the year to RUB 91.78 per euro at the end of the year. The average rate was RUB 82.64 per euro, following 72.47 in the previous year. The pound sterling also recorded higher volatility due to the uncertainty on the capital markets about an orderly Brexit, trading between 0.83 and 0.93, with a closing price of GBP 0.90 per euro. By contrast, movements in the US dollar and Swedish krona were moderate in 2020. The US dollar traded between 1.07 and 1.23, with an average of USD 1.14 per euro, while the Swedish krona traded between 10.02 and 11.19, for an average of SEK 10.49 per euro.

3. Market environment

The available registration data for the TRATON GROUP's core regions reflects the situation from January through December 2020, and January through November 2020 for 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. Truck registrations in the EU27+3 region were sharply below the previous year's level. 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 in the first half of the year from the introduction of the digital tachograph in June 2019 and the potential for a no-deal Brexit.

The other truck markets were heavily impacted by the COVID-19 pandemic. In Brazil, truck registrations were down considerably on the prior year, in South Africa they decreased substantially. The Russian market recorded a noticeable decline as well. By contrast, Turkey recorded a very sharp 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 sharply impacted by the COVID-19 pandemic. Bus registrations in the EU27+3 region were down sharply year-on-year, with the coach market in particular coming to a virtual standstill. Bus registrations decreased very sharply in Brazil and Mexico.

Despite the continuing uncertainty resulting from the COVID-19 pandemic, a very strong recovery in almost all of the TRATON GROUP's most important truck and bus markets was evident in the second half of 2020 compared with the first half of the year, with a substantial recovery in the EU27+3 region in particular.

4. Target achievement in 2020

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. In an ad-hoc release on October 28, 2020, and in the 9M 2020 Interim Statement published on November 10, 2020, TRATON SE updated its forecast for fiscal year 2020 on the basis of the then-current developments in connection with the COVID-19 pandemic. The updated targets were virtually reached in fiscal year 2020. Operating return on sales was at the upper end of our expectations. By contrast, capex was on a level with the previous year. Nevertheless, net cash flow, which forms the basis for calculating the cash conversion rate, was still considerably higher than our expectations.

TRATON GROUP	Actual 2019	Original forecast for 2020	Latest forecast for 2020	Actual 2020
Unit sales	242,219	moderate decline	sharp decline	190,180
Sales revenue (€ million)	26,901	moderate decline	substantial decline	22,580
Operating return on sales (in %)	7.0	4.5–5.5	between –1.0 and +1.0	0.4
Industrial Business				
Sales revenue (€ million)	26,444	moderate decline	substantial decline	22,156
Operating return on sales (in %)	6.6	4.0–5.0	between –2.0 and +/–0.0	–0.1
Return on investment (in %)	9.7	5.5–6.5	between –3.0 and +/–0.0	–0.1
Cash conversion rate (in %)	179	20–30	n/a	n/a
Capex (€ million)	993	noticeable increase	noticeable decline	992
Primary research and development costs (€ million)	1,376	noticeable decline	substantial decline	1,165
Financial Services				
Sales revenue (€ million)	849	slight growth	moderate decline	820
Operating return on sales (in %)	16.8	12.0–16.0	11.0–15.0	13.1

5. Results of operations

INCOMING ORDERS

INCOMING ORDERS, INDUSTRIAL BUSINESS

Units	2020	2019	Change
Incoming orders, Industrial Business	216,251	227,240	–5%
of which trucks[1]	201,640	206,208	–2%
of which buses	14,611	21,032	–31%

1 Including MAN TGE vans (2020: 19,238 units; 2019: 15,234 units)

Incoming orders in the Industrial Business segment stood at 216,251 (previous year: 227,240) units in the reporting period, down 5% 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. However, a very strong recovery was recorded in the second half of 2020 compared with the first half of the year.

Incoming orders for trucks (> 6t) declined considerably in the EU27+3 region. By contrast, incoming orders for MAN TGE vans in this region rose by 28%. Incoming orders for trucks grew moderately in South America, primarily as a result of a very sharp rise in Argentina, albeit based on a very low prior-year level due to the economic situation. Incoming orders in Brazil rose very sharply in the second half of the year, so that the full-year figure was somewhat higher than the previous year. Russia recorded a very sharp increase in incoming orders. The Middle East region (especially Turkey) also recorded sharp growth in incoming orders for trucks.

Incoming orders for buses declined by 31% year-on-year. The uncertainty resulting from the COVID-19 pandemic had a very sharp impact on incoming orders in the EU27+3 region in particular. Only Portugal saw a very strong increase in incoming orders as a result of major orders in the city bus business. Incoming orders in South America declined substantially. Incoming orders in Mexico also declined very sharply. However, incoming orders rose very sharply in the Middle East region, above all in Turkey and Saudi Arabia, and recorded a considerable increase in Russia.

UNIT SALES

UNIT SALES BY COUNTRY

Units	2020	2019	Change
Unit sales, Industrial Business	**190,180**	**242,219**	**–21%**
Unit sales, trucks[1]	**174,006**	**220,723**	**–21%**
EU27+3	99,013	135,002	–27%
of which in Germany	30,130	37,672	–20%
South America	42,283	48,350	–13%
of which in Brazil	35,738	43,438	–18%
Other regions	32,710	37,371	–12%
Unit sales, buses	**16,174**	**21,496**	**–25%**
EU27+3	6,098	7,028	–13%
of which in Germany	1,729	1,387	25%
South America	7,089	8,476	–16%
of which in Brazil	5,117	6,113	–16%
Other regions	2,987	5,992	–50%

1 Including MAN TGE vans (2020: 17,635 units; 2019: 14,788 units)

Unit sales in the Industrial Business segment amounted to 190,180 (previous year: 242,219) units in the reporting period, and hence were down 21% on the previous year. Unit sales declined by 5% year-on-year in the second half of 2020. The decline for full-year 2020 was attributable to both the Truck and the Bus business. The expected decline in the Truck business in the EU27+3 region in 2020 was reinforced by the uncertainty and restrictions resulting from the COVID-19 pandemic, especially in the second quarter of 2020. However, a noticeable recovery was recorded in the second half of 2020 compared with the first half of the year.

The very sharp decline in unit sales of trucks (> 6t) in the EU27+3 region was attributable to all countries in the region. By contrast, unit sales for MAN TGE vans in this region rose by 20%. Unit sales of trucks in Brazil were the main driver of the considerable decline in South America. Unit sales of trucks in Argentina recorded very strong growth, albeit based on a very low prior-year level. The reduction in the other markets is attributable mainly to the Africa and Asia/Pacific regions, as well as Russia. Unit sales only increased sharply in the Middle East region, driven primarily by growth in Turkey.

Unit sales of buses were down considerably year-on-year in the EU27+3 region. As a result of the COVID-19 pandemic, unit sales were impacted by the decline in almost all countries in the EU27+3 region, although unit sales of buses did rise in Sweden and Germany, in particular because of orders in the city bus segment. The substantial decline in South America is due above all to the severe decline of bus unit sales in Brazil. The decline in the other regions is attributable to Mexico, the Asia/Pacific, Middle East, and Africa regions.

Some of the unit sales are subject to buyback obligations. In 2020, around 27,000 (previous year: around 37,000) contracts were entered into under which TRATON is obliged to buy back the vehicles sold.

SALES REVENUE

SALES REVENUE BY PRODUCT GROUP

€ million	2020	2019	Change
TRATON GROUP	**22,580**	**26,901**	**–16%**
Industrial Business	**22,156**	**26,444**	**–16%**
New Vehicles	13,385	17,387	–23%
After Sales[1]	4,692	4,965	–6%
Others	4,078	4,092	0%
Financial Services	**820**	**849**	**–3%**
Consolidation/others	–396	–392	–

1 Incl. spare parts and workshop services

The TRATON GROUP generated sales revenue of €22.6 billion (previous year: €26.9 billion) in the reporting period, a year-on-year decline of 16%. The 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 uncertainties and restrictions resulting from the COVID-19 pandemic, but only recorded a relatively small sales revenue decline of 6%. Both the spare parts business and workshop services had a stabilizing effect. Sales revenue in the Others business was unchanged year-on-year. Sales revenue was also negatively impacted by foreign exchange rate effects.

Sales revenue in the Financial Services segment recorded a slight decline. A higher average net portfolio was offset by negative foreign exchange rate effects and lower interest rates.

PROFIT AND LOSS

CONDENSED TRATON GROUP INCOME STATEMENT

	TRATON GROUP		Industrial Business		Financial Services		Others/ reconciliation	
€ million	2020	2019	2020	2019	2020	2019	2020	2019
Sales revenue	22,580	26,901	22,156	26,444	820	849	–396	–392
Cost of sales	–19,121	–21,618	–18,997	–21,462	–519	–547	395	391
Gross profit	**3,459**	**5,284**	**3,158**	**4,983**	**302**	**302**	**–1**	**–1**
Distribution expenses	–2,247	–2,480	–2,125	–2,356	–123	–126	1	1
Administrative expenses	–876	–973	–876	–973	–	–	–	–
Other operating result	–255	53	–184	88	–71	–34	0	–1
Operating result	**81**	**1,884**	**–26**	**1,741**	**107**	**142**	**0**	**0**
Operating return on sales (in %)	0.4	7.0	–0.1	6.6	13.1	16.8	–	–
Financial result	**–115**	**81**	**–86**	**140**	**0**	**8**	**–30**	**–67**
Earnings before tax	**–34**	**1,965**	**–112**	**1,881**	**107**	**151**	**–29**	**–67**
Income taxes	–89	–401	–58	–361	–32	–40	1	–1
Earnings from discontinued operations, net of tax	–	–2	–	–2	–	–	–	–
Earnings after tax	**–124**	**1,561**	**–170**	**1,518**	**75**	**111**	**–28**	**–67**

Operating result:
The demand slump triggered by the COVID-19 pandemic, particularly in Europe and South America, bottomed out in the second quarter of 2020. Demand recovered significantly in the second half of 2020. Nevertheless, we were unable overall to reach the previous year's level, and gross profit in the reporting period was therefore down €1.8 billion (–35%) on the prior-year figure.

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 of production from the end of April. Short-time working arrangements and similar measures to reduce personnel costs were also implemented, as well as systematic reductions in non-staff-related operating expenses, for example postponing or cancelling projects and events and cuts to planned expenditures.

The gross margin was particularly affected by the year-on-year decline in sales revenue (–16%) and declined to 15.3% (previous year: 19.6%). The gross margin was additionally impacted primarily by higher depreciation and amortization charges on property, plant, and equipment and development costs, an impairment loss on products leased out due to lower resale prices, and higher impairment losses on inventories, as well as a used vehicle business that was more difficult in some cases. Expenses at Scania Vehicles & Services for measures to reorganize production facilities, expenses in connection with an engine project involving MAN Truck & Bus and Navistar, and additional costs relating to the introduction of the new truck generation at MAN Truck & Bus negatively affected the gross margin.

Distribution and administrative expenses declined significantly (–10%) year-on-year as a result of the measures initiated in connection with the COVID-19 pandemic — in particular short-time working arrangements 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 resulting from the introduction of the new generation of trucks at MAN Truck & Bus was more than offset. The ratio of distribution and administrative expenses to sales revenue rose by 1.0 percentage points year-on-year to 13.8% due to the decline in sales revenue.

Other operating result declined by €308 million year-on-year. The main drivers for the decrease were increased expenses for provisions (including in connection with a joint engine project between MAN Truck & Bus and Navistar), whereas in the previous year, the reversal of provisions for restructurings in Brazil in the amount of €13 million had a positive effect. Other positive factors in the previous year were the partial reversal of an impaired indirect tax receivable in Brazil (€65 million) and income from insurance payments (€19 million). In the year under review, operating result was additionally impacted by a €50 million increase in bad debt allowances on receivables in the Financial Services segment and net higher expenses from the measurement and realization of foreign currency items.

The TRATON GROUP's operating result declined by €1.8 billion year-on-year to €81 million in the reporting period. The TRATON GROUP's operating return on sales was 0.4%. This represents a decline of 6.6 percentage points compared with the prior-year figure.

Financial result:
The financial result was €–115 million, a decline of €196 million on the prior-year period. The main drivers behind this development were lower shares of earnings of equity-method investments — in particular Rheinmetall MAN Military Vehicles GmbH (RMMV), Navistar, and Sinotruk. The previous year's financial result contained the positive effect from the sale of the 49% interest in the Tactical Wheeled Vehicles division of RMMV. The expenses from the revolving credit line entered into in the third quarter of 2020 as part of the €3.75 billion syndicated credit facility were more than offset by lower interest expense, especially in South America.

Taxes:
Income taxes fell by €312 million to a reported tax expense of €89 million. This corresponds to a tax rate of –261% (previous year: 20%), due primarily to the partial nonrecognition of deferred tax assets in respect of current losses and the overall lower pretax result.

Earnings after tax:
The earnings after tax were €–124 million in the 2020 reporting period and thus €1.7 billion lower than in the previous year. Earnings per share fell from €3.04 to €–0.20. Calculation of earnings per share was based on 500 million shares.

Despite the negative consolidated earnings after tax, the Executive and Supervisory Boards of TRATON SE are proposing to the Annual General Meeting to be held on June 30, 2021, to pay a dividend of €0.25 per share for fiscal year 2020. On the basis of its balance sheet structure, TRATON wishes to also allow its shareholders to participate in the growth in net cash flow in its second year as a listed company in line with its policy of dividend continuity.

BUSINESS PERFORMANCE: INDUSTRIAL BUSINESS

KEY PERFORMANCE INDICATORS, INDUSTRIAL BUSINESS

€ million	2020	2019	Change
Operating result	–26	1,741	–1,768
Operating result (adjusted)	28	1,729	–1,701
Operating return on sales (in %)	–0.1	6.6	–6.7 pp
Operating return on sales (adjusted) (in %)	0.1	6.5	–6.4 pp

Operating result:
The operating result of €–26 million (previous year: €1.7 billion) 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. Operating result was also impacted by higher depreciation and amortization charges on property, plant, and equipment and development costs, an impairment loss on products leased out due to lower resale prices, and higher impairment losses on inventories, as well as a used vehicle business that was more difficult in some cases. Costs in connection with the launch of the new generation of trucks at MAN Truck & Bus, higher expenses for provisions, and expenses in connection with an engine project involving MAN Truck & Bus and Navistar additionally impacted operating result. Expenses at Scania Vehicles & Services for measures to reorganize production facilities and net higher expenses from the measurement and realization of foreign currency items had an additional negative impact on operating result.

Other positive factors in the previous year were the partial reversal of an impaired indirect tax receivable in Brazil (€65 million) and income from insurance payments (€19 million).

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 implemented, as well as systematic reductions in non-staff-related operating expenses, for example postponing or cancelling projects and events and cuts to planned expenditures.

Operating result (adjusted):
Operating result (adjusted) in the reporting period was €28 million and contains adjustments to expenses at Scania Vehicles & Services, in particular for reorganizing production facilities, which decreased operating result by €54 million. This resulted in an operating return on sales (adjusted) of 0.1%. The adjustment to the prior-year figure resulted from the reversal of a provision in Brazil, which increased operating result by €13 million. Operating result (adjusted) in the prior-year period was therefore €1.7 billion and operating return on sales (adjusted) was 6.5%.

BUSINESS PERFORMANCE: FINANCIAL SERVICES

KEY PERFORMANCE INDICATORS, FINANCIAL SERVICES

	2020	2019	Change
Operating result (€ million)	107	142	–35
Operating return on sales (in %)	13.1	16.8	–3.7 pp

Operating result in the Financial Services segment declined to €107 million (previous year: €142 million) in the reporting period. The decrease was attributable to higher bad debt allowances, lower margins, and negative exchange rate effects.

The number of financing contracts rose from around 175,000 as of December 31, 2019, to around 178,300 as of December 31, 2020, with 41,704 (previous year: 42,747) new contracts entered into. The number of new contracts was almost on a level with the previous year despite the decline in unit sales.

6. Financial position

PRINCIPLES AND GOALS OF FINANCIAL MANAGEMENT

Financial management contributes to the value of the TRATON GROUP by optimizing the outcome of all financing measures, liquidity and capital structure, and also by managing risks.

All external and internal financial transactions are solely generated to fulfill financing needs or to limit risks from an actual underlying business transaction and therefore do not serve any speculative purpose. Strong dependencies on particular financial partners are systematically avoided. All financial transactions are concluded under standard market conditions.

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

- Ensuring the solvency of all Group companies at all times as well as the financing of all Group business activities;
- Limiting of market price risks (from interest rates, foreign currencies/exchange rates, commodity prices) and default risk of financial counterparties;
- Optimization of costs from funding activities and returns on financial investments;
- Secure processing of financial and payment transactions to safeguard Group liquidity.

FINANCING STRATEGY

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

As a general rule, the Industrial Business segment's capital structure should correspond to an implied solid investment-grade classification. A key performance indicator in this context is the ratio of net debt to adjusted EBITDA. If justified by extraordinary financing requirements or special market circumstances, this target can be temporarily relaxed subject to certain conditions. TRATON SE has been awarded external credit ratings by Moody's and Standard & Poor's (S&P) since June 2020. Moody's is currently awarding a rating of Baa1 (negative outlook), and S&P's rating is BBB (negative outlook). Both ratings are investment-grade.

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

Financing mix

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

Liquidity

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

Maturity profile

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

Dividends policy

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

Risk management

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

FINANCING IN 2020

Gross financial liabilities amounted to €12.3 billion (previous year: €12.5 billion) as of December 31, 2020. €7.4 billion (previous year: €7.3 billion) of this amount was attributable to financing through capital market instruments, €2.8 billion (previous year: €2.3 billion) to bank funding, €1.1 billion (previous year: €1.8 billion) to Volkswagen Group loans, and €1.0 billion (previous year: €1.1 billion) to lease liabilities.

Financial liabilities of the TRATON GROUP as of 12/31/2020, € billion	Total	Due 2021	Due 2022	Due 2023	Due 2024	Due 2025	Due 2026 or later
Bonds	7.2	3.3	1.8	1.3	0.1	0.8	–
of which Industrial Business	0.5	0.5	–	–	–	–	–
of which Financial Services	6.7	2.8	1.8	1.3	0.1	0.8	–
Commercial paper	0.2	0.2	–	–	–	–	–
of which Industrial Business	–	–	–	–	–	–	–
of which Financial Services	0.2	0.2	–	–	–	–	–
Liabilities to banks	2.8	1.7	0.6	0.2	0.1	0.1	0.2
of which Industrial Business	1.1	1.0	0.1	0.0	0.0	0.0	0.0
of which Financial Services	1.7	0.6	0.6	0.2	0.1	0.1	0.1
Volkswagen Group liabilities	1.1	1.1	–	–	–	–	–
of which Industrial Business	1.1	1.1	–	–	–	–	–
of which Financial Services	0.0	0.0	–	–	–	–	–
Total financial liabilities (excl. lease liabilities)	11.3	6.2	2.4	1.4	0.2	0.8	0.2
of which Industrial Business	2.7	2.6	0.1	0.0	0.0	0.0	0.0
of which Financial Services	8.6	3.6	2.4	1.4	0.2	0.8	0.1
Lease liabilities[1]	1.0						
Total financial liabilities	12.3						
of which Industrial Business	3.7						
of which Financial Services	8.6						
of which Others/reconciliation	0.0						

1 The maturity structure of the lease liabilities (IFRS 16) is as follows: < 1 year: €219 million; 1–5 years: €589 million; > 5 years: €417 million.

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

1 The maturity structure of the lease liabilities (IFRS 16) is as follows: < 1 year: €232 million; 1–5 years: €593 million; > 5 years: €462 million.

The Financial Services business saw a €417 million decrease in bonds and commercial paper. Scania maintains a €12.0 billion (previous year: €8.0 billion) European Medium Term Note program, of which €6.5 billion (previous year: €6.1 billion) has been drawn down. There is also a €175 million (previous year: €294 million) bond from an asset-backed securities transaction. To cover short-term funding needs in the Financial Services segment, there are two additional commercial paper programs in Swedish krona and euro amounting to a total of €2.5 billion (previous year: €2.5 billion), of which €210 million (previous year: €893 million) has been drawn down.

The TRATON GROUP has revolving credit facilities of €4.0 billion (previous year: €4.0 billion) in place with Volkswagen AG, of which €1.0 billion (previous year: €1.0 billion) has been drawn down. There are also bank liabilities of €2.8 billion (previous year: €2.3 billion) and lease liabilities of €1.0 billion (previous year: €1.1 billion).

The TRATON GROUP's total liquidity reserve consists of unused confirmed credit lines of €7.3 billion (previous year: €4.8 billion), including €3.0 billion (previous year: €3.0 billion) from Volkswagen AG.

A further €3.75 billion of that amount is attributable to the syndicated credit facility that TRATON SE entered into on July 28, 2020, despite the economic impact of the COVID-19 pandemic. The revolving credit facility has a term of three years and can be extended twice for one year each. The facility amount is provided by a banking consortium consisting of 21 banks and serves for general corporate purposes and to safeguard the TRATON GROUP's liquidity.

Additionally, in November 2020 TRATON SE took out a currently unused €3.3 billion credit facility with Volkswagen International Luxemburg S.A., Strassen, Luxembourg, with a term of up to 30 months to finance the US dollar purchase price of the common shares of US truck manufacturer Navistar International Corporation not already held by TRATON SE. The underlying purchase price is hedged in full by a foreign currency derivative that is contingent on the transaction closing.

The TRATON GROUP also has more than €390 million (previous year: €590 million) in unused unconfirmed credit lines from banks at its disposal in order to enhance flexibility in financing decisions.

As a result of the COVID-19 pandemic, a temporary deterioration in market conditions for external financing and Group financing via Volkswagen AG was evident. The 5-year Volkswagen credit spread (CDS) was initially 74.88 (previous year: 117.15), climbed to an annual high of 257.30 (previous year: 136.20) in April 2020, and closed the year at 80.13 (previous year: 74.88). Nevertheless, interest and similar expenses declined by €12 million to €168 million in particular because VWCO profited from lower interest rates and the strong devaluation of the Brazilian real against the euro in its interest expense.

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

FINANCIAL LIABILITIES IN THE TRATON GROUP BY CURRENCY

€ billion	12/31/2020	12/31/2019
EUR	6.1	6.4
SEK	3.1	2.9
BRL	0.6	0.7
USD	0.5	0.3
GBP	0.3	0.3
NOK	0.3	0.3
CHF	0.1	0.2
Other currencies	0.3	0.5
Lease liabilities	1.0	1.1
Total financial liabilities	12.3	12.5

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

Liquidity

Cash and cash equivalents amounted to €1.7 billion (previous year: €1.9 billion) as of December 31, 2020.

Local cash funds in certain countries (e.g., Brazil, Russia, and China) of €719 million (previous year: €595 million) are subject to exchange controls and are not available to the Group for cross-border transactions without restriction. Such amounts are used locally to cover the financing needs of the operating business.

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

Equity

EQUITY RATIO

	TRATON GROUP		Industrial Business		Financial Services		Others/ reconciliation	
€ million	**2020**	**2019**	**2020**	**2019**	**2020**	**2019**	**2020**	**2019**
Equity	13,169	14,134	12,599	13,365	961	971	–391	–201
Total assets	42,767	45,183	35,164	37,396	9,943	10,324	–2,339	–2,536
Equity ratio (in %)	**30.8**	**31.3**	**35.8**	**35.7**	**9.7**	**9.4**	**–**	**–**

As of December 31, 2020, the equity ratio was 35.8% (previous year: 35.7%) in the Industrial Business segment and 9.7% (previous year: 9.4%) in the Financial Services segment.

CASH FLOW

CONDENSED TRATON GROUP STATEMENT OF CASH FLOWS

	TRATON GROUP		Industrial Business		Financial Services		Others/reconciliation	
€ million	2020	2019	2020	2019	2020	2019	2020	2019
Cash and cash equivalents as of 01/01	**1,913**	**2,997**	**1,853**	**2,945**	**60**	**53**	**0**	**–**
Gross cash flow[1]	1,972	3,460	1,846	3,384	540	498	–413	–422
Change in working capital	15	–2,373	158	–1,276	–528	–1,480	385	383
Net cash provided by/used in operating activities	**1,987**	**1,088**	**2,003**	**2,108**	**12**	**–982**	**–28**	**–38**
Net cash provided by/used in investing activities attributable to operating activities	–1,293	634	–1,327	603	–1	–3	35	33
Change in marketable securities, investment deposits, and loans	1,078	–2,994	1,189	–2,268	0	90	–111	–816
Net cash provided by/used in investing activities	**–215**	**–2,360**	**–138**	**–1,665**	**–1**	**87**	**–76**	**–782**
Net cash provided by/used in financing activities	**–1,873**	**183**	**–1,983**	**–1,540**	**7**	**902**	**103**	**820**
Effect of exchange rate changes on cash and cash equivalents	–98	6	–94	5	–5	0	1	0
Change in cash and cash equivalents	**–198**	**–1,085**	**–212**	**–1,092**	**14**	**7**	**0**	**0**
Cash and cash equivalents as of 12/31	**1,714**	**1,913**	**1,641**	**1,853**	**73**	**60**	**0**	**0**
Gross cash flow	1,972	3,460	1,846	3,384	540	498	–413	–422
Change in working capital	15	–2,373	158	–1,276	–528	–1,480	385	383
Net cash provided by/used in investing activities attributable to operating activities	–1,293	634	–1,327	603	–1	–3	35	33
Net cash flow	**694**	**1,721**	**676**	**2,711**	**11**	**–985**	**7**	**–5**

1 Gross cash flow is calculated as the sum of earnings 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, earnings on disposal of noncurrent assets and equity investments, share of earnings of equity-method investments, and other noncash expenses/income.

Despite the negative impact of the COVID-19 pandemic, the TRATON GROUP increased net cash provided by operating activities by €900 million to €2.0 billion in fiscal year 2020. This comprises gross cash flow and the change in working capital.

Gross cash flow was down €1.5 billion year-on-year in 2020. This is primarily attributable to the €1.8 billion decrease in operating result, which was partly offset by a €309 million year-on-year increase in depreciation and amortization expenses and impairment losses. The TRATON GROUP took a large number of measures in order to cushion the consequences of the COVID-19 pandemic.

€15 million released from working capital boosted net cash provided by operating activities in the reporting period, while the increase in working capital in the previous year had a negative impact of €2.4 billion. The decline in inventories due to the alignment of production to the volatile demand situation as a result of the pandemic as well as measures to reduce stocks of used vehicles reduced working capital by €345 million (previous year: increase of €85 million). Additionally, at €258 million, the increase in funds tied up in working capital through financial services receivables was considerably lower in 2020 than in the previous year (€984 million), and working capital was reduced by a €266 million (previous year: €7 million) increase in provisions.

With liabilities increasing by €248 million (previous year: €119 million), two offsetting effects deserve attention. In the year under review, this primarily involved the €363 million increase in trade payables (previous year: decrease of €481 million), whereas liabilities from sales with buyback obligations declined by €291 million (previous year: increase of €432 million). The latter change should be seen in conjunction with the €479 million decline (previous year: €440 million increase) in assets leased out. The aforementioned changes in assets leased out result from the net additions and disposals of €–760 million (previous year. €–1.6 billion) reported in working capital and depreciation charges of €1.2 billion (previous year: €1.1 billion) reported in gross cash flow.

Net cash provided by investing activities attributable to operating activities in the prior-year period was marked by proceeds of €2.0 billion from the disposal of the Power Engineering business and €101 million from the disposal of the 49% interest in RMMV's Tactical Wheeled Vehicles division. At €316 million, additions to capitalized development costs were down €151 million on the previous year's level, whereas capex was virtually consistent. TRATON is reviewing and prioritizing all investments in light of the new situation.

The TRATON GROUP's net cash flow decreased overall by €1.0 billion to €694 million. The Industrial Business segment contributed €676 million (previous year: €2.7 billion) to net cash flow, and the Financial Services segment contributed €11 million (previous year: €–985 million) due to the stable net portfolio in the year under review, which experienced strong growth in 2019.

Including the effects from the sale of subsidiaries and investees amounting to €2.1 billion in 2019 contained in net cash flow in the Industrial Business segment, the TRATON GROUP significantly increased net cash flow in the year under review despite the effects of the COVID-19 pandemic.

The TRATON GROUP received €1.1 billion from marketable securities and investment deposits in the context of net cash provided by investing activities in the reporting period, after investing €3.0 billion in the previous year. This relates almost entirely to investments of cash funds of TRATON SE with Volkswagen AG.

Net cash used in financing activities amounted to €1.9 billion (previous year: net cash provided by financing activities of €183 million) in the reporting period. In 2020, this reflected the profit transfer of €1.4 billion to Volkswagen AG for the previous year, the distribution of dividends in the amount of €500 million, 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 €4.2 billion and a distribution from retained earnings to Volkswagen AG in the amount of €3.3 billion.

In the area of debt financing, bonds amounting to €698 million (previous year: €1.6 billion) net were originated, and miscellaneous financial liabilities of €722 million (previous year: €1.2 billion) net were repaid. This includes payments of lease liabilities amounting to €211 million (previous year: €181 million).

In the previous year, net cash provided by financing activities also included payments to noncontrolling interest shareholders of MAN SE from the acquisition of shares and from compensation payments amounting to €1.1 billion. Since the domination and profit and loss transfer agreement was terminated by the Executive Board of TRATON SE on August 22, 2018, with effect from midnight (00:00) on January 1, 2019, by way of notice of extraordinary termination, payment of the stipulated cash settlement was made for the last time for fiscal year 2018.

CASH CONVERSION RATE IN THE INDUSTRIAL BUSINESS SEGMENT

€ million	2020	2019
Net cash flow	676	2,711
Earnings after tax	–170	1,518
Cash conversion rate (in %)	**n/a**	**179**

The cash conversion rate in the previous year was positively affected by the proceeds of approximately €2.0 billion from the disposal of the Power Engineering business. In the year under review, the negative earnings after tax did not result in any meaningful cash conversion rate. For more information about the presentation of the material factors affecting net cash flow and earnings after tax, refer to the disclosures in the "Profit and loss" and "Cash flow" sections.

NET LIQUIDITY

TRATON GROUP NET LIQUIDITY

€ million	TRATON GROUP		Industrial Business	
	12/31/2020	12/31/2019	12/31/2020	12/31/2019
Cash and cash equivalents	1,714	1,913	1,641	1,853
Marketable securities, investment deposits, and loans	2,114	3,195	2,114	3,288
Gross liquidity	**3,828**	**5,108**	**3,755**	**5,141**
Total third-party borrowings	–12,298	–12,497	–3,728	–3,641
Net liquidity/net financial debt	**–8,470**	**–7,390**	**27**	**1,500**

Net debt rose by €1.1 billion to €8.5 billion in 2020, primarily due to the decline in investment deposits. These contained deposits by TRATON SE of €2.1 billion (previous year: €3.1 billion) with Volkswagen AG as of December 31, 2020.

CAPITAL EXPENDITURES

CAPITAL EXPENDITURES BY SEGMENT

€ million	2020	2019	Change
TRATON GROUP	**1,339**	**1,478**	**–138**
Industrial Business	1,373	1,507	–134
of which in property, plant, and equipment	977	974	3
of which in capitalized development costs	316	467	–151
of which in intangible assets	16	19	–3
of which in equity investments	65	47	17
capex, Industrial Business	992	993	0
capex/sales revenue, Industrial Business (in %)[1]	4.5	3.8	0.7 pp
Financial Services	2	4	–2
Others/reconciliation	–36	–34	–2

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

Capex:
At €992 million, capex in the Industrial Business segment in the reporting period was on a level with the previous year. 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 TRATON GROUP'S OFF-BALANCE-SHEET COMMITMENTS

€ million	12/31/2020	12/31/2019	Change
TRATON GROUP			
Contingent liabilities	3,250	3,676	–426
Purchase order commitments for property, plant, and equipment, and intangible assets	613	748	–135
Obligations under irrevocable credit commitments	494	416	78
Off-balance-sheet commitments under rental and leasing contracts	58	60	–2
Miscellaneous financial obligations	3,042	38	3,004

Currency effects are responsible for the decline in contingent liabilities compared with the prior year. Purchase order commitments decreased for operational reasons. Miscellaneous financial obligations primarily include the contingent payment obligation from the planned acquisition of the Navistar shares not yet held by TRATON.

7. Net assets

BALANCE SHEET ANALYSIS

CONDENSED TRATON GROUP BALANCE SHEET

	TRATON GROUP		Industrial Business		Financial Services		Others/reconciliation	
€ million	12/31/2020	12/31/2019	12/31/2020	12/31/2019	12/31/2020	12/31/2019	12/31/2020	12/31/2019
Intangible assets	6,766	6,755	6,762	6,750	4	4	–	–
Property, plant, and equipment	6,908	6,789	6,897	6,778	22	25	–11	–13
Assets leased out	6,496	7,119	6,489	7,115	752	826	–745	–821
Equity-method investments	1,380	1,365	1,380	1,365	–	–	–	–
Other equity investments	72	34	460	386	0	0	–388	–352
Income tax receivables	115	167	93	141	27	26	–5	–
Deferred tax assets	1,231	970	1,192	935	56	48	–18	–13
Financial services receivables	7,741	7,991	7	10	7,733	7,981	0	0
Inventories	4,325	4,943	4,325	4,943	–	–	–	–
Trade receivables	1,906	2,144	1,947	2,216	47	34	–88	–106
Other assets	2,008	1,816	1,864	1,727	1,228	1,320	–1,085	–1,231
Marketable securities and investment deposits	2,105	3,178	2,105	3,178	–	–	–	–
Cash and cash equivalents	1,714	1,913	1,641	1,853	73	60	0	0
Total assets	**42,767**	**45,183**	**35,164**	**37,396**	**9,943**	**10,324**	**–2,339**	**–2,536**
Equity	13,169	14,134	12,599	13,365	961	971	–391	–201
Financial liabilities	12,298	12,497	3,728	3,641	8,581	8,998	–11	–141
Provisions for pensions and other post-employment benefits	1,828	1,769	1,817	1,759	11	10	–	–
Income tax payables	117	278	103	265	20	13	–5	–
Deferred tax liabilities	767	787	721	733	60	63	–15	–9
Income tax provisions	128	51	123	47	4	4	–	–
Other provisions	2,280	2,094	2,277	2,092	3	3	–	–
Other liabilities	9,411	11,101	11,041	13,042	199	138	–1,830	–2,079
Trade payables	2,769	2,472	2,753	2,453	104	125	–88	–106
Total equity and liabilities	**42,767**	**45,183**	**35,164**	**37,396**	**9,943**	**10,324**	**–2,339**	**–2,536**

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 €2.4 billion compared with December 31, 2019. This decline was due primarily to the reduction in marketable securities and investment deposits by €1.1 billion, in products leased out by €623 million, and in inventories by €617 million.

Products leased out declined by 9% because of the lower volume of business as a result of the COVID-19 pandemic and impairment losses recognized to reflect lower resale prices.

Equity-method investments rose by €92 million because of the results of material equity-method investments included in the consolidated financial statements. Dividends of €36 million received and other changes in the equity of investees amounting to €42 million had an offsetting effect.

Deferred tax assets rose by €261 million, primarily because of the tax consequences of the sale of trademarks within the MAN Group.

Inventories declined by 13% or €617 million in the reporting period due to measures to reduce vehicle stocks and the translation of inventories accounted for in foreign currencies.

Cash and cash equivalents amounted to €1.7 billion (previous year: €1.9 billion) as of the reporting date. The reduction in marketable securities and investment deposits resulted in a cash inflow, while the transfer of the profit for 2019 to Volkswagen AG and payment of the dividend after the Annual General Meeting resulted in a cash outflow.

The TRATON GROUP's total equity decreased from €14.1 billion as of December 31, 2019, to €13.2 billion as of December 31, 2020. This is mainly due to the dividend payment of €500 million by TRATON SE and negative other comprehensive income of €365 million, which is primarily attributable to negative effects from the translation of the financial statements of foreign operations, in particular because of the negative exchange rate development of the Brazilian real as well as the initial recognition of the hedging transaction for a potential purchase price payment relating to the planned acquisition of Navistar. The negative earnings after tax also impacted total equity. The €54 million contribution by Volkswagen AG as a result of the Relationship Agreement dated June 14, 2019, had an offsetting effect.

Income tax payables declined by €161 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 €1.7 billion. This reflected the payment of the profit transfer liability to Volkswagen AG in the amount of €1.4 billion and the reduction in buyback obligations in line with the decline in assets leased out. The initial recognition of the hedging transaction for a potential purchase price payment relating to the planned acquisition of Navistar had an offsetting effect.

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.

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.

Effective September 17, 2020, the Executive Board of TRATON SE notified the Executive Board of MAN SE that TRATON SE had decided that the squeeze-out of the noncontrolling interest shareholders of MAN SE that had been announced on February 28, 2020, will no longer be executed in 2020. For the time being, MAN SE intends to focus on its tasks from the realignment announced on September 11, 2020, and the handling of the impact from the COVID-19 pandemic. The full corporate integration of MAN SE into TRATON SE is to be pursued further in 2021.

RETURN ON INVESTMENT

RETURN ON INVESTMENT IN THE INDUSTRIAL BUSINESS SEGMENT

€ million	2020	2019
Annual average invested capital	12,326	12,584
Operating result	–26	1,741
Operating result after tax	–18	1,219
Return on investment (in %)	**–0.1**	**9.7**

Return on investment declined compared with the previous year. This is due to the sharp fall in operating result as against the prior-year figure. Lower average invested capital in 2020 had an offsetting effect. For more information on invested capital and operating result, refer to the disclosures in the “Balance sheet analysis” and “Profit and loss” sections.

The restructuring expenses of €54 million at Scania reported as nonrecurring effects were not deducted from operating result.

For information on the calculation of the return on investment, refer to the “Financial management” section.

8. Summary of economic position

2020 was strongly shaped by the COVID-19 pandemic, the related crisis measures taken by the affected countries, their drastic effects on the economy, and the associated high level of uncertainty.

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 reductions in non-staff-related operating expenses, such as postponing or cancelling events and projects, and cuts to planned expenditures.

Unit sales in the Industrial Business segment were down 21% on the previous year. The decline for full-year 2020 was attributable to both the Truck and the Bus business. The expected decline in the Truck business in the EU27+3 region in 2020 was reinforced by the uncertainty and restrictions resulting from the COVID-19 pandemic, especially in the second quarter of 2020. This also affected unit sales in the other key markets of the TRATON GROUP, especially in South America. However, a very strong recovery was recorded in the second half of 2020 compared with the first two quarters. Incoming orders for full-year 2020 recorded a 5% decrease year-on-year. However, they grew very strongly in the second half of the year, posting a 21% increase compared with the prior-year period.

The TRATON GROUP generated sales revenue of €22.6 billion (previous year: €26.9 billion) in the reporting period, 16% lower than in the previous year. The decline in sales revenue in the Industrial Business segment was attributable primarily to the New Vehicles business, and reflected the slump in the unit sales of trucks and buses. The After Sales business was also hit by the uncertainties and restrictions resulting from the COVID-19 pandemic, but only recorded a relatively small decline of 6%. Sales revenue in the Financial Services segment recorded a slight decline. A higher net portfolio on average was offset by negative exchange rate effects and lower interest rates.

With an operating return on sales of 0.4%, the TRATON GROUP was within the forecast target range. In light of the uncertainties triggered by the COVID-19 pandemic in 2020 and the decline in profitability in the Industrial Business segment, the TRATON GROUP’s Executive Board can look back on a course of business that was not entirely satisfactory overall.

On January 26, 2021, the Executive Board members of MAN SE and MAN Truck & Bus SE and the employee representatives signed an agreement on the key points of a comprehensive realignment of MAN Truck & Bus SE. Among other things, the key point paper agreed also sets out a repositioning of the development and production network with a strong focus on future technologies. The measures planned entail around 3,500 job cuts by the end of 2022. The Plauen site as well as the Steyr site in Austria, which has around 2,200 employees, are being discussed. MAN Truck & Bus SE's Executive Board is reviewing all options in this respect, including the possibility of selling or relinquishing the sites.

9. Navistar acquisition project

On September 10, 2020, TRATON increased the offer it had originally made on January 30, 2020, to acquire all outstanding shares of Navistar International Corporation (Navistar) (NYSE: NAV) not already held by TRATON to USD 43.00 per share in cash.

On November 7, 2020, TRATON announced that it had entered into a binding merger agreement under which TRATON will acquire all outstanding common shares of Navistar not already held by TRATON at a cash price of USD 44.50 per common share.

TRATON held 16.7% of the outstanding shares of Navistar at the time of the agreement. This agreement in principle is subject to approval of the transaction by Navistar's shareholder meeting and to official approvals.

The resources required to fund the acquisition of the outstanding Navistar common shares that are not already held by TRATON will be provided by the Volkswagen Group. This consists of the financing of the purchase price of approximately USD 3.7 billion, which is hedged by a derivative.

TRATON SE (German GAAP)

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

TRATON SE is entered in the commercial register at the Munich Local Court under no. HRB 246068. The Annual Financial Statements of TRATON SE for the fiscal year from January 1 through December 31, 2020, have been prepared in accordance with the provisions of the *Handelsgesetzbuch* (HGB — German Commercial Code) and the SE Regulation, in conjunction with the *Aktiengesetz* (AktG — German Stock Corporation Act).

As of December 31, 2020, TRATON SE is an 89.72%-owned direct subsidiary of Volkswagen Finance Luxemburg S.A., Strassen, Luxembourg, which is in turn a wholly owned subsidiary of Volkswagen Aktiengesellschaft, Wolfsburg, Germany (Volkswagen AG).

1. Course of business

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

The domination and profit and loss transfer agreement between Volkswagen AG and TRATON SE ended at midnight (24:00) on December 31, 2019, by law in accordance with section 307 of the AktG.

The squeeze-out under merger law of the noncontrolling interest shareholders of MAN SE announced in February 2020 was not completed in the fiscal year. However, the transfer of a large proportion of the employees of MAN SE to TRATON SE did take place. In the reporting period, TRATON SE successively took over the financing tasks of MAN SE.

There was a change in the members of the Executive Board of TRATON SE in the reporting period. Mr. Andreas Renschler handed over the post of Chairman to Mr. Matthias Gründler. Further, Dr. Ing. h.c. Andreas Tostmann took over from Mr. Joachim Drees. The Human Resources and IT function of the Executive Board, previously the responsibility of Professor Carsten Intra, was eliminated. Instead, other members of the Executive Board took partial responsibility for it in their functions.

In the third quarter of 2020, TRATON SE took out its first syndicated revolving credit facility in an amount of €3.75 billion as a liquidity reserve — despite the economic impact of the COVID-19 pandemic. It has a term of three years and can be extended twice for one year each. The facility amount is provided by a banking consortium consisting of 21 banks and serves for general corporate purposes and to safeguard the Company's liquidity.

On November 7, 2020, TRATON announced that it had entered into a binding merger agreement under which TRATON will acquire all outstanding common shares of Navistar not already held by TRATON at a cash price of USD 44.50 per common share. This agreement in principle is subject to approval of the transaction by Navistar's shareholder meeting and to official approvals. In November 2020, TRATON SE took out a currently unutilized loan of €3.3 billion with Volkswagen International Luxemburg S.A., Strassen, Luxembourg, with a term of 30 months to finance the US dollar purchase price of the common shares of Navistar not already held by TRATON SE. The underlying purchase price is hedged in full by a foreign currency derivative that is contingent on the transaction closing.

The COVID-19 pandemic is having a detrimental effect on business and economic conditions. TRATON SE currently presumes that the COVID-19 pandemic will be a temporary phenomenon that will not adversely affect the TRATON GROUP's business performance in the long term.

In fiscal year 2020, TRATON SE reported earnings after tax of €–146 million (previous year: €1,404 million). The deterioration of €1,550 million resulted principally from lower net investment income and an increase in other operating expenses. This was countered by the fact that there were no longer any write-downs of financial assets as in the previous year and by the increase in other operating income.

2. Results of operations

TRATON SE INCOME STATEMENT

€ million	**2020**	**2019**
Net investment income	2	1,932
Write-downs of financial assets	–	–401
Income from other securities and long-term loans	1	0
Net interest expense	–29	–1
Sales revenue	26	13
Cost of sales	–25	–15
Gross profit	1	–2
General and administrative expenses	–104	–135
Other operating income	120	23
Other operating expenses	–137	–29
Income taxes	0	17
Profit/loss after tax	**–146**	**1,404**
Profit transferred on the basis of a domination and profit and loss transfer agreement	–	–1,404
Net loss/income for the fiscal year	**–146**	**–**
Profit carried forward from the previous year	100	–
Withdrawal from capital reserves	300	600
Income from capital reduction	**–**	**16,000**
Transfer to the free capital reserves in line with the provisions governing ordinary capital reductions	**–**	**–16,000**
Net retained profit	**254**	**600**

Net investment income deteriorated by €1,930 million year-on-year. This was principally due to the nonrecurrence of the regular dividend of €400 million and special dividend of €800 million paid by Scania AB in the previous year, and of income from the reversal of provisions amounting to €703 million.

The net interest expense declined by €28 million year-on-year to €29 million. The decline was mainly attributable to expenses in connection with the €3.75 billion syndicated credit facility concluded in the reporting period.

Sales revenue, which contains services and cost allocations charged to affiliated companies, rose by €13 million to €26 million.

General and administrative expenses decreased by €31 million to €104 million. This was primarily due to lower expenses for outsourced services, lower consulting expenses, and expenses for other services. By contrast, the higher number of employees increased personnel expenses.

The changes in other operating income and other operating expenses mainly result from foreign currency translation.

Income tax expense was €17 million lower. In the previous year, the intragroup income tax allocation resulted in tax income.

On the basis of the domination and profit and loss transfer agreement, which was in force until midnight (24:00) on December 31, 2019, in the previous year the profit after tax of €1,404 million was transferred to Volkswagen AG.

Despite the negative consolidated earnings after tax, the Executive and Supervisory Boards of TRATON SE are proposing to pay a dividend of €0.25 per share. On the basis of its balance sheet structure, TRATON wishes to also allow its shareholders to participate in the growth in net cash flow in its second year as a listed company in line with its policy of dividend continuity. This proposal corresponds to a total distribution of €125 million.

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

3. Assets and financial position

TRATON SE BALANCE SHEET

€ million	2020	2019
Fixed assets	20,586	20,585
Receivables and other assets	4,190	3,718
Bank balances	31	0
Total assets	**24,807**	**24,303**
Equity	20,749	21,341
Liabilities to banks	550	0
Miscellaneous provisions and liabilities	3,508	2,962
Total equity and liabilities	**24,807**	**24,303**

Total assets increased by €504 million year-on-year to €24,807 million.

Fixed assets mainly comprise the shares in Scania AB and MAN SE and other equity investments. The shares in Navistar are disclosed in equity investments. As of December 31, 2020, TRATON SE held 16.7% of Navistar’s capital.

The proportion of fixed assets relative to total assets declined to 83.0% (previous year: 84.7%).

Receivables and other assets increased by €472 million to €4,190 million. This was mainly due to an increase in financing transactions with affiliated companies.

Bank balances total €31 million.

The reduction in equity was attributable to the dividend of €500 million paid in 2020 for the 2019 fiscal year, and to the net loss for the fiscal year of €146 million. This was countered by the capital contribution of €54 million paid into the capital reserves. The equity ratio was 83.6% (previous year: 87.8%) on December 31, 2020.

The capital reserves of TRATON SE amounting to €19,995,313 thousand (previous year: €20,241,380 thousand) constitute the contributions by Volkswagen AG to TRATON SE, in particular from the contribution of MAN SE and Scania AB.

The miscellaneous provisions and liabilities contain, in particular, liabilities to affiliated companies, other provisions, and provisions for pensions. The increase in miscellaneous liabilities was mainly attributable to higher liabilities to affiliated companies in connection with intragroup financing transactions. This was countered by the fact that there were no longer any liabilities for profit transfer (including tax allocations) to Volkswagen AG. The miscellaneous provisions of €45 million are mainly for obligations under public law, obligations from agreements to annul the employment contract with former Executive Board members, and other individual risks.

Net liquidity/net financial debt comprises bank balances, intragroup receivables from financing transactions, loans to Group companies, and marketable securities less financial liabilities to banks/others and less intragroup liabilities from financing transactions. TRATON SE's net financial debt was €1,109 million as of December 31, 2020 (previous year: net liquidity of €2,427 million).

4. Opportunities and risks

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

5. Remuneration of the Executive Board

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

6. Report on expected developments

TRATON SE is the parent and holding company of the TRATON GROUP. The results reported by its subsidiaries are distributed or transferred to TRATON SE. The expectations with regard to the TRATON GROUP's business performance as described in the outlook also affect the earnings of TRATON SE. The outlook for the TRATON GROUP thus also applies to TRATON SE. Taking into account the expectations with regard to the Group's key performance indicators, we anticipate a substantial increase in operating result plus net investment income due to higher income from equity investments. For further information, refer to the TRATON GROUP's "Report on Expected Developments."

Report on Expected Developments, Opportunities, and Risks

1. Report on expected developments

Our forecast for the key performance indicators of the TRATON GROUP for the period from January 1, 2021, to December 31, 2021, reflects the forward-looking expectations of the Company with respect to the key performance indicators of the TRATON GROUP. Assumptions that we have made regarding the overall economic environment and the development of the truck and bus markets serve as the foundation for this planning. The assessments presented for future business development are based on the targets of our operating units as well as the opportunities and risks provided in connection with the anticipated market conditions and the competitive situation. Against this background, we are adapting our expectations for business development to reflect each of the current forecasts regarding the development of the truck and bus markets. At the preparation date of this report, Navistar Inc. is not a member of the TRATON GROUP and expectations for the Navistar Group's business development do not form part of this report on expected developments.

EXPECTED MACROECONOMIC DEVELOPMENTS

Our planning is based on the assumption that global economic output will recover overall in 2021, provided successful, lasting containment of the COVID-19 pandemic is achieved. However, this growth will most likely be insufficient for the economy to recover to its pre-pandemic level. We continue to see risks in protectionist tendencies, volatility on the financial markets, and structural deficits in individual countries. In addition, persistent geopolitical tensions and conflicts will weigh on growth prospects. We anticipate that both the advanced economies and the emerging markets will experience positive momentum. Furthermore, we anticipate that the global economy will also continue to grow in the period from 2022 to 2025.

EUROPE/OTHER MARKETS

In Western Europe, we expect moderate economic growth for 2021 following the decline in the previous fiscal year. The impact of the COVID-19 pandemic and the uncertain consequences of the United Kingdom's withdrawal from the EU will pose major challenges.

In Central Europe, we also expect moderate economic growth rates in 2021. The economic situation in Eastern Europe is also expected to recover, albeit at a somewhat slower pace given that only slight growth is expected for the Russian economy.

For Turkey, we expect an increasing economic growth rate combined with high inflation and a weak domestic currency. The South African economy will likely be dominated by political uncertainty and social tensions again in 2021 resulting from high unemployment, among other factors. Despite the sharp slump in the previous fiscal year, we therefore expect only moderate growth.

Germany

We expect gross domestic product in Germany to grow relatively robustly in 2021 but to remain short of the level seen before the COVID-19 pandemic. In 2021, the labor market situation is likely to deteriorate somewhat as a result, among other things, of an increase in corporate insolvencies following the temporary suspension of the obligation to file for insolvency during the pandemic.

North America

We anticipate a distinct improvement in the economic situation in the USA in 2021, despite a declining but still relatively high unemployment rate. The US Federal Reserve will presumably leave key interest rates close to zero. Economic growth is also likely to increase distinctly in neighboring Canada and Mexico, albeit not at the same pace as the relatively sharp decline in the reporting year.

South America

In all likelihood, the Brazilian economy will recover in 2021 and record a moderate rate of growth. After three years of negative GDP growth rates, we anticipate little improvement in the economic situation in Argentina. Inflation is likely to remain very high and the local currency to depreciate.

Asia-Pacific

The Chinese economy is expected to continue growing at a relatively high level in 2021 after being one of the few economies not to experience a recession in 2020. After a sharp decline in the reporting year, we expect a relatively high rate of expansion for the Indian economy in 2021, outpacing the average growth seen in the years before the COVID-19 pandemic. In Japan, we anticipate a solid rise in GDP growth.

EXPECTED SECTORAL DEVELOPMENTS

Provided there is no further rise in the number of cases due to the COVID-19 pandemic and no associated countermeasures are taken by the affected countries, as well as subject to any potential impact on our production and supply chains, the TRATON GROUP's Executive Board is expecting new registrations in 2021 of medium- and heavy-duty trucks (> 6t) in the Group's core geographic regions, i.e., Europe (defined as the EU27 countries excluding Malta, plus the United Kingdom, Norway, and Switzerland, or "EU27+3"), Brazil, Russia, South Africa, and Turkey to record generally positive growth compared with the previous year. Growth rate is expected to vary from region to region.

A significant market increase is expected in the EU27+3 region. In Germany, for example, this is being supported by the German government's fleet renewal program for procuring trucks that meet the latest Euro 6 exhaust standards. For Brazil, we anticipate that demand will increase substantially compared to the previous year. We expect demand to pick up noticeably in Russia and significantly in South Africa in 2021. We are anticipating a slight rise in demand in Turkey.

In the bus markets that are relevant for the TRATON GROUP (EU27+3, Brazil, and Mexico), we are projecting stable or rising demand for 2021, albeit with varied regional developments. In the EU27+3 region, we anticipate a slight year-on-year downturn in the market. New registrations in Brazil will likely be noticeably higher than in the previous year. We are expecting very strong market growth in Mexico.

UNIT SALES 2021

We anticipate sales volumes for trucks (excluding MAN TGE vans) to increase very sharply overall in 2021.

Bus sales volumes are likely to decline noticeably in 2021. The reason for this decrease in sales volumes is the persistently low market for coaches. We also profited disproportionately from the government program for school buses in Brazil in the previous year.

Worldwide, we estimate that sales volumes will rise sharply for all vehicles (including MAN TGE vans) in fiscal year 2021.

SALES REVENUE AND OPERATING RETURN ON SALES 2021

We expect to see a substantial increase in the sales revenue of the Industrial Business segment, primarily due to a sharp rise in the Truck business. In the Financial Services segment, we anticipate a moderate increase in sales revenue. Overall, we therefore expect a substantial increase in the TRATON GROUP's sales revenue.

For 2021, we forecast an operating return on sales of between 5.0 and 6.0% for the TRATON GROUP.

For the Industrial Business segment, we are anticipating an operating return on sales of between 4.5 and 5.5%. This expectation is based on the growth assumptions for the truck markets in the EU27+3 region and South America described above.

For the Industrial Business segment, we forecast a return on investment of 6.5 to 7.5% and a cash conversion rate of 25 to 35%.

The forecasts for operating return on sales, return on investment, and the cash conversion rate outlined above do not contain any expenses or expenditures for the MAN Truck & Bus restructuring program. In total, the restructuring measures (including the measures in connection with the Plauen and Steyr sites, which are still to be resolved) are currently expected to incur cost in a high triple-digit million amount for the entire restructuring period. The majority of the expenses will be for personnel measures.

We expect operating return on sales to be in the range of 13.5 to 17.5% for the Financial Services segment. The anticipated increase in sales revenue will be offset by increased costs for digitalization and gaining access to new markets.

CAPEX AND PRIMARY RESEARCH AND DEVELOPMENT COSTS

Through investments in our products and plants as well as through our research and development activities, we are laying the foundation for profitable and sustainable growth in the TRATON GROUP. We are planning to significantly ramp up our capex in fiscal year 2021 compared with 2020, when the COVID-19 pandemic forced us to reprioritize our capital expenditures and research and development projects. Primary research and development costs will rise substantially.

SUMMARY OF EXPECTED DEVELOPMENTS

Provided there is no further rise in the number of cases due to the COVID-19 pandemic and no associated countermeasures are taken by the affected countries, as well as subject to any potential impact on our production and supply chains, the TRATON GROUP's Executive Board is expecting a sharp rise in unit sales and a substantial increase in sales revenue in 2021, based on current market expectations. For the TRATON GROUP, we are forecasting an operating return on sales of 5.0 to 6.0%.

The forecasts do not contain any expenses or expenditures for the MAN Truck & Bus restructuring program. In total, the restructuring measures (including the measures in connection with the Plauen and Steyr sites, which are still to be resolved) are currently expected to incur cost in a high triple-digit million amount for the entire restructuring period. The majority of the expenses will be for personnel measures.

	Actual 2020	Forecast 2021[1]
TRATON GROUP		
Unit sales	190,180	sharp increase
Sales revenue (€ million)	22,580	substantial increase
Operating return on sales (in %)	0.6	5.0–6.0
Industrial Business		
Sales revenue (€ million)	22,156	substantial increase
Operating return on sales (in %)	0.1	4.5–5.5
Return on investment (in %)	–0.1	6.5–7.5
Cash conversion rate (in %)[2]	n/a	25–35
Capex (€ million)	992	considerable increase
Primary research and development costs (€ million)	1,165	substantial increase
Financial Services		
Sales revenue (€ million)	820	moderate increase
Operating return on sales (in %)	13.1	13.5–17.5

1 Before expenses from the MAN Truck & Bus restructuring program and effects from the planned acquisition of Navistar International Corporation

2 In the year under review, the negative earnings after tax did not result in any meaningful cash conversion rate.

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

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

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

The TRATON GROUP promotes a risk awareness culture which is characterized by openness and encourages people throughout the Group to address and manage risks openly and transparently. Transparency is fundamental for dealing effectively with risks and avoiding blind spots, i.e., risks which remain undetected and therefore are not addressed properly.

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

RISK MANAGEMENT ORGANIZATION

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

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

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

Furthermore, the Corporate Audit function provides independent assurance to management about the effectiveness of the TRATON GROUP's risk management activities.

RISK MANAGEMENT FRAMEWORK

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

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

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

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

RISK MANAGEMENT PROCESSES

Enterprise risk management (ERM)

The ERM process is designed to provide management with transparency regarding the TRATON GROUP's current risk exposure. It encompasses all organizational rules and measures to identify and assess concrete business risks from a broad range of categories. It helps management to ensure that all relevant risks are clearly assigned to an owner and to monitor the implementation of appropriate measures. ERM serves as the core process for satisfying a variety of internal and external reporting obligations, as outlined in the related chapter below. Risks are assessed in terms of their probability of occurrence and impact on net basis, with the net assessment factoring in any implemented measures that mitigate the risk in question. The qualitative criteria of reputational loss and relevance under criminal law are also assessed. A score is calculated from the quantitative and qualitative criteria. Risks are classified using this score. For risk aggregation purposes, the two quantitative criteria of probability of occurrence and potential net impact are used.

Internal control system (ICS)

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

Regular GRC Process

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

RISK REPORTING

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

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

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

Finally, TRATON satisfies a number of additional internal and external reporting requirements, including risk reporting to Volkswagen AG and external risk reporting in the combined management report of the statutory financial reporting.

MAIN FEATURES OF INTERNAL CONTROL OVER FINANCIAL REPORTING

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

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

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

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

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

OPPORTUNITIES AND RISKS

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

Risks from the COVID-19 pandemic may affect several risk categories. These risks were allocated to the six categories and are presented accordingly in this report.

Strategy

The TRATON GROUP is dedicated to creating a Global Champion in the transportation industry — a leader in profitability, with global presence and customer-focused innovation. The TRATON GROUP's ability to meet this objective also depends upon successful geographic expansion beyond its current core markets. The TRATON GROUP intends to expand its business activities in North America and Asia through strategic alliances and other measures, both of which entail significant opportunities and risks. If the TRATON GROUP fails to successfully expand beyond its core markets, our ability to generate economies of scale may be jeopardized. The strategic alliances entail various risks for TRATON, in particular if our business and legal interests cannot be aligned with those of our partners. Unexpected problems with respect to these alliances could adversely affect the TRATON GROUP's position and access to the strategically important North American and Asian markets.

The binding merger agreement entered into by Navistar International Corporation (Navistar) and TRATON SE on November 7, 2020, will open up strategic opportunities for the TRATON GROUP in the North American market. However, this also entails risks, such as the possible failure of the takeover or of the subsequent integration of Navistar with the TRATON GROUP.

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

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

With Regulation (EU) 2019/1242 of 20 June 2019 setting CO_2 emission performance standards for new heavy-duty trucks with a permissible maximum laden weight of 16 t, the European Union set very ambitious targets for manufacturers of heavy-duty commercial vehicles, including the TRATON GROUP, for reducing CO_2 emissions within the next decade. For example, using a standardized procedure, the CO_2 emissions of the vehicles in question must be cut by 15% by 2025 and 30% by 2030, compared with a reference value from an observation period running from July 2019 to June 2020. Together with other elements of Regulation (EU) 2019/1242, the objective of the 30% reduction by 2030 is expected to be reviewed in 2022. If these emission targets are not met, potential penalties — initially in the period 2025 to 2029 — of €4,250 per gram of CO_2 emissions per ton-kilometer (tkm) would be triggered. Starting in 2030, these penalties rise to €6,800 per gram of CO_2/tkm.

As part of the European Clean Deal, the European Commission presented the 2030 Climate Target Plan, which calls for a reduction in CO_2 emissions in the EU by at least 55% (previously 40%) by 2030 compared with 1990. This may impact the CO_2 emission requirements for heavy-duty commercial vehicles further.

Compliance with CO_2 emission reduction regulations will require substantial investments in new technologies, such as alternative drive systems and vehicles powered by alternative fuels. All measures for road freight transportation that are driving forward the establishment of alternative drive technologies (e.g., programs subsidizing purchases of trucks with alternative drives, development of a fuel and charging infrastructure, as well as other flanking political measures, such as CO_2-based tolls) will be clarified quickly at EU and national level. Increasing connectivity within the transportation network may also resolve inefficiencies in the currently existing transportation network, e.g., unused transportation capacities, empty runs, or inefficient transportation routing. Combined with connected traffic management systems, this may lead to an optimized transportation flow and thus also to decreased CO_2 emissions. Innovations can therefore not only help meet regulatory requirements, they may also help us to better address customer wishes and hence also gain market share.

Markets

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

Despite the current economic downturn in the European commercial vehicle markets, which was further exacerbated by the COVID-19 pandemic, the TRATON GROUP sees medium- to long-term opportunities for profitable growth in the transportation markets for all of its brands, as the underlying global economic trends are expected to continue. These include the expected economic recovery, value chains based on an international division of labor, increasing e-commerce, and the resulting high level of global transportation volumes.

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

Declines in growth in key countries and regions often have an immediate impact on the state of the global economy and therefore pose a risk. In particular, the United Kingdom's departure from the EU Single Market and other trade policy measures such as tariffs or nontariff barriers to trade could have a negative impact on TRATON.

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

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

Because of the COVID-19 pandemic, 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 earnings. We expect the economic support programs in the EU or individual countries in the European Union to have a positive effect. For example, the German government has already approved the 2020/21 fleet renewal program for heavy-duty commercial vehicles.

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

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

Products

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

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

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

As commercial vehicles become increasingly complex, the risks of vehicle defects and quality issues generally rise. Substandard quality may result in manufacturer's guarantee, statutory warranty, and ex gratia repair costs as well as the loss of market share or lower product margins. In severe cases, TRATON may be exposed to product recalls as well as product liability and compensation claims. By the same token, superior product quality may strengthen our positioning within the competitive environment.

The impact of these factors may be further amplified by the TRATON GROUP's modular component concept, as the components are used in a number of different vehicles across the brands and hence in higher volumes. Additionally, the modular component concept opens up a range of opportunities for the TRATON GROUP, in particular through economies of scale in production and procurement, as well as better allocation of development costs.

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

Operations

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

There are continued considerable risks resulting from the COVID-19 pandemic in the event that the reclosure of plants or critical production areas were to become necessary. This could be the case if the safety measures taken prove not to be sufficiently effective, or if general infection rates lead to restrictions being reintroduced by the competent authorities.

Additionally, great attention was paid during the restart of production in the plants of our brands to the stability of our supply chains, which have mainly proven to be robust. Despite this, there is still a risk that problems faced by individual suppliers due to the COVID-19 pandemic could lead to supply bottlenecks for purchased parts or components. The TRATON GROUP counters this risk through enhanced monitoring and close consultation with its suppliers.

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

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

Following in-depth negotiations, the Executive Board members of MAN SE and MAN Truck & Bus SE and the General Works Council agreed on a key point paper on January 26, 2021, that sets out a comprehensive realignment of MAN Truck & Bus. The resulting measures comprise the repositioning of the development and production network and substantial, socially responsible job losses. The details will now be defined in a future collective bargaining agreement and in works agreements. Implementation of the agreements involves a significant risk exposure affecting both the success of the measures and the amount and timing of the associated costs.

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

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

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

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

Legal & Compliance

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

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

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

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

Finance

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

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

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

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

Liquidity risk describes the risk that the TRATON GROUP may have difficulty in meeting obligations associated with financial liabilities. To ensure sufficient liquidity at all times, cash inflows and outflows are continuously monitored and managed. In addition, changes in the TRATON GROUP's liquidity are monitored using a detailed financial plan. The TRATON GROUP's financial management manages automated cash pools, wherever legally and economically appropriate and feasible. Because of the COVID-19 pandemic, there are higher liquidity risks if the expected lower cash inflows cannot be fully offset by a corresponding reduction in current costs.

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

Credit risk is the risk that a party to a contract will fail to meet its contractual obligations as a result of its own financial situation, which may be negatively impacted by the COVID-19 pandemic or the political environment, thereby causing a financial loss for the TRATON GROUP. This country and counterparty risk is reduced through the careful selection of business partners, through appropriate contractual and payment terms, and through guarantees and documentary credits. In addition, central cash management functions and a central limit allocation system are used to distribute investments of cash funds across financial institutions.

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

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

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

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

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

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

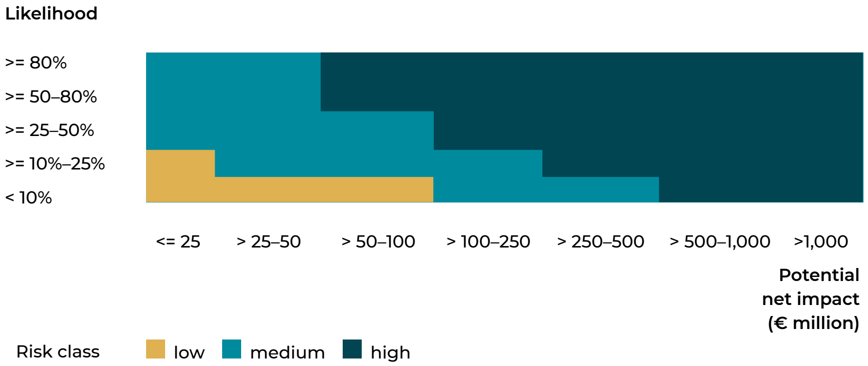
TRATON is regularly subject to tax audits conducted by the tax authorities responsible, which may disagree with the tax positions we have included. Even if the TRATON GROUP considers the reported tax positions appropriate, conducting a tax audit may affect the tax positions reported. As a result, we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

AGGREGATED REPRESENTATION ON THE BASIS OF RISK CATEGORIES

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

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

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



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

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

The high risk class across all categories is attributable in particular to the persistently high level of uncertainty resulting from the direct and indirect consequences of the COVID-19 pandemic. It is also noticeable that the effects of an unchanged risk are larger in relative terms in the case of more conservative planning. As a result, the risk classes relating to the Operations and Finance risk categories were modified from "Medium" to "High" compared with the previous year.

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

According to our evaluation, market risks have the most considerable impact on the TRATON GROUP. In addition to the general cyclicality of and the intense competition in the commercial vehicle industry, there are increasing risks to the economic environment arising from the COVID-19 pandemic, protectionist measures, and geopolitical tensions. These may have a negative impact on sales volumes and sales margins. At the same time, stable markets for transportation solutions and the economic programs already resolved by the German government, as well as potential future programs, offer short-term opportunities for the TRATON GROUP. In the strategic risk area, the requirements and risks arising from CO_2 regulation in the EU remain a particular focus. Product risks primarily include potential excess costs and delays for engineering and new product launches. This is further emphasized by the significant investments of the TRATON GROUP in order to respond to emerging market trends with innovative, attractive, and energy-efficient products and services. The primary operations risks arise from restructurings, especially at MAN Truck & Bus. As in the previous year, legal and compliance risks in particular comprise litigation risks. Among the finance risks, future currency developments remain an area of significant uncertainty that may have both a positive and a negative effect on us. Liquidity and credit risk rose year-on-year as a result of the COVID-19 pandemic.

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

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

IMPORTANT LEGAL CASES

After unannounced inspections at the premises of several European truck manufacturers including MAN and Scania in 2011, the European Commission initiated proceedings in 2014 for suspected violations of EU antitrust rules in the European truck sector. On July 19, 2016, the European Commission issued a settlement decision (the “Settlement Decision”) against MAN and four other European truck manufacturers (excluding Scania) holding that collusive arrangements on pricing and gross price increases for medium- and heavy-duty trucks in the European Economic Area and the timing and the passing on of costs for the introduction of emission technologies for medium- and heavy-duty trucks required by EURO 3 to EURO 6 standards had lasted from January 17, 1997, to January 18, 2011 (for MAN: until September 20, 2010). While the other four truck manufacturers were fined, MAN was granted immunity from fines since it had acted as a key witness and informed the European Commission of the antitrust infringements in September 2010. Scania decided not to apply for leniency and not to settle this antitrust case and, by decision of the European Commission dated September 27, 2017 (the “Scania Decision”), received a fine in the amount of approximately €880.5 million. Scania has appealed the Scania Decision to the General Court of the European Union, asking for full annulment and will use all means at its disposal to defend itself. Depending on how the legal proceedings develop, the eventual fine may differ from the original one. In place of paying the fines, Scania has offered a financial guarantee covering the entire amount of fines. The guarantee was accepted by the Accounting Officer of the European Commission. The Group set aside a €403 million provision in connection with these administrative proceedings in the previous years.

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

In Germany, eight “judgments on the merits of the claim” (*Grundurteile*) have been rendered against one or more MAN companies. There was no need in these cases to resolve the issue of whether any damages were actually sustained. The defendant MAN companies have appealed all of these decisions. In one case, the court of appeal has already revoked the first instance judgment and dismissed the action as inadmissible. In another case, the claimant has withdrawn the action before the court of appeal. In individual proceedings, some courts issued “orders for evidence to be taken” (*Beweisbeschlüsse*) so that an expert can clarify the question of whether any damage has been sustained and, if so, in what amount. By contrast, a range of lawsuits against MAN have been dismissed — some of them already finally.

In addition to a series of dismissals of lawsuits — some of them already final — in various countries, individual courts in Spain have upheld a number of damages claims — either in part or in full. The defendant MAN companies have appealed all of the decisions or will do so within the statutory period. While in a few cases, the respective court of appeal has already revoked the decision of the court of first instance, in other cases, the respective court of appeal has upheld the first instance ruling awarding damages — in full or in part. None of these judgments are final, as the defendant MAN companies have appealed all decisions before the Spanish Supreme Court, which has not rendered a decision yet. In Belgium, a judgment on the merits and a judgment awarding damages (on an equitable basis) have been issued against MAN. MAN has appealed both decisions.

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

Because most of these cases are still at an early stage and it is therefore not possible to assess the claims at this point in time, no provisions are recognized and no contingent liabilities are disclosed for these cases. In other cases, a final and unappealable ruling under which MAN or Scania would have to pay damages is relatively unlikely at present.

In the tax proceedings between MAN Latin America and the Brazilian tax authorities, the Brazilian tax authorities took a different view of the tax implications of the acquisition structure chosen by MAN SE for the acquisition of MAN Latin America in 2009. The tax proceedings have been divided into two auditing periods, covering the years 2009/2011 ("Phase 1") and 2012/2014 ("Phase 2"). In December 2017, an adverse last instance judgment was rendered by the Brazilian Administrative Court (Phase 1), which was negative for MAN Latin America. MAN Latin America appealed this judgment before a regular judicial court in 2018. The tax proceeding related to Phase 2 is still pending judgment by the Brazilian tax authorities. Because of the potential range of penalties plus interest which could apply under Brazilian law, the estimated size of the risk in the event that the tax authorities are able to prevail overall with their view is uncertain. However, the TRATON GROUP continues to expect a positive outcome for MAN Latin America. If this is not the case, this could result in a risk of about €494 million (as of December 31, 2020) for the contested period from 2009 onward. This assessment is based on the accumulated accounts at the reporting date for the claimed tax liability including the potential penalty surcharges, as well as accumulated interest, but excluding any future interest and without discounting any cash flows. Certain banks have issued bank guarantees for the benefit of MAN Latin America as customary in connection with such tax proceedings, which in turn are secured by MAN SE.

Unless described above, no disclosures are made pursuant to IAS 37 *Provisions, Contingent Liabilities and Contingent Assets* because the Company has concluded that these disclosures could seriously jeopardize the outcome of any legal proceedings. The TRATON GROUP does not currently expect these proceedings to have a material adverse effect on its net assets, financial position, or results of operations.

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

Events after December 31, 2020

On January 26, 2021, the Executive Board members of MAN SE and MAN Truck & Bus SE and the employee representatives signed an agreement on the key points of a comprehensive realignment of MAN Truck & Bus SE. The agreement that was reached sets out a restructuring of all areas of the MAN Truck & Bus business. The planned measures include a repositioning of the development and production network with a strong focus on future technologies, as well as approximately 3,500 job cuts across all areas of the company in Germany by the end of 2022. In total, the restructuring measures (including the measures in connection with the production network, which are still to be defined) are currently expected to incur cost in a high triple-digit million amount for the entire restructuring period. The majority of the expenses will be for personnel measures.

In connection with the intended acquisition of Navistar International Corporation (Navistar) by TRATON SE, a Navistar shareholder on January 19, 2021, filed a lawsuit against Navistar, its Board of Directors, as well as against TRATON SE and its wholly owned subsidiary Dusk Inc. with the United States District Court for the Southern District of New York (Anderson v. Navistar International Corporation, et al., Case No. 21-cv-00453 (S.D.N.Y)). The plaintiff alleges that preliminary versions of Navistar's Proxy Statement were incomplete and therefore misleading. The complaint purports to seek injunctive relief, declaratory relief, rescission, monetary damages, and costs, including attorneys' fees. Until the day on which the Consolidated Financial Statements were prepared, this complaint has not been served to either TRATON SE or Dusk Inc.

Also in conjunction with the intended acquisition of Navistar, another Navistar shareholder on January 20, 2021, filed a putative class action against Navistar, its Board of Directors, as well as against TRATON SE and its wholly owned subsidiary TRATON US Inc. with the Circuit Court of DuPage County, Illinois, Chancery Division (Drulias v. Clarke, et al., Case No. 2021-CH-000022 (Ill. DuPage Cty. Cir. Ct.)). The plaintiff alleges that Navistar and its Board of Directors were in breach of their fiduciary duties under Delaware law and that TRATON SE and TRATON US Inc. aided and abetted these alleged breaches of fiduciary duties. The complaint purports to seek class action certification, injunctive relief, declaratory relief, rescission, disgorgement, monetary damages, and costs, including attorneys' fees. Until the day on which the Consolidated Financial Statements were prepared, this complaint has not been served to either TRATON SE or TRATON US Inc.

Since neither of the complaints have been served yet and both proceedings are still at an early stage, it is not possible to provide an assessment at this point in time.

Supplemental Information on Fiscal Year 2020

1. Remuneration report

REMUNERATION OF THE EXECUTIVE BOARD

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

Principles of Executive Board remuneration

Matters involving the remuneration system and the total remuneration of each individual member of the TRATON SE Executive Board are decided on by the Supervisory Board on the basis of the recommendations of the latter's Presiding Committee. The remuneration system implements the requirements of the *Aktiengesetz* (AktG — German Stock Corporation Act) and is based on the recommendations of the German Corporate Governance Code (the Code).

At the end of 2018, the Supervisory Board of TRATON SE decided to modify the remuneration system for the Executive Board with effect from the effective date of the reorganization of TRATON AG as TRATON SE (January 17, 2019). The Supervisory Board was supported by prominent, independent external remuneration and legal advisers as it developed the remuneration system for the Executive Board. The level of the Executive Board remuneration should be appropriate and attractive in the context of the Company's national and international peer group. Criteria include the tasks of the individual Executive Board member, their personal performance, the economic situation, and the performance of and outlook for the Company, as well as how customary the remuneration is when measured against the peer group.

In this context, comparative studies on remuneration are conducted on a regular basis.

In its existing form, the remuneration system already largely complies with the amended recommendations of the Code in the version dated December 16, 2019. In order to implement the amended requirements for Executive Board remuneration under the AktG, as amended by the second *Aktionärsrechterichtlinie* (ARUG II — German Act Transposing the Second Shareholder Rights Directive), and the recommendations of the Code, the Supervisory Board resolved a remuneration system pursuant to section 87a of the AktG in December 2020. This remuneration system takes effect at the beginning of January 1, 2021, and applies to contract renewals and to newly appointed Executive Board members. However, certain aspects of the new remuneration system already apply to existing Executive Board members from fiscal year 2021 onward.

In accordance with the AktG, as amended by the ARUG II, the Supervisory Board is required in the future to submit the remuneration system to the Annual General Meeting for approval in the case of any significant amendment, and as a minimum every four years. The Supervisory Board is required to submit such a motion for approval for the first time no later than at the first Annual General Meeting held for the period ending December 31, 2020.

Components of Executive Board remuneration

Until January 16, 2019, the remuneration of the members of the Executive Board was based on the remuneration systems in force until that date at the Group companies MAN Truck & Bus AG, MAN Latin America Indústria e Comércio de Veículos Ltda., Scania CV AB, and TRATON AG, and comprised fixed and variable components. The variable components depend in particular on changes in the financial situation of the company concerned and of the Volkswagen Group, and, in individual companies, on whether personal goals are met.

The remuneration system for TRATON's Executive Board has consisted of fixed and variable components since January 17, 2019. The variable remuneration consists of a bonus with a two-year assessment period and a long-term incentive (LTI) in the form of a performance share plan with a forward-looking three-year term that reflects both positive and negative developments. The fixed component creates an incentive for individual members of the Executive Board to perform their duties in the best interests of the Company and to fulfill their obligation to act with proper business prudence without needing to focus on merely short-term performance targets. The variable components, dependent among other criteria on the financial performance of the Company, serve to ensure the long-term impact of behavioral incentives.

In respect of the remuneration components, the remuneration system for the Executive Board generally makes a distinction between months and fiscal years beginning up to and including the month and fiscal year of TRATON SE's IPO in June 2019 (pre-IPO phase) and the months and fiscal years beginning after the month and fiscal year of TRATON SE's IPO (post-IPO phase).

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

This distinction affects all Executive Board members included in the TRATON remuneration system in the case of the LTI: for performance shares issued up to and including the fiscal year of TRATON SE's IPO, the LTI is based on the performance of Volkswagen AG (fiscal year 2019). For performance shares issued after that date, the LTI is based solely on the performance of TRATON SE (from fiscal year 2020).

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

In addition to their activity as members of the Executive Board of TRATON SE, Mr. Drees and Professor Intra exercised an executive board activity at MAN SE and MAN Truck & Bus SE until their departure effective the end of July 15, 2020. Since January 17, 2019, MAN Truck & Bus SE has been reimbursing TRATON SE for a proportion of the fixed (excluding fringe benefits) and variable remuneration components for Mr. Drees and Professor Intra (80% for Mr. Drees, 20% for Professor Intra). The Supervisory Board of MAN Truck & Bus SE decided that MAN Truck & Bus SE will reimburse

TRATON SE for 80% of the expenses for the remuneration of Mr. Drees, including for the period until the regular end of the original employment contract between Mr. Drees and MAN Truck & Bus SE, i.e., until March 31, 2023. As of the beginning of July 16, 2020, Dr. Ing. h.c. Tostmann is also a member of the Executive Boards of TRATON SE, MAN SE, and MAN Truck & Bus SE. For each fiscal year, MAN Truck & Bus SE's Supervisory Board decides the proportion of TRATON SE's expenses for the remuneration of Dr. Ing. h.c. Tostmann that will be shouldered by MAN Truck & Bus SE. In doing so, MAN Truck & Bus SE's Supervisory Board considers in particular the ratio of the time Dr. Ing. h.c. Tostmann spent working for MAN Truck & Bus SE on the one hand and TRATON SE on the other. For fiscal year 2020, the Supervisory Board decided that MAN Truck & Bus SE will reimburse TRATON SE for 80% of the fixed (excluding fringe benefits) and variable remuneration components for Dr. Ing. h.c. Tostmann, starting on July 16, 2020.

Until his departure from the Executive Board effective end of the day July 15, 2020, Mr. Renschler held a Board of Management position at Volkswagen AG in addition to his activity as Chairman of the Executive Board of TRATON SE. For his activity as a member of the Volkswagen AG Board of Management, Mr. Renschler received remuneration under his employment contract with Volkswagen AG. Mr. Renschler's remuneration from TRATON SE is offset against the remuneration from Volkswagen AG attributable to him for fiscal year 2020. TRATON SE reimbursed Volkswagen AG for 80% of the expenses for Mr. Renschler's remuneration in fiscal year 2020.

If 100% of the relevant agreed targets are achieved, the annual target remuneration for Mr. Drees, Professor Intra, Mr. Levin (extrapolated to 100%), Mr. Schulz, and Dr. Ing. h.c. Tostmann amounts to a total of €2,330 thousand in each case. This corresponds to fixed remuneration of €700 thousand, a target amount from the bonus of €700 thousand, and a target amount from the performance share plan of €930 thousand. For Mr. Cortes and Mr. Henriksson, the annual target remuneration, extrapolated to 100%, amounts to a total of €1,240 thousand (Mr. Cortes) and €2,496 thousand (Mr. Henriksson). This corresponds to fixed remuneration of €620 thousand and €750 thousand, a target amount from the bonus of €310 thousand and €750 thousand, and a target amount from the performance share plan of €310 thousand and €996 thousand, respectively. For Mr. Gründler and Mr. Renschler, the annual target remuneration amounts to a total of €4,500 thousand. This corresponds to fixed remuneration of €1,350 thousand, a target amount from the bonus of €1,350 thousand, and a target amount from the performance share plan of €1,800 thousand.

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

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

The reimbursement of costs for accommodation at his regular place of work and assumption of the taxes levied on the monetary value of travel using the company car (including use of a driver) between the place of residence and the primary place of work were contractually agreed with Mr. Gründler.

Grandfathering of the fixed and bonus remuneration components for fiscal years 2020 (up to a maximum of €840 thousand) and 2021 (total of €1,638 thousand) resulting from a remuneration guarantee from his time at Volkswagen AG was contractually agreed with Dr. Ing. h.c. Tostmann. In addition, Dr. Ing. h.c. Tostmann will be reimbursed for the costs of accommodation at his regular place of work and for weekly family trips home until December 31, 2021. The Company is also assuming any relocation, moving, and real estate agent costs incurred.

Fixed remuneration

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

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

In fiscal year 2020, those members of the Executive Board who were members of the Executive Board as of January 1, 2020, waived part of their fixed remuneration or donated it to a charitable organization as a sign of solidarity with employees affected by short-time working or similar measures.

Variable remuneration

The variable remuneration consists of a performance-related bonus with a two-year assessment period and a long-term incentive (LTI) in the form of a performance share plan with a forward-looking three-year term (long-term incentive components) and phantom preferred shares of Volkswagen AG (granted in 2019) or phantom shares of TRATON SE (granted starting in 2020). The components of variable remuneration reflect both positive and negative developments.

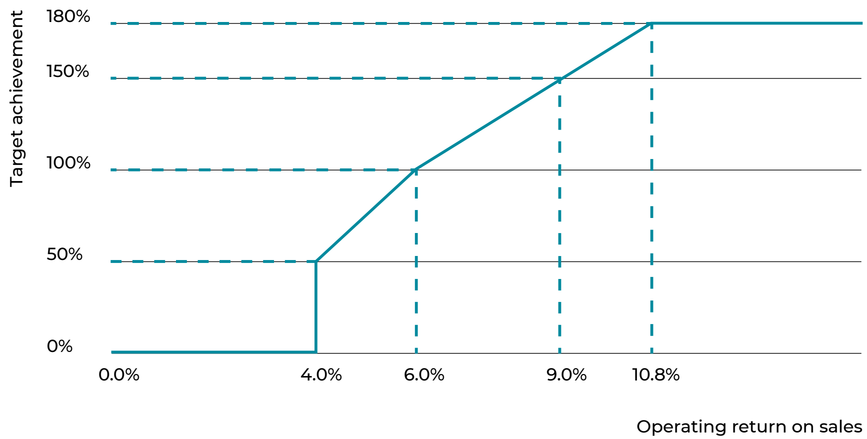
Payment of variable remuneration components depends on compliance with the cultural and integrity requirements in the Volkswagen Group and at TRATON SE. Malus and clawback clauses enable the subsequent adjustment of the payment amount in the event of any identified misconduct on the part of the members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

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

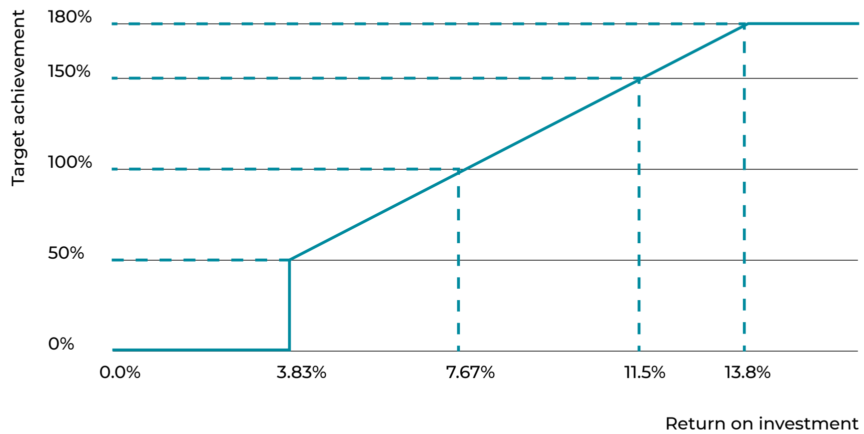
Bonus

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

CALIBRATION OF OPERATING RETURN ON SALES (AVERAGE OVER 2 YEARS)



CALIBRATION OF RETURN ON INVESTMENT (AVERAGE OVER 2 YEARS)



BONUS 2020

	Return on investment	Operating return on sales
2019/2020 average values	4.8%	3.2%
Target achievement	62.2%	–%
Overall target achievement	**31.1%**	

BONUS 2019

	Return on investment	Operating return on sales
2018/2019 average values	9.1%	6.0%
Target achievement	118.9%	100.0%
Overall target achievement	**109.5%**	

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

Performance share plan — long-term incentive (LTI)

The LTI is granted to the members of the Executive Board annually in the form of a performance share plan. Each performance period of the performance share plan has a term of three years. At the time the LTI is granted, the annual target amount under the LTI is converted on the basis of the initial reference price of Volkswagen AG's preferred shares (granted in 2019) or TRATON SE shares (granted starting in 2020) into performance shares, which are allocated to the respective member of the Executive Board purely for calculation purposes. Conversion at the beginning of the performance period is based on the unweighted average closing price of Volkswagen AG's preferred shares (granted in 2019) or TRATON SE shares (granted starting in 2020) on the last 30 trading days before January 1 of the relevant performance period. The final determination of the number of performance shares happens at the end of the three-year performance period in line with the average level of target achievement in the three fiscal years of the performance period with regard to the annual earnings per preferred share of Volkswagen AG (granted in 2019) or the earnings per TRATON SE share (granted starting in 2020) (earnings per share/EPS per (preferred) share in euros). A condition for this is that a minimum level of annual earnings per share is reached.

PERFORMANCE PERIOD 2020–2022 EPS TRATON SHARES (POST-IPO)

€	2020
Maximum threshold	4.32
100% level of target	2.90
Minimum threshold	1.95
Actual	–0.20
Target achievement (in %)	–

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

€	2020	2019
Maximum threshold	30.00	30.00
100% level of target	20.00	20.00
Minimum threshold	10.00	10.00
Actual	17.85[1]	26.66
Target achievement (in %)	89.3[1]	133.3

1 Information based on key figures currently available

A cash settlement is made after the end of the three-year term of the performance share plan. The payment amount corresponds to the final number of specified performance shares, multiplied by the closing reference price at the end of the three-year period, plus a dividend equivalent for the relevant term. The closing reference price is the unweighted average of the closing prices of Volkswagen AG's preferred shares (granted in 2019) or TRATON SE shares (granted starting in 2020) on the last 30 trading days before the end of the three-year performance period. The dividend equivalent corresponds to the dividends distributed during the holding period on an actual Volkswagen preferred share or on an actual TRATON share.

€	2020–2022[2]	2019–2021[3]
Initial reference price	24.58	147.08
Closing reference price[1]	–	–
Dividend equivalent		
2019	–	4.86
2020	1.00	4.86

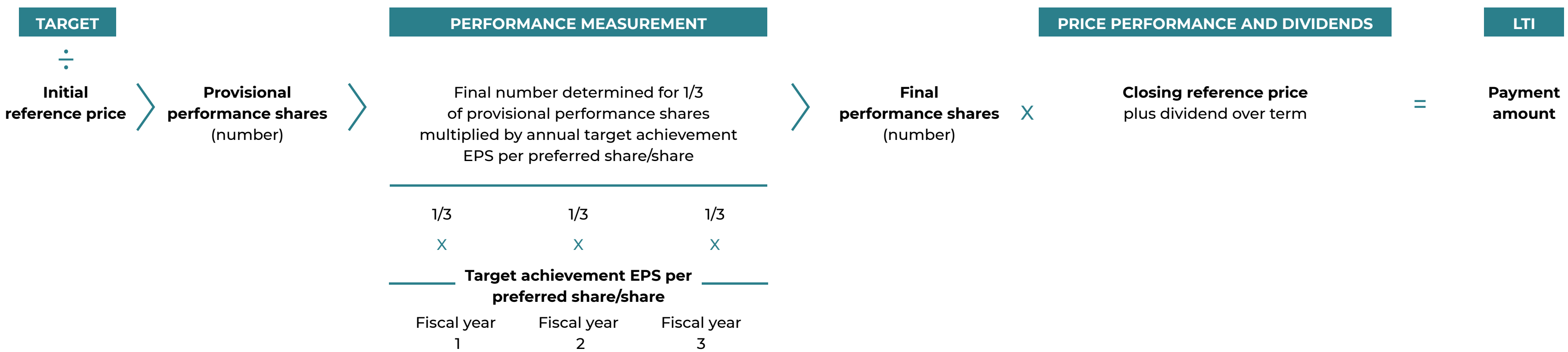
1 Determined at the end of the performance period
2 TRATON shares
3 Volkswagen preferred shares

The payment amount under the performance share plan is limited to 200% of the target amount. For the 2019–2021 performance period, an advance of 20% of the payment amount is made if the average capex/sales revenue ratio or average development costs/sales revenue ratio in the Volkswagen Group's Automotive Division is less than 5% during the performance period.

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

In the introductory phase of the performance share plan, those members of the Executive Board who were members of the Executive Board as of January 17, 2019, receive advances of 80% of their target amount for the first two tranches (tranche 2019–2021 and tranche 2020–2022) of the performance share plan. The two advances will each be paid after the first year of the performance period. A settlement is made based on actual achievement of targets at the end of the relevant three-year performance period. The advance will not be paid if circumstances triggering malus exist in the first year of the performance period. The advances for the tranche 2019–2021 resulted in an advance of €106 thousand on the balance sheet paid to the Executive Board members in office being recognized as of December 31, 2020.

CALCULATION OF THE PAYMENT AMOUNT FROM THE PERFORMANCE SHARE PLAN



The following table shows information about the performance shares awarded to the Executive Board members in the TRATON GROUP. In the case of Executive Board members who are also members of the executive board of a foreign subsidiary, the information therefore refers to performance shares awarded by TRATON SE and the relevant foreign subsidiary.

INFORMATION ON PERFORMANCE SHARES (TRATON GROUP)

	Performance period 2020–2022[1]		Performance period 2019–2021[2]	
€ thousand	**Number of performance shares allocated at the grant date**	**Fair value at the grant date**	**Number of performance shares allocated at the grant date**	**Fair value at the grant date**
Matthias Gründler (since 07/16/2020)	33,814	617	–	–
Andreas Renschler (until 07/15/2020)[3]	4,396[4]	730[4]	–	–
Antonio Roberto Cortes	12,612	295	2,015	259
Joachim Drees (until 07/15/2020)	20,494[4]	479[4]	4,226	544
Henrik Henriksson	40,521	947	6,475	833
Carsten Intra (until 07/15/2020)	20,494[4]	479[4]	4,226	544
Christian Levin	37,836	884	4,226	544
Christian Schulz	37,836	884	4,226	544
Andreas Tostmann (since 07/16/2020)	17,471	319	–	–
Total	**225,474**	**5,632**	**25,394**	**3,267**

1 Based on TRATON shares
2 Based on Volkswagen preferred shares
3 Based on Volkswagen preferred shares for PSP 2020–2022
4 Adjusted ratably after the grant date

€ thousand	Provision as of 12/31/2020	Intrinsic value as of 12/31/2020	Total comprehensive income for 2020 arising from performance shares	Provision as of 12/31/2019	Intrinsic value as of 12/31/2019	Total comprehensive income for 2019 arising from performance shares
Matthias Gründler (since 07/16/2020)	51	–	51	–	–	–
Andreas Renschler (until 07/15/2020)	692	692	692	–	–	–
Antonio Roberto Cortes	34	–	103	155	–	155
Joachim Drees (until 07/15/2020)	373	–	545	325	–	325
Henrik Henriksson	108	–	332	498	–	498
Carsten Intra (until 07/15/2020)	373	–	545	325	–	325
Christian Levin	101	–	247	325	–	325
Christian Schulz	101	–	247	325	–	325
Andreas Tostmann (since 07/16/2020)	26	–	26	–	–	–
Total	**1,859**	**692**	**2,771**	**1,953**	**–**	**1,953**

The following table shows only the performance shares granted by TRATON SE. The figures differ for Mr. Cortes, Mr. Henriksson, and Mr. Levin because they exercise additional executive board activities at foreign subsidiaries of TRATON SE; Mr. Drees, Professor Intra, and Dr. Ing. h.c. Tostmann also exercise executive board activities at subsidiaries of TRATON SE, but receive 100% of their remuneration from TRATON SE, which is subsequently reimbursed proportionately by MAN Truck & Bus SE:

INFORMATION ON PERFORMANCE SHARES (TRATON SE)

	Performance period 2020–2022[1]		Performance period 2019–2021[2]	
€ thousand	**Number of performance shares allocated at the grant date**	**Fair value at the grant date**	**Number of performance shares allocated at the grant date**	**Fair value at the grant date**
Matthias Gründler (since 07/16/2020)	33,814	617	–	–
Andreas Renschler (until 07/15/2020)[3]	4,396[4]	730[4]	–	–
Antonio Roberto Cortes	2,522	59	403	52
Joachim Drees (until 07/15/2020)[5]	20,494[4]	479[4]	4,226	544
Henrik Henriksson	8,104	189	1,295	167
Carsten Intra (until 07/15/2020)[6]	20,494[4]	479[4]	4,226	544
Christian Levin	7,567	177	845	109
Christian Schulz	37,836	884	4,226	544
Andreas Tostmann (since 07/16/2020)[7]	17,471	319	–	–
Total	**152,698**	**3,932**	**15,221**	**1,958**

1 Based on TRATON shares

2 Based on Volkswagen preferred shares

3 Based on Volkswagen preferred shares for PSP 2020–2022

4 Adjusted ratably after the grant date

5 Proportionate reimbursement (80%) by MAN Truck & Bus SE: PSP 2020–2022: number of shares 16,395; fair value €383 thousand, PSP 2019–2021: number of shares 3,381; fair value €435 thousand

6 Proportionate reimbursement (20%) by MAN Truck & Bus SE: PSP 2020–2022: number of shares 4,099; fair value €96 thousand, PSP 2019–2021: number of shares 845; fair value €109 thousand

7 Proportionate reimbursement (80%) by MAN Truck & Bus SE: PSP 2020–2022: number of shares 13,976; fair value €255 thousand

€ thousand	Provision as of 12/31/2020	Intrinsic value as of 12/31/2020	Total comprehensive income for 2020 arising from performance shares	Provision as of 12/31/2019	Intrinsic value as of 12/31/2019	Total comprehensive income for 2019 arising from performance shares
Matthias Gründler (since 07/16/2020)	51	–	51	–	–	–
Andreas Renschler (until 07/15/2020)	692	692	692	–	–	–
Antonio Roberto Cortes	7	–	21	31	–	31
Joachim Drees (until 07/15/2020)[1]	373	–	545	325	–	325
Henrik Henriksson	22	–	66	100	–	100
Carsten Intra (until 07/15/2020)[2]	373	–	545	325	–	325
Christian Levin	20	–	49	65	–	65
Christian Schulz	101	–	247	325	–	325
Andreas Tostmann (since 07/16/2020)[3]	26	–	26	–	–	–
Total	**1,665**	**692**	**2,243**	**1,170**	**–**	**1,170**

1 Proportionate reimbursement (80%) by MAN Truck & Bus SE: provision as of December 31, 2020: €299 thousand; total comprehensive income for 2020 arising from performance shares: €436 thousand (provision as of December 31, 2019: €260 thousand; total comprehensive income for 2019 arising from performance shares: €260 thousand)

2 Proportionate reimbursement (20%) by MAN Truck & Bus SE: provision as of December 31, 2020: €75 thousand; total comprehensive income for 2020 arising from performance shares: €109 thousand (provision as of December 31, 2019: €65 thousand; total comprehensive income for 2019 arising from performance shares: €65 thousand)

3 Proportionate reimbursement (80%) by MAN Truck & Bus SE: provision as of December 31, 2020: €21 thousand; total comprehensive income for 2020 arising from performance shares: €21 thousand (provision as of December 31, 2019: –; total comprehensive income for 2019 arising from performance shares: –)

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

The provision recognized as of December 31, 2020, reflects the obligation to the members of the Executive Board. To determine its amount, the performance shares expected for future performance periods were taken into account in addition to the provisional performance shares determined or allocated for the performance periods 2019 to 2021 and 2020 to 2022. The amount therefore depends in particular on the individual contract term. The intrinsic value was calculated in accordance with IFRS 2 and corresponds to the amount that the members of the Executive Board would have received if they had stepped down on December 31, 2020. Only the nonforfeitable (vested) performance shares at the reporting date are included in the calculation. The intrinsic value was calculated based on the unweighted average share price for the 30 trading days (Xetra closing price of Volkswagen's preferred shares or TRATON shares) preceding December 31, 2020, taking the dividends paid per Volkswagen preferred share or TRATON share during the performance period into account. The net value of all amounts recognized in income for the performance shares in fiscal year 2020 is recorded in total comprehensive income for 2020 arising from performance shares in accordance with IFRSs.

Total remuneration cap

In addition to the cap on the individual variable remuneration components for the members of the Executive Board, the annual benefits received according to the Code, consisting of the fixed remuneration, variable remuneration components (bonus and performance share plan), occupational pension contributions, and fringe benefits for a fiscal year may not exceed an amount, extrapolated to 100%, of €5,500 thousand (Mr. Gründler and Mr. Renschler), €1,750 thousand (Mr. Cortes), €3,700 thousand (Mr. Drees, Professor Intra, Mr. Levin, Mr. Schulz, and Dr. Ing. h.c.

Tostmann), or €4,000 thousand (Mr. Henriksson). If the total remuneration cap is exceeded, the variable components will be reduced proportionately.

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

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

The following table shows information about the remuneration calculated in accordance with German GAAP awarded to the Executive Board members in the TRATON GROUP. In the case of Executive Board members who are also members of the executive board of a foreign subsidiary, the information therefore refers to the remuneration components awarded by TRATON SE and the relevant foreign subsidiary.

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

				2020	2019
€ thousand	Non-performance-related components[1]	Performance-related components	Long-term incentive components	Total remuneration	Total remuneration
Matthias Gründler (since 07/16/2020)	665	194	617	1,476	–
Andreas Renschler (until 07/15/2020)[2]	642	373	730	1,475	–
Antonio Roberto Cortes	653	108	295	1,056	1,288[3]
Joachim Drees (until 07/15/2020)	429	118	479	1,026	1,989
Henrik Henriksson	796	233	947	1,975	2,464
Carsten Intra (until 07/15/2020)	398	118	479	995	1,805
Christian Levin	732	218	884	1,834	1,792
Christian Schulz	776	218	884	1,878	1,945
Andreas Tostmann (since 07/16/2020)	766[4]	101	319	1,185	–
Total	**5,858**	**1,680**	**5,632**	**13,170**	**11,283**

1 Amount before waiver of fixed remuneration: Mr. Drees €18 thousand, Mr. Henriksson €15 thousand, Professor Intra €18 thousand, Mr. Levin €14 thousand, Mr. Schulz €53 thousand, or donation to a charitable organization: Mr. Cortes €14 thousand

2 2020 remuneration by Volkswagen AG for activities at TRATON SE; this remuneration is offset against the remuneration attributable to Mr. Renschler from TRATON SE.

3 Adjustment after preparation of 2019 Annual Report

4 Reimbursed to TRATON SE by Volkswagen AG: grandfathered €418 thousand

The following table shows only the remuneration calculated in accordance with German GAAP granted by TRATON SE. The figures differ for Mr. Cortes, Mr. Henriksson, and Mr. Levin because they exercise additional executive board activities at foreign subsidiaries of TRATON SE; Mr. Drees, Professor Intra, and Dr. Ing. h.c. Tostmann also exercise executive board activities at subsidiaries of TRATON SE, but receive 100% of their remuneration from TRATON SE, which is subsequently reimbursed proportionately by MAN Truck & Bus SE:

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

	2020				2019
€ thousand	**Non-performance-related components[4]**	**Performance-related components**	**Long-term incentive components**	**Total remuneration**	**Total remuneration**
Matthias Gründler (since 07/16/2020)	665	194	617	1,476	–
Andreas Renschler (until 07/15/2020)[7]	642	373	730	1,745	–
Antonio Roberto Cortes	133	31	59	223	264[5]
Joachim Drees (until 07/15/2020)[1]	429	118	479	1,026	1,903
Henrik Henriksson	150	47	189	386	467
Carsten Intra (until 07/15/2020)[2]	398	118	479	995	1,805
Christian Levin	140	44	177	360	353
Christian Schulz	776	218	884	1,878	1,945
Andreas Tostmann (since 07/16/2020)[3]	766[6]	101	319	1,185	–
Total	**4,100**	**1,242**	**3,932**	**9,274**	**6,737**

1 Proportionate reimbursement (80%) by MAN Truck & Bus SE: non-performance-related components €303 thousand (previous year: €518 thousand), performance-related component €94 thousand (previous year: €461 thousand), long-term incentive component €383 thousand (previous year: €435 thousand), total remuneration €780 thousand (previous year: €1,413 thousand)

2 Proportionate reimbursement (20%) by MAN Truck & Bus SE: non-performance-related components €76 thousand (previous year: €129 thousand), performance-related component €24 thousand (previous year: €115 thousand), long-term incentive component €96 thousand (previous year: €109 thousand), total remuneration €195 thousand (previous year: €353 thousand)

3 Proportionate reimbursement (80%) by MAN Truck & Bus SE: non-performance-related components €257 thousand (previous year: –), performance-related component €80 thousand (previous year: –), long-term incentive component €255 thousand (previous year: –), total remuneration €593 thousand (previous year: –)

4 Amount before waiver of fixed remuneration: Mr. Drees €18 thousand, Professor Intra €18 thousand, Mr. Schulz €53 thousand

5 Adjustment after preparation of 2019 Annual Report

6 Reimbursed to TRATON SE by Volkswagen AG: grandfathered €418 thousand

7 2020 remuneration by Volkswagen AG for activities at TRATON SE; this remuneration is offset against the remuneration attributable to Mr. Renschler from TRATON SE.

Mr. Renschler received total remuneration of €4,068 thousand from Volkswagen AG for his work at TRATON SE in fiscal year 2019. It is comprised of non-performance-related components in the amount of €1,288 thousand, a performance-related component in the amount of €1,521 thousand, and a long-term incentive component amounting to €1,260 thousand.

Starting in fiscal year 2020, TRATON SE reimburses the expenses shown, which correspond to 80% of the total remuneration from Volkswagen AG, to Volkswagen AG.

TRATON SE entered into an agreement to annul the employment contract with Mr. Renschler and Volkswagen AG effective end of day July 15, 2020. This agreement to annul the employment contract sets out that there are no further claims for remuneration against TRATON SE for the past and the future. Mr. Renschler will receive a severance package from Volkswagen AG payable in 24 monthly installments and fringe benefits until July 15, 2022. TRATON SE will reimburse 80% of these amounts to Volkswagen AG. Total severance payments of €8,058 thousand and total fringe benefits of €245 thousand are therefore attributable to Mr. Renschler for his activities at TRATON SE in fiscal year 2020. In connection with this severance, an amount of €2,015 thousand was already reimbursed to Volkswagen AG in 2020 for severance payments and an amount of €29 thousand for fringe benefits for Mr. Renschler's activities at TRATON SE.

In accordance with the agreement to annul the employment contract with Mr. Drees, his employment contract will continue in force from the termination of his appointment as a member of the Executive Board until January 17, 2024. Total provisions of €8,826 thousand (including €995 thousand for post-employment benefits) and €230 thousand for fringe benefits were recognized. Fixed remuneration accounts for €2,454 thousand and variable remuneration accounts for €5,377 thousand. The amount of variable remuneration depends on the future average operating return on sales, the average return on investment, earnings per share, and the market price of TRATON shares. In fiscal year 2020, Mr. Drees therefore received total additional remuneration of €422 thousand and fringe benefits of €49 thousand. MAN Truck & Bus SE will reimburse 80% of the remuneration to TRATON SE until March 31, 2023, and hence an amount of €337 thousand for fiscal year 2020.

Executive Board remuneration in accordance with the Code

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

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

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

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

	Matthias Gründler					
	Chief Executive Officer of TRATON SE Joined 07/16/2020					
	Benefits received		Benefits granted			
€ thousand	2020	2019	2019	2020	2020 (minimum)	2020 (maximum)
Fixed remuneration	621	–	–	621	621	621
Fringe benefits	44	–	–	44	44	44
Total	**665**	**–**	**–**	**665**	**665**	**665**
One-year variable remuneration	–	–	–	–	–	–
Multi-year variable remuneration						
Bonus (2 years)	194	–	–	623	–	1,122
LTI (performance share plan 2020–2022)	–	–	–	617	–	1,662
Total[1]	**194**	**–**	**–**	**1,240**	**–**	**2,784**
Pension expense	247	–	–	247	247	247
Total remuneration	**1,106**	**–**	**–**	**2,152**	**912**	**3,696**

1 Information based on key figures currently available

	Andreas Renschler					
	Chief Executive Officer of TRATON SE and member of the Board of Management of Volkswagen AG[1, 2] Left 07/15/2020					
	Benefits received		Benefits granted			
€ thousand	2020	2019	2019	2020	2020 (minimum)	2020 (maximum)
Fixed remuneration	585	1,080	1,080	585	585	585
Fringe benefits	57	210	210	57	57	57
Total	**642**	**1,290**	**1,290**	**642**	**642**	**642**
One-year variable remuneration	373	1,521	1,080	585	–	1,053
Multi-year variable remuneration						
LTI (performance share plan 2017–2019)	1,428	–	–	–	–	–
LTI (performance share plan 2018–2020)	–	–	–	–	–	–
LTI (performance share plan 2019–2021)	–	–	1,260	–	–	–
LTI (performance share plan 2020–2022)	–	–	–	730	–	1,560
Total	**1,801**	**1,521**	**2,340**	**1,315**	**–**	**2,613**
Pension expense	–	4,020	4,020	–	–	–
Total remuneration	**2,443**	**6,831**	**7,650**	**1,957**	**642**	**3,255**

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

2 Information based on key figures currently available

	Roberto Cortes					
	Member of the Executive Board of TRATON SE; CEO of MAN Latin America Indústria e Comércio de Veículos Ltda.[1]					
	Benefits received		Benefits granted			
€ thousand[7]	2020	2019	2019	2020	2020 (minimum)	2020 (maximum)
Fixed remuneration[2]	620	617	617	620	620	620
Fringe benefits	44	50[8]	50[8]	44	44	44
Total	**664**	**667**	**667**	**664**	**664**	**664**
One-year variable remuneration (PPB)[3]	–	4	12	–	–	–
Multi-year variable remuneration						
CPB (2 years)[3]	–	13	12	–	–	–
LTI (4 years)[3]	–	20	12	–	–	–
Bonus (2 years)[4]	97	324	296	310	–	558
LTI (performance share plan 2019–2021)[4, 5]	–	237	259	–	–	–
LTI (performance share plan 2020–2022)[4, 5]	248	–	–	295	–	620
Total[6]	**345**	**598**	**592**	**605**	**–**	**1,178**
Pension expense	185	358	358	185	185	185
Total remuneration	**1,194**	**1,624**	**1,617**	**1,455**	**850**	**2,028**

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

2 2020 figure before donation of €14 thousand to a charitable organization

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

4 TRATON SE remuneration structure

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

6 Information based on key figures currently available

7 Contractually agreed exchange rate: BRL 4.53 = €1

8 Adjustment after preparation of 2019 Annual Report

	Joachim Drees					
	Member of the Executive Board of TRATON SE; CEO of MAN SE; CEO of MAN Truck & Bus SE[1] Left 07/15/2020					
	Benefits received		Benefits granted			
€ thousand	2020	2019	2019	2020	2020 (minimum)	2020 (maximum)
Fixed remuneration[2, 3]	378	734	734	378	378	378
Fringe benefits	51	79	79	51	51	51
Total	**429**	**813**	**813**	**429**	**429**	**429**
One-year variable remuneration (PPB)[3]	–	21	14	–	–	–
Multi-year variable remuneration						
CPB (2 years)[4]	–	14	14	–	–	–
LTI (4 years)[4]	–	23	14	–	–	–
Bonus (2 years)[5]	118	576	526	379	–	683
LTI (performance share plan 2019–2021)[5, 6]	–	497	544	–	–	–
LTI (performance share plan 2020–2022)[5, 6]	403	–	–	479	–	1,008
Total[7]	**521**	**1,130**	**1,111**	**858**	**–**	**1,690**
Pension expense	145	532	532	145	145	145
Total remuneration	**1,095**	**2,475**	**2,455**	**1,432**	**574**	**2,264**

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

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

3 2020 figure does not include waiver of fixed remuneration in the amount of €18 thousand.

4 MAN Truck & Bus AG remuneration structure

5 TRATON SE remuneration structure

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

7 Information based on key figures currently available

€ thousand[7]	Henrik Henriksson Member of the Executive Board of TRATON SE; CEO of Scania CV AB[1] Benefits received		Benefits granted			
	2020	2019	2019	2020	2020 (minimum)	2020 (maximum)
Fixed remuneration[2]	750	750	750	750	750	750
Fringe benefits	46	30	30	46	46	46
Total	**796**	**779**	**779**	**796**	**796**	**796**
One-year variable remuneration[3]	–	–	–	–	–	–
Multi-year variable remuneration						
CPB (2 years)[3]	–	46	25	–	–	–
LTI (4 years)[3]	–	21	12	–	–	–
Bonus (2 years)[4]	233	785	717	750	–	1,350
LTI (performance share plan 2019–2021)[4,5]	–	762	833	–	–	–
LTI (performance share plan 2020–2022)[4,5]	797	–	–	947	–	1,992
Total[6]	**1,030**	**1,614**	**1,587**	**1,697**	**–**	**3,342**
Pension expense	394	315	315	394	394	394
Total remuneration	**2,220**	**2,708**	**2,682**	**2,886**	**1,189**	**4,531**

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

2 2020 figure does not include waiver of fixed remuneration in the amount of €15 thousand.

3 Scania CV AB remuneration structure

4 TRATON SE remuneration structure

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

6 Information based on key figures currently available

7 Exchange rate: SEK 10.30 = €1

€ thousand	Professor Carsten Intra Member of the Executive Board & *Arbeitsdirektor* (Executive Board member responsible for employee relations) of TRATON SE; Chief Human Resources Officer & *Arbeitsdirektor* of MAN SE; Chief Human Resources Officer & *Arbeitsdirektor* of MAN Truck & Bus SE Left 07/15/2020 Benefits received		Benefits granted			
	2020	2019	2019	2020	2020 (minimum)	2020 (maximum)
Fixed remuneration[1]	378	647	647	378	378	378
Fringe benefits	20	38	38	20	20	20
Total	**398**	**686**	**686**	**398**	**398**	**398**
One-year variable remuneration	–	–	–	–	–	–
Multi-year variable remuneration						
Bonus (2 years)[2]	118	576	526	379	–	683
LTI (performance share plan 2019–2021)[2,3]	–	497	544	–	–	–
LTI (performance share plan 2020–2022)[2,3]	403	–	–	479	–	1,008
Total[4]	**521**	**1,073**	**1,070**	**858**	**–**	**1,690**
Pension expense	156	248	248	156	156	156
Total remuneration	**1,075**	**2,006**	**2,003**	**1,412**	**554**	**2,244**

1 2020 figure does not include waiver of fixed remuneration in the amount of €18 thousand.

2 TRATON SE remuneration structure

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

4 Information based on key figures currently available

	Christian Levin					
	Member of the Executive Board of TRATON SE; Member of the Executive Board of TRATON AB[1] Joined 01/17/2019					
	Benefits received		Benefits granted			
€ thousand[6]	2020	2019	2019	2020	2020 (minimum)	2020 (maximum)
Fixed remuneration[2]	700	647	647	700	700	700
Fringe benefits	32	26	26	32	32	32
Total	**732**	**673**	**673**	**732**	**732**	**732**
One-year variable remuneration	–	–	–	–	–	–
Multi-year variable remuneration						
Bonus (2 years)[3]	218	576	526	700	–	1,260
LTI (performance share plan 2019–2021)[3,4]	–	497	544	–	–	–
LTI (performance share plan 2020–2022)[3,4]	744	–	–	884	–	1,860
Total[5]	**962**	**1,073**	**1,070**	**1,584**	**–**	**3,120**
Pension expense	375	345	345	375	375	375
Total remuneration	**2,069**	**2,091**	**2,088**	**2,691**	**1,107**	**4,227**

1 Employment contract with TRATON AB and TRATON SE
2 2020 figure does not include waiver of fixed remuneration in the amount of €14 thousand.
3 TRATON SE remuneration structure
4 Benefits received: advance during the introductory phase of the performance share plan
5 Information based on key figures currently available
6 Contractually agreed exchange rate: SEK 10.30 = €1

	Christian Schulz					
	Member of the Executive Board of TRATON SE, CFO[1] Joined 06/26/2018					
	Benefits received		Benefits granted			
€ thousand	2020	2019	2019	2020	2020 (minimum)	2020 (maximum)
Fixed remuneration[2,3]	700	727	727	700	700	700
Fringe benefits	76	59	59	76	76	76
Total	**776**	**786**	**786**	**776**	**776**	**776**
One-year variable remuneration (PPB)[4]	–	16	8	–	–	–
Multi-year variable remuneration						
CPB (2 years)[4]	–	11	8	–	–	–
LTI (4 years)[4]	–	13	8	–	–	–
Bonus (2 years)[5]	218	576	526	700	–	1,260
LTI (performance share plan 2019–2021)[5,6]	–	497	544	–	–	–
LTI (performance share plan 2020–2022)[5,6]	744	–	–	884	–	1,860
Total[7]	**962**	**1,113**	**1,093**	**1,584**	**–**	**3,120**
Pension expense	290	382	382	290	290	290
Total remuneration	**2,028**	**2,281**	**2,261**	**2,650**	**1,067**	**4,187**

1 Employment contract with TRATON AG until January 16, 2019; as of January 17, 2019, with TRATON SE
2 2019 figure includes compensation of €59 thousand for benefits forfeited as a result of the change of employment.
3 2020 figure does not include waiver of fixed remuneration in the amount of €53 thousand.
4 TRATON AG remuneration structure
5 TRATON SE remuneration structure
6 Benefits received: advance during the introductory phase of the performance share plan
7 Information based on key figures currently available

	Dr. Ing. h.c. Andreas Tostmann Member of the Executive Board of TRATON SE; CEO of MAN SE; CEO of MAN Truck & Bus SE Joined 07/16/2020					
	Benefits received		Benefits granted			
€ thousand	2020	2019	2019	2020	2020 (minimum)	2020 (maximum)
Fixed remuneration	322	–	–	322	322	322
Fringe benefits	26	–	–	26	26	26
Total	**348**	**–**	**–**	**348**	**348**	**348**
One-year variable remuneration	–	–	–	–	–	–
Multi-year variable remuneration						
Bonus (2 years)	101	–	–	323	–	582
LTI (performance share plan 2020–2022)	–	–	–	319	–	859
Special commitment[1]	418			195	519	–
Total	**519**	**–**	**–**	**837**	**519**	**1,441**
Pension expense	128	–	–	128	128	128
Total remuneration	**995**	**–**	**–**	**1,313**	**995**	**1,917**

1 Reimbursed to TRATON SE by Volkswagen AG: grandfathered

Regular termination benefits

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

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

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

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

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

Pension obligations in accordance with IAS 19 for active members of the Executive Board amounted to €1,762 thousand (previous year: €4,555 thousand) as of December 31, 2020. €1,072 thousand (previous year: €1,238 thousand) was added to the provision in accordance with IAS 19 in the year under review. Other benefits such as surviving dependents' pensions and the use of company cars are also factored into the measurement of pension obligations. An additional amount of €848 thousand (previous year: €942 thousand) was spent on defined contribution plans that are not included in total benefits. Pension obligations measured under German GAAP for the members of the Executive Board whose pension entitlements are recognized by TRATON SE amounted to €1,017 thousand (previous year: €3,910 thousand) as of December 31, 2020. Under German GAAP, TRATON SE added €985 thousand (previous year: €1,536 thousand) to the provision in the year under review. An additional amount of €85 thousand (previous year: €28 thousand) was spent on defined contribution plans that are not included in total benefits.

Total provisions of €5,023 thousand (previous year: –) were recognized for pension obligations to former members of the Executive Board and their surviving dependents as of December 31, 2020.

Early termination benefits

If the appointment to the Executive Board is terminated for cause through no fault of the Executive Board member, the severance claims are limited to a maximum of two years' remuneration, in accordance with recommendation G. 13 sentence 1 of the Code (severance payment cap).

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

The agreements with Mr. Drees and Mr. Renschler relating to the early termination of their appointment were described in greater detail above. As there is no legal clarity as to whether G. 13 sentence 1 of the Code only applies to severance payments or also applies to payments attributable to a continued employment contract, the Executive Board and Supervisory Board declared, as a precautionary measure, a departure from G. 13 sentence 1 of the Code with regard to the agreement to annul the employment contract entered into with Mr. Drees.

PENSIONS OF THE MEMBERS OF THE EXECUTIVE BOARD IN 2020 (PRIOR-YEAR FIGURES IN BRACKETS)

€ thousand	Pension expense	Present value as of 12/31[1]
Matthias Gründler (since 07/16/2020)[2]	247	247
	(–)	(–)
Andreas Tostmann (since 07/16/2020)[3]	128	134
	(–)	(–)
Andreas Renschler (until 07/15/2020)	–	–
	(–)	(–)
Antonio Roberto Cortes	185	–
	(358)	(–)
Joachim Drees (until 07/15/2020)[4]	145	–
	(532)	(1,493)
Henrik Henriksson[5]	394	373
	(315)	(318)
Carsten Intra (until 07/15/2020)[6]	156	–
	(248)	(2,074)
Christian Levin[7]	375	316
	(345)	(287)
Christian Schulz[8]	290	692
	(382)	(382)
Total	**1,920**	**1,762**
	(2,180)	**(4,555)**

1 The amount is included in the total for pension obligations and other post-employment benefits reported in the balance sheet (see Note "32. Provisions for pensions and other post-employment benefits" to the Consolidated Financial Statements).

2 Post-employment benefits attributable to TRATON SE under German GAAP: €247 thousand (previous year: –); pension provisions attributable to TRATON SE under German GAAP: €247 thousand (previous year: –)

3 Post-employment benefits attributable to TRATON SE under German GAAP: €128 thousand (previous year: –); pension provisions attributable to TRATON SE under German GAAP: €128 thousand (previous year: –)

4 Post-employment benefits attributable to TRATON SE under German GAAP: €143 thousand (previous year: €686 thousand); pension provisions attributable to TRATON SE under German GAAP in the previous year: €1,493 thousand

5 The post-employment benefits also include employer social security contributions attributable to pension insurance (defined contribution plans). Post-employment benefits for these types of social security contributions attributable to TRATON SE under German GAAP: €48 thousand (previous year: €15 thousand)

6 Post-employment benefits attributable to TRATON SE under German GAAP: €181 thousand (previous year: €503 thousand); pension provisions attributable to TRATON SE under German GAAP in the previous year: €2,070 thousand

7 The post-employment benefits also include employer social security contributions attributable to pension insurance (defined contribution plans). Post-employment benefits for these types of social security contributions attributable to TRATON SE under German GAAP: €37 thousand (previous year: €13 thousand)

8 Post-employment benefits attributable to TRATON SE under German GAAP: €286 thousand (previous year: €347 thousand); pension provisions attributable to TRATON SE under German GAAP: €642 thousand (previous year: €347 thousand)

SUPERVISORY BOARD REMUNERATION

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

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

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

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

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

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

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

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

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

For fiscal year 2020, the members of the Supervisory Board received total remuneration of €2,088 thousand (previous year: €2,390 thousand). Of this figure, €1,125 thousand (previous year: €1,125 thousand) related to the work on the Supervisory Board and €400 thousand (previous year: €400 thousand) to the work in the committees.

REMUNERATION OF THE MEMBERS OF THE SUPERVISORY BOARD

€ thousand	Fixed remuneration	Work in the committees	Attendance fees	Group appointments	Total 2020	Total 2019
Pötsch, Hans Dieter	225	80	6	–	311	310
Stimoniaris, Athanasios[4]	150	60	1	100	311	375
Bechstädt, Torsten[4]	75	60	12	–	147	143
Carlquist, Mari[1,3]	–	–	–	–	–	–
Döss, Dr. Manfred[1]	–	–	–	–	–	–
Kerner, Jürgen[4]	75	–	8	114	197	275
Kilian, Gunnar[1]	–	–	–	–	–	–
Kirchmann, Dr. Albert X.	75	–	8	3	86	78
Kuhn-Piëch, Dr. Julia	75	40	9	57	181	244
Lorentzon, Lisa[1,3]	–	–	–	–	–	–
Luthin, Bo[2,3]	–	–	–	–	–	3
Lyngsie, Michael[2,3]	–	–	–	–	–	3
Macpherson, Nina	75	40	12	67	194	189
Osterloh, Bernd[4]	75	40	5	–	120	117
Porsche, Dr. Dr. Christian	75	40	8	5	128	120
Schmid, Dr. Wolf-Michael	75	–	8	–	83	80
Schnur, Karina[4]	75	40	11	80	206	264
Werner, Hiltrud[1]	–	–	–	–	–	–
Witter, Frank[1]	–	–	–	–	–	–
Zieger, Steffen[4]	75	–	7	42	124	184
Total	**1,125**	**400**	**95**	**468**	**2,088**	**2,390**

1 Remuneration for fiscal years 2019 and 2020 was waived in full.

2 Remuneration for fiscal year 2019 was waived except for the attendance fees for the first three meetings. Remuneration for fiscal year 2020 was waived in full.

3 In view of the waivers, the Executive Board of TRATON SE decided to make a contribution of €415 thousand (previous year: €276 thousand) to “Scanias Personalstiftelse 1996” after the 2021 Annual General Meeting.

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

The employee representatives on the Supervisory Board who are employed by TRATON SE or other TRATON GROUP companies also receive their regular salaries as specified in their employment contracts.

2. Corporate Governance Statement[1]

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

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

I. CORPORATE GOVERNANCE AT TRATON

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

1 The Corporate Governance Statement in accordance with section 289f of the HGB and section 315d of the HGB forms part of the Combined Management Report and is not included in the audit.

Declaration of Conformity

The Executive Board and Supervisory Board of TRATON SE issued their annual Declaration of Conformity in December 2020 as follows:

"The Executive Board and Supervisory Board of TRATON SE declare compliance with the recommendations of the "Government Commission on the German Corporate Governance Code" as amended 16 December 2019 ("the Code") published by the Federal Ministry of Justice in the official part of the "Bundesanzeiger" on 20 March 2020 in the period from entry into force of this version of the Code and in future with the exception of the recommendations listed below for the reasons therein listed and in the specified periods:

1. The recommendation in C.5 (Upper limit of term of office as a board member) will not be fulfilled to the extent that in addition to the seat on the Supervisory Board of TRATON SE, the Chair of the Supervisory Board discharges one further mandate as Chair of the Supervisory Board of the listed VOLKSWAGEN AG as well as a seat on the Supervisory Board of each of AUDI AG, which was listed until 16 November 2020, and Bertelsmann SE & Co. KGaA and is also Chair of the Board of Management of Porsche Automobil Holding SE. VOLKSWAGEN AG, AUDI AG and TRATON SE do not form a group with Porsche Automobil Holding SE. Nonetheless, we are of the opinion that the Chair of the Supervisory Board has sufficient time available to discharge his mandate.
2. The recommendation in C.10 sentence 2 (Independence of the Chair of the Audit Committee from the controlling shareholder) is not being complied with insofar as the Chairman of the Audit Committee of the Supervisory Board, Mr Frank Witter, is not "independent from the controlling shareholder" in view of his position as a member of the Board of Management of Volkswagen AG. In addition, the recommendation in D.4 (Independence of the Chair of the Audit Committee) is also not being complied with, because the Chair of the Audit Committee also cannot be seen as independent within the meaning of the definition of the recommendation in C.6 sentence 2 if he is not independent from the controlling shareholder. The Executive Board and Supervisory Board of TRATON SE consider it to be of prime importance that the Chair of the Audit Committee have the necessary understanding of the profession and industry, especially in large, international, listed companies. Due to the personal competencies of Mr Witter it has been decided to deviate from this recommendation.
3. With regard to the recommendation in C.13 (Disclosure of candidates proposed for the Supervisory Board), the guidelines in the Code are vague and the definitions unclear. A deviation from the Code is therefore being declared as a precautionary measure. Notwithstanding this, the Supervisory Board will make every effort to comply with the requirements of the recommendation in C.13.
4. The recommendation in D.1 (Publication of rules of procedure for the Supervisory Board) was not fulfilled to the extent that the rules of procedure for the Supervisory Board will only be published on the company's website since 10 November 2020 following appropriate consultation with the Supervisory Board. This recommendation is since being observed.
5. The recommendation in G.1 (Remuneration system) and G.2 (Target total remuneration) will be fulfilled from 1 January 2021. The Supervisory Board introduced a new remuneration system in December 2018, which took account of all recommendations of the German Corporate Governance Code as amended 7 February 2017. These recommendations were changed significantly under the reformed Code. The remuneration system from 2018 does not correspond to these modified recommendations in some aspects. The Supervisory Board has decided to introduce a new remuneration system, which takes account of the modified recommendations of the Code, with effect as of 1 January 2021. The deviations will be described here and below until the new remuneration system takes effect. The Supervisory Board has decided on a remuneration system within the meaning of recommendation G.1 with effect as of 1 January 2021. The relative portion of the individual remuneration components with respect to the target total remuneration defined in this sense can be derived from this new remuneration system, unlike from the existing remuneration system. The Supervisory Board decided on the specific target total remuneration of the individual members of the Executive Board within the meaning of recommendations G.1 and G.2 on 21 December 2020.
6. The recommendation in G.10 sentence 2 (4-year commitment period) has not yet been fulfilled. According to recommendation G.10 sentence 2, long-term variable remuneration components shall be accessible to a member of the Executive Board only after a period of four years. Because our current performance share plan has a three-year term, at the end of which a cash payment is made, the members of the Executive Board can currently access these long-term variable remuneration components after three years. The new remuneration system provides for a four-year term for the performance share plan for service agreements

of members of the Executive Board concluded or renewed after 31 December 2020.

7. The recommendation in G.13 sentence 1 (Severance cap) will not be fulfilled. According to recommendation G.13 sentence 1, payments made to a member of the Executive Board due to early termination of their board activity shall not exceed twice the annual remuneration (severance cap) and shall not constitute remuneration for more than the remaining term of the contract of service. It is not clear to the Executive Board and the Supervisory Board of TRATON SE whether recommendation G.13, sentence 1 only refers to severance payments or also to payments to a retired member of the Executive Board due to a continuing contract of service. A corresponding recommendation for the actual payments made following the departure of a member of the Executive Board did not yet exist in the German Corporate Governance Code as amended 7 February 2017. Section 4.3.2 (4) simply recommended ensuring when concluding Executive Board service contracts that payments do not exceed twice the annual remuneration in the case of early termination of their board activity and do not constitute remuneration for more than the remaining term of the contract of service. The contracts of service of the currently appointed members of the Executive Board and those who departed in July 2020 comply with this recommendation of the old Code. In July 2020, Mr Joachim Drees, among others, left the Executive Board by mutual consent. The contract of service between Mr Drees and TRATON SE shall, in agreement with Mr Drees, continue following his departure and remain in force – subject to earlier termination by Mr Drees – for more than two more years following the departure of Mr Drees. Mr Drees shall accordingly not receive severance but shall potentially receive his contractual remuneration for a period of more than two years following his departure. Against this backdrop, the Executive Board and Supervisory Board declare a deviation from recommendation G.13, sentence 1 as a precautionary measure.

The Executive Board and Supervisory Board of TRATON SE furthermore declare compliance with the recommendations of the “Government Commission on the German Corporate Governance Code” as amended 7 February 2017 published by the Federal Ministry of Justice in the official part of the “Bundesanzeiger” on 24 April 2017 in the period since the last Declaration of Conformity in December 2019 until entry into force of the reformed German Corporate Governance Code as amended 16 December 2019 on 20 March 2020 with the exception of section 5.3.2 (3) sentence 2 (Independence of the Chair of the Audit Committee) and section 5.4.1 (6) to (8) (Disclosure of candidates proposed for the Supervisory Board). The reasons for this correspond to the above explanations on the deviations from recommendations C.10 sentence 2 and D.4 as well as C.13 of the current German Corporate Governance Code.”

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

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

Swedish Corporate Governance Code

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

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

Annual General Meeting

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

TRATON SE’s Annual General Meeting extensively safeguards these shareholder rights. The notice convening the Annual General Meeting is published in the Federal Gazette (*Bundesanzeiger*) in accordance with the legal deadlines and, along with all reports and proposed resolutions for the Annual General Meeting, is available as of this date on TRATON SE's website.

To make it easier for shareholders to exercise their rights and proxy voting options, they can authorize a TRATON employee as a proxy holder in addition to the options to authorize a credit institution, shareholder associations, or other persons.

As a result of the COVID-19 pandemic, the Annual General Meeting on September 23, 2020, was held as a virtual general meeting without the shareholders or their authorized representatives being physically present in accordance with section 1 (2) of the *Gesetz über Maßnahmen im Gesellschafts-, Genossenschafts-, Vereins-, Stiftungs- und Wohnungseigentumsrecht zur Bekämpfung der Auswirkungen der COVID-19-Pandemie* (German Act on Measures in Company, Cooperative, Association, Foundation, and Residential Property Law to Combat the COVID-19 Pandemic).

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

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

The Company's Executive Board currently has six members. The Executive Board does not have any committees. For information on its composition, refer to Note "51. Members of the Executive Board and their appointments" to the Consolidated Financial Statements.

The Executive Board is itself responsible for discharging management and operational functions. Its responsibility extends in particular to the TRATON GROUP's strategic focus, which it coordinates with the Supervisory Board. It is also responsible for preparation of the annual financial statements and interim statements, and ensures compliance with statutory provisions, official requirements, and internal policies.

The various tasks of the Executive Board are allocated to the individual Executive Board functions in accordance with the list of responsibilities. The full Executive Board addresses all key decisions and measures; the Executive Board's Rules of Procedure define the decisions and measures that require the approval of the full Executive Board.

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

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

In accordance with the requirements of the AktG and recommendation E.3 of the Code, members of the Executive Board may undertake secondary activities only with the Supervisory Board's consent.

No conflicts of interest were reported by members of either the Executive Board or the Supervisory Board in the year under review.

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

The Company's Supervisory Board comprises 20 members, with equal numbers of shareholder and employee representatives.

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

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

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

The shareholder side considers Ms. Macpherson, Dr. Kirchmann, and Dr. Schmid to be independent members of the Supervisory Board in accordance with the Code.

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

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

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

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

The Supervisory Board has established two committees — the Presiding Committee and the Audit Committee — on which shareholders and employees are represented equally, as well as the Nomination Committee, which consists solely of shareholder representatives.

The members of the Presiding Committee are (as of December 31, 2020):

- Hans Dieter Pötsch (Chairman)
- Athanasios Stimoniaris (Deputy Chairman)
- Gunnar Kilian
- Michael Lyngsie
- Bernd Osterloh
- Dr. Dr. Christian Porsche

The members of the Audit Committee are (as of December 31, 2020):

- Frank Witter (Chairman)
- Torsten Bechstädt (Deputy Chairman)
- Dr. Julia Kuhn-Piëch
- Lisa Lorentzon
- Nina Macpherson
- Karina Schnur

The members of the Nomination Committee are (as of December 31, 2020):

- Hans Dieter Pötsch
- Gunnar Kilian
- Dr. Dr. Christian Porsche

Further details about the members of the Executive and Supervisory Boards as well as of the work of the committees can be obtained from the Report of the Supervisory Board and from Notes "52. Members of the Supervisory Board and their appointments" and "53. Supervisory Board committees" to the Consolidated Financial Statements.

In line with recommendation D.13 of the Code, the Supervisory Board assesses, at regular intervals, how effectively it as a whole and its committees fulfill their tasks. As a result of the change in the Company's legal form to a European company (Societas Europaea, SE) in 2019 and the related constitution of a new Supervisory Board, the Supervisory Board will make its first self-assessment in 2021.

Long-term succession planning for the Executive Board

The Supervisory Board's Presiding Committee works with the Chairman of the Executive Board to ensure long-term succession planning for the Executive Board. In addition to the statutory requirements, the requirements of the Code, and the Rules of Procedure of the Supervisory Board, long-term succession planning considers the criteria laid down in the diversity concept resolved by the Supervisory Board for the composition of the Executive Board.

After additionally considering the specific qualification requirements, the Presiding Committee prepares a requirements profile, if needed, on the basis of which the Presiding Committee then selects the most suitable candidates. After interviewing the candidates, it makes a proposal to the Supervisory Board for resolution. If necessary, the Supervisory Board and Presiding Committee are supported by external consultants when developing requirements profiles and selecting candidates.

Remuneration Report

For information on the remuneration system and the individual remuneration of the members of the Executive and Supervisory Boards, refer to the "Remuneration Report" in this Annual Report, which is published on our website at https://ir.traton.com/websites/traton/English/3000/reports-_-presentations.html.

Compliance/risk management

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

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

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

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

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

- Supporting a risk management process that makes the Group's key business risks transparent and ensures a clear line of responsibility for risks and for implementing risk-reducing measures;
- Providing a system for monitoring the effectiveness of internal controls and for taking the appropriate remedial action where necessary;
- Providing and continuously improving a compliance program covering anti-corruption activities, antitrust law, and the prevention of money laundering, based on a comprehensive compliance-related risk assessment;
- Issuing policies for relevant GRC topics, e.g., gifts and invitations, sponsorship and donations, as well as internal investigations;
- Tool-based integrity checks for business partners. This relates primarily, albeit not exclusively, to business partners with sales support functions;
- Providing various training courses to raise awareness and enhance knowledge of GRC-relevant topics;
- A range of different communication activities to promote compliance and integrity in accordance with each of the codes of conduct of the TRATON GROUP and the individual brands;
- Providing compliance-related advice to all employees at central and local levels (Compliance Helpdesk);
- Providing various information channels for whistleblowers, especially in the area of white-collar crime. Reports are investigated in detail. Appropriate consequences are determined by the Committee for Disciplinary Action, depending on the outcome, and implemented by the line manager responsible.

In 2020, TRATON further rolled out Volkswagen's Together4Integrity (T4I) program. The program aims to promote the Group's integrity, culture, and risk management initiatives to that they are on a level with the Company's key priorities. The program's main purpose is to implement numerous measures that follow five principles of the internationally recognized Ethics & Compliance Initiative (ECI).

Additionally, a range of communication measures relating to compliance and integrity were implemented in the year under review. These include advice on integrity and compliance issues in special business situations. Other activities included the dissemination of a GRC Alert to sensitize employees about GRC risks. In addition, direct employees were trained on specific dilemma situations in everyday working life as part of Group-wide training events, some of which used a "Dilemma Game" format. Other communication measures in the year under review related to the amendment of compliance policies, the Group-wide roll-out of Code of Conduct training, and International Anti-Corruption Day.

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

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

The Company's ad-hoc releases can also be accessed on TRATON SE's website at https://ir.traton.com/websites/traton/English/4000/financial-news.html immediately after they have been published in compliance with the law. Notifications of voting rights pursuant to section 33ff. of the *Wertpapierhandelsgesetz* (WpHG — German Securities Trading Act) as well as disclosures of directors' dealings in accordance with Article 19 of the *Marktmissbrauchsverordnung* (Market Abuse Directive) can be found on the same page. Information about the Executive and Supervisory Boards of TRATON SE can be obtained at https://traton.com/en/company.html.

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

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

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

The Executive Board discusses the half-year financial report with the Audit Committee prior to its publication.

The publication deadlines set out in recommendation F.2 of the Code were complied with.

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

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

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

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

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

III. TARGET FOR PERCENTAGE OF WOMEN

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

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

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

For the corresponding disclosures by TRATON SE subsidiaries, which are required by law to set target percentages, refer to the MAN SE Corporate Governance Statement (available in German only).

IV. DISCLOSURES ON THE DIVERSITY CONCEPT FOR THE EXECUTIVE BOARD AND THE SUPERVISORY BOARD

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

The diversity concept for the Supervisory Board comprises the following elements:

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

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

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

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

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

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

3. Separate nonfinancial Group report

Pursuant to section 315b (2) of the HGB, TRATON SE exercises the right to exempt itself from the requirement to publish a nonfinancial Group statement, and refers to the combined separate nonfinancial report of Volkswagen AG for fiscal year 2020, which can be downloaded at https://www.volkswagenag.com/presence/nachhaltigkeit/documents/sustainability-report/2020/Nichtfinanzieller_Bericht_2020_d.pdf in German and at https://www.volkswagenag.com/presence/nachhaltigkeit/documents/sustainability-report/2020/Nonfinancial_Report_2020_e.pdf in English at the latest from April 30, 2021.

4. Dependent Company Report

The Executive Board of TRATON SE prepared a report on relationships with affiliated companies (Dependent Company Report) in accordance with section 312 of the *Aktiengesetz* (AktG — German Stock Corporation Act), which concluded with the following declaration: “We declare that TRATON SE received appropriate consideration for every legal transaction, or that any disadvantages have been compensated, and that it was not disadvantaged as a result of taking any measures listed in this report on relationships with affiliated companies in fiscal year 2020 in accordance with the circumstances known to us at the time the legal transactions were conducted or the measures taken. There were no measures we refrained from taking in the reporting period.”

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

COMPOSITION OF SUBSCRIBED CAPITAL

Details of the composition of the subscribed capital can be found in Note “28. Equity.”

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

SIGNIFICANT SHAREHOLDINGS IN TRATON SE

TRATON SE’s largest single shareholder is Volkswagen Finance Luxemburg S.A., Strassen, Luxembourg, a Volkswagen Group company, which holds 89.7% of the share capital. The free float was 10.3% as of December 31, 2020.

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

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

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

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

POWERS OF THE EXECUTIVE BOARD

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

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

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

authorization up to the date of its exercise on the basis of other authorizations in direct application, or application with the necessary modifications, of section 186 (3) sentence 4 of the AktG, or (ii) shares that were issued or will be issued, with preemptive rights disapplied, to settle bonds or profit participation rights with conversion or exercise rights or obligations will be counted toward this limit, to the extent that the bonds or profit participation rights were issued during the term of this authorization up to the date of its exercise, in application, with the necessary modifications, of section 186 (3) sentence 4 of the AktG.

d) To the extent that the capital increase is implemented to grant shares against noncash contributions, in particular for the purposes of acquiring companies, parts of companies, or investments in companies, or other assets.

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

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

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

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

OPERATING UNITS

OPERATING UNITS OF THE TRATON GROUP

This chapter does not form part of the Combined Management Report or the Consolidated Financial Statements.

Scania Vehicles & Services

	2020	2019	Change
Trucks and buses (units)			
Incoming orders	92,940	88,739	5%
Unit sales	72,085	99,457	–28%
of which trucks	66,899	91,680	–27%
of which buses	5,186	7,777	–33%
Financial key performance indicators (€ million)			
Sales revenue	11,521	13,934	–17%
Operating result	748	1,506	–758
Operating result (adjusted)	802	1,506	–704
Operating return on sales (in %)	6.5	10.8	–4.3 pp
Operating return on sales (adjusted) (in %)	7.0	10.8	–3.9 pp

The uncertainty associated with the COVID-19 pandemic heavily impacted unit sales and operating result, especially in the second quarter of 2020. The market downturn already expected for 2020, particularly in the EU27+3 region, was further reinforced by the COVID-19 pandemic. In the second half of 2020, however, unit sales recovered strongly compared with the first six months of 2020.

Scania Vehicles & Services' incoming orders in 2020 stood at 92,940 (previous year: 88,739) units. At 88,908 (previous year: 81,352) units, incoming orders for trucks were up 9% on the prior year. The increases in the South America, Russia, Asia/Pacific, and Middle East regions were partly offset by the decline in the EU27+3 region.

Incoming orders for buses decreased by 45% to 4,032 (previous year: 7,387) units. The decline is primarily attributable to the EU27+3, South America, and Asia/Pacific regions.

Total unit sales of vehicles fell to 72,085 (previous year: 99,457) units. Unit sales of trucks decreased by 27% year-on-year to 66,899 (previous year: 91,680) units. The decline results in particular from the EU27+3 and South America regions, as well as from Africa and Russia. Unit sales of trucks rose in the Middle East and Asia/Pacific regions, as well as in Mexico. Unit sales of buses dropped by 33% to 5,186 (previous year: 7,777) units. The decrease was attributable to all regions apart from the Middle East region.

Scania Vehicles & Services' sales revenue decreased by 17% to €11.5 billion (previous year: €13.9 billion) in the reporting period. This decline was primarily attributable to the Truck and the Bus business. The After Sales business was also impacted by the effects of the COVID-19 pandemic, but the 5% decline was comparatively low. Exchange rate effects also weighed negatively on sales revenue.

Operating result was €748 million (previous year: €1.5 billion), representing a €758 million decrease compared with the previous year. This corresponds to an operating return on sales of 6.5% (previous year: 10.8%). Operating result was negatively impacted in the reporting period by the volume-driven decline in sales revenue, the measures taken in response to the COVID-19 pandemic, in particular the temporary closure of plants in the first half of 2020, and currency effects. In addition, operating result contained costs that were primarily incurred in connection with the reorganization of production facilities in the amount of €54 million. A favorable portfolio and cost savings had a positive effect on operating result. Furthermore, additional costs were incurred in the prior-year period in connection with the parallel production of the old and new vehicle generations.

Scania Vehicles & Services is continuing to work on measures to mitigate the negative impact of the ongoing COVID-19 pandemic and to safeguard future growth and achieve profitability targets.

MAN Truck & Bus

	2020	2019	Change
Trucks and buses (units)			
Incoming orders	84,921	100,652	–16%
Unit sales	81,673	104,887	–22%
of which trucks[1]	76,333	97,524	–22%
of which buses	5,340	7,363	–27%
Financial key performance indicators (€ million)			
Sales revenue	9,659	11,088	–13%
Operating result	–553	371	–925
Operating result (adjusted)	–553	371	–925
Operating return on sales (in %)	–5.7	3.3	–9.1 pp
Operating return on sales (adjusted) (in %)	–5.7	3.3	–9.1 pp

1 Including MAN TGE vans (2020: 17,635 units; 2019: 14,788 units)

The uncertainty associated with the COVID-19 pandemic heavily impacted unit sales and operating result, especially in the second quarter of 2020. The market downturn already expected for 2020, particularly in the EU27+3 region, was further reinforced by the COVID-19 pandemic. Overall, unit sales recorded a very strong recovery in the second half of 2020 compared with the first six months of 2020.

MAN Truck & Bus's incoming orders in 2020 stood at 84,921 (previous year: 100,652) units. Incoming orders for trucks (> 6t) came to 60,862 (previous year: 78,147) units, a 22% year-on-year decline. The decline was attributable to almost all regions. Incoming orders for trucks increased only in the Middle East region. Incoming orders for MAN TGE vans rose by 26% to 19,238 (previous year: 15,234) units. Incoming orders for buses decreased by 34% to 4,821 (previous year: 7,271) units. The decrease was due primarily to the EU27+3, Africa, and Asia/Pacific regions. Incoming orders for buses rose very sharply in the Middle East region and in Russia.

At 81,673 (previous year: 104,887) units, MAN Truck & Bus's total unit sales were down 22% year-on-year. Unit sales of trucks (> 6t) fell by 29% year-on-year to 58,698 (previous year: 82,736) units. The decrease was attributable to almost all regions, with considerable growth in unit sales recorded only in the Middle East region. Unit sales of the MAN TGE van rose by 19% to 17,635 (previous year: 14,788) units. Unit sales of buses dropped by 27% to 5,340 (previous year: 7,363) units. The decrease affected all regions.

MAN Truck & Bus generated sales revenue of €9.7 billion (previous year: €11.1 billion), a year-on-year decrease of 13%. This decline was primarily attributable to the Truck and the Bus business. The After Sales business was also impacted by the effects of the COVID-19 pandemic, but the 5% decline was comparatively low. Sales revenue in the Engine business recorded a very sharp increase.

Operating result was €–553 million (previous year: €371 million), representing a €925 million decrease compared with the positive result in the previous year, despite various measures to reduce costs. This corresponds to an operating return on sales of –5.7% (previous year: 3.3%). In addition to the volume-driven decline in sales revenue, operating result was also negatively impacted by increased depreciation, amortization, and impairment losses, and by a more difficult used vehicle business. Other negative factors were additional costs in connection with the launch of the new truck generation, an impairment loss recognized on products leased out due to lower resale prices, and expenses in connection with the termination of an engine project announced by Navistar. Operating result was also impacted by steps taken in response to the COVID-19 pandemic, in particular the temporary closure of plants in the first half of 2020. Short-time working and similar measures to cut personnel expenses, as well as cost savings in all areas, had a positive effect on operating result.

On January 26, 2021, the Executive Board members of MAN SE and MAN Truck & Bus SE and the employee representatives signed an agreement on the key points of a comprehensive realignment of MAN Truck & Bus SE. Among other things, the key point paper agreed also sets out a repositioning of the development and production network with a strong focus on future technologies. The measures planned entail around 3,500 job cuts by the end of 2022. The Plauen site as well as the Steyr site in Austria, which has around 2,200 employees, are being discussed. MAN Truck & Bus SE's Executive Board is reviewing all options in this respect, including the possibility of selling or relinquishing the sites.

Volkswagen Caminhões e Ônibus (VWCO)

	2020	2019	Change
Trucks and buses (units)			
Incoming orders	38,805	41,103	–6%
Unit sales	36,974	41,891	–12%
of which trucks	31,242	35,282	–11%
of which buses	5,732	6,609	–13%
Financial key performance indicators (€ million)			
Sales revenue	1,235	1,738	–29%
Operating result	–15	55	–70
Operating result (adjusted)	–15	43	–58
Operating return on sales (in %)	–1.2	3.2	–4.4 pp
Operating return on sales (adjusted) (in %)	–1.2	2.5	–3.7 pp

The uncertainty associated with the COVID-19 pandemic heavily impacted unit sales and operating result, especially in the second quarter of 2020. In the second half of 2020, however, unit sales recovered strongly compared with the first six months of 2020.

VWCO recorded incoming orders of 38,805 (previous year: 41,103) units. At 32,963 (previous year: 34,566) units, incoming orders for trucks were down 5% on the prior year. This was due to the weaker demand in Brazil and Mexico. Incoming orders rose very sharply in Argentina because of the very weak market in 2019. Incoming orders for buses decreased by 11% to 5,842 (previous year: 6,537) units. The decrease is attributable in particular to Peru, Chile, Brazil, and Mexico. By contrast, incoming orders in the Africa region recorded very sharp growth.

VWCO's total unit sales declined by 12% to 36,974 (previous year: 41,891) units. Truck unit sales declined by 11% to 31,242 (previous year: 35,282) units. The decrease was due mainly to declining truck unit sales in Brazil and Mexico. Unit sales of trucks rose very sharply in Argentina because of the very weak market in 2019. Bus unit sales declined by 13% to 5,732 (previous year: 6,609) units due to lower unit sales in Brazil, Peru, Chile, and Mexico. By contrast, unit sales in the Africa region recorded very sharp growth.

VWCO generated sales revenue of €1.2 billion (previous year: €1.7 billion), 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 result was €–15 million (previous year: €55 million). This corresponds to an operating return on sales of –1.2% (previous year: 3.2%). Operating result 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 the plants in the first half of 2020. By contrast, an improvement in product positioning had a positive effect. 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.

VWCO is working continuously on short-term measures to mitigate the negative impact of the ongoing 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.

CONSOLIDATED FINANCIAL STATEMENTS

CONSOLIDATED FINANCIAL STATEMENTS AS OF DECEMBER 31, 2020

Income Statement
of the TRATON GROUP

		TRATON GROUP	
€ million	**Note**	**2020**	**2019**
Sales revenue	**[8]**	**22,580**	**26,901**
Cost of sales	[9]	–19,121	–21,618
Gross profit		**3,459**	**5,284**
Distribution expenses		–2,247	–2,480
Administrative expenses	[9]	–876	–973
Net impairment losses on financial assets		–95	–45
Other operating income	[10]	665	624
Other operating expenses	[11]	–825	–526
Operating result		**81**	**1,884**
Share of earnings of equity-method investments		84	208
Interest income	[12]	70	93
Interest expense	[12]	–227	–262
Other financial result	[13]	–43	43
Financial result		**–115**	**81**
Earnings before tax		**–34**	**1,965**
Income taxes	[14]	–89	–401
current		–378	–368
deferred		288	–33
Earnings from continuing operations, net of tax		–124	1,563
Earnings from discontinued operations, net of tax		–	–2
Earnings after tax		**–124**	**1,561**
of which attributable to shareholders of TRATON SE		–101	1,518
of which attributable to noncontrolling interests		–22	43
Earnings per share from continuing operations in € (diluted/basic)	[15]	–0.20	3.04
Earnings per share from continuing and discontinued operations in € (diluted/basic)	[15]	–0.20	3.04

Statement of Comprehensive Income
of the TRATON GROUP

€ million	2020	2019
Earnings after tax	**–124**	**1,561**
Pension plan remeasurements recognized in other comprehensive income		
Pension plan remeasurements recognized in other comprehensive income, before tax	–74	–340
Deferred taxes relating to pension plan remeasurements recognized in other comprehensive income	17	96
Pension plan remeasurements recognized in other comprehensive income, net of tax	–57	–243
Fair value measurement of other equity investments and marketable securities		
Fair value measurement of other equity investments and marketable securities, before tax	18	–5
Deferred taxes relating to the fair value measurement of other equity investments and marketable securities	–3	1
Fair value measurement of other equity investments and marketable securities, net of tax	16	–4
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	105	1
Deferred taxes relating to the share of other comprehensive income of equity-method investments that will not be reclassified subsequently to profit or loss	–42	–4
Share of other comprehensive income of equity-method investments that will not be reclassified subsequently to profit or loss, net of tax	63	–3
Items that will not be reclassified subsequently to profit or loss	**22**	**–250**
Currency translation differences		
Unrealized currency translation gains/losses	–206	–54
Transferred to profit or loss	1	2
Currency translation differences, before tax	–206	–52
Deferred taxes relating to currency translation differences	–6	2
Currency translation differences, net of tax	–212	–50

€ million	2020	2019
Cash flow hedges		
Fair value recognized in other comprehensive income	–133	–20
Transferred to profit or loss	28	20
Cash flow hedges, before tax	–105	0
Deferred taxes relating to cash flow hedges	3	–1
Cash flow hedges, net of tax	–102	0
Cost of hedging		
Cost of hedging recognized in other comprehensive income	–3	0
Cost of hedging transferred to profit or loss	–3	–2
Cost of hedging, before tax	–6	–2
Deferred taxes relating to cost of hedging	2	1
Cost of hedging, net of tax	–5	–1
Share of other comprehensive income of equity-method investments that will be reclassified subsequently to profit or loss		
Other comprehensive income for the period from equity-method investments	–75	22
Share of other comprehensive income of equity-method investments transferred to profit or loss	8	2
Share of other comprehensive income of equity-method investments that will be reclassified subsequently to profit or loss, before tax	–67	24
Deferred taxes relating to the share of other comprehensive income of equity-method investments	0	0
Share of other comprehensive income of equity-method investments that will be reclassified subsequently to profit or loss, net of tax	–67	24
Items that may be reclassified subsequently to profit or loss	**–386**	**–27**
Other comprehensive income, before tax	–335	–373
Deferred taxes relating to other comprehensive income	–29	96
Other comprehensive income, net of tax	**–365**	**–277**
Total comprehensive income	**–488**	**1,284**
of which attributable to shareholders of TRATON SE	–452	1,246
of which attributable to noncontrolling interests	–36	38

Balance Sheet

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

		TRATON GROUP	
€ million	Note	12/31/2020	12/31/2019
Noncurrent assets			
Intangible assets	[16]	6,766	6,755
Property, plant, and equipment	[17]	6,908	6,789
Assets leased out	[18]	6,496	7,119
Equity-method investments	[19]	1,380	1,365
Other equity investments	[20]	72	34
Noncurrent income tax receivables		29	44
Deferred tax assets	[14]	1,231	970
Noncurrent financial services receivables	[21]	4,783	4,871
Other noncurrent financial assets	[22]	435	130
Other noncurrent receivables	[23]	269	384
		28,369	**28,461**
Current assets			
Inventories	[24]	4,325	4,943
Trade receivables	[25]	1,906	2,144
Current income tax receivables		86	124
Current financial services receivables	[21]	2,957	3,120
Other current financial assets	[22]	453	338
Other current receivables	[23]	851	963
Marketable securities and investment deposits	[26]	2,105	3,178
Cash and cash equivalents	[27]	1,714	1,913
		14,398	**16,722**
Total assets		**42,767**	**45,183**

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

€ million	Note	TRATON GROUP 12/31/2020	TRATON GROUP 12/31/2019
Equity	**[28]**		
Subscribed capital		500	500
Capital reserves		19,995	20,241
Retained earnings		–4,479	–4,150
Accumulated other comprehensive income		–3,078	–2,727
Equity attributable to shareholders of TRATON SE		**12,939**	**13,865**
Noncontrolling interests		230	270
		13,169	**14,134**
Noncurrent liabilities			
Noncurrent financial liabilities	[29]	5,914	5,966
Provisions for pensions and other post-employment benefits	[32]	1,828	1,769
Noncurrent income tax payables	[14]	0	125
Deferred tax liabilities	[14]	767	787
Noncurrent income tax provisions		105	17
Other noncurrent provisions	[33]	1,304	1,225
Other noncurrent financial liabilities	[30]	2,321	2,604
Other noncurrent liabilities	[31]	1,903	2,034
		14,143	**14,527**
Current liabilities			
Current financial liabilities	[29]	6,384	6,531
Trade payables		2,769	2,472
Current income tax payables		117	153
Current income tax provisions		22	34
Other current provisions	[33]	977	869
Other current financial liabilities	[30]	1,561	2,837
Other current liabilities	[31]	3,626	3,626
		15,455	**16,522**
Total equity and liabilities		**42,767**	**45,183**

Statement of Changes in Equity

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

				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**
Earnings after tax	–	–	1,518	–	–	–
Other comprehensive income, net of tax	–	–	–	–50	–1	24
Total comprehensive income	–	–	1,518	–50	–1	24
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	–	–	–
Release of distributable capital reserves	–	–600	600	–	–	–
Profit transfer to Volkswagen AG	–	–	–1,404	–	–	–
Other changes	–	–	–9	0	–	0
Balance as of 12/31/2019	**500**	**20,241**	**–4,150**	**–1,806**	**–8**	**–38**
Balance as of 01/01/2020	**500**	**20,241**	**–4,150**	**–1,806**	**–8**	**–38**
Earnings after tax	–	–	–101	–	–	–
Other comprehensive income, net of tax	–	–	–	–200	–107	–67
Total comprehensive income	–	–	–101	–200	–107	–67
Capital increase[2]	–	54	–	–	–	–
Dividend distribution	–	–	–500	–	–	–
Release of distributable capital reserves	–	–300	300	–	–	–
Other changes	–	–	–29	0	–	0
Balance as of 12/31/2020	**500**	**19,995**	**–4,479**	**–2,005**	**–115**	**–104**

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

€ million	Accumulated other comprehensive income – Items that will not be reclassified subsequently to profit or loss: Remeasurements of pension plans	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**
Earnings after tax	–	–	–	1,518	43	1,561
Other comprehensive income, net of tax	–238	–3	–4	–272	–5	–277
Total comprehensive income	–238	–3	–4	1,246	38	1,284
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
Release of distributable capital reserves	–	–	–	–	–	–
Profit transfer to Volkswagen AG	–	–	–	–1,404	–	–1,404
Other changes	2	3	4	0	0	0
Balance as of 12/31/2019	**–998**	**125**	**–2**	**13,865**	**270**	**14,134**
Balance as of 01/01/2020	**–998**	**125**	**–2**	**13,865**	**270**	**14,134**
Earnings after tax	–	–	–	–101	–22	–124
Other comprehensive income, net of tax	–56	63	16	–351	–14	–365
Total comprehensive income	–56	63	16	–452	–36	–488
Capital increase[2]	–	–	–	54	0	54
Dividend distribution	–	–	–	–500	–1	–501
Release of distributable capital reserves	–	–	–	–	–	–
Other changes	0	–1	1	–28	–2	–30
Balance as of 12/31/2020	**–1,054**	**186**	**15**	**12,939**	**230**	**13,169**

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

Statement of Cash Flows[1]

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

€ million	TRATON GROUP 2020	2019
Cash and cash equivalents as of 01/01	**1,913**	**2,997**
Earnings before tax	–34	1,965
Income taxes paid	–434	–463
Depreciation and amortization of, and impairment losses on, intangible assets, property, plant, and equipment, and investment property[2]	936	863
Amortization of, and impairment losses on, capitalized development costs[2]	266	192
Reversals and impairment losses on equity investments	2	–67
Depreciation of and impairment losses on products leased out[2]	1,239	1,147
Change in pension obligations	–21	–52
Earnings on disposal of noncurrent assets and equity investments	–7	–29
Share of earnings of equity-method investments	–56	–120
Other noncash income/expense	82	25
Change in inventories	345	–85
Change in receivables (excl. Financial Services)	175	157
Change in liabilities (excl. financial liabilities)	248	119
Change in provisions	266	7
Change in products leased out	–760	–1,587
Change in financial services receivables	–258	–984
Net cash provided by operating activities	**1,987**	**1,088**
Capital expenditures in intangible assets (excl. capitalized development costs) and in property, plant, and equipment	–995	–997
Additions to capitalized development costs	–316	–467
Capital expenditures to acquire subsidiaries	–10	0
Capital expenditures to acquire other investees	–18	–14
Proceeds from the disposal of subsidiaries	2	1,978
Proceeds from the disposal of other investees	0	101
Proceeds from the disposal of intangible assets, property, plant, and equipment, and investment property	44	33
Change in marketable securities and investment deposits	1,073	–3,083
Change in loans	6	88
Net cash used in investing activities	**–215**	**–2,360**
Profit transfer to/loss absorption by Volkswagen AG	–1,404	4,161
Dividend distributions	–501	–
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	2,993	3,082
Repayment of bonds	–2,295	–1,464
Change in miscellaneous financial liabilities	–511	–1,057
Repayment of lease liabilities	–211	–181
Net cash provided by/used in financing activities	**–1,873**	**183**
Effect of exchange rate changes on cash and cash equivalents	–98	6
Change in cash and cash equivalents	**–198**	**–1,085**
Cash and cash equivalents as of 12/31	**1,714**	**1,913**

1 See Note "36. Statement of cash flows" for more information

2 Net of impairment reversals

NOTES

to the Consolidated Financial Statements of the TRATON GROUP

1. Basis of preparation

GENERAL INFORMATION

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

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

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

The accompanying Consolidated Financial Statements of TRATON SE for the fiscal year ended December 31, 2020, were prepared in accordance with section 315e (1) of the *Handelsgesetzbuch* (HGB — German Commercial Code) and in compliance with the International Financial Reporting Standards (IFRSs), as adopted in the European Union.

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

From the Executive Board's perspective, the accompanying Consolidated Financial Statements reflect all standard intra-period adjustments required for the presentation of a true and fair view of the Group's net assets, financial position, and results of operations. The results presented are not necessarily indicative of future results.

The accompanying Consolidated Financial Statements were audited by Ernst & Young GmbH Wirtschaftsprüfungsgesellschaft, Munich. The Executive Board prepared these Consolidated Financial Statements on February 10, 2021, and resolved to authorize them for submission to the Supervisory Board. The period in which adjusting events after the reporting period are recognized ends on that date.

The fiscal year corresponds to the calendar year.

2. Basis of consolidation

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

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

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

All other investees are financial investments.

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

	2020	2019
TRATON SE and consolidated subsidiaries		
Germany	23	22
Other countries	259	257
Subsidiaries carried at cost		
Germany	7	9
Other countries	23	16
Associates, joint ventures, and other equity investments		
Germany	9	8
Other countries	22	21

The changes to the subsidiaries contained in the basis of consolidation did not materially affect the presentation of the net assets, financial position, or results of operations individually or in the aggregate. From the Group's perspective, the Sinotruk (Hong Kong) Limited, Hong Kong, China, (Sinotruk), and Navistar International Corporation, Lisle, Illinois, USA, (Navistar), associates are significant as of the reporting date.

The list of the TRATON GROUP's shareholdings within the meaning of section 313 (2) of the HGB is presented in Note "54. List of shareholdings."

The assets and liabilities of the entities included in the consolidated financial statements are recognized in accordance with the uniform accounting policies applicable to the TRATON GROUP. In the case of equity-accounted entities, we apply the same accounting policies to determine the TRATON GROUP's share of the investee's equity.

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

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

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

- TB Digital Services GmbH, Munich

CURRENCY TRANSLATION

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

Foreign currency transactions in the single-entity financial statements of TRATON SE and the subsidiaries included in the basis of consolidation are translated at the exchange rates prevailing at the transaction dates. Foreign currency monetary items are recognized at the closing date in the balance sheet. The resulting currency translation differences are recognized in the income statement. Financial statements are translated using the modified closing rate method, under which balance sheet items (with the exception of equity) are translated at the closing rate, while income statement items are translated at weighted average exchange rates for the year. With the exception of income and expenses recognized directly in equity, equity is translated at historical exchange rates. The resulting currency translation differences are recognized as a separate item in equity until the disposal of the subsidiary.

3. New and revised accounting pronouncements

NEW ACCOUNTING PRONOUNCEMENTS APPLIED

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

Effective January 1, 2020, amendments to the definition of a business in IFRS 3 *Business Combinations* came into force. Under the new definition, an acquired set of activities and assets can only be considered a business if it includes at least one input and a substantive process that together significantly contribute to the ability to create outputs. At the same time, the definition of a business was narrowed by focusing on goods and services for customers and on investment income. The sole ability to reduce costs has been removed. The amendments also introduced an optional concentration test that can be used to rule out that a business has been acquired.

Additionally, amendments to IFRS 16 *Leases* came into force on June 1, 2020. When assessing whether a rent concession related to the COVID-19 pandemic concerning lease payments that would originally have fallen due before June 30, 2021, constitutes a lease modification, the amendments allow lessees to depart from the required treatment and account for the rent concession as if it were not a lease modification. The TRATON GROUP has opted not to make use of this temporary relief.

In addition, amendments to IFRS 9 *Financial Instruments*, IAS 39 *Financial Instruments: Recognition and Measurement*, and IFRS 7 *Financial Instruments: Disclosures* (Interest Rate Benchmark Reform — Phase 1) have been effective since January 1, 2020. These affect hedging relationships in force at the beginning of the reporting period or designated thereafter.

Further, amendments to IAS 1 *Presentation of Financial Statements* and IAS 8 *Accounting Policies, Changes in Accounting Estimates and Errors* took effect as of January 1, 2020, clarifying and standardizing the definition of "material."

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

NEW OR AMENDED IFRSS NOT APPLIED

In its 2020 Consolidated Financial Statements, TRATON did not apply the following accounting pronouncements that have already been adopted by the IASB, but were not yet required to be applied for the fiscal year.

Standard/ Interpretation		Published by the IASB	Application mandatory[1]	Adopted by the EU	Expected impact
IFRS 9, IFRS 7, IFRS 4, IFRS 16, and IAS 39	Interest Rate Benchmark Reform — Phase 2	08/27/2020	01/01/2021	Yes	No material impact; detailed descriptions following the table overview
IFRS 4	*Insurance Contracts:* extension of the deferral of applying IFRS 9	06/25/2020	01/01/2021	Yes	No impact
IFRS 3	Amendments updating a reference to the Conceptual Framework	05/14/2020	01/01/2022	No	No material impact
IAS 16	*Property, Plant and Equipment:* Proceeds before Intended Use	05/14/2020	01/01/2022	No	No material impact
IAS 37	*Provisions, Contingent Liabilities and Contingent Assets:* Onerous Contracts — Cost of Fulfilling a Contract	05/14/2020	01/01/2022	No	No material impact
	2018-2020 annual improvements cycle[3]	05/14/2020	01/01/2022	No	No material impact
IFRS 17	*Insurance Contracts*	05/18/2017[2]	01/01/2023[2]	No	No material impact expected
IAS 1	Classification of liabilities and deferral of the effective date	01/23/2020; deferral 07/15/2020	01/01/2023	No	No material impact

1 Effective date from the TRATON GROUP's perspective

2 The IASB issued amendments to IFRS 17 on June 25, 2020, that are expected to become effective together with the original standard on January 1, 2023.

3 Minor amendments to a range of IFRSs (IFRS 1 *First-time Adoption of International Financial Reporting Standards*, IFRS 9, and IAS 41 *Agriculture*)

INTEREST RATE BENCHMARK REFORM — PHASE 2

Interest Rate Benchmark Reform — Phase 2 amends IFRS 9, IAS 39, IFRS 7, IFRS 4, and IFRS 16. The amendments are effective for reporting periods beginning on or after January 1, 2021, although earlier application is permitted. In the wake of the financial market crisis, the regulatory authorities assigned top priority to a reform of interest rate benchmarks (IBOR reform) and the associated reform of interest rate benchmarks such as US dollar LIBOR and British pound sterling LIBOR. Modifications are necessary in order to switch existing contracts and agreements that refer to a relevant interest rate benchmark to alternative interest rate benchmarks but ensure economic equivalence.

TRATON launched a project to implement IBOR reform. The project coordinates the necessary modifications to systems, processes, and risk and measurement models, and oversees their impact on the financial reporting. At the same time, TRATON is continuously following and engaging in discussions with external stakeholders in order to continue its preparations for a smooth transition of interest rate benchmarks.

The IBOR reform does not expose TRATON to any new financial risks. The impact of the IBOR reform on the consolidated financial statements is not expected to be material.

4. Accounting policies

MEASUREMENT PRINCIPLES

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

In light of the domination and profit and loss transfer agreement between TRATON SE and Volkswagen AG that was terminated effective December 31, 2019 (for further information, refer to Note “28. Equity — Domination and profit and loss transfer agreements”), the Consolidated Financial Statements for fiscal year 2019 were prepared following appropriation of net profit by Volkswagen AG. Transfers of profits to or absorption of losses by Volkswagen AG were presented as transactions with owners directly in equity.

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

INTANGIBLE ASSETS

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

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

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

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

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

Amortization charges in a reporting period are allocated to the corresponding functions in the income statement. Goodwill, indefinite-lived intangible assets, and intangible assets that are not yet available for use are tested for impairment at least once a year. Assets in use and other intangible assets with finite useful lives are only tested for impairment if there are concrete indications of impairment. To determine the recoverability of goodwill and indefinite-lived intangible assets, the TRATON GROUP generally uses the higher of value in use and fair value less costs to sell of the asset or cash-generating unit concerned. Value in use is the present value of the expected future cash flows of the asset concerned. If no recoverable amount can be measured for an individual asset, the recoverable amount is determined for the smallest identifiable group of assets that generate cash flows (cash-generating unit) to which the asset belongs. For the purposes of the impairment test, goodwill is allocated to the cash-generating unit to which it relates. If an asset's recoverable amount is less than its carrying amount, an impairment loss is recognized immediately in profit or loss. Value in use is measured based on management's current planning. For information about the assumptions in the detailed planning period, refer to the "Report on Expected Developments," which forms part of the Combined Management Report, as well as the disclosures on estimates and management's judgment (see Note "5. Estimates and management's judgment"). Plausible assumptions concerning future developments are made for the subsequent years. The planning assumptions are adjusted to reflect the current state of knowledge.

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

WACC	2020	2019
Volkswagen Caminhões & Ônibus	13.6%	12.4%
MAN Truck & Bus	8.5%	8.2%
Scania Vehicles & Services	8.5%	8.2%

The costs of capital rates are based on the interest rate for risk-free investments, the market risk premium, and the cost of debt. Additionally, specific peer group information on beta factors and the cost of debt are considered. The composition of the peer groups used to determine beta factors is continuously reviewed and adjusted if necessary.

PROPERTY, PLANT, AND EQUIPMENT

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

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

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

CAPITALIZED BORROWING COSTS

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

LEASES

IFRS 16 defines a lease as a contract — or part of a contract — under which a lessor conveys to a lessee the right to use an asset for an agreed period of time in exchange for consideration.

TRATON as lessee

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

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

The TRATON GROUP does not make use of the temporary relief granted by the IASB to lessees to account for COVID-19-related rent concessions.

Right-of-use assets

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

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

The recognized right-of-use assets are reported in the balance sheet items in which the assets underlying the lease would be presented if they were owned by the TRATON GROUP. The right-of-use assets are therefore generally presented in property, plant, and equipment in noncurrent assets at the reporting date and tested for impairment in accordance with the impairment tests for items of property, plant, and equipment set out in IAS 36 *Impairment of Assets*.

Lease liabilities

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

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

TRATON as lessor

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

Classification of and accounting for leases

In an operating lease, the significant risks and rewards are retained by the TRATON GROUP. The underlying asset is measured at cost and recognized in the TRATON GROUP's assets leased out; the lease payments received in the period are recognized as income in the income statement on a straight-line or other systematic basis. Modifications to an operating lease are accounted for as a new lease.

In the case of a finance lease, the significant risks and rewards are transferred to the lessee. The underlying asset is derecognized from the TRATON GROUP's assets leased out and recognized in cost of sales. Additionally, a receivable is recognized in the amount of the net investment in the lease, which results in revenue being recognized in the same amount. The lease payments received in the reporting period subsequently reduce the principal and the unearned finance income. The net investment in the lease corresponds to the lease payments receivable by the lessor and any unguaranteed residual value accruing to the lessor, discounted at the interest rate implicit in the lease. Lease payments include fixed payments, less any lease incentives payable, certain variable lease payments, any residual value guarantees that the lessor receives, the exercise price of a purchase option if it is reasonably certain that it will be exercised, and payments of penalties for terminating the lease. Unless they are required to be accounted for as a new lease or result in a different classification, modifications to finance leases are accounted for in accordance with the IFRS 9 modification requirements (see the explanations in the "Financial instruments" section).

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

Assets leased out

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

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

EQUITY-METHOD INVESTMENTS

Equity-method investments include associates and joint ventures. Associates and joint ventures are initially measured at cost. In subsequent periods, the TRATON GROUP's share of earnings generated after acquisition is recognized in the income statement. Other changes in the equity of associates and joint ventures, such as currency translation differences, are recognized in other comprehensive income.

Effects from the increase in the share of the equity (for example capital increases) of these entities in which TRATON does not participate, or only has a disproportionately low participation, are recognized in the share of earnings of equity-method investments in profit or loss.

Intercompany profits or losses from transactions by Group companies with associates and joint ventures are eliminated ratably in the profit or loss of the Group companies. If there are indications that the carrying amount may be impaired, equity-method investments are tested for impairment; any impairment loss is recognized in the income statement. If the reason for impairment ceases to exist at a later date, the impairment loss is reversed to the carrying amount that would have been determined had no impairment loss been recognized.

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

INVENTORIES

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

FINANCIAL INSTRUMENTS

Nonderivative financial instruments

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

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

In addition, certain TRATON GROUP companies use reverse factoring. The liabilities continue to be reported in trade payables because there are no material changes in the contractual terms and conditions of the liabilities. Correspondingly, the cash outflow is reported in net cash provided by operating activities.

Initial measurement of financial instruments

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

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

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

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

- The financial asset is held within a business model whose objective is to hold financial assets in order to collect contractual cash flows, and
- The contractual terms of the financial asset give rise on specified dates to cash flows that are solely payments of principal and interest on the principal amount outstanding.

Financial assets (liabilities) that meet the following conditions are measured at fair value through other comprehensive income:

- The financial asset is held within a business model whose objective is achieved by both collecting contractual cash flows and selling financial assets, and
- The contractual terms of the financial asset give rise on specified dates to cash flows that are solely payments of principal and interest on the principal amount outstanding.

The TRATON GROUP has exercised the option under IFRS 9 to recognize investments in equity instruments that are not held for trading at fair value through other comprehensive income (no recycling) because recognition of gains and losses on these instruments at fair value through profit or loss would not provide any information about the entity's performance for the TRATON GROUP. By default, all other financial assets are classified as at fair value through profit or loss.

Financial liabilities are classified into the following categories:

- Financial liabilities at fair value through profit or loss; only financial liabilities held for trading are measured at fair value through profit or loss. In the TRATON GROUP, this requirement is only met by derivatives that are not included in hedge accounting.
- Financial liabilities at amortized cost; by default, all other financial liabilities are measured at amortized cost.

As a general principle, the TRATON GROUP does not apply the fair value option to financial assets or liabilities.

The amortized cost of a financial asset or liability is the amount

- At which a financial asset or liability is measured at initial recognition
- Minus any principal repayments
- Plus or minus the cumulative amortization of any difference between the original amount and the amount repayable at maturity, amortized using the effective interest method
- And adjusted for any loss allowances in the case of financial assets.

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. Each individual entity is responsible for monitoring the change in credit risk due to the modification, which is reflected in the credit risk rating grades. Credit risk rating grade 1 consists of financial instruments not exposed to any credit risk. Credit risk rating grade 2 consists of financial instruments that are subject to intensive credit management. Credit risk rating grade 3 consists of impaired financial instruments.

Impairment of financial instruments and contract assets
In all cases, the TRATON GROUP recognizes lifetime expected credit losses (ECLs) for trade receivables measured at amortized cost, lease receivables, and contract assets (referred to in the following as the "simplified approach"). For trade receivables and contract assets, expected credit losses are estimated using a provision matrix unless there is objective evidence of individual impairment. The provision matrix is based on the Group's historical loss experience, adjusted for debtor-specific factors, general economic factors, and an estimate of both current and expected changes in variables as of the reporting date, including the time value of money. The provision rates depend on the number of days a receivable is past due:

- Not impaired and not past due: 1.0% of the receivable
- Up to 30 days past due: 1.5% of the receivable
- 31 to 90 days past due: 2.5% of the receivable
- More than 91 days past due: 4.0% of the receivable

To reflect an expected rise in defaults in connection with the COVID-19 pandemic, the provision rates used to estimate the lifetime expected credit losses on trade receivables were increased by 20% as of December 31, 2020. No increase was made in the previous year.

For other financial instruments, the TRATON GROUP recognizes the lifetime expected credit losses if there has been a significant increase in credit risk since initial recognition (referred to in the following as the "general approach"). By contrast, if the credit risk of the financial instrument has not increased significantly since initial recognition, a loss allowance is measured for that financial instrument at an amount equal to 12-month expected credit losses. To the extent that the internal risk management and control systems do not indicate a significant increase in credit risk at an earlier point in time, there is a rebuttable presumption in the TRATON GROUP that a significant increase in credit risk has arisen if payments are more than 30 days past due.

Financial instruments are allocated to one of three credit loss stages:

- Stage 1: financial instruments at initial recognition and whose credit risk has not increased significantly
- Stage 2: significant increase in credit risk since recognition of the instrument, based on expected credit losses over the lifetime of the underlying contract
- Stage 3: credit-impaired financial instruments

Allocation to a stage is reviewed in each reporting period. A financial asset is credit-impaired if one or more events have occurred that negatively impact future expected cash flows. These events include delayed payment over a certain period, the institution of enforcement measures, the threat of insolvency or overindebtedness, the application for or opening of bankruptcy proceedings, or the failure of reorganization measures. The amount of expected credit losses is based on the probability of default, the loss given default, and the exposure at default. If, based on the internal risk management and control systems, there are no grounds for assuming that there will be a significant increase in credit risk at an earlier point in time, there is a rebuttable presumption in the TRATON GROUP that default has occurred if payments are more than 90 days past due. The financial asset is always derecognized if there are no longer any reasonable expectations that it is collectible.

For financial assets, expected credit losses are calculated as the difference between all contractual cash flows payable to the TRATON GROUP under the terms of the contract and all cash flows that the Group expects to receive. This difference is discounted using the original effective interest rate. In the case of lease receivables, the cash flows and discount rates used to determine expected credit losses are the same as the cash flows and discount rates used to measure the lease receivable under IFRS 16.

Derivatives and hedge accounting

The TRATON GROUP is exposed to a range of financial risks on account of its operating business. The TRATON GROUP uses corresponding financial derivatives, such as swaps, forward contracts, and options to hedge foreign exchange (currency) risk, interest rate risk, and commodity price risk. Derivatives are initially recognized and accounted for at each subsequent reporting date at their fair value. They are generally recognized at the trade date.

The recognition of gains and losses from fair value measurement depends on the designation of the derivative. Derivatives that do not meet the IFRS 9 hedge accounting criteria are measured at fair value through profit or loss (referred to in the following as "derivatives not included in hedge accounting"). These gains and losses from measurement and realization are recognized in other operating income/expense or in the financial result, depending on the underlying risk.

A condition for applying hedge accounting is that the hedging relationship between the hedged item and the hedging instrument is clearly documented and that there is an economic relationship between the hedged item and the hedging instrument that is not dominated by the effect of the credit risk. The hedging instruments are affected by the same risk as the hedged items, specifically foreign exchange (currency) risk. In each hedging relationship for which hedge accounting is used, the designated amount of the hedged item corresponds to the volume of the hedging instrument. In cash flow hedges, the hedging instruments are measured at fair value. Gains or losses from the remeasurement of the effective designated portion of the derivative are recognized in the cash flow hedge reserve in other comprehensive income. If the forward element and the cross-currency basis spread are not designated, the resulting gains and losses are recognized in the reserve for cost of hedging. The amounts recognized in other comprehensive income are reclassified to the income statement as soon as the hedged future cash flows are recognized in profit or loss. The reclassification of both the cash flow hedge reserve and the reserve for cost of hedging is recognized in the item to which the hedged item is allocated. If a cash flow hedge subsequently results in the recognition of a nonfinancial asset, the cash flow hedge reserve and the reserve for cost of hedging are included in the initial cost of the nonfinancial asset; this does not constitute any reclassification adjustment. The ineffective portion of a cash flow hedge is recognized in profit or loss for the period.

Hedges are sometimes prolonged. This reflects the fact that the exact timing of the realization of cash flows cannot be predicted when highly probable expected cash flows are hedged. A hedge is only prolonged if the occurrence of the future cash flows is still highly probable. The hedging relationship is not terminated in that case; changes in the value of the derivative continue to be recognized in other comprehensive income and reclassified to profit or loss when the hedged item is realized.

The Group does not currently apply fair value hedge accounting.

PENSION PROVISIONS

Pension obligations from defined benefit plans are determined using the projected unit credit method under IAS 19 *Employee Benefits*, under which the future defined benefit obligation is measured on the basis of the proportionate benefit entitlements earned by the end of the reporting period and discounted to its present value. This method considers expected future pay and pension increases and historical staff turnover rates, as well as vested pension rights and entitlements known at the reporting date.

The pension provisions are reduced by the fair value of the plan assets used to cover the pension obligations. If the plan assets exceed the obligation, the excess is only recognized as an asset if this results in a refund from the plan or a reduction in future contributions.

The service cost, which represents the entitlements of active employees accruing in the fiscal year in accordance with the plan, is reported in the functional expenses. Net interest income and expense are reported in interest expense and calculated by multiplying the net asset or liability by the discount rate.

Remeasurements of the net defined benefit asset or liability comprise actuarial gains and losses resulting from differences between the actuarial assumptions made and what has actually occurred, or changes in actuarial assumptions, as well as the return on plan assets, excluding amounts included in net interest income or expense. Remeasurements are recognized in other comprehensive income, net of deferred taxes.

OTHER PROVISIONS

General

Under IAS 37, provisions are recognized for a present obligation to a third party arising from a past event that is likely to result in an outflow of resources embodying economic benefits and whose amount can be measured reliably.

Where the effect of the time value of money is material, the provision is recognized at its present value. Discounting uses market rates of interest. The settlement amount also reflects expected cost increases at the reporting date.

Provisions are not offset against recourse rights.

Share-based payment

Share-based payment consists of performance shares. Share-based payment obligations are accounted for as a cash-settled plan under IFRS 2 *Share-based Payment*. Such cash-settled plans are measured at fair value over their term, which is determined using a recognized option pricing model. The total remuneration expense to be recognized corresponds to the actual payout and is recognized over the vesting period.

CONTINGENT LIABILITIES AND COMMITMENTS

If the criteria for recognizing a provision are not met, but the outflow of financial resources is not improbable, or if the provision amount cannot be measured reliably, such obligations are disclosed in the notes to the consolidated financial statements (see Note “40. Contingent liabilities and commitments”). Contingent liabilities are only recognized as a provision once the obligations are more certain, i.e., the outflow of financial resources has become probable and their amount can be reliably estimated.

SALES REVENUE

Revenue from contracts with customers

Sales revenue is recognized as soon as a performance obligation under a customer contract has been satisfied. Discounts, customer rebates, and other sales allowances reduce the transaction price. If a contract contains multiple performance obligations, the transaction price is allocated to the relevant performance obligations. Variable consideration is only included in the transaction price to the extent that it is highly probable that a subsequent reversal of the sales revenue can be ruled out.

Sales revenue from products is recognized when the customer obtains control of the products. As a rule, this is the date when the vehicle is delivered.

Sales revenue from contracts for services is recognized when the services have been rendered. In the case of long-term contracts for services, revenue is recognized on a straight-line basis over the term of the contract or, if services are not rendered on a straight-line basis, based on the stage of completion using the cost-to-cost method.

Warranties that the product sold matches the agreed specifications are accounted for as provisions. Extended warranties, which customers can purchase separately, are accounted for as a separate performance obligation. Revenue from extended warranties is recognized over the contract period.

TRATON uses the practical expedient to account for a significant financing component only in contracts for which TRATON expects the period between the transfer of the product or service to the customer and the customer payment to be more than one year.

Sales revenue from leases, buyback agreements, and customer finance

Income from customer finance is recognized over the term of the agreement using the effective interest rate method and reported in sales revenue. When interest-free or low-interest vehicle finance is awarded, sales revenue is reduced by the interest savings granted.

In the case of operating leases and short-term vehicle rentals, sales revenue is recognized using the straight-line method over the term of the lease or rental. Leases and rentals relate primarily to new trucks and buses. Further information about operating and finance leases can be found in the “Leases” section.

Income from sale transactions in which a Group company incurs a buyback obligation at a predetermined value is not immediately recognized in full as revenue if control does not pass to the customer. The difference between the sale price and the present value of the buyback price is allocated as sales revenue over the period until the return of the vehicle on an accrual basis.

OPERATING EXPENSES AND INCOME

Operating expenses are recognized when the underlying products or services are used. Costs of advertising and other distribution expenses are recognized as incurred.

The production cost incurred to generate sales revenue and the purchase costs of merchandise are recognized in cost of sales. In addition to direct material and labor costs, production cost also includes production-related indirect costs, including depreciation of production facilities. This item also includes the cost of additions to warranty provisions for statutory or contractual guarantee obligations that are recognized when products are sold. Research and development costs not eligible for capitalization and impairment losses on development costs are also reported in cost of sales. Corresponding to the presentation of interest and commission income in sales revenue, interest expense and commission expenses attributable to the financial services business are presented in cost of sales.

GOVERNMENT GRANTS

Government grants for expenses incurred are recognized in profit or loss in other operating income for the period or in the item in which the expenses to be offset are also recognized. Government grants for assets are deducted from the carrying amount of the asset to which the grant relates and therefore result in a lower depreciation charge over the useful life of the asset compared to depreciation without a grant. If a claim to a grant arises at a subsequent date, the amount of the grant attributable to previous periods is recognized in profit or loss.

INCOME TAX EXPENSE

Tax provisions contain obligations under current taxes. Provisions are recognized for potential tax risks based on the best possible estimate. A liability is recognized for other provisions resulting from supplementary tax payments that are due in this context.

Deferred tax assets are generally recognized for deductible temporary differences between the tax base of assets and liabilities and their carrying amounts in the consolidated balance sheet, for tax loss carryforwards, and for tax credits, to the extent that it can be expected that they will be utilized. Deferred tax liabilities are generally recognized for all taxable temporary differences between the tax base of assets and liabilities and their carrying amounts in the consolidated balance sheet (temporary concept).

Deferred taxes are recognized in the amount of the expected tax liability or tax benefit, as appropriate, in subsequent fiscal years, based on the expected enacted tax rate at the time of realization. The tax consequences of dividend payments are generally not taken into account until the resolution on appropriation of net profit has been adopted.

Deferred tax assets that are unlikely to be realized within a clearly predictable period are reduced by valuation allowances.

Deferred tax assets for tax loss carryforwards are usually measured on the basis of future taxable income over a planning period of five fiscal years. Deferred tax assets and deferred tax liabilities are offset where taxes are levied by the same taxation authority and relate to the same tax period.

NONCURRENT ASSETS HELD FOR SALE AND DISCONTINUED OPERATIONS

Noncurrent assets held for sale and discontinued operations include both individual noncurrent assets and groups of assets, together with liabilities directly associated with those assets (disposal groups), if their carrying amounts will be recovered principally through a sale transaction rather than through continuing use.

Noncurrent assets classified as “held for sale,” either individually or as part of a disposal group, are presented separately as “held for sale” in the balance sheet. Within the scope of IFRS 5 *Non-current Assets Held for Sale and Discontinued Operations*, they are measured at the lower of their carrying amount and fair value less costs to sell, and are no longer depreciated or amortized. If there is any subsequent increase in fair value less costs to sell, a remeasurement gain is recognized. The remeasurement gain may not exceed the cumulative impairment losses already recognized for that asset.

A discontinued operation is a component of an entity that represents a major line of business of the TRATON GROUP and that is either classified as “held for sale” or has been disposed of. The assets and liabilities of a discontinued operation are classified as “held for sale” in the balance sheet until the disposal is completed, and are measured at the lower of their carrying amount and fair value less costs to sell. Gains or losses recognized on measurement at fair value less costs to sell, gains or losses on the disposal, and the post-tax earnings of the discontinued operation are presented separately in the TRATON GROUP’s income statement as “earnings from discontinued operations, net of tax.” Prior-period amounts in the TRATON GROUP’s income statement are adjusted accordingly. Discontinued operations are presented separately in the statement of cash flows. Prior-period amounts are also adjusted in these cases.

The elimination of intercompany profits between TRATON and discontinued operations is based on the corresponding agreement following the sale. If TRATON assumes that the agreement will be continued following the sale, intercompany profits are eliminated with the discontinued operation. By contrast, if TRATON will not continue the agreement following the sale, intercompany profits are eliminated with the continued operation.

With the exception of the disclosure in Note “7. Noncurrent assets held for sale and discontinued operations,” the notes to the consolidated financial statements generally refer to continuing operations, unless expressly indicated otherwise or required by IFRSs.

PRIOR-PERIOD INFORMATION

Certain prior-period information was adjusted to reflect the current presentation to improve comparability. If material, the details of such information are contained in the relevant sections.

5. Estimates and management's judgment

Preparation of consolidated financial statements in accordance with IFRSs requires assumptions to be made with regard to certain items that affect the carrying amounts in the balance sheet or income statement and the disclosure of contingent assets and liabilities. Additionally, estimates and the application of judgment were necessary for the preparation of these Consolidated Financial Statements due to the COVID-19 pandemic and the associated effects on the global economy as well as on the TRATON GROUP's financial position and results of operations. Assumptions and management's judgment relate primarily to the following matters:

The impairment testing of nonfinancial assets — especially goodwill, brand names, and capitalized development costs — and equity-accounted investments, or investments accounted at cost, require assumptions to be made about future market trends, the future cash flows to be derived on that basis, and the discount rate to be applied. The cash flows are derived from the detailed sales and revenue planning for commercial vehicles, profitability (gross margin) projections for products, and trends in the after-sales business. The planning is based on past experience and external sources of information. The planning period is generally five years. Estimated cash flows after the end of the planning period are based on an annual growth rate of 1% (previous year: 1%). In the case of finite-lived assets, the asset's useful life can also be used.

Management inputs its mid-range expectations into the planning on the basis of estimates of changes in market volume, market share, and cost and price trends. The TRATON GROUP currently presumes that the COVID-19 pandemic will be a temporary phenomenon that will not adversely affect the Group's business performance in the long term. This is reflected by the expected continuous improvement in operating return on sales and the underlying growth rates of the key markets across all cash-generating units to which goodwill is allocated. This planning also reflects the impact of the COVID-19 pandemic in 2021, but projects a recovery for the subsequent years in the planning period.

Estimates of the useful life of finite-lived assets are based on past experience and are periodically reviewed. Any change in the estimate results in a change in the residual useful life and, if appropriate, recognition of an impairment loss. Additionally, the recoverability of the Group's assets leased out depends in particular on the residual value of vehicles leased out after the end of the lease term, because this constitutes a significant portion of the expected cash flows. Forecasting residual values requires management to make assumptions about the future supply of and demand for vehicles, as well as vehicle price trends. These assumptions are based either on qualified estimates or on published information by expert third parties. Where available, qualified estimates are based on external data and also reflect additional information available internally, such as values derived from past experience and current sales data. For further information, see Note "18. Assets leased out."

The fair value of assets acquired and liabilities assumed in a business combination is determined using recognized valuation techniques such as the relief-from-royalty method or the residual income method, if no observable market inputs are available.

The TRATON GROUP is exposed to risks from contractual payments. In all major respects, the Group has the right to recover the vehicles underlying the contracts as collateral. The Group has an exposure to loss if the fair value of the collateral does not fully cover the risk exposure to the customer and the customer is unable to discharge its contractual payment obligations. Accordingly, determining the recoverability of financial assets requires estimates about the amount and probability of future events. If possible, the estimates are derived from past experience, taking into account current market data and rating classes, as well as scoring information. 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% as of December 31, 2020.

In the course of the fiscal year, financial services receivables in the Financial Services segment were modified because we granted customers payment holidays and deferrals with a corresponding extension of the term of the contracts that did not affect the present value of the cash flows. The reason for the agreed modifications is temporary liquidity shortages experienced by 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 €36 million, most of which was attributable to the first six months of the fiscal year.

In the TRATON GROUP, around 14% (previous year: 15%) of vehicles are sold with a buyback obligation. These transactions are accounted for as operating leases. All sales for which no firm buyback is agreed from the outset, but where solely the customer decides about a buyback at a previously agreed price, are also accounted for as operating leases. Based on contractual arrangements and our experience with such sales, we assume that customers will always make use of their put option.

Lease terms under IFRS 16 are estimated based on the noncancelable period of the lease. Many leases feature extension or termination options. When measuring the term of a lease, such options are only included if it is reasonably certain that the lessee will exercise the option. The determination of the discount rates also affects the amount of the lease liabilities and the right-of-use assets. This assessment and the determination considers all facts and circumstances, such as past lease terms and any incremental costs incurred.

Recognition and measurement of provisions are based on estimates of the amount and probability of future events, and estimates of the discount rate. If possible, experience or external appraisals are also used in these cases. The assumptions underlying the calculation of pension provisions can be found in Note “32. Provisions for pensions and other post-employment benefits.” Remeasurements are recognized directly in equity and therefore have no effect on the gains or losses presented in the income statement. Any changes in estimates of the amount of other provisions are always recognized in profit or loss. Provisions are periodically adjusted to reflect new knowledge. Recognizing expected values requires the periodic addition of further amounts to provisions or the reversal of unutilized provisions. Reversals and expenses from recognizing new provisions are allocated directly to the functions. Warranty claims arising from sales are determined on the basis of estimated future costs and ex gratia arrangements. In addition, assumptions must be made about the nature and extent of future guarantee and ex gratia claims. The measurement of restructuring provisions is based on estimates and assumptions regarding the amount of severance payments, the effects of onerous contracts, the timeline for the implementation of measures, and, consequently, the timing of the expected payments. The measurement assumptions are regularly reviewed as the restructuring program progresses. Litigation and other court proceedings lead to complex legal issues and entail numerous uncertainties. A provision is recognized for these if it is probable that an obligation arises in connection with these proceedings that is likely to lead to a future outflow of resources and its amount can be estimated reliably.

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.

In the TRATON GROUP, many vehicles are sold together with services. Where services and vehicles are sold as a bundle, the selling price is divided between both performance obligations, and each performance obligation is accounted for separately. The allocation is made on the basis of the standalone prices, the determination of which is subject to judgment. Rebates are allocated to the vehicle when the price is divided.

TRATON SE and its subsidiaries operate all over the world and are continuously audited by the local financial authorities. Changes in tax legislation, jurisdiction, and how these are interpreted by the financial authorities in the different countries may result in tax payments that differ from the estimates made in these financial statements. The measurement of the tax provision is based on the most probable estimate that this risk materializes. Depending on the individual case, whether tax-related uncertainties are recognized individually or as part of a group at TRATON depends on which presentation is better suited to forecasting whether the tax-related risk materializes. In the case of contracts entailing cross-border goods and services supplied within the Group, determining the price of the individual products and services is particularly complex because no market prices are available for the Company's own products in many cases or because using the market prices of similar products entails a degree of uncertainty due to lack of comparability. In these cases, the products and services are priced using recognized standard accounting practices, including for tax purposes.

When calculating deferred tax assets, assumptions must be made as to future taxable income and the timing of realization.

Assumptions and management's judgment are based on presumptions that refer in each case to currently available knowledge. All estimates and assumptions represent the best of management's knowledge and belief in order to convey a true and fair view of the Group's net assets, financial position, and results of operations. In particular, expected future business performance is based on the circumstances known at the date of preparation of the consolidated financial statements and the assumed realistic future development of the global economic environment, the relevant markets, and the legal circumstances. Because expected future business performance is subject to uncertainties, some of which are beyond the Group's control, our assumptions and estimates are exposed to a high level of uncertainty, with the result that actual estimated values may differ significantly from those originally expected. If actual developments differ from expected developments, the assumptions and the carrying amounts of the assets and liabilities concerned are adjusted accordingly.

Provided there is no further rise in the number of cases due to the COVID-19 pandemic and no associated countermeasures are taken by the affected countries, as well as subject to any potential impact on our production and supply chains, the TRATON GROUP's Executive Board is expecting new registrations in 2021 of medium- and heavy-duty trucks (> 6t) in the Group's core geographic regions, i.e., Europe (defined as the EU27 countries excluding Malta, plus the United Kingdom, Norway, and Switzerland, or "EU27+3"), Brazil, Russia, South Africa, and Turkey to record generally positive growth compared with the previous year. Growth rate is expected to vary from region to region.

A significant market increase is expected in the EU27+3 region. In Germany, for example, this is being supported by the German government's fleet renewal program for procuring trucks that meet the latest Euro 6 exhaust standards. For Brazil, we anticipate that demand will increase substantially compared to the previous year. We expect demand to pick up noticeably in Russia in 2021 and significantly in South Africa. We are anticipating a slight rise in demand in Turkey.

In the bus markets that are relevant for the TRATON GROUP (EU27+3, Brazil, and Mexico), we are projecting stable or rising demand for 2021, albeit with varied regional developments. In the EU27+3 region, we anticipate a slight year-on-year downturn in the market. New registrations in Brazil will likely be noticeably higher than in the previous year. We are expecting very strong market growth in Mexico.

6. Segment reporting

Segments are defined on the basis of internal management and reporting in the TRATON GROUP. The operating units are Scania Vehicles & Services, MAN Truck & Bus, and Volkswagen Caminhões e Ônibus (VWCO). The Financial Services business rounds off the range of products and services. Each operating unit is managed by its own executive board. In order to make decisions about the allocation of resources and the assessment of performance, the results of these units are regularly reviewed by the Executive Board in its role as chief operating decision maker. The following reportable segments apply to external reporting:

Industrial Business: TRATON's activities in the Industrial Business segment comprise the following products: trucks, buses, and engines, together with the services associated with these products. The three operating units collaborate closely in central areas such as procurement, research, and development. The operating units are also growing closer together through the progressive centralization of corporate finance activities. The units are very similar in terms of the products and services they offer, and there is no systematic difference between the customers of the individual units. All three units are active in the market for commercial vehicles, which is highly cyclical and heavily correlated overall with the business climate. The units have a similar business cycle with regard to their long-term financial performance, as can be seen from the long-term development of operating return on sales.

Consequently, TRATON combines the three operating units into a single reporting segment for external reporting purposes, which it refers to as the Industrial Business segment. This approach complies with the accounting policies described in IFRS 8 *Operating Segments*, under which segments with similar characteristics may be aggregated into a single segment. The Industrial Business segment also includes the Group's holding companies and their investees, Sinotruk and Navistar.

The **Financial Services** segment offers customers financing solutions such as loans, leasing, and insurance solutions. The Financial Services reporting segment consists solely of Scania Financial Services. For customers of MAN Truck & Bus and VWCO, Volkswagen Financial Services AG and its subsidiaries provide similar financing solutions outside the TRATON GROUP.

The segment information represents continuing operations. The segment disclosures for the current and the comparative period therefore do not include the corresponding information for discontinued operations.

Segment result in the TRATON GROUP is determined on the basis of operating result, which is calculated as earnings before tax and before the financial result. The assets and liabilities resulting from purchase price allocation relating to companies acquired are allocated to the relevant segments.

Segment financial information is generally presented in accordance with the disclosure and measurement policies applied in the preparation of the consolidated financial statements. As a departure from IFRS 16, subleasing of buyback vehicles is always accounted for as an operating lease.

Sales revenues between the segments are transacted on an arm's length basis. Depreciation, amortization, and impairment losses relate to the intangible assets, property, plant, and equipment, and assets leased out allocated to the individual divisions. They also include the depreciation of and impairment losses on right-of-use assets under IFRS 16. Capital expenditures in intangible assets, property, plant, and equipment, and investment property are reported exclusive of additions of right-of-use assets under IFRS 16.

The “Reconciliation” column contains consolidation adjustments between the reporting segments.

REPORTING SEGMENTS 2020

€ million	Industrial Business	Financial Services	Total segments	Reconciliation	TRATON GROUP
Segment sales revenue	**22,156**	**820**	**22,976**	**–396**	**22,580**
Intersegment sales revenue	–392	–4	–396	396	–
Sales revenue, TRATON GROUP	21,763	817	22,580	0	22,580
Depreciation/amortization	–2,259	–387	–2,646	383	–2,263
Impairment losses	–179	0	–179	–	–179
Segment result (operating result)	**–26**	**107**	**81**	**0**	**81**
Financial result	**–86**	**0**	**–86**	**–30**	**–115**
of which share of earnings of equity-method investments	84	–	84	–	84
Capital expenditures[1]	**1,373**	**2**	**1,375**	**–36**	**1,339**
Equity-method investments	1,380	–	1,380	–	1,380

1 Capital expenditures do not contain additions of right-of-use assets under IFRS 16. The total additions to noncurrent assets (intangible assets, property, plant, and equipment, including right-or-use assets under IFRS 16, investment property) amounting to €1,577 million were split into €1,606 million in additions to the Industrial Business segment and €6 million in additions to the Financial Services segment in fiscal year 2020. Consolidation adjustments between the segments amounted to €35 million.

REPORTING SEGMENTS 2019

€ million	Industrial Business	Financial Services	Total segments	Reconciliation	TRATON GROUP
Segment sales revenue	**26,444**	**849**	**27,294**	**–392**	**26,901**
Intersegment sales revenue	–390	–2	–392	392	–
Sales revenue, TRATON GROUP	26,054	847	26,901	–	26,901
Depreciation/amortization	–2,200	–391	–2,590	386	–2,204
Impairment losses	–2	0	–2	0	–2
Segment result (operating result)	**1,741**	**142**	**1,884**	**0**	**1,884**
Financial result	**140**	**8**	**148**	**–67**	**81**
of which share of earnings of equity-method investments	208	–	208	–	208
Capital expenditures[1]	**1,507**	**4**	**1,512**	**–34**	**1,478**
Equity-method investments	1,365	–	1,365	–	1,365

1 Capital expenditures do not contain additions of right-of-use assets under IFRS 16. The total additions to noncurrent assets (intangible assets, property, plant, and equipment, including right-or-use assets under IFRS 16, investment property) amounting to €1,741 million were split into €1,770 million in additions to the Industrial Business segment and €6 million in additions to the Financial Services segment in fiscal year 2019. Consolidation adjustments between the segments amounted to €35 million.

SEGMENT REPORTING BY REGIONS

€ million	Germany	EU27+3 (excl. Germany)	Brazil	South America (excl. Brazil)	Other regions[2]	Total
2020						
Noncurrent assets (excl. financial instruments, equity investments, and deferred taxes) as of 12/31/2020	5,391	13,011	1,294	128	644	20,468
Sales revenue[1]	4,112	11,146	1,896	855	4,570	22,580
2019						
Noncurrent assets (excl. financial instruments, equity investments, and deferred taxes) as of 12/31/2019	5,624	12,914	1,720	130	702	21,091
Sales revenue[1]	4,337	13,533	2,773	745	5,514	26,901

1 Allocation of sales revenue to the regions follows the destination principle.

2 Also includes sales revenue from hedging transactions

7. Noncurrent assets held for sale and discontinued operations

DISPOSAL OF THE POWER ENGINEERING BUSINESS AREA

The financial statements for fiscal year 2019 contain extensive information about the disposal of the Power Engineering (PE) business, therefore this issue is no longer addressed in the financial statements for fiscal year 2020. The purchase price was €1,978 million and was settled in the first half of 2019. The payment is contained in “Proceeds from the disposal of subsidiaries, net of cash disposed” in net cash provided by investing activities. A subsequent purchase price adjustment of €2 million was also made in the prior-year period.

DISPOSAL OF VOLKSWAGEN GEBRAUCHTFAHRZEUGHANDELS UND SERVICE GMBH (VGSG)

On December 6, 2018, TRATON entered into an agreement with a Volkswagen AG subsidiary outside the TRATON GROUP to sell a TRATON subsidiary, VGSG, effective January 1, 2019, with the intention to do so within twelve months.

The following assets and liabilities in relation to VGSG were disposed of effective January 1, 2019:

€ million	01/01/2019
Inventories	149
Miscellaneous assets	8
Total assets	**157**
Trade payables	86
Miscellaneous liabilities	37
Total liabilities and provisions[1]	**123**
Net assets	**34**

1 The liabilities shown exclude intercompany liabilities of €34 million.

The transaction was completed on January 1, 2019. No gain was recognized. The consideration received and the amount of cash disposed of in this transaction were each below €1 million.

OTHER DISPOSAL GROUPS

Effective August 28, 2019, the 49% interest in the Tactical Wheeled Vehicles division of Rheinmetall MAN Military Vehicles GmbH, Munich (RMMV) was sold to Rheinmetall AG. Further information can be found in Note “19. Equity-method investments.”

Income statement disclosures

8. Sales revenue

STRUCTURE OF SALES REVENUE

REPORTING PERIOD JANUARY 1 TO DECEMBER 31, 2020

€ million	Industrial Business	Financial Services	Reconciliation	2020
New vehicles	13,385	–	–6	13,380
Genuine parts	3,249	–	–1	3,248
Used vehicles	1,455	–	–1	1,454
Engines, powertrains, and parts deliveries	669	–	–	669
Workshop services	1,443	–	–1	1,442
Rental and leasing business	1,698	439	–382	1,755
Interest and similar income	8	381	–3	387
Other sales revenue	248	–	–3	245
	22,156	**820**	**–396**	**22,580**

REPORTING PERIOD JANUARY 1 TO DECEMBER 31, 2019

€ million	Industrial Business	Financial Services	Reconciliation	2019
New vehicles	17,387	–	–1	17,386
Genuine parts	3,464	–	–1	3,463
Used vehicles	1,415	–	0	1,415
Engines, powertrains, and parts deliveries	641	–	0	641
Workshop services	1,501	–	–1	1,500
Rental and leasing business	1,735	444	–385	1,794
Interest and similar income	5	405	–1	409
Other sales revenue	295	–	–3	292
	26,444	**849**	**–392**	**26,901**

Sales revenue in fiscal year 2020 includes revenue from operating leases of €1,241 million (previous year: €1,254 million).

Other sales revenue includes revenue from product-related royalties. The "Reconciliation" column contains consolidation adjustments between the reporting segments.

Sales revenue recognized in the reporting period that was included in contract liabilities at the beginning of the reporting period (see Note "31. Other liabilities") amounted to €1,284 million (previous year: €1,232 million).

€1 million (previous year: €7 million) of the sales revenue recognized in the reporting period is attributable to performance obligations satisfied in previous periods. This relates primarily to the reversal of provisions for sales allowances.

REVENUE FROM CONTRACTS WITH CUSTOMERS

Information about the Group's performance obligations

The Group's performance obligations primarily comprise sales of trucks, heavy-duty special-purpose vehicles, buses, and related spare parts, as well as the provision of repair and maintenance services. As well as standard statutory warranties, the Group also offers service guarantees.

Performance obligations in connection with the transfer of products are satisfied when the customer obtains control of those products. That is normally the case when the product is delivered to the customer and the customer has accepted the vehicle.

In line with standard business practice, payment terms are 30 days, although a payment term of up to 140 days is granted in certain markets. Contracts do not contain any significant financing components. Customers can decide to purchase a vehicle by means of financing solutions from the Financial Services segment or from a Volkswagen Group subsidiary (e.g., Volkswagen Financial Services). If a third party outside the TRATON GROUP is used, the Group normally receives the payment from that party shortly after the customer has received the vehicle.

Performance obligations relating to service contracts and service guarantees are recognized over the term of the contract. In the case of prepayments received for these services, the allocated transaction price is recognized as a contract liability at the date of the original sale transaction and recognized as revenue over the period of the service. If payments of service fees match the services provided, the sales revenue recognized corresponds to the fees paid.

In the case of contracts in which service elements are insignificant compared with the sales revenue from the sale of the vehicle, the residual approach is used to allocate the transaction price. This does not result in any material differences compared with the revenue based on relative standalone selling prices. In other cases, the transaction price is allocated based on the relative standalone prices.

Allocation of transaction price to the remaining performance obligations

The total transaction price for unsatisfied or partly satisfied performance obligations at the end of the reporting period and the expected timing of revenue recognition are as follows:

€ million	2020	2019
Expected timing of revenue recognition		
Up to one year	8,420	6,923
1 to 5 years	1,746	1,785
More than 5 years	255	202
	10,422	**8,910**

The transaction price for the remaining performance obligations resulting in revenue recognition within one year relates primarily to the delivery of vehicles. Revenue recognition expected after more than one year relates primarily to long-term service agreements and extended warranties.

REVENUE FROM FINANCING ARRANGEMENTS

TRATON's Financial Services segment offers a wide range of financing solutions, normally with maturities of between three and five years, in which the vehicles serve as the underlying collateral. The type of financing solution offered often depends on market conditions as well as civil and tax law rules in the country concerned. Financing arrangements consist largely of finance leases in which legal title to the vehicle remains with TRATON over the lease term, but significant risks and rewards are transferred to the lessee. If hire purchase agreements are offered, title passes to the customer at the sale date, but the Group's Financial Services segment receives collateral in the form of liens. Leases offered by the Financial Services segment in which the significant risks remain with TRATON when vehicles are delivered are recognized as operating leases.

9. Functional expenses

COST OF SALES

Cost of sales includes nonstaff overheads and personnel costs, as well as depreciation and amortization applicable to production. These include expenses of €519 million (previous year: €547 million) attributable to the Financial Services segment for the fiscal year ended December 31, 2020.

Research and development costs are contained in cost of sales and are broken down as follows:

€ million	2020	2019
Total research and development costs	1,165	1,376
of which capitalized development costs	316	467
Capitalization ratio (in %)	27	34
Amortization of, and impairment losses on, capitalized development costs	265	192
Research and development costs	**1,114**	**1,101**

ADMINISTRATIVE EXPENSES

The administrative expenses mainly include nonstaff overheads and personnel costs, as well as depreciation and amortization applicable to the administrative functions. The €97 million year-on-year decline is due primarily to lower nonstaff overheads and personnel costs. In the previous year, costs of €31 million were incurred in conjunction with making the TRATON GROUP ready for the capital markets and for its IPO.

PERSONNEL

Personnel expenses

Many governments launched short-time working programs and similar measures to support workforce employment in response to the COVID-19 pandemic. In part supported by these programs, personnel expenses declined year-on-year, whereas the number of employees in the TRATON GROUP rose slightly.

PERSONNEL EXPENSES:

€ million	2020	2019
Wages and salaries	3,940	4,336
Social security, post-employment, and other benefit costs	1,109	1,177
Personnel expenses	**5,049**	**5,513**

Post-employment benefit costs amounted to €281 million (previous year: €270 million).

Government grants related to income, which are contained in personnel expenses, amounted to €126 million in fiscal year 2020 and were reported as deductions from the related expenses. They originate primarily from government income support subsidy programs for short-time working in Sweden and social security contribution refunds during short-time working in Germany in conjunction with the COVID-19 pandemic. There are no unfulfilled conditions or other contingencies attaching to these government grants. No material government grants related to income were recognized in personnel expenses in the prior-year comparative period.

Average annual number of employees

AVERAGE ANNUAL NUMBER OF EMPLOYEES:

	2020	2019
Performance-related wage-earners	37,563	37,391
Salaried staff	45,880	45,590
Total number of employees	**83,443**	**82,981**
of which in the passive phase of partial retirement	503	539
Vocational trainees	3,696	3,697
Total headcount	**87,139**	**86,678**

10. Other operating income

€ million	2020	2019
Foreign exchange gains	427	236
Income from foreign currency derivatives not included in hedge accounting	61	40
Income from cost allocations	38	42
Gains on disposal of noncurrent assets	19	19
Rental and lease income	16	16
Income from reversal of provisions and accruals	15	67
Miscellaneous income	89	204
	665	**624**

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 fiscal year 2020 was due primarily to the depreciation of the Brazilian real against the euro and the US dollar and to fluctuations in the Swedish krona and various other currencies as a result of the economic impact of the COVID-19 pandemic.

The decrease in income from reversal of provisions was driven by the reversal in the previous year of the provisions for restructurings attributable to the Industrial Business segment amounting to €20 million.

Miscellaneous income contains royalty income of MAN Energy Solutions amounting to €25 million (previous year: €24 million). In the previous year, it contained income of €65 million from the reversal of impairment losses on indirect tax receivables at Volkswagen Caminhões e Ônibus. Income from the reversal of valuation allowances on indirect tax receivables was a result of the discontinuation of the impairment requirement at the Brazilian cash-generating unit MAN Latin America Indústria e Comércio de Veículos Ltda., which is allocated to the Industrial Business segment. The discontinuation of the impairment requirement affecting indirect tax receivables resulted from a higher ability to offset this indirect tax.

Miscellaneous income also includes government grants of €4 million (previous year: €5 million) for expenses incurred.

11. Other operating expenses

€ million	2020	2019
Foreign exchange losses	439	219
Expenses for litigation and legal risks	102	121
Losses from foreign currency derivatives not included in hedge accounting	84	57
Losses on disposal of noncurrent assets	10	8
Miscellaneous expenses	190	122
	825	**526**

Foreign exchange losses rose in 2020 due to fluctuations in the Swedish krona and the Polish zloty against the euro, the US dollar, 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.

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.

The “Losses from foreign currency derivatives not included in hedge accounting” item also includes losses from the reclassification of €9 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.

Miscellaneous expenses contain additions of €16 million to provisions for restructurings attributable to the Industrial Business segment. As well as expenses for other personnel costs, miscellaneous expenses also include expenses in connection with an engine project between MAN Truck & Bus and Navistar (see Note “16. Intangible assets”).

12. Net interest expense

REPORTING PERIOD JANUARY 1 TO DECEMBER 31

€ million	2020	2019
Interest and similar income	70	93
Interest and similar expenses	–168	–180
Interest expense for lease liabilities	–32	–37
Net interest on the net liability for pensions and other post-employment benefits	–26	–37
Unwinding of discount and effect of change in discount rate on liabilities and other provisions	–1	–8
Net interest expense	**–157**	**–170**

The decline in interest income is attributable primarily to the lower interest rate level in Brazil and the sharp devaluation of the Brazilian real against the euro.

Interest and similar expenses mainly contain interest expense for financial liabilities. This declined by €12 million, in particular because VWCO profited from lower interest rates and the sharp devaluation of the Brazilian real against the euro in its interest expense.

Interest income and expenses contain realized income and expenses from interest rate derivatives on net liquidity positions.

13. Other financial result

REPORTING PERIOD JANUARY 1 TO DECEMBER 31

€ million	2020	2019
Other income from equity investments	1	67
Other expenses from equity investments	–2	0
Income and expense from profit and loss transfer agreements	1	0
Realized income and expense of loan receivables and payables in foreign currency	–350	102
Gains/losses from remeasurement of financial instruments	–366	4
Gains/losses from changes in the fair value of derivatives not included in hedge accounting	674	–130
	–43	**43**

Other income from equity investments in 2019 contains the reversal of the impairment loss on the investment in RMMV in the amount of €67 million (see Note “19. Equity-method investments”).

The fair value changes from derivatives not included in hedge accounting largely offset the currency translation effects on net debt in both items.

14. Income taxes

COMPONENTS OF TAX INCOME AND EXPENSE

€ million	2020	2019
Current tax expense (+)/income (–), Germany	86	–70
Current tax expense (+)/income (–), outside Germany	291	438
Current income taxes	**378**	**368**
of which prior-period expense (+)/income (–)	11	–86
Deferred tax expense (+)/income (–), Germany	–269	42
Deferred tax expense (+)/income (–), outside Germany	–20	–9
Deferred tax expense (+)/income (–)	**–288**	**33**
Income taxes	**89**	**401**

The statutory German corporate income tax rate in Germany for the 2020 assessment period was 15%. Including trade tax and the solidarity surcharge, this produces an aggregate tax rate of 33.0% (previous year: 29.8%). The reason for the increase is the terminated domination and profit and loss transfer agreement with Volkswagen AG as of December 31, 2019, and the related termination of the consolidated tax group with Volkswagen AG. As a result, the noncurrent income tax payables to Volkswagen AG from tax allocations were settled in the amount of €123 million.

The measurement of deferred taxes in the German consolidated tax group as of December 31, 2020, is based on a tax rate of 33.0% (previous year: 33.0%).

The local income tax rates applied to foreign companies vary between 0 and 45%. In cases of split tax rates, the tax rate applicable to undistributed profits is applied. The deferred tax expense/income resulting from changes in tax rates amounted to €3 million (previous year: €2 million) at Group level in 2020.

The realization of tax loss carryforwards from previous years reduced current income expense in 2020 by €19 million (previous year: €10 million).

The current income taxes in the reporting period decreased by €16 million (previous year: €0 million) due to the utilization of previously unrecognized tax losses and tax credits from previous periods. Previously unrecognized tax losses and credits contributed to a €4 million (previous year: €0 million) reduction in deferred tax expense in 2020.

TAX LOSS CARRYFORWARDS

€ million	12/31/2020	12/31/2019
Available for an indefinite period	1,649	1,793
Limit on utilization within the next 10 years	158	169
Limit on utilization between 11 and 20 years	280	–
Total currently unused tax loss carryforwards	**2,087**	**1,962**
Indefinite tax loss carryforwards	1,467	1,632
Expire within the next 10 years	133	148
Expire between 11 and 20 years	280	-
Total unusable tax loss carryforwards	**1,880**	**1,781**

WRITE-DOWNS OF DEFERRED TAX ASSETS

€ million	12/31/2020	12/31/2019
Deferred tax expense resulting from the write-down of a deferred tax asset	11	11
Deferred tax income resulting from the reversal of a write-down of a deferred tax asset	8	19

Tax credits granted by various countries amounted to €13 million (previous year: €9 million) as of December 31, 2020.

NONRECOGNITION OF DEFERRED TAX ASSETS

€ million	12/31/2020	12/31/2019
for deductible temporary differences	–	–
for tax credits that would expire in the next 20 years	–	–
for tax credits that will not expire	–	–

No deferred taxes are recognized for the retained earnings of €25,383 million (previous year: €25,335 million) at foreign subsidiaries because these profits are largely expected to be reinvested in the operations of the companies concerned. As a general rule, distribution would lead to additional income tax expense.

Deferred taxes in respect of temporary differences and tax loss carryforwards of €135 million (previous year: €33 million) were recognized as of December 31, 2020, without any offsetting deferred tax liabilities in the same amount. The companies concerned are expecting positive taxable income in the future, following losses in the current or previous fiscal year.

In fiscal year 2020, total deferred taxes of €19 million (previous year: €99 million) were recognized directly in other comprehensive income. Changes in deferred taxes classified by balance sheet item are presented in the statement of comprehensive income.

DEFERRED TAXES CLASSIFIED BY BALANCE SHEET ITEM

The following recognized deferred tax assets and liabilities were attributable to recognition and measurement differences in the individual balance sheet items and to tax loss carryforwards:

DEFERRED TAX ASSETS

€ million	2020	2019
Intangible assets	5	4
Property, plant, and equipment, and assets leased out	56	22
Noncurrent financial assets	1	2
Inventories	30	25
Receivables and other assets (incl. financial services receivables)	185	153
Pensions and other post-employment benefits	504	470
Liabilities and other provisions	2,091	2,124
Loss allowances on deferred tax assets from temporary differences	–9	–5
Temporary differences, net of loss allowances	2,862	2,796
Tax loss carryforwards, net of loss allowances	59	52
Tax credits, net of loss allowances	13	9
Value before consolidation and offset	**2,933**	**2,857**
of which noncurrent	2,157	2,115
Offset	–2,405	–2,290
Consolidation	703	404
Amount recognized	**1,231**	**970**

DEFERRED TAX LIABILITIES

€ million	2020	2019
Intangible assets	840	866
Property, plant, and equipment, and assets leased out	1,846	1,774
Noncurrent financial assets	28	19
Inventories	44	38
Receivables and other assets (incl. financial services receivables)	179	178
Pensions and other post-employment benefits	0	0
Liabilities and other provisions	224	177
Temporary differences	3,161	3,052
Value before consolidation and offset	**3,161**	**3,052**
of which noncurrent	2,854	2,823
Offset	–2,405	–2,290
Consolidation	10	25
Amount recognized	**767**	**787**

IAS 12 *Income Taxes* requires deferred tax assets and liabilities to be offset if, and only if, they relate to income taxes levied by the same taxation authority and relate to the same period. Deferred tax assets rose by €260 million year-on-year, primarily because of the tax consequences of the sale of trademarks within the MAN Group.

RECONCILIATION OF EXPECTED TO EFFECTIVE INCOME TAX EXPENSE

€ million	2020	2019
Earnings before income tax	–34	1,965
Expected income tax expense (+)/income (–) (tax rate: 33.0%; previous year: 29.8%)	**–11**	**586**
Reconciliation:		
Effect of different tax rates outside Germany	–45	–112
Proportion of taxation relating to:		
tax-exempt income	–45	–98
expenses not deductible for tax purposes	71	76
effects of loss carryforwards and tax credits	72	12
Tax credits	–	0
Prior-period tax expense and tax risks	35	–86
Effect of tax rate changes	3	2
Nondeductible withholding tax	–	16
Other taxation changes	11	6
Effective income tax expense (+)/income (–)	**89**	**401**
Effective tax rate (in %)	**–261**	**20**

15. Earnings per share

€ million	2020	2019
Earnings after tax (attributable to shareholders of TRATON SE)	–101	1,518
of which earnings from discontinued operations, net of tax	–	–2
Earnings from continuing operations, net of tax (attributable to shareholders of TRATON SE)	**–101**	**1,520**
Number of shares outstanding	500,000,000	500,000,000
Earnings per share from continuing operations (in €)	–0.20	3.04
Earnings per share from discontinued operations (in €)	–	0.00
Total (in €)	**–0.20**	**3.04**

Earnings per share are calculated by dividing consolidated earnings 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 million (previous year: 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.

Balance sheet disclosures

16. Intangible assets

CHANGES IN INTANGIBLE ASSETS IN THE PERIOD JANUARY 1 TO DECEMBER 31, 2020

€ million	Brand names	Goodwill	Capitalized development costs	Other intangible assets	Total
Cost					
Balance as of 01/01/2020	**983**	**3,347**	**4,722**	**1,086**	**10,137**
Currency translation differences	24	25	4	–107	–54
Changes in basis of consolidation	–	2	–	0	2
Additions	–	–	316	17	333
Transfers	–	–	0	7	7
Disposals	–	–	0	–13	–13
Balance as of 12/31/2020	**1,007**	**3,374**	**5,042**	**989**	**10,412**
Amortization and impairment					
Balance as of 01/01/2020	**52**	**69**	**2,397**	**865**	**3,383**
Currency translation differences	–15	0	42	–69	–42
Changes in basis of consolidation	–	–	–	0	0
Additions to cumulative amortization	–	–	236	48	283
Additions to cumulative impairment losses	–	–	31	1	32
Transfers	–	–	–	0	0
Disposals	–	–	–	–9	–9
Balance as of 12/31/2020	**37**	**69**	**2,705**	**836**	**3,646**
Carrying amount as of 12/31/2020	**971**	**3,305**	**2,336**	**153**	**6,766**

CHANGES IN INTANGIBLE ASSETS IN THE PERIOD JANUARY 1 TO DECEMBER 31, 2019

€ million	Brand names	Goodwill	Capitalized development costs	Other intangible assets	Total
Cost					
Balance as of 01/01/2019	**1,002**	**3,406**	**4,307**	**1,089**	**9,804**
Currency translation differences	–18	–60	–45	–14	–137
Changes in basis of consolidation	–	–	–	–3	–3
Additions	–	–	467	21	488
Transfers	–	–	–3	13	11
Disposals	–	–	–6	–20	–26
Balance as of 12/31/2019	**983**	**3,347**	**4,722**	**1,086**	**10,137**
Amortization and impairment					
Balance as of 01/01/2019	**53**	**68**	**2,237**	**849**	**3,207**
Currency translation differences	–1	0	–26	–12	–39
Changes in basis of consolidation	–	–	–	–3	–3
Additions to cumulative amortization	–	–	192	51	242
Transfers	–	–	–	0	0
Disposals	–	–	–5	–21	–26
Balance as of 12/31/2019	**52**	**69**	**2,397**	**865**	**3,383**
Carrying amount as of 12/31/2019	**932**	**3,278**	**2,325**	**221**	**6,755**

Other intangible assets comprise in particular licenses, software, similar rights, and customer relationships. Along with capitalized development costs, these are finite-lived assets. Amortization and impairment losses are included in the functional expenses, in particular cost of sales and distribution expenses.

Impairment losses of €31 million on capitalized development costs and €5 million on property, plant, and equipment were recognized and reported in cost of sales in the second quarter of fiscal year 2020 in connection with the announced termination of the cooperation with Navistar relating to a diesel engine. 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. Further expenditures were also recognized in other operating expenses. The overall expense was in the mid double-digit millions.

The allocation of the brand names and goodwill to the operating units is shown in the following table:

€ million	12/31/2020	12/31/2019
Brand names by operating unit	**971**	**932**
Scania Vehicles and Services	971	932
Goodwill by operating unit	**3,305**	**3,278**
MAN Truck & Bus	222	222
Scania Vehicles and Services	2,808	2,699
Volkswagen Caminhões e Ônibus	275	357

Goodwill and brand names are tested for impairment at least once a year by comparing the carrying amounts of the units to which goodwill or brands are allocated with their value in use. Value in use is determined using the discounted cash flow method. Impairment testing is based on the current five-year planning for the unit concerned. Even if the growth forecast for the perpetuity or the discount rate varies by +/–0.5 percentage points, there is no requirement to recognize an impairment loss for goodwill or brand names.

17. Property, plant, and equipment

CHANGES IN PROPERTY, PLANT, AND EQUIPMENT IN THE PERIOD JANUARY 1 TO DECEMBER 31, 2020

€ million	Land, land rights, and buildings, including buildings on third-party land	Technical equipment and machinery	Other equipment, operating and office equipment	Payments on account and assets under construction	Total
Cost					
Balance as of 01/01/2020	**4,877**	**4,367**	**2,578**	**731**	**12,553**
Currency translation differences	–86	–87	–62	–4	–238
Changes in basis of consolidation	0	13	0	0	14
Additions	216	77	278	643	1,215
Transfers	71	166	143	–388	–7
Disposals	–60	–68	–113	–10	–251
Balance as of 12/31/2020	**5,018**	**4,469**	**2,824**	**974**	**13,285**
Depreciation and impairment					
Balance as of 01/01/2020	**1,503**	**2,716**	**1,542**	**2**	**5,763**
Currency translation differences	–18	–34	–37	–1	–90
Changes in basis of consolidation	–	3	–	–	3
Additions to cumulative depreciation	241	342	272	–	855
Additions to cumulative impairment losses	15	9	6	1	32
Transfers	0	0	0	–	0
Disposals	–30	–57	–99	–	–186
Reversals of impairment losses	–	0	–	0	0
Balance as of 12/31/2020	**1,712**	**2,979**	**1,684**	**2**	**6,377**
Carrying amount as of 12/31/2020	**3,306**	**1,490**	**1,140**	**971**	**6,908**

In connection with the announced termination of the cooperation with Navistar relating to a diesel engine, impairment losses of €5 million were recognized in respect of property, plant, and equipment in fiscal year 2020 and reported in cost of sales (see Note “16. Intangible assets”).

The other impairment losses on property, plant, and equipment resulted from the reorganization of production facilities at Scania Vehicles & Services. These impairment losses were also reported in cost of sales of the Industrial Business segment.

CHANGES IN PROPERTY, PLANT, AND EQUIPMENT IN THE PERIOD JANUARY 1 TO DECEMBER 31, 2019

€ million	Land, land rights, and buildings, including buildings on third-party land	Technical equipment and machinery	Other equipment, operating and office equipment	Payments on account and assets under construction	Total
Cost Balance as of 01/01/2019 (prior to IFRS 16 restatement)	**3,793**	**3,957**	**2,056**	**815**	**10,622**
Effect of the initial application of IFRS 16	872	0	143	0	1,015
Cost Balance as of 01/01/2019 (after IFRS 16 restatement)	**4,665**	**3,957**	**2,199**	**815**	**11,636**
Currency translation differences	–10	–60	–9	4	–76
Changes in basis of consolidation	–11	0	–1	0	–11
Additions	223	125	300	592	1,239
Transfers	79	414	169	–680	–17
Disposals	–68	–69	–80	–1	–219
Balance as of 12/31/2019	**4,877**	**4,367**	**2,578**	**731**	**12,553**
Depreciation and impairment Balance as of 01/01 (prior to IFRS 16 restatement)	**1,302**	**2,484**	**1,376**	**2**	**5,163**
Effect of the initial application of IFRS 16	0	0	0	–	0
Depreciation and impairment Balance as of 01/01 (after IFRS 16 restatement)	**1,302**	**2,484**	**1,376**	**2**	**5,163**
Currency translation differences	–9	–35	–7	0	–51
Changes in basis of consolidation	–13	0	–1	0	–13
Additions to cumulative depreciation	235	330	246	–	811
Additions to cumulative impairment losses	1	0	0	0	1
Transfers	–1	–1	0	–	–1
Disposals	–11	–62	–73	–	–146
Reversals of impairment losses	0	0	–	0	0
Balance as of 12/31/2019	**1,503**	**2,716**	**1,542**	**2**	**5,763**
Carrying amount as of 12/31/2019	**3,374**	**1,650**	**1,036**	**729**	**6,789**

18. Assets leased out

The “Assets leased out” item reports assets for which the TRATON GROUP is the lessor. These include in particular vehicles and real estate marketed in the context of short-term rentals or operating leases, as well as vehicles that continue to be attributable to the TRATON GROUP because of buyback obligations.

The “Investment property” item contains land and buildings held for rental or capital appreciation with a fair value of €44 million (previous year: €45 million). Lease income from investment property amounted to €3 million (previous year: €3 million) in the reporting period. As a general rule, fair value is calculated using an income capitalization approach based on internal data (Level 3 in the fair value hierarchy). Depreciation and impairment losses are included in the functional expenses.

CHANGES IN ASSETS LEASED OUT IN THE PERIOD JANUARY 1 TO DECEMBER 31, 2020

€ million	Vehicles leased out	Investment property	Other assets leased out	Total
Cost				
Balance as of 01/01/2020	**9,605**	**47**	**43**	**9,695**
Currency translation differences	–502	–	2	–500
Additions	1,962	1	0	1,963
Transfers	–	–	–	–
Disposals	–2,091	–6	–	–2,098
Balance as of 12/31/2020	**8,975**	**42**	**45**	**9,061**
Depreciation and impairment				
Balance as of 01/01/2020	**2,500**	**39**	**37**	**2,576**
Currency translation differences	–357	–	2	–355
Additions to cumulative depreciation	1,124	0	0	1,124
Additions to cumulative impairment losses	115	–	–	115
Transfers	0	–	–	0
Disposals	–889	–6	–	–895
Reversals of impairment losses	0	–	–	0
Balance as of 12/31/2020	**2,493**	**33**	**39**	**2,565**
Carrying amount as of 12/31/2020	**6,482**	**9**	**5**	**6,496**

CHANGES IN ASSETS LEASED OUT
IN THE PERIOD JANUARY 1 TO DECEMBER 31, 2019

€ million	Vehicles leased out	Investment property	Other assets leased out	Total
Cost				
Balance as of 01/01/2019 (prior to IFRS 16 restatement)	**8,919**	**–**	**36**	**8,955**
Effect of the initial application of IFRS 16	–	49	7	56
Cost				
Balance as of 01/01/2019 (after IFRS 16 restatement)	**8,919**	**49**	**43**	**9,011**
Currency translation differences	192	–	–1	191
Changes in basis of consolidation	–	–1	–	–1
Additions	2,924	–	0	2,924
Transfers	6	–	0	6
Disposals	–2,436	0	–	–2,436
Balance as of 12/31/2019	**9,605**	**47**	**43**	**9,695**
Depreciation and impairment				
Balance as of 01/01/2019 (prior to IFRS 16 restatement)	**2,320**	**–**	**36**	**2,356**
Effect of the initial application of IFRS 16	–	39	1	39
Depreciation and impairment				
Balance as of 01/01/2019 (after IFRS 16 restatement)	**2,320**	**39**	**37**	**2,395**
Currency translation differences	132	–	–1	131
Additions to cumulative depreciation	1,150	0	0	1,151
Transfers	0	–	1	1
Disposals	–1,098	0	–	–1,098
Reversals of impairment losses	–3	–	–	–3
Balance as of 12/31/2019	**2,500**	**39**	**37**	**2,576**
Carrying amount as of 12/31/2019	**7,105**	**8**	**5**	**7,119**

In the case of vehicles leased out, the review of the forecast residual values in 2020 due to the COVID-19 pandemic resulted in impairment losses of €115 million. These are presented in the Industrial Business segment and are contained in cost of sales.

19. Equity-method investments

SINOTRUK

Sinotruk is one of the largest truck manufacturers in the Chinese market. Group companies and Sinotruk have entered into an agreement on a long-term strategic partnership under which the Group participates in the local market. In addition to its cooperation with Sinotruk in the high-volume segment, the TRATON GROUP serves the strongly growing premium truck market by exporting MAN vehicles to China. Sinotruk's principal place of business is in Hong Kong, China. Due to the application of the equity method, taking into account local capital market regulations relating to the disclosure of financial information for the investee, a reporting period that differs from the TRATON GROUP's fiscal year is used to account for Sinotruk.

The market price of the Sinotruk shares held by TRATON was €1,436 million (previous year: €1,312 million) as of December 31, 2020.

Summarized financial information for Sinotruk on a 100% basis and reconciliation to the carrying amounts

Summarized financial information for Sinotruk (on a 100% basis and thus not adjusted for the equity interest held by TRATON) and a reconciliation to the carrying amounts are presented in the following tables:

STATEMENT OF COMPREHENSIVE INCOME

€ million	2020[1]	2019[1]
Sales revenue	9,072	8,047
Earnings after tax from continuing operations	538	627
Other comprehensive income	–1	0
Total comprehensive income	**537**	**627**
Dividends received[2]	30	47

1 Amounts shown relate to the period from July 1 of the previous year to June 30 of the year in question.
2 Dividends net of withholding tax

BALANCE SHEET

€ million	12/31/2020[1]	12/31/2019[1]
Noncurrent assets	2,578	2,351
Current assets	8,755	6,127
Noncurrent liabilities and provisions	185	50
Current liabilities and provisions	7,180	4,669
Net assets	**3,969**	**3,758**
Reconciliation of the financial information to the carrying amount of the equity-accounted investments		
Net assets	3,969	3,758
Noncontrolling interests	405	379
Net assets attributable to shareholders	3,564	3,380
Interest held by TRATON in %	25	25
Net assets attributable to the TRATON GROUP	**891**	**845**
Impairment losses	–	–
Goodwill, effects of purchase price allocation, currency translation differences, and other changes	–37	–46
Carrying amount as of 12/31	**854**	**799**

1 Amounts shown relate to the reporting period ended June 30 of the year in question.

NAVISTAR

Navistar International Corporation (Navistar) is a US manufacturer of commercial vehicles headquartered in Lisle, Illinois, USA. Master agreements governing strategic technology and supply collaboration and a procurement joint venture have been entered into by Navistar and TRATON GROUP companies.

Because the contractual arrangements with Navistar mean that TRATON is entitled to appoint two out of ten members of Navistar's Board of Directors, and because of the existing cooperation agreements, the investment in Navistar is presented in "Equity-method investments" in the Consolidated Financial Statements for fiscal year 2020. Due to the application of the equity method, taking into account the different fiscal year of the investee as well as local capital market regulations relating to the disclosure of financial information, a reporting period that differs from the TRATON GROUP's fiscal year is used to account for Navistar.

On November 7, 2020, TRATON announced that it had entered into a binding merger agreement under which TRATON will acquire all outstanding common shares of Navistar not already held by TRATON at a cash price of USD 44.50 per common share.

TRATON held 16.7% of the outstanding shares of Navistar at the time of the agreement. This agreement in principle is subject to approval of the transaction by Navistar's shareholder meeting and to official approvals.

The market price of the Navistar shares held by TRATON was €596 million (previous year: €429 million) as of December 31, 2020.

Summarized financial information for Navistar on a 100% basis and reconciliation to the carrying amounts
Summarized financial information for Navistar (on a 100% basis and thus not adjusted for the equity interest held by TRATON) and a reconciliation to the carrying amounts are presented in the following tables:

STATEMENT OF COMPREHENSIVE INCOME

€ million	2020[1]	2019[1]
Sales revenue	6,664	10,004
Earnings after tax from continuing operations	–292	216
Other comprehensive income	212	7
Total comprehensive income	**–80**	**223**
Dividends received[2]	–	–

1 The income statements for 2019 and 2020 relate to the period from November 1 of the previous year to October 31 of the year in question.

2 Dividends net of withholding tax

BALANCE SHEET

€ million	12/31/2020[1]	12/31/2019[1]
Noncurrent assets	1,765	1,762
Current assets	3,921	4,441
Noncurrent liabilities and provisions	6,072	6,336
Current liabilities and provisions	2,888	3,206
Net assets	**–3,274**	**–3,339**
Reconciliation of the financial information to the carrying amount of the equity-accounted investments		
Net assets	–3,274	–3,339
Noncontrolling interests	4	3
Net assets attributable to shareholders	–3,278	–3,342
Interest held by TRATON (in %)	17	17
Net assets attributable to the TRATON GROUP	**–547**	**–560**
Impairment losses	–	–
Goodwill, effects of purchase price allocation, currency translation differences, and other changes	923	1,007
Carrying amount as of 12/31	**376**	**447**

1 Amounts shown relate to the reporting period ended October 31 of the year in question.

Summarized financial information on individually immaterial associates of the TRATON GROUP based on its proportionate interest:
The carrying amounts of other associates amounted to €90 million (previous year: €62 million) as of December 31, 2020. The following table contains summarized financial information on the other associates; the disclosures relate to the Group's share of the investees in all cases:

€ million	2020	2019
Earnings after tax from continuing operations	19	34
Earnings after tax from discontinued operations	–	–
Other comprehensive income	–1	–2
Total comprehensive income	18	33

Effective August 28, 2019, the 49% interest in the Tactical Wheeled Vehicles division of Rheinmetall MAN Military Vehicles GmbH, Munich (RMMV) was sold to Rheinmetall AG for a purchase price of €101 million. In this context, the reason for the total €67 million impairment loss on the equity-method investment in RMMV recognized in fiscal years 2012 and 2013 no longer applies. The €67 million reversal was recognized in the other financial result and is attributable to the Industrial Business segment. The €23 million gain on the disposal of associates is reported in the share of earnings of equity-method investments. The TRATON GROUP retains a 49% interest in RMMV's Logistics division.

There were no contingent liabilities to associates.

Summarized financial information on individually immaterial joint ventures of the TRATON GROUP based on its proportionate interest:
The carrying amounts of joint ventures amounted to €60 million (previous year: €57 million) as of December 31, 2020. The following table contains summarized financial information on the joint ventures; the disclosures relate to the Group's share of the joint ventures in all cases:

€ million	2020	2019
Earnings after tax from continuing operations	9	5
Earnings after tax from discontinued operations	–	–
Other comprehensive income	–	–
Total comprehensive income	9	5

20. Other equity investments

Other equity investments include shares in unconsolidated subsidiaries, associates and joint ventures not accounted for using the equity method due to insignificance, and financial investments.

The following table contains financial information about equity investments at fair value through other comprehensive income:

	Fair value		Dividends	
€ million	**12/31/2020**	**12/31/2019**	**2020**	**2019**
Northvolt AB	28	9	–	–
TuSimple	14	–	–	–
Other investees	5	4	0	–
	47	**14**	**0**	**–**

21. Financial services receivables

	Carrying amount			Carrying amount		
€ million	**current**	**non-current**	**12/31/2020**	**current**	**non-current**	**12/31/2019**
Receivables from the financing business						
Customer financing	1,061	2,020	3,081	1,108	1,979	3,087
Dealer financing	372	3	374	393	1	393
	1,432	**2,023**	**3,455**	**1,501**	**1,980**	**3,481**
Receivables from operating leases	2	–	2	5	–	5
Receivables from finance leases	1,523	2,760	4,283	1,614	2,891	4,506
	2,957	**4,783**	**7,741**	**3,120**	**4,871**	**7,991**

Customer finance receivables primarily comprise loans granted to direct customers. These loans are collateralized by the underlying vehicles or other liens. Dealer finance receivables mainly include working capital loans to dealers. The loans are collateralized by the underlying vehicles or other liens.

For further information on leases and risk management associated with financial services receivables, refer to Note “35. The TRATON GROUP as lessor” and Note “38. Financial risk management and financial instruments”.

As of December 31, 2020, financial services receivables contained related party balances of €7 million (previous year: €10 million).

22. Other financial assets

€ million	12/31/2020	12/31/2019
Positive fair value of derivatives	503	120
Receivables from loans (excl. interest)	15	25
Miscellaneous financial assets	370	324
	888	**468**

Derivatives are measured at fair value. They are mainly used to hedge currency risks from customer orders and net liquidity. 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 the US dollar, the euro, and the Swedish krona, as well as the depreciation of the Russian ruble and the South African rand against the Swedish krona. Further information on derivatives as a whole can be found in Note "38. Financial risk management and financial instruments."

The increase in miscellaneous financial assets is attributable mainly to a receivable of €45 million (previous year: no receivable recognized) from Navistar.

As of December 31, 2020, other financial assets contained related party receivables of €88 million (previous year: €53 million). Of this amount, €9 million (previous year: €17 million) is attributable to receivables from loans.

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

€ million	12/31/2020	12/31/2019
Other noncurrent financial assets	435	130
Other current financial assets	453	338

23. Other receivables

€ million	12/31/2020	12/31/2019
Recoverable taxes	670	849
Miscellaneous receivables	450	498
	1,120	**1,347**

As of December 31, 2020, other receivables contained related party balances of €16 million (previous year: €48 million).

Other receivables are reported in the following balance sheet items:

€ million	12/31/2020	12/31/2019
Other noncurrent receivables	269	384
Other current receivables	851	963

Other current receivables are predominantly noninterest-bearing.

24. Inventories

€ million	12/31/2020	12/31/2019
Raw materials, consumables, and supplies	620	656
Work in progress	415	496
Finished goods and purchased merchandise	3,274	3,772
Prepayments	16	18
	4,325	**4,943**

Inventories of €18,826 million (previous year: €21,469 million) were recognized in cost of sales at the same time as the sales revenue. Valuation allowances recognized as expenses in the fiscal year amounted to €186 million (previous year: €80 million).

25. Trade receivables

€ million	12/31/2020	12/31/2019
Trade receivables from		
third parties	1,727	2,000
related parties	179	144
	1,906	**2,144**

€5 million (previous year: €15 million) of the trade receivables is due in more than one year.

26. Marketable securities and investment deposits

The marketable securities and investment deposits serve to safeguard liquidity. Marketable securities and investment deposits are fixed-income securities with short maturity. The item also includes investment deposits at Volkswagen AG of €2,100 million (previous year: €3,100 million) as of December 31, 2020. Marketable securities and investment deposits are allocated to the “financial assets at amortized cost” category.

27. Cash and cash equivalents

€ million	12/31/2020	12/31/2019
Cash and bank balances	1,286	1,283
Cash pool receivables from PE companies	–	417
Cash pool receivables from unconsolidated affiliated companies	7	–
Receivables from affiliated companies of the Volkswagen Group	421	213
	1,714	**1,913**

In the purchase agreement for the PE business sold in 2018, Volkswagen AG committed to settling cash pool receivables from PE companies, with the result that there were still such receivables in the previous year.

28. Equity

COMPOSITION OF EQUITY

The share capital of TRATON SE amounts to €500,000,000 and is composed of 500,000,000 no-par value bearer shares with a notional value of €1.00 each.

All shares are fully paid up and have the same dividend rights. Under Article 6 (2) sentence 1 of the Articles of Association, shareholders may not claim delivery of physical share certificates.

Authorized capital

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

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

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

Contingent capital

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

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

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

Domination and profit and loss transfer agreements

The domination and profit and loss transfer agreement between Volkswagen AG and TRATON SE ended at midnight (24:00) on December 31, 2019, by law in accordance with section 307 of the AktG.

Capital reserves

TRATON SE's capital reserves of €19,995,313 thousand (previous year: €20,241,380 thousand) constitute the contributions by Volkswagen AG to TRATON SE, in particular from the contribution of MAN SE and Scania AB.

The change in the capital reserves is presented below:

€ thousand	2020	2019
Opening balance as of 01/01	**20,241,380**	**21,331,380**
Contribution of additional profit from profit transfer by Volkswagen AG under the Relationship Agreement dated June 14, 2019	53,932	–
Transfer to the free capital reserves in line with the provisions governing ordinary capital reductions	–	16,000,000
Withdrawal from the free capital reserves	–300,000	–17,090,000
of which withdrawn	(–300,000)	(–600,000)
of which converted into share capital	–	(–490,000)
of which converted into share capital	–	(–16,000,000)
Closing balance as of 12/31	**19,995,313**	**20,241,380**

The entire capital reserves of €19,995,313 thousand are distributable capital reserves within the meaning of section 272 (2) no. 4 of the HGB.

Retained earnings and other comprehensive income

The retained earnings of €–4,479 million (previous year: €–4,150 million) reported as of December 31, 2020, constitute amounts recognized as earnings after tax in prior periods. They also contain the difference between the value of MAN SE shares at the date of their contribution to TRATON SE and the recognized carrying amount of the corresponding assets and liabilities. TRATON SE paid its shareholders a dividend of €1.00 per share in 2020. This resulted in a total distribution of €500 million. When part of TRATON SE's retained earnings was distributed, an amount of €3,250 million was distributed in 2019 to Volkswagen AG as the then-sole shareholder. This was equivalent to €324.99 per share.

As of December 31, 2020, the accumulated other comprehensive income of €–3,078 million (previous year: €–2,727 million) contains the accumulated amounts of transactions recognized in other comprehensive income, in particular currency translation differences and differences from pension plan remeasurements. Further information can be found in the statement of comprehensive income.

Following the Company's successful IPO, the domination and profit and loss transfer agreement between TRATON SE and Volkswagen AG ended automatically at the end of fiscal year 2019 in accordance with section 307 of the *Aktiengesetz* (AktG — German Stock Corporation Act). As a result, TRATON SE transferred its annual result for fiscal year 2019 (calculated in accordance with German GAAP) to Volkswagen AG for the last time in 2020. Further information is available in Note "43. Related party disclosures."

For fiscal year 2020, TRATON SE's Executive and Supervisory Boards are proposing to the Annual General Meeting to be held on June 30, 2021, to pay a dividend of €0.25 (previous year: €1.00) per share. This proposal corresponds to a total distribution of €125 million (previous year: €500 million).

NONCONTROLLING INTERESTS

In August 2018, the domination and profit and loss transfer agreement with MAN SE was terminated by way of notice of extraordinary termination effective January 1, 2019. Following the entry of the termination of the domination and profit and loss transfer agreement in the commercial register, the noncontrolling interest shareholders of MAN SE had the right to tender their shares to TRATON SE, pursuant to the provisions of the domination and profit and loss transfer agreement, within a two-month period. This resulted in cash outflows of €1,063 million in the first quarter of 2019 for the acquisition of shares tendered and compensation payments. There was a corresponding reduction in the "Put options/compensation rights granted to noncontrolling interest shareholders" reported in the balance sheet. The put options granted to noncontrolling interest shareholders of MAN SE expired on March 4, 2019. After the deduction of outstanding payments, which are shown in "Other financial liabilities," the remaining liability of €704 million was derecognized and reclassified directly to equity. €230 million of this amount is attributable to noncontrolling interests, representing the carrying amount of MAN's equity not attributable to TRATON SE at the date of reclassification. The residual amount was recorded in retained earnings at a carrying amount of €459 million and in accumulated other comprehensive income at a carrying amount of €14 million.

As of December 31, 2020, noncontrolling interests thus primarily comprise the noncontrolling interest shareholders of MAN SE, Munich. The following table contains further information about the position and course of business of MAN SE:

€ million	2020	2019
Noncontrolling interests (in %)	**5.64**	**5.64**
Noncurrent assets	13,541	13,281
Current assets	4,549	5,565
Total assets as of 12/31	**18,090**	**18,846**
Noncurrent liabilities and provisions	5,055	5,414
Current liabilities and provisions	7,099	7,384
Total liabilities as of 12/31	**12,154**	**12,798**
Net assets	**5,936**	**6,048**
Carrying amount of noncontrolling interests	335	341
Sales revenue	10,838	12,663
Earnings after tax	–432	712
Other comprehensive income	365	–348
Total comprehensive income	**–67**	**363**
Earnings after tax attributable to noncontrolling interests	–24	40
Other comprehensive income, net of tax, attributable to noncontrolling interests	21	–20
Dividends allocated to noncontrolling interests	1	–
Net cash provided by operating activities	570	515
Net cash provided by/used in investing activities	–510	1,248
Net cash used in financing activities	–524	–1,741
Changes in cash and cash equivalents recognized in the statement of cash flows	**–533**	**24**

29. Financial liabilities

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

€ million	12/31/2020	12/31/2019
Bonds	7,170	6,409
Liabilities to banks	3,001	3,198
Cash pool liabilities	31	570
Lease liabilities	1,047	1,077
Loans and miscellaneous liabilities	1,050	1,244
	12,298	**12,497**

Financial liabilities from bonds mainly relate to European Medium Term Notes (EMTNs). Bond issuances in 2020 amounted to €2,993 million (previous year: €3,082 million) and related primarily to EMTNs. They serve the Financial Services segment's financing activities.

Loans and miscellaneous liabilities include loans from Volkswagen AG in the amount of €1,000 million (previous year: €1,000 million).

The prior-year amount contains cash pool liabilities of €540 million to companies of the PE business sold in 2018.

€ million	12/31/2020	12/31/2019
Noncurrent financial liabilities	5,914	5,966
Current financial liabilities	6,384	6,531

30. Other financial liabilities

€ million	12/31/2020	12/31/2019
Liabilities from buyback obligations	3,439	3,634
Liabilities from the profit and loss transfer agreement and the tax allocation procedure with Volkswagen AG	–	1,404
Negative fair value of derivatives	225	214
Interest rate liabilities	45	61
Miscellaneous financial liabilities	174	128
	3,882	**5,441**

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

Other financial liabilities include negative fair value of derivatives. Because these instruments are used mainly to hedge currency risk in customer orders and net liquidity, they are matched by offsetting gains and losses of the underlyings. Further information on derivatives as a whole can be found in Note "38. Financial risk management and financial instruments."

For information on liabilities under the profit and loss transfer agreement, refer to Notes "28. Equity — Domination and profit and loss transfer agreements" and "43. Related party disclosures."

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

€ million	12/31/2020	12/31/2019
Other noncurrent financial liabilities	2,321	2,604
Other current financial liabilities	1,561	2,837

31. Other liabilities

€ million	12/31/2020	12/31/2019
Deferred purchase price payments for assets leased out	2,333	2,526
Contract liabilities	1,284	1,232
Payroll liabilities	653	746
Miscellaneous tax payables	440	369
Liabilities related to social security contributions	174	179
Miscellaneous other liabilities	645	607
	5,529	**5,660**

Other liabilities are impacted in particular by the increase in liabilities from buyback transactions.

Other liabilities are reported in the following balance sheet items:

€ million	12/31/2020	12/31/2019
Other noncurrent liabilities	1,903	2,034
Other current liabilities	3,626	3,626

The following table explains the change in contract liabilities in the reporting period:

€ million	2020	2019
Contract liabilities as of 01/01	**1,232**	**1,124**
Additions and disposals	95	86
Currency translation adjustments	–44	22
Contract liabilities as of 12/31	**1,284**	**1,232**

32. Provisions for pensions and other post-employment benefits

Depending on the situation in specific countries, the TRATON GROUP grants its employees pension benefits in the form of defined benefit or defined contribution pension plans.

DEFINED CONTRIBUTION PLANS IN THE TRATON GROUP

Under defined contribution plans, contributions are paid to public or private pension providers on the basis of legislative or contractual requirements. There are no benefit obligations over and above the payment of contributions. Current contribution payments are recognized as an expense in the period in which they are incurred; in the TRATON GROUP, they amounted to a total of €310 million (previous year: €330 million) in 2020. €107 million (previous year: €118 million) was paid for contributions to the statutory pension insurance system in Germany. Additionally, these primarily relate to Swedish defined contribution pension plans and defined benefit multi-employer pension plans that are accounted for as defined contribution pension plans (see the “Multi-employer plans” section).

MULTI-EMPLOYER PLANS

There are multi-employer pension plans in the TRATON GROUP in the United Kingdom, Sweden, Switzerland, and the Netherlands. These plans are mostly defined benefit plans.

A small proportion of these multi-employer pension plans are accounted for as defined contribution plans because the TRATON GROUP is unable to obtain the information required to account for them as defined benefit plans. This applies to the Dutch pension funds Pensioenfonds Metaal en Techniek and Bedrijfstakpensioenfonds Metal Elektro, which are administered by MN Services, and to part of the Swedish ITP occupational pensions, which are administered by Alecta, a pensions insurer. Alecta's insurance obligations are calculated using actuarial techniques and assumptions. These techniques and assumptions are different to those required by IAS 19 for measuring defined benefit pension plans.

No probable material risks are known from the multi-employer defined benefit pension plans that are accounted for as defined contribution plans.

The contributions to these plans expected for fiscal year 2021 amount to €28 million. Under the terms of the multi-employer plans, the TRATON GROUP only has a very limited liability for the obligations of the other employers. In the case of the defined benefit plans accounted for as defined contribution plans, the TRATON GROUP's share of the obligations represents a small proportion of the total obligations.

DEFINED BENEFIT PLANS IN THE TRATON GROUP

Most of the pension entitlements in the TRATON GROUP are classified as defined benefit plans under IAS 19, which are funded by external plan assets to a considerable extent.

The significant pension plans are described in the following.

Scania's plans in Sweden

Scania's employees in Sweden are covered through post-employment benefit plans that offer benefits in the form of retirement pensions, early retirement pensions, surviving dependents' pensions, healthcare, and severance payments.

Employees born before 1979 are covered by the defined benefit ITP2 pension plan, which is funded by recognized provisions and, since 2019, also partly by plan assets, and is secured by credit insurance taken out with Försäkringsbolaget PRI Pensionsgaranti, a mutual insurance company that also administers the plan. External funding of plan assets uses a foundation (Pensonsstiftelse). The fair value of plan assets was €152 million (previous year: €95 million) as of December 31, 2020. Another part of ITP2 is secured by contributions to Alecta, a pensions insurer (see the "Multi-employer plans" section).

In addition to these obligations, there are also defined benefit obligations for employees taking early retirement who have reached the age of 62 and were employed by the company for 30 years, or who have reached the age of 63 and were employed by the company for 25 years, as well as for a limited number of former executives.

For obligations that are funded entirely by recognized provisions, the company bears the risks associated with lifelong pension benefits.

TRATON holding companies and MAN plans in Germany

Once their active working life is over, the TRATON holding companies and the German companies of the MAN Group grant their employees in Germany benefits provided by a modern and attractive occupational pension system that constitute one of the key elements of its remuneration policy. Occupational pensions provide reliable additional retirement benefits as well as risk protection in the event of invalidity or death.

Under the current pension plans, all active employees receive employer contributions that are tied to their remuneration and can also make additional provisions through deferred compensation — which is employer-subsidized for staff subject to collective bargaining agreements. The employer- and employee-funded contributions plus returns on capital market investments allow staff to accumulate plan assets during their active employment that are paid out as a lump sum or in installments on retirement, or that can be annuitized in certain cases. The risk of the investments is gradually reduced as employees get older (life cycle concept). The performance of the plan assets is based on the return on capital investments. In line with the legislative requirements, the total amount of contributions paid in for the employee is paid out as a minimum when the employee retires.

Former employees, pensioners, or employees with vested benefits who have left also have benefit entitlements from discontinued pension plans, which are designed to provide lifelong pension payments. These commitments are exposed to the standard longevity and inflation risks, which are regularly monitored and assessed.

German pension assets are managed by MAN Pension Trust e.V. and Willis Towers Watson Pensionsfonds AG. These assets are irrevocably protected from recourse by the Group companies and may only be used to fund current pension benefit payments or to settle claims by employees in the event of insolvency. Proper management and utilization of the trust assets is supervised by independent trustees. Additionally, Willis Towers Watson Pensionsfonds AG is regulated by the *Bundesanstalt für Finanzdienstleistungsaufsicht* (BaFin — German Federal Financial Supervisory Authority).

The pension assets are invested by professional investment managers in accordance with investment rules laid down by MAN's Investment Committee. Strategic allocation of the pension assets is based on regular asset/liability management studies.

There is a general prohibition on acquiring securities issued by companies in the Volkswagen Group and on investing in real estate used by MAN Group companies.

Plans in other countries

Employees in the United Kingdom, Switzerland, and Brazil receive pension benefits under defined benefit funded pension plans.

The pension plans granting lifelong pensions in the United Kingdom have been closed to new entrants, and existing members cannot acquire additional entitlements. Trustee boards, which have appointed professional administrators and advisers, are responsible for administering the pension plans, including investing the assets. Regular asset/liability management studies form the basis of investment and risk management. The investment risk at MAN is being gradually reduced as part of a defined derisking strategy as funding ratios improve.

Employees in Switzerland accrue entitlements through employer and employee contributions to multi-employer (MAN) or occupational pension providers (Scania) that are converted into a lifelong pension at retirement at the terms in force at that time. The pension institutions are managed conservatively on the basis of standards imposed by the government. If the plan assets are insufficient to meet the pension entitlements because of adverse market developments, the member employers and their employees may be required to make "stabilization contributions."

Employees in Brazil are entitled to benefits under defined benefit pension plans funded largely by plan assets and have entitlements under healthcare plans funded by provisions.

Furthermore, other countries have pension plans with a low level of benefits or grant mandatory post-employment benefits. Some of these benefits are funded by plan assets, either in full (the Netherlands) or in part (Belgium, France, India), or only funded by provisions (Austria, Turkey, Poland, Italy).

The following amounts were recognized in the balance sheet for defined benefit plans:

€ million	12/31/2020	12/31/2019
Present value of funded obligations	3,460	3,261
Fair value of plan assets	2,022	1,888
Funded status (net)	1,438	1,373
Present value of unfunded obligations	387	390
Not recognized as an asset because of the ceiling in IAS 19	2	1
Net liabilities recognized in the balance sheet	**1,827**	**1,765**
of which pension provisions	1,828	1,769
of which other assets	0	4

Measurement of the pension provisions was based on the following actuarial assumptions:

	Germany		Sweden		Other countries	
in %	2020	2019	2020	2019	2020	2019
Discount rate as of 12/31	0.5	0.9	1.3	1.5	1.5	2.0
Payroll trend	3.0	3.7	2.3	2.5	1.2	1.3
Pension trend	1.5	1.5	1.5	1.8	1.0	0.9
Staff turnover rate	2.6	4.2	4.8	4.8	3.8	2.9

These amounts are averages that were weighted using the present value of the defined benefit obligation. With regard to longevity, the most recent mortality tables in each country are used. For Germany, the 2005 G mortality tables developed by Professor Klaus Heubeck were adapted, most recently in 2017, to MAN-specific experience for TRATON SE, TB Digital Services GmbH, and the MAN companies, and thus describe mortality in the TRATON GROUP better than the RT2018G mortality tables. As a general principle, the discount rates are defined to reflect the yields on highly-rated (AA) corporate bonds with matching maturities and currencies. The payroll trends cover expected wage and salary trends, which also include increases due to career development. The pension trends either reflect the contractually defined guaranteed pension adjustments or are based on the rules on pension adjustments in force in each country. The employee turnover rates are based on past experience and future expectations.

The following table shows changes in the net defined benefit liability recognized in the balance sheet:

€ million	2020	2019
Net liabilities recognized in the balance sheet as of 01/01	**1,765**	**1,493**
Current service cost	114	98
Net interest expense	26	37
Actuarial gains (–)/losses (+) arising from changes in demographic assumptions	–11	2
Actuarial gains (–)/losses (+) arising from changes in financial assumptions	129	402
Actuarial gains (–)/losses (+) arising from experience adjustments	15	67
Income/expense from plan assets not included in interest income	–77	–122
Change in amount not recognized as an asset because of the ceiling in IAS 19	1	–3
Employer contributions to the fund	–123	–140
Employee contributions to the fund	5	6
Pension payments from company assets	–40	–50
Pension payments from the fund	–	–2
Past service cost (including plan curtailments)	–1	–1
Gains (–) or losses (+) arising from plan settlements	–	0
Changes in basis of consolidation	0	–3
Other changes	–1	–1
Currency translation differences from foreign plans	26	–18
Net liabilities recognized in the balance sheet as of 12/31	**1,827**	**1,765**

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

€ million	2020	2019
Present value of obligations as of 01/01	**3,651**	**3,135**
Current service cost	114	98
Interest expense	46	67
Actuarial gains (–)/losses (+) arising from changes in demographic assumptions	–11	2
Actuarial gains (–)/losses (+) arising from changes in financial assumptions	129	402
Actuarial gains (–)/losses (+) arising from experience adjustments	15	67
Employee contributions to the fund	8	8
Pension payments from company assets	–40	–50
Pension payments from the fund	–74	–72
Past service cost (including plan curtailments)	–1	–1
Gains (–) or losses (+) arising from plan settlements	–	0
Changes in basis of consolidation	2	–7
Other changes	–1	–1
Currency translation differences from foreign plans	11	3
Present value of obligations as of 12/31	**3,848**	**3,651**

€1,242 million (previous year: €1,127 million) of the DBO is attributable to Scania plans in Sweden, and a further €1,758 million (previous year: €1,694 million) to the plans of MAN and the TRATON holding companies in Germany.

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

		12/31/2020		12/31/2019	
Present value of defined benefit obligation if		**€ million**	**Change in %**	**€ million**	**Change in %**
Discount rate	is 0.5 percent-age points higher	3,567	–7.3	3,388	–7.2
	is 0.5 percent-age points lower	4,166	8.3	3,950	8.2
Pension trend	is 0.5 percent-age points higher	4,009	4.2	3,804	4.2
	is 0.5 percent-age points lower	3,720	–3.3	3,527	–3.4
Payroll trend	is 0.5 percent-age points higher	3,947	2.6	3,742	2.5
	is 0.5 percent-age points lower	3,759	–2.3	3,570	–2.2
Longevity	increases by one year	3,988	3.6	3,776	3.4

The sensitivity analyses shown above consider the change in one assumption at a time, leaving the other assumptions unchanged versus the original calculation, i.e., any correlation effects between the individual assumptions are ignored. To examine the sensitivity of the present value of the defined benefit obligation to a change in assumed longevity, the age of the beneficiaries was reduced by one year as part of a comparative calculation. The average duration of the defined benefit obligation weighted by the present value of the defined benefit obligation (Macaulay duration) is 16 years (previous year: 16 years).

The maturity profile of payments attributable to the defined benefit obligations is presented in the following table by classifying the present value of the obligations by the maturity of the underlying payments:

€ million	12/31/2020	12/31/2019
Payments due within the next fiscal year	101	101
Payments due in two to five years	483	461
Payments due in more than five years	3,264	3,089
	3,848	**3,651**

Changes in plan assets are shown in the following table:

€ million	2020	2019
Fair value of plan assets as of 01/01	**1,888**	**1,647**
Interest income on plan assets determined using the discount rate	19	30
Income/expense from plan assets not included in interest income	77	122
Employer contributions to the fund	123	140
Employee contributions to the fund	3	2
Pension payments from the fund	–74	–70
Gains (+) or losses (–) arising from plan settlements	–	–
Changes in basis of consolidation	1	–5
Other changes	–1	0
Currency translation differences from foreign plans	–14	21
Fair value of plan assets as of 12/31	**2,022**	**1,888**

Employer contributions to plan assets are expected to amount to €91 million in the next year (previous year: €117 million).

Plan assets are invested in the following asset classes:

	12/31/2020			12/31/2019		
€ million	Quoted prices in active markets	No quoted prices in active markets	Total	Quoted prices in active markets	No quoted prices in active markets	Total
Cash and cash equivalents	63	–	63	44	–	44
Equity instruments	112	–	112	119	–	119
Debt instruments	83	–	83	74	5	79
Direct investments in real estate	–	5	5	–	4	4
Equity funds	550	1	551	474	1	474
Bond funds	768	5	773	587	0	587
Real estate funds	117	–	117	92	–	92
Other funds	36	24	60	11	19	30
Other instruments	5	253	258	13	445	458
Fair value of plan assets	**1,735**	**287**	**2,022**	**1,414**	**474**	**1,888**

Plan assets as of December 31, 2020, include investments of €9 million within the TRATON GROUP, of which €5 million is attributable to financial positions and €5 million to nonfinancial positions (previous year: €9 million, of which €5 million attributable to financial and €4 million to nonfinancial positions).

Changes in the effects of the asset ceiling are as follows:

€ million	2020	2019
Effects of the asset ceiling as of 01/01	**1**	**4**
Interest expense	0	0
Change in amount not recognized as an asset because of the ceiling in IAS 19	1	–3
Currency translation differences from foreign plans	0	0
Effects of the asset ceiling as of 12/31	**2**	**1**

The following amounts were recognized in the income statement:

€ million	2020	2019
Current service cost	–114	–98
Net interest expense	–26	–37
Past service cost (including plan curtailments)	1	1
Gains (+)/losses (–) arising from plan settlements	–	0
Balance of expenses (–) and income (+) recognized in the income statement	**–139**	**–134**

The above amounts are generally contained in the personnel costs of the functions. Net interest on the net defined benefit liability is reported in interest expense.

33. Other provisions

€ million	Obligations arising from sales	Obligations to employees	Litigation and legal risks	Miscellaneous provisions	Total
Balance as of 01/01/2020	**1,076**	**222**	**440**	**358**	**2,094**
Currency translation differences	–35	–1	–2	–30	–68
Utilization	–370	–57	–7	–121	–555
Additions/new provisions	552	95	25	261	933
Unwinding of discount/effect of change in discount rate	–7	0	–	0	–7
Reversals	–85	–6	–10	–17	–117
Balance as of 12/31/2020	**1,129**	**253**	**446**	**452**	**2,280**
of which current	572	64	20	321	977
of which noncurrent	558	189	426	131	1,304

Obligations arising from sales contain provisions that cover all risks attributable to the sale of vehicles and spare parts. These primarily relate to provisions for warranties and statutory or contractual guarantee obligations. The timing of the settlement of provisions for warranties depends on the timing of the warranty claim. They also include provisions for discounts, bonuses, and similar allowances incurred after the reporting date, but for which there is a legal or constructive obligation attributable to sales revenue before the reporting date.

Provisions for obligations to employees are recognized for long-service awards, partial retirement arrangements, severance payments, and similar obligations, among other things.

Provisions for litigation and legal risks are largely the result of the antitrust proceedings that the European Commission launched against European truck manufacturers in 2011. In addition, the provisions for litigation and legal risks contain amounts related to a large number of legal disputes and official proceedings in which TRATON GROUP companies become involved in Germany and internationally in the course of their operating activities. In particular, such legal disputes and other proceedings may occur in relation to suppliers, dealers, customers, and employees. Further information about legal risks and antitrust proceedings can be found in Note "41. Litigation/legal proceedings."

Miscellaneous provisions relate to a large number of identifiable specific risks and uncertain obligations arising from operating activities that are measured at the expected settlement amount. Miscellaneous provisions also contain provisions for litigation in connection with indirect and other taxes. As of December 31, 2020, they additionally contain restructuring provisions of €18 million (previous year: €6 million).

34. The TRATON GROUP as lessee

The TRATON GROUP acts as a lessee in many areas of the Company. These transactions primarily relate to leases of real estate, office equipment, passenger cars, and other production resources. The leases are individually negotiated and feature a wide range of contractual terms. Right-of-use assets from leases are reported in property, plant, and equipment in the balance sheet and changed as follows:

CHANGES IN RIGHT-OF-USE ASSETS IN THE PERIOD JANUARY 1 TO DECEMBER 31, 2020

€ million	Right-of-use assets contained in land, land rights, and buildings, including buildings on third-party land	Right-of-use assets contained in technical equipment and machinery	Right-of-use assets contained in other equipment, operating and office equipment	Total right-of-use assets
Cost				
Balance as of 01/01/2020	**1,013**	**1**	**230**	**1,243**
Currency translation differences	–28	0	–4	–31
Additions	172	0	65	238
Disposals	–43	0	–49	–92
Balance as of 12/31/2020	**1,114**	**1**	**243**	**1,358**
Depreciation and impairment				
Balance as of 01/01/2020	**126**	**0**	**68**	**195**
Currency translation differences	–5	0	–1	–7
Additions to cumulative depreciation	135	0	83	218
Additions to cumulative impairment losses	6	–	1	6
Disposals	–20	0	–41	–61
Balance as of 12/31/2020	**242**	**0**	**109**	**351**
Carrying amount as of 12/31/2020	**872**	**1**	**134**	**1,007**

CHANGES IN RIGHT-OF-USE ASSETS IN THE PERIOD JANUARY 1 TO DECEMBER 31, 2019

€ million	Right-of-use assets contained in land, land rights, and buildings, including buildings on third-party land	Right-of-use assets contained in technical equipment and machinery	Right-of-use assets contained in other equipment, operating and office equipment	Total right-of-use assets
Cost				
Balance as of 01/01/2019	**881**	**0**	**144**	**1,025**
Currency translation differences	4	0	0	4
Changes in basis of consolidation	2	–	0	2
Additions	171	0	92	264
Disposals	–46	0	–5	–51
Balance as of 12/31/2019	**1,013**	**1**	**230**	**1,243**
Depreciation and impairment				
Balance as of 01/01/2019	**0**	**–**	**1**	**2**
Currency translation differences	0	0	0	1
Changes in basis of consolidation	1	–	0	1
Additions to cumulative depreciation	127	0	69	197
Disposals	–3	0	–3	–5
Balance as of 12/31/2019	**126**	**0**	**68**	**195**
Carrying amount as of 12/31/2019	**886**	**1**	**162**	**1,049**

Measurement of right-of-use assets from leases and the associated lease liabilities is based on a best estimate of the exercise of extension and termination options. This estimate is updated in the event of material changes in the operating environment or the contract. The following tables show the allocation of lease liabilities in the balance sheet and provide an overview of the contractual maturities of those liabilities:

€ million	12/31/2020	12/31/2019
Noncurrent financial liabilities	856	877
Current financial liabilities	192	200

Taking into account future interest payable, the maturity structure of the lease liabilities is as follows:

	Contractual maturities			
Balance as of 12/31/2020 **€ million**	**2021**	**2022–2025**	**From 2026**	**Total**
Lease liabilities	219	589	417	1,224

	Contractual maturities			
Balance as of 12/31/2019 **€ million**	**2020**	**2021–2024**	**From 2025**	**Total**
Lease liabilities	232	593	462	1,287

Interest expense of €32 million (previous year: €37 million) was incurred for lease liabilities in the reporting period.

No right-of-use assets are recognized for low-value and short-term leases. Expenses for low-value underlying assets amounted to €43 million (previous year: €45 million) in the reporting period. This figure does not include any expenses for short-term leases, which amounted to a total of €13 million (previous year: €31 million) in the reporting period.

Overall, leases resulted in aggregate cash outflows of €299 million (previous year: €287 million) in the reporting period.

The following table shows an overview of potential future cash outflows from leases that were not included in the measurement of lease liabilities:

€ million	12/31/2020	12/31/2019
Potential future cash outflows due to		
extension options	463	**496**
termination options	1	**0**
leases not yet commenced (contractual obligation)	45	**58**

35. The TRATON GROUP as lessor

The TRATON GROUP acts as a lessor in both finance and operating leases. These transactions mainly relate to commercial vehicles, as well as land and buildings, and technical equipment and machinery. Vehicles sold with a buyback obligation are also accounted for as operating leases. The sale price obtained on sale of the vehicle is recognized ratably in profit or loss over the term of the lease, net of the present value of the buyback price. The underlying asset continues to be recognized in the balance sheet.

OPERATING LEASES

The following payments are expected in the years shown from outstanding undiscounted lease payments arising from operating leases:

Balance as of 12/31/2020 € million	2021	2022	2023	2024	2025	From 2026	Total
Lease payments	479	271	171	81	37	29	1,069

Balance as of 12/31/2019 € million	2020	2021	2022	2023	2024	From 2025	Total
Lease payments	413	310	201	103	43	29	1,099

Income from operating leases is classified as follows:

€ million	2020	2019
Lease income	1,256	1,270
Income from variable lease payments	0	0
Income from operating leases	**1,257**	**1,270**

Changes in the underlying assets in operating leases are described in Note "18. Assets leased out."

FINANCE LEASES

Finance lease receivables relate to commercial vehicle leases and are recognized at the net investment in the lease. They are reported in financial services receivables. The net investment decreased by €186 million in the reporting period (previous year: €430 million increase), due primarily to the decline in the Financial Services business.

The TRATON GROUP takes into account the entire default risk associated with lease receivables by recognizing specific loss allowances and portfolio-based loss allowances in accordance with the requirements of IFRS 9. Interest income from the net investment in the leases amounted to €189 million (previous year: €205 million) and is reported in sales revenue. Finance leases resulted in a disposal gain of €136 million in the fiscal year.

RECONCILIATION OF LEASE PAYMENTS FROM FINANCE LEASES

€ million	12/31/2020	12/31/2019
Undiscounted lease payments	**4,701**	**4,917**
Unearned interest income	–302	–331
Net investment in the lease	**4,399**	**4,586**
Loss allowance for lease receivables	–116	–80
Carrying amount	**4,283**	**4,506**

The following payments are expected in the years shown from expected outstanding undiscounted lease payments arising from finance leases:

Balance as of 12/31/2020 € million	2021	2022	2023	2024	2025	From 2026	Total
Lease payments	1,704	1,243	850	492	228	185	4,701

Balance as of 12/31/2019 € million	2020	2021	2022	2023	2024	From 2025	Total
Lease payments	1,812	1,325	924	531	226	99	4,917

36. Statement of cash flows

Cash flows are presented in the statement of cash flows, classified into cash flows from operating activities, investing activities, and financing activities. The cash and cash equivalents presented here correspond to the “Cash and cash equivalents” balance sheet item (see Note “27. Cash and cash equivalents”).

The change in cash and cash equivalents attributable to changes in exchange rates is presented in a separate line item. Cash flows from operating activities are calculated using the indirect method. Earnings before tax are adjusted to eliminate noncash expenses (primarily depreciation, amortization, and impairment losses) and income, as well as gains and losses from asset disposals. Other noncash income and expenses result primarily from measurement effects relating to financial instruments denominated in foreign currencies and fair value changes relating to derivatives (see Note “13. Other financial result”). After accounting for changes in working capital, in which changes in assets leased out and changes in financial services receivables are also reported, this results in cash flows from operating activities.

Investing activities include additions to property, plant, and equipment and equity investments, additions to capitalized development costs, and investments in securities and loans. Payments received from these positions are offset. Payments from the disposal of subsidiaries are reported net of cash disposed at the date of disposal. When subsidiaries are acquired, cash and cash equivalents acquired are deducted from the purchase price paid.

In addition to outflows and inflows of funds from profit transfers to and loss absorption by Volkswagen AG, financing activities also include inflows from capital increases and the issuance of bonds, as well as outflows from the repayment of bonds and changes in miscellaneous financial liabilities. Fiscal year 2020 also contains a dividend distribution for the first time.

Cash and cash equivalents in the statement of cash flows contain bank balances and highly liquid financial investments of a temporary nature that are exposed to no more than minor risks of fluctuation in value. Current account overdraft facilities are not presented as a component of cash and cash equivalents in the statement of cash flows, but are reported in net cash used in/provided by financing activities if they are used.

In 2020, cash flows from operating activities contained interest received of €427 million (previous year: €467 million) and interest paid of €338 million (previous year: €433 million). Cash flows from operating activities in 2020 also contained dividends received from joint ventures and associates amounting to €36 million (previous year: €65 million). As in the previous year, no dividends were received from financial investments and other equity investments in 2020.

Based on the domination and profit and loss transfer agreement between Volkswagen AG and TRATON SE in place until the end of 2019, the earnings of €1,404 million for 2019 were transferred to Volkswagen AG in 2020. In the previous year, Volkswagen AG absorbed the loss of €4,161 million.

The following reconciliation shows the changes in financial liabilities, classified by changes affecting cash flows and noncash changes.

€ million	01/01/2020	Changes affecting cash flows	Noncash changes: Foreign exchange differences	Noncash changes: Changes in basis of consolidation	Noncash changes: Other changes	12/31/2020
Bonds	6,409	698	63	–	–	7,170
Other total third-party borrowings	5,012	–713	–218	1	–	4,081
Lease liabilities	1,077	–211	–26	–1	207	1,047
Total third-party borrowings	**12,497**	**–226**	**–181**	**1**	**207**	**12,298**
Put options/compensation rights granted to noncontrolling interest shareholders	–	2	–	–	–2	0
Derivatives in connection with financing activities[3]	89	202	24	–	–703	–388
Financial assets and liabilities in financing activities	**12,586**	**–22**	**–157**	**1**	**–497**	**–11,911**

€ million	01/01/2019	Effect of the initial application of IFRS 16	01/01/2019 (after IFRS 16 restatement)	Changes affecting cash flows	Noncash changes: Foreign exchange differences	Noncash changes: Changes in basis of consolidation	Noncash changes: Other changes	12/31/2019
Bonds	4,820	–	4,820	1,618	–29	–	–	6,409
Other total third-party borrowings	5,993	–	5,993	–971	–14	3	–	5,012
Lease liabilities[1]	1	1,034	1,035	–181	3	2	218	1,077
Total third-party borrowings	**10,814**	**1,034**	**11,848**	**466**	**–40**	**5**	**218**	**12,497**
Put options/compensation rights granted to noncontrolling interest shareholders[2]	1,827	–	1,827	–1,109	–	–	–718	–
Derivatives in connection with financing activities[3]	18	–	18	–87	0	–	158	89
Financial assets and liabilities in financing activities	**12,659**	**1,034**	**13,693**	**–729**	**–40**	**5**	**–343**	**12,586**

1 Other changes in lease liabilities largely contain noncash additions of lease liabilities.

2 Other changes in put options/compensation rights granted to noncontrolling interest shareholders largely contain the reclassification of the residual liability to equity after the put options granted expired on March 4, 2019.

3 Other changes in currency derivatives in connection with financing activities result from changes in fair value.

37. Additional financial instruments disclosures in accordance with IFRS 7

CLASSES OF FINANCIAL INSTRUMENTS

Financial instruments are divided into the following classes in the TRATON GROUP:

- financial instruments at fair value,
- financial instruments at amortized cost,
- derivative financial instruments included in hedge accounting, and
- financial instruments not allocated to any measurement category.

In addition to investments in associates and joint ventures, financial instruments not allocated to any measurement category also include lease receivables and liabilities.

NET GAINS OR LOSSES ON FINANCIAL INSTRUMENTS BY MEASUREMENT CATEGORIES

€ million	2020	2019
Net gains and losses:		
Financial instruments at fair value through profit or loss	546	–258
Financial assets at amortized cost	–503	435
Financial liabilities at amortized cost	–257	–367

€ million	2020	2019
Gains on derecognition of financial assets at amortized cost	0	5
Losses on derecognition of financial assets at amortized cost	–5	–35
Gains/losses on derecognition of financial assets at amortized cost	**–5**	**–30**

Net gains and losses on financial assets and liabilities at fair value through profit or loss comprise derivatives not included in a hedging relationship.

Net gains and losses on financial assets and liabilities at amortized cost comprise interest income and expenses measured using the effective interest method under IFRS 9, including currency translation effects. In addition, net gains and losses on financial assets include impairment losses as well as related reversals.

TOTAL INTEREST INCOME AND EXPENSE FROM FINANCIAL INSTRUMENTS NOT MEASURED AT FAIR VALUE THROUGH PROFIT OR LOSS

€ million	2020	2019
Interest income:		
Assets at amortized cost	186	208
Interest expense:		
Liabilities at amortized cost	–189	–205

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

CARRYING AMOUNT OF FINANCIAL INSTRUMENTS BY MEASUREMENT CATEGORIES

€ million	12/31/2020	12/31/2019
Assets at amortized cost	9,538	11,063
Assets at fair value through other comprehensive income (equity instruments)	47	14
Assets at fair value through profit or loss	528	114
Total financial assets	**10,112**	**11,191**
Liabilities at amortized cost	17,677	19,120
Liabilities at fair value through profit or loss	95	197
Total financial liabilities	**17,772**	**19,316**

RECONCILIATION OF BALANCE SHEET ITEMS TO CLASSES OF FINANCIAL INSTRUMENTS
The following table shows the reconciliation of the balance sheet items to the relevant classes of financial instruments, broken down by the carrying amount and fair value of the financial instruments.

The fair value of financial instruments at amortized cost is measured by discounting using a market rate of interest for a similar risk and matching maturity. For reasons of materiality, the fair value of current balance sheet items is generally considered to be their carrying amount.

RECONCILIATION OF BALANCE SHEET ITEMS TO CLASSES OF FINANCIAL INSTRUMENTS AS OF DECEMBER 31, 2020

	Measured at fair value		Measured at amortized cost		Derivative financial instruments within hedge accounting	Not allocated to any measurement category	Balance sheet item as of 12/31/2020
€ million	Through other comprehensive income	Through profit or loss	Carrying amount	Fair value	Carrying amount	Carrying amount	
Noncurrent assets							
Other equity investments	47	–	–	–	–	25	72
Financial services receivables	–	–	2,023	2,033	–	2,760	4,783
Other financial assets	–	336	99	99	–	–	435
Current assets							
Trade receivables	–	27	1,879	1,879	–	–	1,906
Financial services receivables	–	–	1,432	1,432	–	1,525	2,957
Other financial assets	–	165	285	285	3	–	453
Marketable securities and investment deposits	–	–	2,105	2,105	–	–	2,105
Cash and cash equivalents	–	–	1,714	1,714	–	–	1,714
Noncurrent liabilities							
Financial liabilities	–	–	5,059	5,187	–	856	5,914
Other financial liabilities	–	39	2,275	2,275	7	–	2,321
Current liabilities							
Financial liabilities	–	–	6,192	6,192	–	192	6,384
Trade payables	–	–	2,769	2,769	–	–	2,769
Other financial liabilities	–	56	1,382	1,382	123	–	1,561

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 instru-ments within hedge accounting	Not allocated to any measurement category	Balance sheet item as of 12/31/2019
€ million	Through 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							
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, and
- Level 3: inputs for the asset or liability that are not based on observable market data (unobservable inputs).

Other equity investments measured at fair value are classified in Level 3. These equity investments mainly comprise shares in unlisted companies for which there is no active market. The fair value of these investments is calculated using a discounted cash flow model. Due to the small carrying amount of these investments, a change in unobservable inputs would not result in a significantly lower or higher measurement of the instruments' fair value.

"Other financial assets" contain a derivative to acquire additional interests in an investee. The derivative is classified in Level 3 of the fair value hierarchy because it was measured using probability-weighted scenarios and the price per share obtained in the most recent round of financing for the investee. Depending on the underlying scenario probability, a variation of +/–10% in the estimated price per share in the course of a future round of financing would increase/decrease the derivative by up to €8 million; the increase/decrease would be reflected in profit or loss in the same amount.

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.

The derivative used to hedge the currency risks resulting from the planned acquisition of Navistar and contained in "Other financial liabilities" is measured using standard measurement models (see Note "38. Financial risk management and financial instruments"). In particular, quoted prices of currency forwards and options as well as liquidity premiums were used to measure the derivative. Additionally, measurement also contains a component reflecting the banks' estimate of the likelihood that the transaction will close. For this reason, the derivative is allocated to Level 3 of the fair value hierarchy. A 10% increase or decrease in the unobservable input component would have increased or reduced the earnings for the period by €2 million.

All other financial assets and liabilities measured at fair value as well as the derivative financial instruments included in hedging relationships are classified in Level 2 of the fair value hierarchy. The fair value of Level 2 financial instruments is determined on the basis of the conditions prevailing at the end of the reporting period, such as interest rates or exchange rates, and using recognized models, such as discounted cash flow or option pricing models.

The following table shows changes in financial instruments measured at fair value that are classified in Level 3 in their entirety:

€ million	Other equity investments classified in Level 3	Trade receivables classified in Level 3	Other financial assets classified in Level 3	Other financial liabilities classified in Level 3
Balance as of 01/01/2020	**14**	–	–	–
Fair value changes in “Fair value measurement of other equity investments and marketable securities” recognized in other comprehensive income	18	–	–	–
Fair value changes in “Cash flow hedges” recognized in other comprehensive income	–	–	–	–97
Fair value changes in “Cost of hedging” recognized in other comprehensive income	–	–	–	–2
Fair value changes in “Other operating expenses” recognized in profit or loss	–	–	–	–4
Fair value changes in “Other financial result” recognized in profit or loss	–	–3	6	–
Reclassified to equity-method investments	–1	–	–	–
Additions/acquisitions	15	206	10	–
Currency translation differences	1	0		
Disposals	–	–176	–	–
Balance as of 12/31/2020	**47**	**27**	**16**	**–102**
Balance as of 01/01/2019	**25**	**–**	**–**	**–**
Fair value changes in “Fair value measurement of other equity investments and marketable securities” recognized in other comprehensive income	–4	–	–	–
Reclassified to equity-method investments	–8	–	–	–
Additions/acquisitions	2	–	–	–
Currency translation differences	–1	–	–	–
Balance as of 12/31/2019	**14**	**–**	**–**	**–**

FAIR VALUES OF FINANCIAL ASSETS AND LIABILITIES MEASURED AT AMORTIZED COST BY LEVEL:

€ million	12/31/2020	Level 1	Level 2	Level 3
Financial services receivables	3,466	–	–	3,466
Trade receivables	1,879	–	1,879	–
Other financial assets	384	0	384	0
Marketable securities and investment deposits	2,105	–	2,105	–
Cash and cash equivalents	1,714	1,714	–	–
Fair values of financial assets measured at amortized cost	**9,548**	**1,714**	**4,368**	**3,466**
Put options/compensation rights granted to noncontrolling interest shareholders	–	–	–	–
Trade payables	2,769	–	2,769	–
Financial liabilities	11,379	–	11,379	–
Other financial liabilities	3,658	1	3,657	–
Fair values of financial liabilities measured at amortized cost	**17,805**	**1**	**17,805**	**–**

€ million	12/31/2019	Level 1	Level 2	Level 3
Financial services receivables	3,493	–	–	3,493
Trade receivables	2,144	–	2,144	–
Other financial assets	348	–	348	0
Marketable securities and investment deposits	3,178	–	3,178	–
Cash and cash equivalents	1,913	1,913	–	–
Fair values of financial assets measured at amortized cost	**11,075**	**1,913**	**5,670**	**3,493**
Trade payables	2,472	–	2,472	–
Financial liabilities	11,451	–	11,451	–
Other financial liabilities	5,227	0	5,227	0
Fair values of financial liabilities measured at amortized cost	**19,150**	**0**	**19,149**	**0**

The lease receivables have a carrying amount of €4,283 million (previous year: €4,511 million) and a fair value (Level 3 of the fair value hierarchy) of €4,283 million (previous year: €4,519 million).

The transfers between the levels of the fair value hierarchy are reported at the respective reporting dates. There were no transfers between Level 1, Level 2, and Level 3 in fiscal year 2020.

OFFSETTING FINANCIAL ASSETS AND LIABILITIES

The following tables present information about the effects of offsetting on the consolidated balance sheet and the potential financial effects of offsetting in the case of instruments that are subject to a legally enforceable master netting arrangement or a similar agreement. The gross amounts correspond to the net amounts, because they were not offset in the consolidated balance sheet.

€ million	Net amounts of financial assets presented in the balance sheet	Amounts that are not offset in the balance sheet: Financial instruments	Net amount as of 12/31/2020
Derivatives	503	–86	417

€ million	Net amounts of financial assets presented in the balance sheet	Amounts that are not offset in the balance sheet: Financial instruments	Net amount as of 12/31/2019
Derivatives	120	–63	57

€ million	Net amounts of financial liabilities presented in the balance sheet	Amounts that are not offset in the balance sheet: Financial instruments	Net amount as of 12/31/2020
Derivatives	225	–86	138

€ million	Net amounts of financial liabilities presented in the balance sheet	Amounts that are not offset in the balance sheet: Financial instruments	Net amount as of 12/31/2019
Derivatives	214	–63	151

The “Financial instruments” column shows the amounts that are subject to a master netting arrangement but that have not been offset in the consolidated balance sheet because they do not meet the offsetting criteria.

TRANSFERS OF FINANCIAL ASSETS

As of the reporting date, financial liabilities included asset-backed securities transactions implemented to refinance the Financial Services segment with a carrying amount of €175 million (previous year: €294 million). The corresponding carrying amount of financial services receivables is €206 million (previous year: €333 million). Collateral totaling €206 million (previous year: €333 million) was provided in connection with asset-backed securities transactions. The expected payments to structured entities are assigned in this process and ownership of the financed vehicles pledged as collateral is transferred. These asset-backed securities transactions did not lead to the derecognition of financial services receivables in the balance sheet, because the TRATON GROUP retains the bad debt and payment date risk. The difference between the amount of receivables assigned and the associated liabilities is the result of different terms and conditions and the proportion of bonds held by TRATON itself.

Under certain conditions, the asset-backed securities transactions implemented by the TRATON GROUP may be repaid early (clean-up call). The assigned receivables cannot be assigned a second time or used as collateral in any other way. The bondholders’ claims are limited to the assigned receivables, the cash inflows arising from these receivables are intended for the settlement of the corresponding liability. As of December 31, 2020, the fair value of assigned receivables that continue to be recognized in the balance sheet was €206 million (previous year: €333 million). The fair value of the associated liabilities amounted to €175 million (previous year: €294 million) as of that date. The resulting net position is €32 million (previous year: €40 million).

Other Disclosures

38. Financial risk management and financial instruments

1. HEDGING GUIDELINES AND FINANCIAL RISK MANAGEMENT PRINCIPLES

Because of the TRATON GROUP's business activities and international focus, its assets, liabilities, and forecast transactions are exposed to market, credit, and liquidity risk.

The Group's market risks are hedged with banks on the basis of internally defined limits. The TRATON GROUP uses suitable financial instruments such as derivatives to do this. Financial risks from balance sheet items, the order backlog, and other projected transactions are hedged. Such market risks are not managed centrally, but directly by TRATON SE and each of its brands. The relevant requirements of each company are considered since different functional currencies and business environments apply.

Counterparty risk is diversified as much as possible and monitored centrally. Liquidity risk is minimized by diversifying the sources of funding and ensuring a balanced mix of funding with different maturities, currencies, and interest rate agreements.

The Group's activities in the Financial Services segment are managed to largely match assets and liabilities in order to minimize interest rate mismatches. Appropriate value-at-risk methods apply. TRATON GROUP management is notified regularly about the financial risk position. Compliance with the applicable Group policies is reviewed by the internal Audit function.

2. CREDIT AND DEFAULT RISK

The TRATON GROUP is exposed to credit risk through its business operations and financing activities.

From the Group's perspective, credit risk entails the risk that a party to a financial instrument will fail to meet its contractual obligations and thus cause a financial loss for the Group. Credit risk comprises both the direct default risk and the risk of a deterioration in credit quality.

Credit risk related to credit commitments to customers is managed decentrally, considering certain limits and using local credit quality assessments. Decisions on major credit commitments for the TRATON GROUP are made in subgroup credit committees. The maximum credit risk is reflected in the carrying amount of the financial assets recognized in the balance sheet; see Note "37. Additional financial instruments disclosures in accordance with IFRS 7." The TRATON GROUP holds collateral and other credit enhancements to further mitigate credit risk. Assets assigned as security, credit insurance, and guarantees are used as collateral. The risk from nonderivative financial instruments is additionally accounted for by recognizing bad debt allowances.

The financial institutions and investment forms are carefully selected when investing cash funds, while a central limit system ensures diversification. Significant investments and derivatives are only entered into with national and international prime-rated banks. Due to the TRATON GROUP's relationship with the Volkswagen Group's central financial management, a significant portion of €2,361 million (previous year: €3,234 million) of the TRATON GROUP's investments is concentrated in Volkswagen AG. Volkswagen AG's good credit rating and the existing risk mechanisms justify this credit risk. There are no other material concentrations of credit risk in the TRATON GROUP.

There is also credit risk from financial guarantees issued. The maximum exposure to credit risk is determined by the amount that the TRATON GROUP would have to pay in the event of claims under these guarantees. The corresponding amounts are presented under liquidity risk.

RECONCILIATION OF LOSS ALLOWANCE FOR FINANCIAL ASSETS AT AMORTIZED COST

€ million	General approach 12-month expected credit losses (Stage 1)	Lifetime expected credit losses — not impaired (Stage 2)	Lifetime expected credit losses — impaired (Stage 3)	Simplified approach	Total
Loss allowance as of 01/01/2020	**7**	**4**	**29**	**103**	**144**
Transfer into Stage 1	0	–2	–1	–	–3
Transfer into Stage 2	–1	3	–1	–	1
Transfer into Stage 3	–1	–1	7	–	5
Utilization	–	–	–8	–6	–14
Reversals	–5	–1	–4	–13	–23
Financial assets issued/acquired (additions)	15	–	–	25	40
Changes in models or inputs	–	–	–	3	3
Other changes (mainly changes due to exchange rate movements)	1	0	1	–7	–5
Loss allowance as of 12/31/2020	**16**	**4**	**24**	**106**	**149**
Loss allowance as of 01/01/2019	**7**	**5**	**30**	**99**	**140**
Transfer into Stage 1	0	–1	–1	–	–2
Transfer into Stage 2	–2	4	0	–	2
Transfer into Stage 3	–2	–1	6	–	3
Utilization	–	–	–1	–8	–9
Reversals	–3	–3	–10	–35	–50
Financial assets issued/acquired (additions)	8	–	–	44	51
Changes in models or inputs	–	–	–	2	2
Other changes (mainly changes due to exchange rate movements)	0	1	5	1	7
Loss allowance as of 12/31/2019	**7**	**4**	**29**	**103**	**144**

CHANGES IN LOSS ALLOWANCE FOR LEASE RECEIVABLES

€ million	Simplified approach
Loss allowance as of 01/01/2020	**80**
Utilization	–5
Reversals	–28
Financial assets issued/acquired (additions) and changes to models or risk parameters	51
Other changes (mainly changes due to exchange rate movements)	18
Loss allowance as of 12/31/2020	**116**
Loss allowance as of 01/01/2019	**78**
Utilization	–9
Reversals	–42
Financial assets issued/acquired (additions) and changes to models or risk parameters	38
Other changes (mainly changes due to exchange rate movements)	15
Loss allowance as of 12/31/2019	**80**

The loss allowance relates mainly to credit risk from trade receivables and financial services receivables. For financial assets in Stage 3 with objective indications of impairment at the reporting date, collateral provided mitigates the risk by €54 million (previous year: €70 million).

RECONCILIATION OF GROSS CARRYING AMOUNTS OF FINANCIAL ASSETS AT AMORTIZED COST

	General approach				
€ million	12-month expected credit losses (Stage 1)	Lifetime expected credit losses — not impaired (Stage 2)	Lifetime expected credit losses — impaired (Stage 3)	Simplified approach	Total
Gross carrying amount as of 01/01/2020	**8,653**	**136**	**96**	**2,247**	**11,132**
Transfer into Stage 1	40	–37	–4	–	0
Transfer into Stage 2	–37	39	–2	–	0
Transfer into Stage 3	–12	–15	27	–	0
Changes due to financial assets issued/acquired or derecognized	–695	–21	–30	–131	–877
Changes in basis of consolidation	0	–	–	1	1
Exchange rate movements	–408	–13	–12	–134	–568
Gross carrying amount as of 12/31/2020	**7,541**	**90**	**74**	**1,983**	**9,688**
Gross carrying amount as of 01/01/2019	**12,327**	**116**	**113**	**2,411**	**14,968**
Transfer into Stage 1	20	–19	–2	–	0
Transfer into Stage 2	–51	51	–1	–	0
Transfer into Stage 3	–9	–17	25	–	0
Changes due to financial assets issued/acquired or derecognized	–3,694	2	–42	–182	–3,917
Changes in basis of consolidation	32	–	0	–2	30
Exchange rate movements	27	2	2	21	51
Gross carrying amount as of 12/31/2019	**8,653**	**136**	**96**	**2,247**	**11,132**

CHANGE IN GROSS CARRYING AMOUNTS OF LEASE RECEIVABLES

€ million	Simplified approach
Gross carrying amount as of 01/01/2020	**4,591**
Changes due to financial assets issued/acquired or derecognized	17
Exchange rate movements	–206
Gross carrying amount as of 12/31/2020	**4,402**
Gross carrying amount as of 01/01/2019	**4,157**
Changes due to financial assets issued/acquired or derecognized	358
Exchange rate movements	75
Gross carrying amount as of 12/31/2019	**4,591**

GROSS CARRYING AMOUNTS OF FINANCIAL ASSETS BY RATING GRADE

€ million	12-month expected credit losses (Stage 1)	Lifetime expected credit losses — not impaired (Stage 2)	Lifetime expected credit losses — impaired (Stage 3)	Simplified approach	12/31/2020
Rating grade					
Credit risk rating grade 1	7,541	–	–	5,847	13,388
Credit risk rating grade 2	–	90	–	389	479
Credit risk rating grade 3	–	–	74	161	235
	7,541	**90**	**74**	**6,398**	**14,103**

€ million	12-month expected credit losses (Stage 1)	Lifetime expected credit losses — not impaired (Stage 2)	Lifetime expected credit losses — impaired (Stage 3)	Simplified approach	12/31/2019
Rating grade					
Credit risk rating grade 1	8,653	–	–	6,094	14,748
Credit risk rating grade 2	–	136	–	579	715
Credit risk rating grade 3	–	–	96	165	260
	8,653	**136**	**96**	**6,838**	**15,723**

3. LIQUIDITY RISK

Liquidity risk describes the risk that the TRATON GROUP will have difficulty in meeting its obligations associated with financial liabilities or that it can only procure liquidity at a higher price.

To counter this risk, cash inflows and outflows and due dates are continuously monitored and managed. Cash requirements are primarily met by our operating business and by external financing arrangements. There were no material concentrations of liquidity risk in the past fiscal year.

The TRATON GROUP's solvency and liquidity are assured at all times by rolling liquidity planning, a liquidity reserve in the form of cash, credit lines with financial institutions and companies of the Volkswagen Group, and the issuance of securities on international money and capital markets.

Special issuance programs and financing lines have been established for the companies in the Financial Services segment to cover their funding requirements.

Cash and cash equivalents amounted to €1,714 million (previous year: €1,913 million) as of December 31, 2020.

As of December 31, 2020, the investment deposits contained deposits by TRATON SE of €2,100 million (previous year: €3,100 million) with Volkswagen AG with terms of up to three months.

The TRATON GROUP's liquidity reserve consists of unused confirmed credit lines of €7,300 million (previous year: €4,800 million), including €3,000 million (previous year: €3,000 million) from Volkswagen AG. Additionally, in November 2020 TRATON SE took out a currently unused €3,300 million credit facility with Volkswagen International Luxemburg S.A., Strassen, Luxembourg (Volkswagen International Luxemburg), with a term of up to 30 months to finance the purchase price of the common shares of Navistar not already held by TRATON SE. The underlying purchase price is hedged in full by a foreign currency derivative that is contingent on the transaction closing. The TRATON GROUP also has €390 million (previous year: €590 million) in unused unconfirmed credit lines from banks at its disposal in order to enhance flexibility in financing decisions.

TRATON SE took out its first syndicated revolving credit facility as a liquidity reserve with a volume of €3,750 million in the third quarter of 2020 — despite the economic impact of the COVID-19 pandemic. It has a term of three years and can be extended twice for one year each. The facility amount is provided by a banking consortium consisting of 21 banks and serves for general corporate purposes and to safeguard the Company's liquidity.

Local cash funds in certain countries (e.g., Brazil, China, and Russia) of €719 million (previous year: €595 million) are subject to exchange controls and are not available to the Group for cross-border transactions without restriction. Such amounts are used locally to cover the financing needs of the operating business. Other than that, no significant restrictions exist.

The following table shows how the cash flows relating to liabilities, derivatives, and financial guarantees affect the TRATON GROUP's liquidity position:

	2020			2019		
Maturity overview	Remaining contractual maturities			Remaining contractual maturities		
€ million	2021	2022–2025	>2025	2020	2021–2024	>2024
Financial liabilities[1]	6,503	5,639	562	6,613	5,639	566
Trade payables[1]	2,767	1	–	2,472	0	–
Other financial liabilities[1,2]	1,382	2,153	113	2,732	2,340	135
Derivatives	13,079	3,043	7	10,425	3,351	33
Financial guarantees	25	–	–	31	–	–
	23,756	**10,836**	**682**	**22,273**	**11,331**	**735**

1 The amounts were calculated as follows:
- If there is no agreement on contractual maturity, the liability refers to the earliest possible maturity date.
- In the case of variable interest rate agreements, interest reflects the conditions at the reporting date.
- It is assumed that the cash outflows will not occur earlier than shown.

2 The undiscounted maximum cash outflows from buyback obligations are recognized as a financial liability.

Derivatives comprise both cash outflows from derivatives with negative fair values and cash outflows from derivatives with positive fair values for which gross settlement has been agreed. Derivatives entered into through offsetting transactions are also accounted for as cash outflows. The cash outflows from derivatives for which gross settlement has been agreed are matched by cash inflows that are not disclosed in the maturity analysis. If these cash inflows had also been recognized, the cash outflows presented would be significantly lower. This also applies in particular if hedges have been closed out through offsetting transactions.

The €3,153 million increase in future cash outflows from derivatives is attributable to the hedging transaction in respect of a potential purchase price payment relating to the planned acquisition of Navistar. The currently unused credit facility with Volkswagen International Luxemburg described above was taken out to finance this payment.

The cash outflows from irrevocable credit commitments are presented in Note "42. Other financial obligations," classified by contractual maturities.

Certain TRATON GROUP companies use reverse factoring to manage their liabilities. This does not result in any material liquidity risk or any risks from risk concentrations.

4. MARKET RISK

4.1 Hedging policy and financial derivatives

During the course of its general business activities, the TRATON GROUP is exposed to currency, interest rate, and commodity price risks. TRATON's current policy is to continuously monitor these risks by means of its risk management systems. Measures to mitigate the risks are then taken by the Treasury departments at MAN and Scania. There were no significant concentrations of risk in the past fiscal year.

4.2 Market risk in the TRATON GROUP

4.2.1 Currency risk

Currency risk describes the risk of negative effects on earnings and balance sheet items due to exchange rate movements. The TRATON GROUP's currency risk is a result of its investments, financing measures, and operating activities. Currency forwards, currency options, currency swaps, and cross-currency swaps are used to mitigate risks to future cash flows. The TRATON GROUP therefore partly hedges currency risk arising from order backlog, receivables and liabilities, and planned unit sales. Companies that enter into hedging transactions choose the hedge ratio for expected sales revenue on the basis of past experience in order to avoid ineffectiveness. Nevertheless, ineffectiveness can be induced by changes in counterparty credit risk or if the spot component of a forward is not separated from the forward element. The inclusion of subsidiaries or other affiliated Group companies in countries outside the euro zone in the consolidated financial statements represents a risk as a result of currency translation. As a general rule, TRATON does not use derivatives to hedge these translation risks.

The Group's market risks are hedged with banks on the basis of internally defined limits. The TRATON GROUP uses suitable financial instruments such as derivatives to do this. Financial risks from balance sheet items, the order backlog, and other projected transactions are hedged.

Assets in the Financial Services segment should generally be funded by liabilities in the same currency. There are no fair value hedges.

After signing the merger agreement between TRATON and Navistar on November 7, 2020, and in light of the associated intention to acquire Navistar for a price of USD 44.50 per share, the TRATON GROUP is exposed to a currency risk from a highly probable forecast transaction. To hedge the resulting currency risks, we entered into a deal-contingent forward as the hedging instrument, which is included in hedge accounting. The closing of the Navistar acquisition is a particular condition for fulfilling the terms of the deal-contingent forward. The hedging instrument is not separated into spot and forward elements.

Hedging transactions entered into as part of foreign exchange risk management were mainly in US dollars, Swedish kronor, Brazilian reais, and British pounds sterling.

The nonderivative and derivative financial instruments at the end of the reporting period were measured in a hypothetical scenario as part of a sensitivity analysis. The effects of a 10% increase/decrease in an exchange rate were as follows:

	12/31/2020				12/31/2019			
	Equity		Earnings for the period		Equity		Earnings for the period	
€ million	**+10%**	**–10%**	**+10%**	**–10%**	**+10%**	**–10%**	**+10%**	**–10%**
Currency pair								
EUR/USD	–185	226	12	–13	2	–2	21	–21
EUR/SEK	0	0	–50	50	1	–1	–114	114
EUR/PLN	0	0	–10	11	0	0	–8	8
EUR/MXN	0	0	–8	10	0	0	–12	12
SEK/HUF	0	0	–8	8	0	0	41	–41
EUR/HUF	3	–4	–4	4	0	0	–3	3
EUR/GBP	6	–8	0	0	11	–11	1	–1
EUR/CZK	0	0	–6	6	0	0	–5	5

Derivatives included in hedge accounting relate solely to currency risk. The following tables show details of these derivatives:

AMOUNT, TIMING, AND UNCERTAINTY OF CASH FLOWS

€ million	Maturity < 1 year	1 to 5 years	> 5 years	Total nominal amount
2020				
Currency risk:				
Currency forwards EUR/USD	3,065	–	–	3,065
Currency forwards BRL/USD	68	47	–	115
Currency forwards EUR/GBP	105	–	–	105
Currency forwards EUR/ZAR	57	–	–	57
Currency forwards EUR/HUF	55	–	–	55
Currency forwards EUR/DKK	46	3	–	49
Currency forwards EUR/CHF	37	–	–	37
Currency forwards EUR/AUD	27	–	–	27
Currency forwards EUR/NOK	23	–	–	23
Currency forwards — other currencies	24	–	–	24
	3,508	**50**	**0**	**3,558**
2019				
Currency risk:				
Currency forwards BRL/USD	164	128	–	293
Currency forwards EUR/GBP	152	–	–	152
Currency forwards EUR/CHF	52	9	–	61
Currency forwards EUR/DKK	47	–	–	47
Currency forwards EUR/ZAR	37	–	–	37
Currency forwards EUR/USD	30	–	–	30
Currency forwards EUR/NOK	23	–	–	23
Currency forwards EUR/CNY	11	–	–	11
Currency forwards — other currencies	26	–	–	26
	542	**137**	**0**	**679**

€3,047 million of the increase in the nominal amount of euro/US dollar currency forwards is attributable to the hedge of a possible purchase price payment relating to the planned acquisition of Navistar.

Currency risk was hedged by cash flow hedges at the following average hedging exchange rates for the major currency pairs: EUR/USD 1.19; BRL/USD 4.12; EUR/GBP 0.90.

INFORMATION ON HEDGING INSTRUMENTS INCLUDED IN HEDGE ACCOUNTING

€ million	2020	2019
Currency risk:		
Fair value change to determine hedge ineffectiveness	–131	–23
Carrying amount of other financial assets	3	6
Carrying amount of other financial liabilities	130	18
Nominal value	3,558	679

INFORMATION ON HEDGED ITEMS INCLUDED IN HEDGE ACCOUNTING

€ million	2020	2019
Currency risk:		
Fair value change to determine hedge ineffectiveness	127	23
Reserve for active cash flow hedges	–127	–23

INFORMATION ABOUT THE EFFECTS OF HEDGE ACCOUNTING ON THE STATEMENT OF COMPREHENSIVE INCOME

€ million	2020	2019
Currency risk:		
Hedging instruments included in hedge accounting		
Unrealized gains and losses on hedging instruments	–124	–13
Reclassification of realized gains and losses to profit or loss	13	13
Reclassified to profit or loss because future cash flows are no longer expected to materialize	4	–
Cost of hedging		
Unrealized gains and losses relating to cost of hedging	–6	0
Reclassification of realized gains and losses to profit or loss	–2	–1
Reclassified to profit or loss because future cash flows are no longer expected to materialize	0	–
Ineffectiveness recognized in profit or loss and reported in other operating expenses	–4	–

Ineffectiveness recognized in profit or loss is attributable to the hedge of a potential purchase price payment relating to the planned acquisition of Navistar.

RECONCILIATION OF CASH FLOW HEDGE RESERVE

€ million	2020	2019
Balance as of 01/01	**–23**	**–23**
Gains and losses from effective hedges	–138	–19
Reclassification to profit or loss		
because the hedged future cash flows are no longer expected to materialize	7	–
due to recognition of hedged item in profit or loss	20	20
Other changes (foreign exchange effects)	7	0
Balance as of 12/31	**–127**	**–23**

RECONCILIATION OF THE RESERVE FOR COST OF HEDGING

€ million	2020	2019
Balance as of 01/01	**11**	**13**
Gains and losses from effective hedges	–8	0
Reclassification to profit or loss		
because the hedged future cash flows are no longer expected to materialize	–1	–
due to recognition of hedged item in profit or loss	–2	–3
Other changes (foreign exchange effects)	5	0
Balance as of 12/31	**4**	**11**

Reclassifications to profit or loss because the hedged future cash flows are no longer expected to materialize related primarily to hedged projected revenues in foreign currencies.

4.2.2 Interest rate risk

Interest rate risk describes the risk of negative effects of movements in interest rates on interest income and expenses. Financial instruments that are sensitive to movements in interest rates are exposed to interest rate risk in the form of fair value risk or cash flow risk. Fair value risk is calculated using the sensitivity of the carrying amount of a recognized financial instrument to changes in market interest rates. Cash flow risk describes the exposure to variability in future interest payments in response to interest rate movements. Interest rate swaps and cross-currency swaps are used to implement the risk management strategy. Hedge accounting is not used.

The TRATON GROUP is exposed to interest rate risk from interest rate-sensitive assets and liabilities. Intragroup financing arrangements are mainly funded at matching maturities. Departures from the Group's standards are subject to centrally defined limits and monitored continuously.

Interest rate risk within the meaning of IFRS 7 is calculated for the companies using sensitivity analyses. Any earnings effects attributable to interest rate sensitivity would be recognized exclusively in earnings for the period.

If market interest rates had been 100 basis points (bps) higher as of December 31, 2020, earnings after tax would have been €16 million lower (previous year: €1 million higher). If market interest rates had been 100 bps lower as of December 31, 2020, earnings after tax would have been €16 million higher (previous year: €3 million lower).

4.2.3 Commodity price risk

The TRATON GROUP is primarily exposed to commodity price risk from fluctuations in the price and availability of commodities.

Commodity price risks are captured centrally at regular intervals for the MAN Group and hedged externally based on defined risk limits, provided there are liquid markets. This approach also considers whether changes in commodity prices will be reflected in higher selling prices for the products. The TRATON GROUP enters into cash-settled commodity futures to mitigate these risks. There were no material concentrations of risk in the past fiscal year. Cash-settled commodity futures had been entered into at the balance sheet date to hedge commodity price risks relating to gas, nonferrous metals, precious metals, and rubber with a fair value of €2 million (previous year: €0 million). Hedge accounting is not used at present.

The maximum remaining term of hedges of forecast transactions was 14 months (previous year: 6 months) at the end of fiscal year 2020. A hypothetical 10% increase/decrease in commodity prices is assumed, in line with the sensitivity analysis of currency risks. The potential effect on earnings after tax of changes in the fair value of the commodity futures is €1 million (previous year: €1 million) as of December 31, 2020, for +10% or €–1 million (previous year: €–1 million) for –10%.

39. Capital management

The Group's capital management ensures that the goals and strategies can be achieved in the interests of its shareholders, employees, and other stakeholders. In particular, management focuses on generating the minimum return on invested capital in the Industrial Business segment that is required by the capital markets, and on increasing the return on equity in the Financial Services segment. The overall objective is to maximize the value of the Group and its subdivisions. This benefits all of the Company's stakeholder groups.

In order to maximize the use of resources in the Industrial Business segment and measure our success in doing so, we use return on investment (ROI) as a value-based control concept. ROI indicates the return on invested capital in a period, based on operating result after tax. If ROI exceeds the market cost of capital, the value of invested capital increases. Operating result after tax is calculated by applying a flat average tax rate of 30% — based on the different international income tax rates of our companies — to the operating result of the Industrial Business segment. Invested capital is calculated as total recognized operating assets (intangible assets, property, plant, and equipment, assets leased out, inventories, and receivables) less noninterest-bearing liabilities (trade payables and contract liabilities). Average invested capital is derived from the balance at the beginning and the end of the reporting period. The calculation methodology corresponds to the methodology used in the Volkswagen Group.

Due to the specific characteristics of the Financial Services segment, its management focuses on return on equity, a special target linked to invested capital. This measure is calculated as the ratio of earnings before tax to average equity. Average equity is calculated from the balance at the beginning and the end of the reporting period. In addition, the goals of the Financial Services segment are to meet the regulatory capital requirements of the banking supervisory authorities and to procure equity for the growth planned in the coming fiscal years. To ensure compliance with banking supervisory requirements at all times, a planning procedure integrated into internal reporting has been put in place in the Financial Services segment, allowing the capital requirements to be continuously determined based on actual and expected business performance. In the year under review, this again ensured that regulatory minimum capital requirements were always met both at Group level and at the level of individual lower-tier companies subject to specific capital requirements.

The ROI in the Industrial Business segment as well as the return on equity and the equity ratio in the Financial Services segment are shown in the following table:

€ million	2020	2019
Industrial Business		
Operating result after tax	–18	1,219
Capital invested (average)	12,326	12,584
Return on investment (in %)	**–0.1**	**9.7**
Financial Services		
Earnings before tax	107	151
Average equity	966	893
Return on equity before tax (in %)	**11.1**	**16.9**
Equity ratio (in %)	**9.7**	**9.4**

40. Contingent liabilities and commitments

€ million	12/31/2020	12/31/2019
Liabilities under buyback guarantees	2,431	2,489
Contingent liabilities under guarantees	60	128
Other contingent liabilities	759	1,059
	3,250	**3,676**

Contingent liabilities under guarantees relate mainly to guarantees issued for trade obligations of investees, former investees, and other companies. As of December 31, 2020, they also include financial guarantees of €36 million (previous year: €45 million).

As of December 31, 2020, guarantees of €22 million (previous year: €26 million) are in place for the benefit of subsidiaries and other investees of Volkswagen AG that are not part of the TRATON GROUP. Guarantees for consolidated and unconsolidated subsidiaries of Volkswagen AG outside the TRATON GROUP in the amount of €31 million (previous year: €91 million) are also in place as of December 31, 2020. The decrease in 2020 is primarily due to the expiration of these guarantees.

Other contingent liabilities relate mainly to contingent liabilities for potential charges from tax risks, which exist for Volkswagen Caminhões e Ônibus. See Note "41. Litigation/legal proceedings" for further information.

Customer liabilities to financial services companies of the Volkswagen Group and, to a small extent, to third parties are covered by standard industry buyback guarantees under which TRATON is obliged to buy back vehicles from the financial services company in the event of default. The maximum expenses from such obligations amounted to €2,431 million (previous year: €2,489 million) as of December 31, 2020. However, experience shows that the majority of these guarantees expire without being drawn upon.

41. Litigation/legal proceedings

After unannounced inspections at the premises of several European truck manufacturers including MAN and Scania in 2011, the European Commission initiated proceedings in 2014 for suspected violations of EU antitrust rules in the European truck sector. On July 19, 2016, the European Commission issued a settlement decision (the “Settlement Decision”) against MAN and four other European truck manufacturers (excluding Scania) holding that collusive arrangements on pricing and gross price increases for medium- and heavy-duty trucks in the European Economic Area and the timing and the passing on of costs for the introduction of emission technologies for medium- and heavy-duty trucks required by EURO 3 to EURO 6 standards had lasted from January 17, 1997, to January 18, 2011 (for MAN: until September 20, 2010). While the other four truck manufacturers were fined, MAN was granted immunity from fines since it had acted as a key witness and informed the European Commission of the antitrust infringements in September 2010. Scania decided not to apply for leniency and not to settle this antitrust case and, by decision of the European Commission dated September 27, 2017 (the “Scania Decision”), received a fine in the amount of approximately €880.5 million. Scania has appealed the Scania Decision to the General Court of the European Union, asking for full annulment and will use all means at its disposal to defend itself. Depending on how the legal proceedings develop, the eventual fine may differ from the original one. In place of paying the fines, Scania has offered a financial guarantee covering the entire amount of fines. The guarantee was accepted by the Accounting Officer of the European Commission. The Group set aside a €403 million provision in connection with these administrative proceedings in the previous years.

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

In Germany, eight “judgments on the merits of the claim” (*Grundurteile*) have been rendered against one or more MAN companies. There was no need in these cases to resolve the issue of whether any damages were actually sustained. The defendant MAN companies have appealed all of these decisions. In one case, the court of appeal has already revoked the first instance judgment and dismissed the action as inadmissible. In another case, the claimant has withdrawn the action before the court of appeal. In individual proceedings, some courts issued “orders for evidence to be taken” (*Beweisbeschlüsse*) so that an expert can clarify the question of whether any damage has been sustained and, if so, in what amount. By contrast, a range of lawsuits against MAN have been dismissed — some of them already finally.

In addition to a series of dismissals of lawsuits — some of them already final — in various countries, individual courts in Spain have upheld a number of damages claims — either in part or in full. The defendant MAN companies have appealed all of the decisions or will do so within the statutory period. While in a few cases, the respective court of appeal has already revoked the decision of the court of first instance, in other cases, the respective court of appeal has upheld the first instance ruling awarding damages — in full or in part. None of these judgments are final, as the defendant MAN companies have appealed all decisions before the Spanish Supreme Court, which has not rendered a decision yet. In Belgium, a judgment on the merits and a judgment awarding damages (on an equitable basis) have been issued against MAN. MAN has appealed both decisions.

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

Because most of these cases are still at an early stage and it is therefore not possible to assess the claims at this point in time, no provisions are recognized and no contingent liabilities are disclosed for these cases. In other cases, a final and unappealable ruling under which MAN or Scania would have to pay damages is relatively unlikely at present.

In the tax proceedings between MAN Latin America and the Brazilian tax authorities, the Brazilian tax authorities took a different view of the tax implications of the acquisition structure chosen by MAN SE for the acquisition of MAN Latin America in 2009. The tax proceedings have been divided into two auditing periods, covering the years 2009/2011 ("Phase 1") and 2012/2014 ("Phase 2"). In December 2017, an adverse last instance judgment was rendered by the Brazilian Administrative Court (Phase 1), which was negative for MAN Latin America. MAN Latin America appealed this judgment before a regular judicial court in 2018. The tax proceeding related to Phase 2 is still pending judgment by the Brazilian tax authorities. Because of the potential range of penalties plus interest which could apply under Brazilian law, the estimated size of the risk in the event that the tax authorities are able to prevail overall with their view is uncertain. However, the TRATON GROUP continues to expect a positive outcome for MAN Latin America. If this is not the case, this could result in a risk of about €494 million (as of December 31, 2020) for the contested period from 2009 onward. This assessment is based on the accumulated accounts at the reporting date for the claimed tax liability including the potential penalty surcharges, as well as accumulated interest, but excluding any future interest and without discounting any cash flows. Certain banks have issued bank guarantees for the benefit of MAN Latin America as customary in connection with such tax proceedings, which in turn are secured by MAN SE.

Unless described above, no disclosures are made pursuant to IAS 37 *Provisions, Contingent Liabilities and Contingent Assets* because the Company has concluded that these disclosures could seriously jeopardize the outcome of any legal proceedings. The TRATON GROUP does not currently expect these proceedings to have a material adverse effect on its net assets, financial position, or results of operations.

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

42. Other financial obligations

2020 € million	Due in 2021	Due in 2022–2025	Due from 2026	Total 12/31/2020
Purchase order commitments for				
property, plant, and equipment	439	160	–	599
intangible assets	11	3	–	14
Obligations from				
irrevocable credit and lease commitments to customers	423	65	6	494
long-term rental and lease contracts	31	26	1	58
Miscellaneous financial obligations	3,031	11	0	3,042

Miscellaneous financial obligations primarily include the contingent payment obligation from the planned acquisition of the Navistar shares not yet held by TRATON.

2019 € million	Due in 2020	Due in 2021–2024	Due from 2025	Total 12/31/2019
Purchase order commitments for				
property, plant, and equipment	569	174	1	744
intangible assets	2	2	–	4
Obligations from				
irrevocable credit and lease commitments to customers	377	36	3	416
long-term rental and lease contracts	36	23	1	60
Miscellaneous financial obligations	33	5	0	38

43. Related party disclosures

Related parties within the meaning of IAS 24 *Related Party Disclosures* are persons or entities that can be influenced by the TRATON GROUP, that can exercise influence over the TRATON GROUP, or that are influenced by another related party of the TRATON GROUP.

Related parties from the TRATON GROUP's perspective as of December 31, 2020, are:

- Volkswagen Finance Luxemburg S.A., Strassen, Luxembourg (Volkswagen Finance Luxemburg)
- Volkswagen AG and its subsidiaries, together with its significant investees outside the TRATON GROUP
- Porsche Automobil Holding SE, Stuttgart, which has significant influence on the Volkswagen Group's operating policy decisions, together with its affiliated companies and related parties (Porsche Stuttgart)
- the state of Lower Saxony and its related majority-owned interests
- other individuals or entities that can be influenced by the TRATON GROUP or that can influence the TRATON GROUP, such as:
  - members of the TRATON GROUP's Executive and Supervisory Boards
  - members of the Board of Management and Supervisory Board of Volkswagen Finance Luxemburg S.A.
  - members of the Board of Management and Supervisory Board of Volkswagen AG
  - associates and joint ventures
  - unconsolidated subsidiaries

Members of the Executive and Supervisory Boards of the TRATON GROUP are members of supervisory and executive boards or shareholders of other companies with which the TRATON GROUP has relations in the normal course of business.

On December 31, 2020, Volkswagen Finance Luxemburg S.A., a wholly owned subsidiary of Volkswagen AG, held 89.72% (previous year: 89.72%) of TRATON SE's share capital. Additionally, Mr. Schulz held 4,050 (previous year: 4,050) and Mr. Henriksson held 1,036 (previous year: 1,036) shares of TRATON SE on December 31, 2020.

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 significant transactions with Porsche Automobil Holding SE, Stuttgart, Volkswagen Finance Luxemburg S.A., or the state of Lower Saxony in any of the reported periods presented.

RELATED PARTIES
REPORTING PERIOD JANUARY 1 TO DECEMBER 31

€ million	Sales and services rendered 2020	Sales and services rendered 2019	Purchases and services received 2020	Purchases and services received 2019
Volkswagen AG	4	2	170	124
Other subsidiaries and equity investments of Volkswagen AG that are not part of the TRATON GROUP	1,360	1,588	687	676
Unconsolidated subsidiaries	12	14	12	8
Associates and their majority interests[1]	191	154	223	272
Joint ventures and majority-owned interests	12	16	67	71

REPORTING PERIOD JANUARY 1 TO DECEMBER 31

€ million	Receivables from 12/31/2020	Receivables from 12/31/2019	Liabilities (including obligations) to 12/31/2020	Liabilities (including obligations) to 12/31/2019
Volkswagen AG	2,362	3,236	1,062	2,590
Other subsidiaries and equity investments of Volkswagen AG that are not part of the TRATON GROUP	332	674	2,465	3,428
Unconsolidated subsidiaries	18	11	35	24
Associates and their majority interests	108	74	8	12
Joint ventures and majority-owned interests	2	1	2	2

1 Prior-year figures were adjusted (Purchases and services received).

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.

Supplies and services rendered to other subsidiaries and investees of Volkswagen AG that are not part of the TRATON GROUP mainly relate to the sales financing business of MAN Truck & Bus, in which customer finance for vehicles is provided by Volkswagen Financial Services. Supplies and services received from other subsidiaries and investees of Volkswagen AG that are not part of the TRATON GROUP relate mainly to unfinished goods and products.

Receivables from Volkswagen AG are mainly finance transaction balances. In 2020, the TRATON GROUP made short-term investment deposits at Volkswagen AG, amounting to €2,100 million (previous year: €3,100 million) as of December 31, 2020. The investment deposits are subject to market interest rates.

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.

Liabilities to Volkswagen AG include loans granted by Volkswagen AG in the amount of €1,000 million (previous year: €1,000 million) resulting from a €4,000 million (previous year: €4,000 million) credit facility. The credit facility is subject to market interest rates.

The amounts of supplies and services transacted, as well as outstanding receivables and obligations, relating to Volkswagen AG also include remuneration and severance components for a current and a former member of TRATON SE's Executive Board. 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. The year-on-year decrease is due primarily to the lower volume of business with companies of the former Power Engineering business. The decrease is also reflected in the receivables. In 2018, the Power Engineering business was sold to a subsidiary of Volkswagen AG that is not part of the TRATON GROUP. The total price of €1,978 million was paid in 2019.

Additionally, in November 2020 TRATON SE took out a currently unused €3,300 million credit facility with Volkswagen International Luxemburg with a term of up to 30 months to finance the US dollar purchase price of the common shares of US truck manufacturer Navistar International Corporation not already held by TRATON SE. The financing is subject to market conditions customary for these types of loans. The underlying purchase price is hedged in full by a foreign currency derivative that is contingent on the transaction closing.

The sale of receivables to subsidiaries of Volkswagen AG that are not part of the TRATON GROUP amounted to €960 million (previous year: €1,091 million) in fiscal year 2020. This relates to the volume of receivables that were transferred and derecognized in each reporting period. Customer liabilities to Volkswagen Financial Services are covered by standard industry buyback guarantees, see Note "40. Contingent liabilities and commitments."

Liabilities to the current members of the Executive Board and Supervisory Board comprise outstanding balances for the remuneration of the Supervisory Board, for the fair values of performance shares granted to members of the Executive Board, and for variable remuneration in the amount of €3,297 thousand (previous year: €7,743 thousand). In the introductory phase of the performance share plan, those members of the Executive Board who were members of the Executive Board as of January 17, 2019, receive advances of 80% of their target amount for the first two tranches (tranche 2019–2021 and tranche 2020–2022) of the performance share plan. The current members of the Executive Board received advances on their 2019–2021 PSP plans in 2020. As of December 31, 2020, there is a receivable of €106 thousand from the Executive Board members (there was no receivable in the previous year). Disclosures on the pension provisions for members of the Executive Board can be found in Note "45. Remuneration of the Executive Board and the Supervisory Board" and in the "Remuneration Report," which is part of the Combined Management Report.

The following expenses were recognized in fiscal year 2020 for the benefits and remuneration granted to members of the Executive and Supervisory Boards of TRATON SE in the course of their activities as members of governing bodies. They also include benefits that were offset with Volkswagen AG.

€ thousand	2020	2019
Short-term benefits	9,888	10,584
Benefits based on performance shares	2,789	1,953
Post-employment benefits	1,920	2,180
Termination benefits	17,359	–
Total	**31,956**	**14,716**

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

Benefits based on performance shares include the expenses for the performance shares granted to Executive Board members under the remuneration system in place from 2019 onward.

Post-employment benefits relate to additions to pension provisions, expenses for defined contribution pension plans, and — depending on the social security system — contributions to the Swedish pension system for current members of the Executive Board.

The termination benefits relate to the payments to Mr. Drees and Mr. Renschler in connection with their departure from the Executive Board before the end of their term.

44. Benefits based on performance shares (share-based payment)

At the end of 2018, the Supervisory Board of TRATON SE decided to introduce a new remuneration system for the Executive Board with effect from the effective date of the reorganization of TRATON AG as TRATON SE (January 17, 2019). The new remuneration system for the Executive Board comprises fixed and variable components. The variable remuneration consists of a performance-related bonus with a two-year assessment period and a long-term incentive (LTI) in the form of a performance share plan with a forward-looking three-year term (share-based payment).

At the time the LTI is granted, the annual target amount under the LTI is converted on the basis of the initial reference price of Volkswagen AG's preferred shares (granted in 2019) or TRATON SE shares (granted starting in 2020) into performance shares, which are allocated to the respective member of the Executive Board purely for calculation purposes. A cash settlement is made after the end of the three-year term of the performance share plan. The payment amount corresponds to the number of specified performance shares, multiplied by the closing reference price at the end of the three-year period, plus a dividend equivalent for the relevant term. The payment amount under the performance share plan is limited to 200% of the target amount.

If 100% of the relevant agreed targets are achieved, the target amount for the Executive Board members in 2020, extrapolated to 100%, is €6,640 thousand (previous year: €3,906 thousand). The target amount is reduced ratably if the employment contract begins or ends in the course of a year. In the case of one former Executive Board member, under the terms of the agreement to annul the employment contract, the employment contract is continuing in force starting from the end of his appointment, so the target amount was not reduced in this case.

A total of 403,989 performance shares (based on TRATON SE shares) and 4,396 performance shares (based on Volkswagen AG preferred shares) were awarded to current and former members of the Executive Board for 2020. Their fair value at the grant date was €7,559 thousand (based on TRATON SE shares) and €730 thousand (based on Volkswagen AG preferred shares). A total of 25,394 performance shares were awarded to members of the Executive Board in the previous year, and their fair value was €3,267 thousand at the grant date (based on Volkswagen AG preferred shares). The carrying amount of the obligation as of December 31, 2020, was €5,543 thousand (previous year: €1,953 thousand). The remuneration expense of €6,472 thousand (previous year: €1,953 thousand) was recognized as a personnel expense. The intrinsic value of €692 thousand (previous year: –) corresponds to the amount that the members of the Executive Board would have received if they had stepped down on December 31, 2020. Only the nonforfeitable (vested) performance shares at the reporting date are included in the calculation.

The above amounts also include the performance shares awarded on the basis of the underlying agreement to annul the employment contract.

For further information on the individual LTI remuneration of the Executive Board members in the form of the performance share plan, refer to the "Remuneration Report" in the Combined Management Report.

45. Remuneration of the Executive Board and the Supervisory Board

€ thousand	2020	2019
Executive Board remuneration		
Non-performance-related remuneration components	5,858	4,385
Performance-related remuneration components	1,680	3,632
Long-term incentive components	5,632	3,267
	13,170	**11,283**
Supervisory Board remuneration		
Non-performance-related remuneration components	2,088	2,390
	2,088	**2,390**

For further information on the individual remuneration of the members of the Executive Board and the Supervisory Board, see the “Remuneration Report” in the Combined Management Report. It also contains a comprehensive assessment of the individual remuneration components, including the variable remuneration consisting of the bonus and the LTI in the form of the performance share plan.

NON-PERFORMANCE-RELATED REMUNERATION OF THE EXECUTIVE BOARD

The non-performance-related remuneration of the Executive Board comprises fixed remuneration and fringe benefits. Appointments assumed at Group companies are not remunerated separately; instead, they are deemed to be included in the remuneration. The fringe benefits result from the grant of noncash benefits. These include in particular the provision of company cars and the payment of insurance premiums.

In fiscal year 2020, the members of the Executive Board waived part of their fixed remuneration or donated it to a charitable organization as a sign of solidarity with employees affected by short-time working or similar measures.

PERFORMANCE-RELATED REMUNERATION OF THE EXECUTIVE BOARD

The performance-related remuneration contains the bonus with a two-year assessment period. The 2019 comparison period also includes the performance-related remuneration components in place until January 16, 2019.

LONG-TERM INCENTIVE COMPONENTS

The long-term incentive component contains the long-term incentive (LTI) in the form of a performance share plan with a forward-looking three-year term. The remuneration described above includes the fair value of the allocated performance shares at the relevant grant date in accordance with German GAAP.

Expenses for performance shares do not constitute remuneration under German GAAP and are therefore not included in the above tables.

For further information on the details of the performance share plan, refer to Note “44. Benefits based on performance shares (share-based payment).”

SUPERVISORY BOARD REMUNERATION

The remuneration of the members of the Supervisory Board of TRATON SE does not contain performance-related remuneration components, but is comprised entirely of non-performance-related remuneration components.

PENSION RIGHTS OF MEMBERS OF THE EXECUTIVE BOARD

The pension provisions for the members of the Executive Board in office amounted to €1,762 thousand (previous year: €4,555 thousand) as of December 31, 2020. €1,072 thousand (previous year: €1,238 thousand) was added to the provision in the year under review. An additional amount of €848 thousand (previous year: €942 thousand) was spent on defined contribution plans that are not included in total benefits.

The pension provisions for the former members of the Executive Board amounted to €5,023 thousand (previous year: –) as of December 31, 2020.

46. Supervisory Board

There were no changes in the Company's Supervisory Board in fiscal year 2020.

47. Executive Board

Effective the end of July 15, 2020, Mr. Andreas Renschler, Mr. Joachim Drees, and Professor Carsten Intra resigned their posts as members of the Executive Board. Mr. Matthias Gründler and Dr. Ing. h.c. Andreas Tostmann were appointed to succeed them as members of the Executive Board of TRATON SE effective July 16, 2020. Mr. Gründler was also appointed as Chairman of the Executive Board and assumed responsibility for the central Human Resources division in addition to the existing functions of the Chairman of the Executive Board. In addition to his position as a member of the Executive Board of TRATON SE, Dr. Ing. h.c. Tostmann also assumed the chairmanship of the Executive Boards of MAN SE and MAN Truck & Bus SE. In addition to his existing Executive Board functions, Mr. Christian Schulz also assumed responsibility for the IT division.

48. Fees paid to the auditors of the consolidated financial statements

The following table shows the fees charged for the work performed by the auditors, Ernst & Young GmbH Wirtschaftsprüfungsgesellschaft (E&Y), Munich, as well as by companies in the international E&Y network and, in the previous year, the fees charged for the work performed by the auditors, PricewaterhouseCoopers GmbH Wirtschaftsprüfungsgesellschaft (PwC), and by companies of the international PwC network.

€ million	2020	2019
Audit of the financial statements	7	8
Other assurance services	0	2
Tax advisory services	2	0
Other services	0	0
Total expenses for fees	**9**	**10**

In addition, PwC and the companies of the international PwC network charged €0.2 million for the review of reporting packages for the first quarter of 2020.

The fees charged for the work performed by the auditors, E&Y (previous year: PwC), and their affiliated German companies, are shown in the following table:

€ million	2020	2019
Audit of the financial statements	2	2
Other assurance services	0	2
Tax advisory services	1	0
Other services	0	0
Total expenses for fees	**3**	**4**

Most of the fees charged for the work of the auditors in 2020 were the result of the audit of TRATON SE's Consolidated Financial Statements and of the Annual Financial Statements of Group companies in Germany, as well as intraperiod reviews of the interim financial statements of TRATON SE and the German Group companies. The tax advisory services mainly related to income tax advice provided by E&Y to employees on secondments abroad, which were provided for the last time in the year under review.

The fees for the review of reporting packages for the first quarter of 2020 by PwC and the affiliated German companies amounted to €0.1 million.

49. German Corporate Governance Code

The Executive Board and Supervisory Board of TRATON SE issued their annual Declaration of Conformity in accordance with section 161 of the *Aktiengesetz* (AktG — German Stock Corporation Act) in December 2020. The Declaration of Conformity is included in the "Corporate Governance Statement" as a separate part of the Combined Management Report, and has been published on TRATON SE's website at www.traton.com.

The Executive Board and Supervisory Board of MAN SE also issued the annual Declaration of Conformity in December 2020 and published it on MAN SE's website at www.corporate.man.eu.

50. Events after the reporting period

On January 26, 2021, the Executive Board members of MAN SE and MAN Truck & Bus SE and the employee representatives signed an agreement on the key points of a comprehensive realignment of MAN Truck & Bus SE. The agreement that was reached sets out a restructuring of all areas of MAN Truck & Bus's business. The planned measures include a repositioning of the development and production network with a strong focus on future technologies, as well as approximately 3,500 job cuts across all areas of the company in Germany by the end of 2022. In total, the restructuring measures, including the measures in connection with the production network, which are still to be defined, are currently expected to incur cost in a high triple-digit million amount for the entire restructuring period. The majority of the expenses will be for personnel measures.

In connection with the intended acquisition of Navistar International Corporation ("Navistar") by TRATON SE, a Navistar shareholder on January 19, 2021, filed a lawsuit against Navistar, its Board of Directors, as well as against TRATON SE and its wholly owned subsidiary Dusk Inc. with the United States District Court for the Southern District of New York (Anderson v. Navistar International Corporation, et al., Case No. 21-cv-00453 (S.D.N.Y)). The plaintiff alleges that preliminary versions of Navistar's Proxy Statement were incomplete and therefore misleading. The complaint purports to seek injunctive relief, declaratory relief, rescission, monetary damages, and costs, including attorneys' fees. Until the day on which the Consolidated Financial Statements were prepared, this complaint has not been served to either TRATON SE or Dusk Inc.

Also in conjunction with the intended acquisition of Navistar, another Navistar shareholder on January 20, 2021, filed a putative class action against Navistar, its Board of Directors, as well as against TRATON SE and its wholly owned subsidiary TRATON US Inc. with the Circuit Court of DuPage County, Illinois, Chancery Division (Drulias v. Clarke, et al., Case No. 2021-CH-000022 (Ill. DuPage Cty. Cir. Ct.)). The plaintiff alleges that Navistar and its Board of Directors were in breach of their fiduciary duties under Delaware law and that TRATON SE and TRATON US Inc. aided and abetted these alleged breaches of fiduciary duties. The complaint purports to seek class action certification, injunctive relief, declaratory relief, rescission, disgorgement, monetary damages, and costs, including attorneys' fees. Until the day on which the Consolidated Financial Statements were prepared, this complaint has not been served to either TRATON SE or TRATON US Inc.

Since neither of the complaints have been served yet and both proceedings are still at an early stage, it is not possible to provide an assessment at this point in time.

51. Members of the Executive Board and their appointments

Matthias Gründler
(since July 16, 2020)
Albershausen,
Chairman of the Executive Board

1 Volkswagen Financial Services AG
2 MAN SE (Chairman)
MAN Truck & Bus SE (Chairman)
3 Sinotruk (Hong Kong) Ltd., China
4 Scania AB, Sweden (Chairman)
Scania CV AB, Sweden (Chairman)
MAN Latin America Indústria e Comércio de Veículos Ltda., Brazil (Chairman)

Andreas Renschler
(until July 15, 2020)
Stuttgart,
Chairman of the Executive Board

1 Deutsche Messe AG
2 MAN Energy Solutions SE (Chairman)
MAN Truck & Bus SE (Chairman)
MAN SE (Chairman)
Dr. Ing. h.c. F. Porsche AG
3 Navistar International Corporation, USA
Sinotruk (Hong Kong) Ltd., China
4 MAN Latin America Indústria e Comércio de Veículos Ltda., Brazil (Chairman)
Porsche Holding Stuttgart GmbH
Scania AB, Sweden (Chairman)
Scania CV AB, Sweden (Chairman)

Joachim Drees
(until July 15, 2020)
Stuttgart,
Member of the Executive Board

1 MAN Energy Solutions SE
Renk Aktiengesellschaft
Rheinmetall MAN Military Vehicles GmbH
Volkswagen Financial Services AG
2 MAN Truck & Bus Deutschland GmbH (Chairman)
3 Sinotruk (Hong Kong) Ltd., China

Antonio Roberto Cortes
São Paulo-Indianópolis, Brazil
Member of the Executive Board

4 Volkswagen Financial Services Brazil, Brazil

Henrik Henriksson
Stockholm, Sweden
Member of the Executive Board

3 Electrolux AB, Sweden
Hexagon AB, Sweden

Professor Carsten Intra
(until July 15, 2020)
Karlsfeld,
Member of the Executive Board

4 MAN Latin America Indústria e Comércio de Veículos Ltda., Brazil

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Christian Levin
Lidingö, Sweden
Member of the Executive Board

4 OOO Scania-Rus, Russia

Christian Schulz
Stuttgart,
Member of the Executive Board

2 MAN Truck & Bus SE
3 Navistar International Corporation, USA
4 Scania AB, Sweden
Scania CV AB, Sweden

Dr. Ing. h.c. Andreas Tostmann
(since July 16, 2020)
Braunschweig,
Member of the Executive Board

1 Rheinmetall MAN Military Vehicles GmbH
2 MAN Truck & Bus Deutschland GmbH (Chairman)
3 Fraunhofer Research Austria GmbH, Austria
Sinotruk (Hong Kong) Ltd., China

As of December 31, 2020, or date of departure
1 Membership of statutory German supervisory boards
2 Membership of statutory German supervisory boards, Group appointments
3 Membership of comparable German or foreign governing bodies
4 Membership of comparable German or foreign governing bodies, Group appointments

52. Members of the Supervisory Board and their appointments

Hans Dieter Pötsch
Wolfsburg,
Chairman of the Executive Board of Porsche Automobil Holding SE and Chairman of the Supervisory Board of Volkswagen AG

Chairman of the Supervisory Board

1 Bertelsmann SE & Co. KGaA
Bertelsmann Management SE
2 Volkswagen AG (Chairman)
AUDI AG
Wolfsburg AG
Autostadt GmbH
Dr. Ing. h.c. F. Porsche AG
4 Porsche Austria Gesellschaft m.b.H., Austria (Chairman)
Porsche Holding Gesellschaft m.b.H., Austria (Chairman)
Porsche Retail GmbH, Austria (Chairman)
VfL Wolfsburg-Fußball GmbH (Deputy Chairman)

Athanasios Stimoniaris*
Munich,
Chairman of the Group Works Council of TRATON SE and the SE Works Council Chairman of the Group Works Council of MAN SE and the SE Works Council, and Chairman of the Group Works Council and the General Works Council of MAN Truck & Bus SE and the SE Works Council

Deputy Chairman of the Supervisory Board

1 MAN Truck & Bus SE
MAN SE
MAN Truck & Bus Deutschland GmbH
Volkswagen AG
Rheinmetall MAN Military Vehicles GmbH

Torsten Bechstädt*
Helmstedt,
Special Adviser to the Group Works Council of Volkswagen AG

Mari Carlquist*
Södertälje, Sweden
Representative of PTK (Privattjänstemannakartellen, Confederation of Labor Unions in Sweden) at Scania

3 Scania AB, Sweden
Scania CV AB, Sweden
Dynamate AB (formerly DIS AB), Sweden

Dr. Manfred Döss
Mülheim,
Member of the Executive Board of Porsche Automobil Holding SE and General Counsel of Volkswagen AG

1 PTV Planung Transport Verkehr AG

Jürgen Kerner*
Frankfurt,
Executive Board member of IG Metall

1 MAN SE (Deputy Chairman)
MAN Truck & Bus SE (Deputy Chairman)
Premium Aerotec GmbH (Deputy Chairman)
thyssenkrupp AG (Deputy Chairman)
Siemens AG
Airbus Operations GmbH

Gunnar Kilian
Lehre,
Member of the Board of Management of Volkswagen AG

2 Wolfsburg AG (Chairman)
Autostadt GmbH (Chairman)
Volkswagen Group Services GmbH (Chairman)
MAN Energy Solutions SE (Chairman)
MAN Truck & Bus SE
AUDI AG
Dr. Ing. h.c. F. Porsche AG
3 Grizzlys Wolfsburg GmbH
4 Scania AB, Sweden
Scania CV AB, Sweden
Allianz für die Region GmbH
Porsche Holding Stuttgart GmbH
FAW-Volkswagen Automotive Co., Ltd., China

Dr. Albert X. Kirchmann
Lindau/Bodolz,
Chief Executive Advisor

3 MAN Truck & Bus SE
MCE Bank GmbH

Dr. Julia Kuhn-Piëch
Salzburg, Austria
Real estate manager

1 MAN SE
MAN Truck & Bus SE
AUDI AG
3 Scania AB, Sweden
Scania CV AB, Sweden

Lisa Lorentzon*
Huddinge, Sweden
Chair of the Labor Unions for Graduate Employees at Scania

3 Scania AB, Sweden
Scania CV AB, Sweden

Bo Luthin*
Södertälje, Sweden
Head of Occupational Health and Safety at Scania Södertälje and Coordinator for IF Metall (labor union in Sweden)

Michael Lyngsie*
Gnesta, Sweden
Chair of IF Metall (labor union in Sweden) at Scania

3 Scania AB, Sweden
Scania CV AB, Sweden

Nina Macpherson
Stocksund, Sweden
Member of the Board of Directors of Scania AB

3 M&K Industrials AB, Sweden (Deputy Chairwoman)
Scania AB, Sweden
Scania CV AB, Sweden
Scandinavian Enviro Systems AB, Sweden

Bernd Osterloh*
Wolfsburg, Fallersleben,
Chairman of the General and Group Works Councils of Volkswagen AG

1 Volkswagen AG
Autostadt GmbH
Wolfsburg AG
Volkswagen Group Services GmbH
3 Volkswagen Immobilien GmbH
Porsche Holding Stuttgart GmbH
Porsche Holding Gesellschaft m.b.H., Austria
Skoda Auto a.s., Czech Republic
SEAT, S.A., Spain
VfL Wolfsburg-Fußball GmbH
Allianz für die Region GmbH

Dr. Dr. Christian Porsche
Salzburg, Austria
Specialist in Neurology

1 MAN Truck & Bus SE
3 Scania AB, Sweden
Scania CV AB, Sweden

Dr. Wolf-Michael Schmid
Helmstedt,
Businessman (Managing Director of the Schmid Group)

1 BRW AG (Chairman)
Öffentliche Versicherung Braunschweig Anstalt des öffentlichen Rechts (institution under public law)

Karina Schnur*
Reichertshofen,
General Secretary of the Works Council of MAN Truck & Bus SE and TRATON SE

1 MAN SE
MAN Truck & Bus SE
MAN Truck & Bus Deutschland GmbH

Hiltrud Werner
Munich,
Member of the Board of Management of Volkswagen AG

2 AUDI AG
Dr. Ing. h.c. F. Porsche AG
MAN Energy Solutions SE
3 Grizzlys Wolfsburg GmbH
4 SEAT S.A., Spain
Porsche Holding Stuttgart GmbH

Frank Witter
Braunschweig,
Member of the Board of Management of Volkswagen AG

2 Volkswagen Financial Services AG (Chairman)
Volkswagen Group Services GmbH
4 Volkswagen Immobilien GmbH (Chairman)
VfL Wolfsburg-Fußball GmbH (Chairman)
Skoda Auto a.s., Czech Republic

Steffen Zieger*
Leipzig,
Chairman of the General Works Council of MAN Truck & Bus Deutschland GmbH

1 MAN SE
MAN Truck & Bus Deutschland GmbH (Deputy Chairman)

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* Elected by the workforce

As of December 31, 2020
1 Membership of statutory German supervisory boards
2 Membership of statutory German supervisory boards, Group appointments
3 Membership of comparable German or foreign governing bodies
4 Membership of comparable German or foreign governing bodies, Group appointments

53. Supervisory Board committees

(As of December 31, 2020)

Presiding Committee

Hans Dieter Pötsch (Chairman)
Gunnar Kilian
Michael Lyngsie
Bernd Osterloh
Dr. Dr. Christian Porsche
Athanasios Stimoniaris

Audit Committee

Frank Witter (Chairman)
Torsten Bechstädt
Dr. Julia Kuhn-Piëch
Lisa Lorentzon
Nina Macpherson
Karina Schnur

Nomination Committee

Hans Dieter Pötsch
Gunnar Kilian
Dr. Dr. Christian Porsche

54. List of shareholdings

LIST OF SHAREHOLDINGS AS OF DECEMBER 31, 2020

Name and domicile of the company	Currency	Exchange rate (1 euro =) 12/31/2020	Equity interest (in %)	Equity in thousands Local currency	Result in thousands Local currency	Footnote	Year
I. PARENT COMPANY							
TRATON SE, Munich							
II. SUBSIDIARIES							
A. Consolidated companies							
1. Germany							
B. + V. Grundstücks- Verwaltungs- und Verwertungs-GmbH, Koblenz	EUR		100.00	110	2		2019
B. + V. Grundstücksverwertungs-GmbH & Co. KG, Koblenz	EUR		100.00	8,360	2,781		2019
GETAS Verwaltung GmbH & Co. Objekt Verwaltung Nürnberg KG, Pullach i. Isartal	EUR		100.00	26	1,261		2019
KOSIGA GmbH & Co. KG, Pullach i. Isartal	EUR		94.00	36,756	1,068		2019
M A N Verwaltungs-Gesellschaft mbH, Munich	EUR		100.00	1,039	–	1)	2020
MAN GHH Immobilien GmbH, Oberhausen	EUR		100.00	44,668	–	1) 12)	2020
MAN Grundstücksgesellschaft mbH & Co. Epsilon KG, Munich	EUR		100.00	623	304		2019
MAN Marken GmbH, Munich	EUR		100.00	21	–1		2019
MAN SE, Munich	EUR		94.36	2,467,084	35,052		2020
MAN Service und Support GmbH, Munich	EUR		100.00	25	–	1)	2020
MAN Truck & Bus Deutschland GmbH, Munich	EUR		100.00	130,934	–	1)	2020
MAN Truck & Bus SE, Munich	EUR		100.00	563,488	–	1)	2020
Scania CV Deutschland Holding GmbH, Koblenz	EUR		100.00	105,562	38,827		2019
SCANIA DEUTSCHLAND GmbH, Koblenz	EUR		100.00	36,625	–	1)	2019
Scania Finance Deutschland GmbH, Koblenz	EUR		100.00	73,802	9,406		2019
SCANIA Real Estate Deutschland GmbH, Koblenz	EUR		100.00	4,925	1,035		2019
SCANIA Real Estate Deutschland Holding GmbH, Koblenz	EUR		100.00	12,615	2,340		2019
Scania Versicherungsvermittlung GmbH, Koblenz	EUR		100.00	720	2,336		2019
SCANIA Vertrieb und Service GmbH, Koblenz	EUR		100.00	9,463	–	1)	2019

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TARONA Verwaltung GmbH & Co. Alpha KG, Pullach i. Isartal	EUR		100.00	5,124	312		2019
TB Digital Services GmbH, Munich	EUR		100.00	25	–	1)	2019
TORINU Verwaltung GmbH & Co. Beta KG, Pullach i. Isartal	EUR		100.00	18,100	259		2019
2. Other countries							
AB Dure, Södertälje	SEK	10.0247	100.00	1,440	–	5)	2019
AB Folkvagn, Södertälje	SEK	10.0247	100.00	100	–	5)	2019
AB Scania-Vabis, Södertälje	SEK	10.0247	100.00	100	–	5)	2019
Ainax AB, Södertälje	SEK	10.0247	100.00	120	–	5)	2019
Centurion Truck & Bus (Pty) Ltd. t/a, Centurion	ZAR	18.0152	70.00	10,305	–5,027		2019
CNC Factory AB, Värnamo	SEK	10.0247	100.00	1,979	39		2019
Codema Comercial e Importadora Ltda., Guarulhos	BRL	6.3756	99.98	224,921	20,310		2019
Dynamate AB, Södertälje	SEK	10.0247	100.00	3,987	–410		2019
DynaMate IntraLog AB, Södertälje	SEK	10.0247	100.00	100	–	5)	2019
Fastighetsaktiebolaget Flygmotorn, Södertälje	SEK	10.0247	100.00	18,561	–26		2019
Fastighetsaktiebolaget Hjulnavet, Södertälje	SEK	10.0247	100.00	53,051	–		2019
Fastighetsaktiebolaget Vindbron, Södertälje	SEK	10.0247	100.00	42,070	–		2019
Ferruform AB, Luleå	SEK	10.0247	100.00	78,383	–2,657		2019
Griffin Automotive Ltd., Road Town	TWD	34.4845	100.00	1,221,807	364,880		2019
Griffin Lux S.à r.l., Luxembourg	EUR		–	–	–	4) 13)	2019
Italscania S.p.A., Trento	EUR		100.00	46,669	29,861		2019
Kai Tak Holding AB, Södertälje	SEK	10.0247	100.00	120	–	5)	2019
Laxå Specialvehicles AB, Laxå	SEK	10.0247	100.00	94,594	15,814		2019
LOTS Group AB, Södertälje	SEK	10.0247	100.00	81,959	326	12)	2019
LOTS Latin América Logística de Transportes Ltda., São Bernardo do Campo	BRL	6.3756	100.00	28,849	23,489		2019
Lots Logistics (Guangxi) Ltd, Beihai	CNY	8.0290	100.00	3,485	–1,356		2019
Mälardalens Tekniska Gymnasium AB, Södertälje	SEK	10.0247	80.00	18,048	55,442		2019

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MAN Automotive (South Africa) (Pty) Ltd., Johannesburg	ZAR	18.0152	100.00	911,674	85,612		2019
MAN Bus Sp. z o.o., Starachowice	PLN	4.5562	100.00	745,298	75,384		2019
MAN Capital Corp., Pompano Beach, Florida	USD	1.2276	100.00	248,591	996		2019
MAN Engines & Components Inc., Pompano Beach, Florida	USD	1.2276	100.00	84,618	10,678		2019
MAN Finance and Holding S.A., Strassen	EUR		100.00	1,867,475	46,469		2019
MAN Hellas Truck & Bus A.E., Aspropygros	EUR		100.00	2,288	–273		2017
MAN Kamion és Busz Kereskedelmi Kft., Dunaharaszti	HUF	364.3300	100.00	4,998,312	651,058		2019
MAN Kamyon ve Otobüs Ticaret A.S., Ankara	TRY	9.1013	100.00	264,053	2,061		2019
MAN Latin America Indústria e Comércio de Veículos Ltda., São Paulo	BRL	6.3756	100.00	694,985	–130,110		2019
MAN Nutzfahrzeuge Immobilien GmbH, Steyr	EUR		100.00	27,318	2,124		2019
MAN Shared Services Center Sp. z o.o., Poznan	PLN	4.5562	100.00	8,617	686		2019
MAN Truck & Bus (Korea) Ltd., Yongin	KRW	1,336.2100	100.00	17,260,910	201,477		2019
MAN Truck & Bus (M) Sdn. Bhd., Rawang	MYR	4.9380	100.00	–4,463	2,899		2018
MAN Truck & Bus Asia Pacific Co. Ltd., Bangkok	THB	36.7268	99.99	133,672	–1,865		2019
MAN Truck & Bus Czech Republic s.r.o., Cestlice	CZK	26.2390	100.00	1,160,624	84,190		2019
MAN Truck & Bus Danmark A/S, Greve	DKK	7.4405	100.00	123,907	9,663		2019
MAN Truck & Bus France S.A.S., Evry	EUR		100.00	74,134	10,324		2019
MAN Truck & Bus Iberia S.A., Coslada	EUR		100.00	122,791	7,006		2019
MAN Truck & Bus Italia S.p.A., Dossobuono di Villafranca	EUR		100.00	25,914	4,312		2019
MAN Truck & Bus México S.A. de C.V., El Marqués	MXN	24.4115	100.00	–736,990	–951,607		2019
MAN Truck & Bus Middle East FZE, Dubai	AED	4.5092	100.00	49,563	–4,442		2018
MAN Truck & Bus N.V., Kobbegem	EUR		100.00	25,969	3,575		2019
MAN Truck & Bus Norge A/S, Lorenskog	NOK	10.4574	100.00	181,497	21,785		2019
MAN Truck & Bus Österreich GmbH, Steyr	EUR		100.00	745,832	20,077		2019
MAN Truck & Bus Polska Sp. z o.o., Nadarzyn	PLN	4.5562	100.00	38,942	32,230		2019
MAN Truck & Bus Portugal S.U. Lda., Lisbon	EUR		100.00	7,128	3,430		2019
MAN Truck & Bus Schweiz AG, Otelfingen	CHF	1.0811	100.00	27,098	2,525		2019

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MAN Truck & Bus Slovakia s.r.o., Bratislava	EUR		100.00	9,449	791		2019
MAN Truck & Bus Slovenija d.o.o., Ljubljana	EUR		100.00	12,436	929		2019
MAN Truck & Bus Sverige AB, Kungens Kurva	SEK	10.0247	100.00	49,253	10,736		2019
MAN Truck & Bus Trading (China) Co., Ltd., Beijing	CNY	8.0290	100.00	62,685	83		2019
MAN Truck & Bus UK Ltd., Swindon	GBP	0.8993	100.00	102,741	6,183		2018
MAN Truck & Bus Vertrieb Österreich GmbH, Vienna	EUR		100.00	246,987	3,657		2019
MAN Trucks Sp. z o.o., Niepolomice	PLN	4.5562	100.00	1,073,044	80,948		2019
MAN Türkiye A.S., Ankara	TRY	9.1013	99.99	845,713	161,094		2019
MW-Hallen Restaurang AB, Södertälje	SEK	10.0247	100.00	2,029	–160		2019
N.W.S. S.r.l., Trento	EUR		52.50	550	439		2019
Norsk Scania A/S, Oslo	NOK	10.4574	100.00	318,128	451,144		2019
Norsk Scania Eiendom A/S, Oslo	NOK	10.4574	100.00	100,291	12,169		2019
OOO MAN Truck & Bus Production RUS, St. Petersburg	RUB	91.7754	100.00	680,225	166,298		2019
OOO MAN Truck and Bus RUS, Moscow	RUB	91.7754	100.00	5,817,606	909,684		2019
OOO Scania Finance, Moscow	RUB	91.7754	100.00	589,042	57,562		2019
OOO Scania Leasing, Moscow	RUB	91.7754	100.00	2,425,353	1,998,737		2019
OOO Scania Peter, St. Petersburg	RUB	91.7754	100.00	209,455	–30,805		2019
OOO Scania Service, Golitsino	RUB	91.7754	100.00	344,402	56,840		2019
OOO Scania Strachovanie, Moscow	RUB	91.7754	100.00	57,542	57,442		2019
OOO Scania-Rus, Golitsino	RUB	91.7754	100.00	5,909,477	1,100,728		2019
Power Vehicle Co. Ltd., Bangkok	THB	36.7268	100.00	1,945	–76		2019
PT Scania Parts Indonesia, Balikpapan	USD	1.2276	100.00	3,603	3,659		2019
Reliable Vehicles Ltd., Milton Keynes	GBP	0.8993	100.00	2,500	–	5)	2019
Sågverket 6 AB, Södertälje	SEK	10.0247	100.00	956	11		2019
Santa Catarina Veículos e Serviços Ltda., Biguaçu	BRL	6.3756	100.00	55,746	12,758		2019
Scan Siam Service Co. Ltd., Bangkok	THB	36.7268	100.00	64,694	17,573		2019
Scanexpo International S.A., Montevideo	USD	1.2276	100.00	8,375	–97		2019

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Scania (Hong Kong) Ltd., Hong Kong	HKD	9.5167	100.00	43,632	19,402		2019
Scania (Malaysia) Sdn. Bhd., Shah Alam	MYR	4.9380	100.00	60,135	12,608		2019
Scania AB, Södertälje	SEK	10.0247	100.00	14,636,053	39		2019
Scania Administradora de Consórcios Ltda., Cotia	BRL	6.3756	99.99	81,461	3,090		2019
Scania Argentina S.A., Buenos Aires	ARS	103.2880	100.00	7,809,207	2,337,539		2019
Scania Australia Pty. Ltd., Melbourne	AUD	1.5861	100.00	65,673	15,395		2019
Scania Banco S.A., São Bernardo do Campo	BRL	6.3756	100.00	423,260	65,047		2019
Scania Belgium N.V., Neder-Over-Heembeek	EUR		100.00	8,426	15,529		2019
Scania BH d.o.o., Sarajevo	BAM	1.9558	100.00	2,900	395		2019
Scania Botswana (Pty) Ltd., Gaborone	BWP	13.2632	100.00	18,450	13,637		2019
Scania Bulgaria EOOD, Sofia	BGN	1.9560	100.00	12,904	4,887		2019
Scania Bus & Coach UK Ltd., Milton Keynes	GBP	0.8993	100.00	1,029	–	5)	2019
Scania Bus Financing AB, Södertälje	SEK	10.0247	100.00	79,043,557	212,640	5)	2019
Scania Central Asia LLP, Almaty	KZT	517.3200	100.00	74,108	–37,493		2019
Scania Chile S.A., Santiago de Chile	CLP	872.1700	100.00	14,837,823	1,780,695		2019
Scania Colombia S.A.S., Bogotá	COP	4,200.5000	100.00	36,051,116	10,301,329		2019
Scania Comercial, S.A. de C.V., Querétaro	MXN	24.4115	99.99	581,087	74,509		2019
Scania Commercial Vehicles India Pvt. Ltd., Bangalore	INR	89.6900	100.00	247,054	–326,665		2019
Scania Commercial Vehicles Renting S.A., San Fernando de Henares	EUR		100.00	34,534	2,018		2019
Scania Commerciale S.p.A., Trento	EUR		100.00	8,521	639		2019
Scania Corretora de Seguros Ltda., São Bernardo do Campo	BRL	6.3756	100.00	2,994	2,950		2018
Scania Credit (Malaysia) Sdn. Bhd., Shah Alam	MYR	4.9380	100.00	3,458	109		2019
Scania Credit AB, Södertälje	EUR		100.00	3,688	–12		2019
Scania Credit Hrvatska d.o.o., Lucko (Zagreb)	HRK	7.5492	100.00	15,575	3,645		2019
Scania Credit Romania IFN S.A., Ciorogârla	RON	4.8685	100.00	45,397	3,205		2019
Scania Credit Singapore Pte. Ltd., Singapore	SGD	1.6221	100.00	524	–331		2019
Scania Credit Solutions Pty Ltd., Aeroton	ZAR	18.0152	100.00	18,567	–2,381		2019

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Scania Credit Taiwan Ltd., New Taipei City	TWD	34.4845	100.00	13,744	–956		2019
Scania CV AB, Södertälje	SEK	10.0247	100.00	41,033,119	8,616,000		2019
Scania Czech Republic s.r.o., Prague	CZK	26.2390	100.00	753,469	481,629		2019
Scania Danmark A/S, Ishöj	DKK	7.4405	100.00	64,663	64,663		2019
Scania Danmark Ejendom ApS, Ishöj	DKK	7.4405	100.00	126,860	14,961		2019
Scania del Perú S.A., Lima	PEN	4.4436	100.00	50,254	6,660		2019
Scania Delivery Center AB, Södertälje	SEK	10.0247	100.00	115,318	32,654		2019
Scania East Africa Ltd., Nairobi	KES	134.0450	100.00	–89,197	–218,529		2019
Scania Eesti AS, Tallinn	EUR		100.00	9,473	3,340		2019
Scania Finance Australia Pty. Ltd., Melbourne	AUD	1.5861	100.00	16,797	–531		2019
Scania Finance Belgium N.V., Neder-Over-Heembeek	EUR		100.00	15,398	1,160		2019
Scania Finance Bulgaria EOOD, Sofia	BGN	1.9560	100.00	12,252	3,906		2019
Scania Finance Chile S.A., Santiago de Chile	CLP	872.1700	100.00	2,299,742	2,010,280		2019
Scania Finance Colombia S.A.S., Bogotá	COP	4,200.5000	100.00	6,358,251	–696,400		2019
Scania Finance Czech Republic spol. s r.o., Prague	CZK	26.2390	100.00	817,036	59,072		2019
Scania Finance France S.A.S., Angers	EUR		100.00	56,713	7,866		2019
Scania Finance Great Britain Ltd., London	GBP	0.8993	100.00	86,232	9,252		2019
Scania Finance Hispania EFC S.A., San Fernando de Henares	EUR		100.00	43,098	3,513		2019
Scania Finance Holding AB, Södertälje	SEK	10.0247	100.00	272,222	48,318		2019
Scania Finance Ireland Ltd., Dublin	EUR		100.00	9,197	1,855		2019
Scania Finance Italy S.p.A., Milan	EUR		100.00	47,387	6,932		2019
Scania Finance Korea Ltd., Chung-Ang	KRW	1,336.2100	100.00	32,212,451	181,270		2019
Scania Finance Luxembourg S.A., Münsbach	EUR		100.00	4,729	–124		2018
Scania Finance Magyarország Zrt., Biatorbágy	HUF	364.3300	100.00	2,402,360	281,897		2019
Scania Finance Mexico, S.A. de C.V. SOFOM, E.N.R., El Marqués	MXN	24.4115	100.00	–	–	6)	2020
Scania Finance Nederland B.V., Breda	EUR		100.00	46,266	5,678	9)	2019
Scania Finance New Zealand Ltd., Auckland	NZD	1.6956	100.00	–	–	4) 6)	2020

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Scania Finance Polska Sp. z o.o., Nadarzyn	PLN	4.5562	100.00	210,682	32,508		2019
Scania Finance Schweiz AG, Kloten	CHF	1.0811	99.99	5,335	1,349		2019
Scania Finance Slovak Republic s.r.o., Senec	EUR		100.00	12,481	1,195		2019
Scania Finance Southern Africa (Pty) Ltd., Aeroton	ZAR	18.0152	100.00	500,504	–43,267		2018
Scania Financial Leasing (China) Co., Ltd, Shanghai	CNY	8.0290	100.00	98,234	–2,766	4)	2019
Scania Finans AB, Södertälje	SEK	10.0247	100.00	1,235,649	179,037		2019
Scania France S.A.S., Angers	EUR		100.00	70,841	29,490		2019
Scania Great Britain Ltd., Milton Keynes	GBP	0.8993	100.00	43,222	57,756		2019
Scania Group (Thailand) Co., Ltd., Samut Prakan	THB	36.7268	100.00	–3,335	28,003		2019
Scania Growth Capital AB, Södertälje	SEK	10.0247	90.10	150,719	–16,548		2019
Scania Hispania Holding S.L., San Fernando de Henares	EUR		100.00	37,527	11,757		2019
Scania Hispania S.A., San Fernando de Henares	EUR		100.00	22,680	14,515		2019
Scania Holding France S.A.S., Angers	EUR		100.00	81,085	21,112		2019
Scania Holding Inc., Columbus, Indiana	USD	1.2276	100.00	3,999	–2,537		2018
Scania Hrvatska d.o.o., Lucko (Zagreb)	HRK	7.5492	100.00	40,149	5,766		2019
Scania Hungaria Kft., Biatorbágy	HUF	364.3300	100.00	3,160,422	2,096,126		2019
Scania Industrial Maintenance AB, Södertälje	SEK	10.0247	100.00	31,583	–2,658		2019
Scania Insurance Nederland B.V., Middelharnis	EUR		100.00	–	–	10)	2019
Scania Insurance Polska Sp. z o.o., Nadarzyn	PLN	4.5562	100.00	3,558	3,474		2019
Scania Investimentos Imobiliários S.A., Vialonga	EUR		100.00	484	–15		2019
Scania IT AB, Södertälje	SEK	10.0247	100.00	117,172	992	8)	2019
Scania IT France S.A.S., Angers	EUR		100.00	199	26		2019
Scania IT Nederland B.V., Zwolle	EUR		100.00	670	189		2019
Scania Japan Ltd., Tokyo	JPY	126.5100	100.00	–497,583	–188,349		2019
Scania Korea Group Ltd., Seoul	KRW	1,336.2100	100.00	47,398,696	15,392,235		2019
Scania Latin America Ltda., São Bernardo do Campo	BRL	6.3756	100.00	2,539,292	469,042		2019
Scania Latvia SIA, Riga	EUR		100.00	7,024	2,417		2019

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Scania Leasing d.o.o., Ljubljana	EUR		100.00	6,107	1,115		2019
Scania Leasing Ltd., Dublin	EUR		100.00	–	–	5)	2019
Scania Leasing Österreich GmbH, Brunn am Gebirge	EUR		100.00	13,357	–12		2019
Scania Leasing RS d.o.o., Krnješevci	RSD	117.5600	100.00	69,975	–32,977		2019
Scania Lízing Kft., Biatorbágy	HUF	364.3300	100.00	476,213	–6,340		2019
Scania Location S.A.S., Angers	EUR		100.00	–	–	5)	2019
Scania Logistics Netherlands B.V., Zwolle	EUR		100.00	3,342	1,334		2019
Scania Luxembourg S.A., Münsbach	EUR		100.00	–	841		2019
Scania Makedonija d.o.o.e.l., Ilinden	MKD	61.6250	100.00	5,947	–290		2019
Scania Manufacturing (Thailand) Co., Ltd., Samut Prakan	THB	36.7268	100.00	51,811	–22,680		2019
Scania Maroc S.A., Casablanca	MAD	10.9049	100.00	161,079	31,492		2019
Scania Middle East FZE, Dubai	AED	4.5092	100.00	13,051	589		2019
Scania Milano S.p.A., Lainate	EUR		100.00	4,010	1,057		2019
Scania Moçambique, S.A., Beira	MZN	91.5700	100.00	–37,186	11,230		2019
Scania Namibia (Pty) Ltd., Windhoek	NAD	18.0132	100.00	65,771	7,636		2019
Scania Nederland B.V., Breda	EUR		100.00	73,111	24,377		2019
Scania New Zealand Ltd., Wellington	NZD	1.6956	100.00	–	–	4)	2018
Scania Omni AB, Södertälje	SEK	10.0247	100.00	2,400	–	5)	2019
Scania Österreich GmbH, Brunn am Gebirge	EUR		100.00	27,864	13,689		2019
Scania Österreich Holding GmbH, Brunn am Gebirge	EUR		100.00	18,618	–4		2019
Scania Overseas AB, Södertälje	SEK	10.0247	100.00	74,630	–30,390		2019
Scania Polska S.A., Nadarzyn	PLN	4.5562	100.00	197,184	134,751		2019
Scania Portugal, Unipessoal Lda., Santa Iria de Azóia	EUR		100.00	9,218	2,888		2019
Scania Power Polska Sp. z o.o., Warsaw	PLN	4.5562	100.00	–287	–1,974		2019
Scania Production (China) Co., Ltd., Rugao	CNY	8.0290	100.00	–	–	7)	2020
Scania Production Angers S.A.S., Angers	EUR		100.00	28,652	1,402		2019
Scania Production Meppel B.V., Meppel	EUR		100.00	20,813	3,271		2019

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Scania Production Slupsk S.A., Slupsk	PLN	4.5562	100.00	41,638	4,741		2019
Scania Production Zwolle B.V., Zwolle	EUR		100.00	51,590	7,143		2019
Scania Properties Ltd., Milton Keynes	GBP	0.8993	100.00	501	–	5)	2019
Scania Real Estate (UK) Ltd., Milton Keynes	GBP	0.8993	100.00	6,416	942		2019
Scania Real Estate Belgium N.V., Neder-Over-Heembeek	EUR		100.00	2,850	234		2019
Scania Real Estate Bulgaria EOOD, Sofia	BGN	1.9560	100.00	–12	–13		2019
Scania Real Estate Czech Republic s.r.o., Prague	CZK	26.2390	100.00	119,843	21,107		2019
Scania Real Estate d.o.o. Beograd, Belgrade	RSD	117.5600	100.00	–240	–31		2019
Scania Real Estate Finland Oy, Helsinki	EUR		100.00	13,789	1,187		2019
Scania Real Estate France S.A.S., Angers	EUR		100.00	3,717	118		2019
Scania Real Estate Hispania S.L., San Fernando de Henares	EUR		100.00	764	169		2019
Scania Real Estate Holding Luxembourg S.àr.l, Münsbach	EUR		100.00	5,790	655		2019
Scania Real Estate Holding Oy, Helsinki	EUR		100.00	5,520	–9		2019
Scania Real Estate Hong Kong Ltd., Hong Kong	HKD	9.5167	100.00	46	–1	5)	2018
Scania Real Estate Hungaria Kft., Biatorbágy	HUF	364.3300	100.00	1,014,929	119,398		2019
Scania Real Estate Kenya Ltd., Nairobi	KES	134.0450	100.00	195,363	–4,184		2019
Scania Real Estate Lund AB, Södertälje	SEK	10.0247	100.00	100	–		2019
Scania Real Estate Österreich GmbH, Brunn am Gebirge	EUR		100.00	9,800	1,597		2019
Scania Real Estate Polska Sp. z o.o., Nadarzyn	PLN	4.5562	100.00	79,411	5,774		2019
Scania Real Estate Romania S.R.L., Ciorogârla	RON	4.8685	100.00	5,517	717		2019
Scania Real Estate Schweiz AG, Kloten	CHF	1.0811	100.00	3,625	2,042		2019
Scania Real Estate Services AB, Södertälje	SEK	10.0247	100.00	804,896	171,178		2019
Scania Real Estate Slovakia s.r.o., Senec	EUR		100.00	3,327	432		2019
Scania Real Estate The Netherlands B.V., Breda	EUR		100.00	10,267	3,300		2019
Scania Rent Romania S.R.L., Ciorogârla	RON	4.8685	100.00	10,522	506		2019
Scania Romania S.R.L., Ciorogârla	RON	4.8685	100.00	24,261	–906		2019
Scania Sales and Service (Guangzhou) Co., Ltd., Guangzhou	CNY	8.0290	100.00	–11,464	–10,371		2019

LIST OF SHAREHOLDINGS AS OF DECEMBER 31, 2020

Name and domicile of the company	Currency	Exchange rate (1 euro =) 12/31/2020	Equity interest (in %)	Equity in thousands Local currency	Result in thousands Local currency	Footnote	Year
Scania Sales and Services AB, Södertälje	SEK	10.0247	100.00	17,001,647	2,524,484		2019
Scania Schweiz AG, Kloten	CHF	1.0811	100.00	27,924	24,618		2019
Scania Senegal S.U.A.R.L., Dakar	XOF	655.9570	100.00	10,000	–	4)	2018
Scania Services del Perú S.A., Lima	PEN	4.4436	100.00	35,158	5,321		2019
SCANIA SERVICII ASIGURARI S.R.L., Ciorogârla	RON	4.8685	100.00	2,292	374		2019
Scania Servicios, S.A. de C.V., Querétaro	MXN	24.4115	99.99	175	39		2019
Scania Siam Co. Ltd., Bangkok	THB	36.7268	99.99	436,223	–21,734		2019
Scania Siam Leasing Co. Ltd., Bangkok	THB	36.7268	100.00	414,769	55,294		2019
Scania Singapore Pte. Ltd., Singapore	SGD	1.6221	100.00	14,749	6,577		2019
Scania Slovakia s.r.o., Senec	EUR		100.00	9,664	2,870		2019
Scania Slovenija d.o.o., Ljubljana	EUR		100.00	11,007	4,562		2019
Scania South Africa (Pty) Ltd., Aeroton	ZAR	18.0152	100.00	405,314	101,625		2019
Scania Srbija d.o.o., Krnješevci	RSD	117.5600	100.00	311,251	115,515		2019
Scania Suomi Oy, Helsinki	EUR		100.00	23,402	23,402		2019
Scania Sverige AB, Södertälje	SEK	10.0247	100.00	188,036	28,185		2019
Scania Sverige Bussar AB, Södertälje	SEK	10.0247	100.00	42,966	–	5)	2019
Scania Tanzania Ltd., Dar-es-Salaam	TZS	2,846.5700	100.00	–55,194	–4,029,744		2019
Scania Thailand Co. Ltd., Bangkok	THB	36.7268	99.99	227,756	–5		2019
Scania Transportlaboratorium AB, Södertälje	SEK	10.0247	100.00	3,283	–35		2019
Scania Treasury AB, Södertälje	SEK	10.0247	100.00	80,258,500	96,834		2019
Scania Trucks & Buses AB, Södertälje	SEK	10.0247	100.00	79,044	213		2019
Scania USA Inc., San Antonio, Texas	USD	1.2276	100.00	5,638	1,885		2019
Scania West Africa Ltd., Accra	GHS	7.2055	100.00	11,362	–9,968		2019
Scania-Kringlan AB, Södertälje	SEK	10.0247	100.00	6,000	–	5)	2019
Scanlink Ltd., Milton Keynes	GBP	0.8993	100.00	1,956	–	5)	2019
Scanrent – Alguer de Viaturas sem Condutor, S.A., Santa Iria de Azóia	EUR		100.00	24,414	426		2019
Scantruck Ltd., Milton Keynes	GBP	0.8993	100.00	1,671	–	5)	2019

LIST OF SHAREHOLDINGS AS OF DECEMBER 31, 2020

Name and domicile of the company	Currency	Exchange rate (1 euro =) 12/31/2020	Equity interest (in %)	Equity in thousands Local currency	Result in thousands Local currency	Footnote	Year
Södertälje Bilkredit AB, Södertälje	SEK	10.0247	100.00	100	–	5)	2019
SOE Busproduction Finland Oy, Lahti	EUR		100.00	4,741	1,168		2019
Southway Scania Ltd., Milton Keynes	GBP	0.8993	100.00	1,170	–	5)	2019
SST Sustainable Transport Solutions India Pvt. Ltd., Nagpur	INR	89.6900	99.99	45,505	–28,595		2019
Suvesa Super Veics Pesados Ltda., Eldorado do Sul	BRL	6.3756	99.98	32,082	6,776		2019
Tachy Experts S.A.S., Angers	EUR		100.00	–	–	8)	2020
TOV Donbas-Scan-Service, Makijivka	UAH	34.7826	100.00	17,120	370		2019
TOV Kyiv-Scan, Kiev	UAH	34.7826	100.00	12,748	–25		2019
TOV MAN Truck & Bus Ukraine, Kiev	UAH	34.7826	100.00	275,285	12,546		2019
TOV Scania Credit Ukraine, Kiev	UAH	34.7826	100.00	92,522	35,003		2019
TOV Scania Ukraine, Kiev	UAH	34.7826	100.00	85,654	54,178		2019
TOV Scania-Lviv, Lviv	UAH	34.7826	100.00	32,148	119		2019
TRATON AB, Södertälje	SEK	10.0247	100.00	6,206	242,722		2019
TRATON International S.A., Strassen	EUR		100.00	–	–	4) 6)	2020
TRATON US Inc., Wilmington, Delaware	USD	1.2276	100.00	–	–	4) 6)	2020
UAB Scania Lietuva, Vilnius	EUR		100.00	6,153	1,421		2019
Union Trucks Ltd., Milton Keynes	GBP	0.8993	100.00	573	–	5)	2019
Vabis Bilverkstad AB, Södertälje	SEK	10.0247	100.00	101	–	5)	2019
Vabis Försäkringsaktiebolag, Södertälje	SEK	10.0247	100.00	211,192	–		2019
Vindbron Arendal AB, Södertälje	SEK	10.0247	100.00	14,133	–388		2019
Westrucks Ltd., Milton Keynes	GBP	0.8993	100.00	336	–	5)	2019

LIST OF SHAREHOLDINGS AS OF DECEMBER 31, 2020

Name and domicile of the company	Currency	Exchange rate (1 euro =) 12/31/2020	Equity interest (in %)	Equity in thousands Local currency	Result in thousands Local currency	Footnote	Year
B. Unconsolidated companies							
1. Germany							
GETAS Verwaltung GmbH & Co. Objekt Ausbildungszentrum KG, Pullach i. Isartal	EUR		100.00	26	–		2019
LoadFox GmbH, Munich	EUR		100.00	–	–3,083		2019
MAN Grundstücksgesellschaft mbH & Co. Gamma KG, Munich	EUR		100.00	2,880	53		2019
MAN HR Services GmbH, Munich	EUR		100.00	50	–	1)	2019
MAN Personal Services GmbH, Dachau	EUR		100.00	25	–	1)	2019
MAN-Unterstützungskasse GmbH, Munich	EUR		100.00	517	–76		2019
Ortan Verwaltung GmbH & Co. Objekt Karlsfeld KG, Pullach i. Isartal	EUR		100.00	1,336	387		2019
2. Other countries							
Beech's Garage (1983) Ltd., Belper	GBP	0.8993	100.00	–	–	7)	2020
ERF (Holdings) plc, Swindon	GBP	0.8993	100.00	757	–	5)	2018
ERF Ltd., Swindon	GBP	0.8993	100.00	–	–	5)	2018
HRVS Group Ltd., Belper	GBP	0.8993	100.00	–	–	7)	2020
HRVS Rentals Ltd., Belper	GBP	0.8993	100.00	–	–	7)	2020
Lauken S.A., Montevideo	UYU	51.7515	100.00	–	–	5)	2018
LKW Komponenten s.r.o., Bánovce nad Bebravou	EUR		100.00	11,050	639		2019
MAN Bus & Coach (Pty) Ltd., in liquidation, Olifantsfontein	ZAR	18.0152	100.00	–	–1,775	2) 5)	2017
MAN Financial Services Administrators (S.A.) (Pty) Ltd., Isando	ZAR	18.0152	100.00	0	–	5)	2018
MAN Latin America Importacao, Industria e Comércio de Veículos Ltda., Limeira	BRL	6.3756	100.00	–	–	5)	2019
MAN Truck & Bus (S.A.) (Pty) Ltd., in liquidation, Isando	ZAR	18.0152	100.00	–	–68,539	2) 5)	2017
MAN Truck & Bus India Pvt. Ltd., Pune	INR	89.6900	99.99	3,252,600	–3,328,300		2019
MAN Truck and Bus Hong Kong Ltd., Hong Kong	HKD	9.5167	100.00	–	–	4) 6)	2020
OOO Truck Production RUS, St. Petersburg	RUB	91.7754	100.00	120,340	3,993		2019
Re-MAN Parts Ltd., Belper	GBP	0.8993	100.00	–	–	7)	2020
Rio Soluções Digitais Ltda., São Paulo	BRL	6.3756	99.99	–	–	4)	2019

LIST OF SHAREHOLDINGS AS OF DECEMBER 31, 2020

Name and domicile of the company	Currency	Exchange rate (1 euro =) 12/31/2020	Equity interest (in %)	Equity in thousands Local currency	Result in thousands Local currency	Footnote	Year
S.A. Trucks Ltd., Bristol	GBP	0.8993	100.00	1	–	5)	2018
Scanexpo S.A., Montevideo	UYU	51.7515	100.00	–	–	5)	2018
Scania Cma Gora d.o.o., Danilovgrad	EUR		100.00	–	–	4) 6)	2020
Scania de Venezuela S.A., Valencia	VES	1,357,387.5425	100.00	15	22		2019
Scania Finance Israel Ltd., Tel Aviv	ILS	3.9465	100.00	1,000	–	4)	2019
Scania-MAN Administration ApS, Copenhagen	SEK	10.0247	100.00	1,400	248		2019
TRATON Finance Luxemburg S.A., Strassen	EUR		100.00	–	–	4) 6)	2020
TRATON, LLC, Herndon, Virginia	USD	1.2276	100.00	723	119		2019
III. JOINT VENTURES							
A. Equity-accounted companies							
1. Germany							
2. Other countries							
Cummins-Scania XPI Manufacturing, LLC, Columbus, Indiana	USD	1.2276	50.00	133,580	–11,352		2019
Oppland Tungbilservice A/S, Fagernes	NOK	10.4574	50.00	5,701	2,792		2019
Tynset Diesel A/S, Tynset	NOK	10.4574	50.00	4,840	1,069		2019
B. Companies accounted for at cost							
1. Germany							
HINO & TRATON Global Procurement GmbH, Munich	EUR		51.00	2,043	18	4)	2019
2. Other countries							
AMEXCI AB, Karlskoga	SEK	10.0247	9.10	16,951	–21,489		2019
Global Truck & Bus Procurement LLC, Lisle, Illinois	USD	1.2276	51.00	445	–		2019

LIST OF SHAREHOLDINGS AS OF DECEMBER 31, 2020

Name and domicile of the company	Currency	Exchange rate (1 euro =) 12/31/2020	Equity interest (in %)	Equity in thousands Local currency	Result in thousands Local currency	Footnote	Year
IV. ASSOCIATES							
A. Equity-accounted associates							
1. Germany							
Rheinmetall MAN Military Vehicles GmbH, Munich	EUR		49.00	52,420	615	4)	2019
sennder GmbH, Berlin	EUR		14.64	78,007	–9,061		2019
Telematics Solutions GmbH, Berlin	EUR		46.73	–	–	4) 7)	2020
2. Other countries							
BITS DATA i Södertälje AB, Södertälje	SEK	10.0247	33.00	4,413	39,225		2019
Navistar International Corporation, Lisle, Illinois	USD	1.2276	16.70	–3,723,000	243,000	3)	2019
ScaValencia, S.A., Ribarroja del Turia	EUR		26.00	12,010	1,244		2019
Sinotruk (Hong Kong) Ltd., Hong Kong	CNY	8.0290	25.00	30,427,871	3,775,667	9) 11)	2019
UZ Truck and Bus Motors, LLC, Samarkand	UZS	12,860.4150	32.89	175,383,447	106,196,088		2019
B. Associates accounted for at cost							
1. Germany							
2. Other countries							
AKOA Stockholm AB, Stockholm	SEK	10.0247	26.30	78,383	–2,657		2019
Corebon AB, Arlöv	SEK	10.0247	24.20	68,550	2,358		2019
Innokraft AB, Sundsvall	SEK	10.0247	46.00	4,334	1,366		2019
Södertälje Science Park AB, Södertälje	SEK	10.0247	25.00	888	345		2019

LIST OF SHAREHOLDINGS AS OF DECEMBER 31, 2020

Name and domicile of the company	Currency	Exchange rate (1 euro =) 12/31/2020	Equity interest (in %)	Equity in thousands Local currency	Result in thousands Local currency	Footnote	Year
V. EQUITY INVESTMENTS							
1. Germany							
Car2Car Communication Consortium, Braunschweig	EUR		5.55	446	–166		2019
FFK Fahrzeugservice Förtsch GmbH Kronach, Kronach	EUR		30.00	1,625	214		2019
Grundstücksgesellschaft Schlossplatz 1 mbH & Co. KG, Berlin	EUR		8.16	886	697		2019
Roland Holding GmbH, Munich	EUR		22.83	3,006	–8		2019
Verwaltungsgesellschaft Wasseralfingen mbH, Aalen	EUR		50.00	14,464	–37		2019
2. Other countries							
Barkarby Science AB, Järfälla	SEK	10.0247	14.29	3,014	835		2019
Combient AB, Stockholm	SEK	10.0247	4.65	–	–	7)	2020
Enersize OY, Helsinki	EUR		2.75	1,812	–2,999		2019
Kiinteistö Oy Kairapolanne, Saariselkä	EUR		34.00	–1	1,142		2019
Maghreb Truck Industry SpA, Sidi M'Hamed	DZD	162.2990	10.00	128,980	–1,020	4)	2019
NorthVolt AB, Stockholm	SEK	10.0247	1.01	2,064,709	–532,959		2019
Shenzhen Haylion Technologies Co. Ltd., Shenzhen	CNY	8.0290	2.00	83,618	–9,760		2019
Tusimple (Cayman) Limited, Grand Cayman	KYD	0.9085	0.74	–	–	7)	2020

1 Profit and loss transfer agreement
2 In liquidation
3 Different fiscal year
4 Short fiscal year
5 Currently not trading
6 Newly established company
7 Newly acquired company
8 Started trading in 2020
9 Consolidated financial statements
10 Figures included in the consolidated financial statements of the parent company
11 Figures in accordance with IFRSs
12 Matter within the meaning of section 1 of the *Umwandlungsgesetz* (UmwG — German Transformation Act)
13 Structured company in accordance with IFRS 10 and IFRS 12

5

FURTHER INFORMATION

FURTHER INFORMATION

Responsibility Statement

To the best of our knowledge, and in accordance with the applicable reporting principles, the Consolidated Financial Statements give a true and fair view of the assets, liabilities, financial position, and profit or loss of the Group, and the Combined Management Report includes a fair review of the development and performance of the business and the position of the TRATON GROUP, together with a description of the material opportunities and risks associated with the expected development of the TRATON GROUP.

Munich, February 10, 2021

TRATON SE

The Executive Board

Matthias Gründler	Christian Schulz	Antonio Roberto Cortes
Henrik Henriksson	Christian Levin	Dr. Ing. h.c. Andreas Tostmann

Independent auditor's report

To TRATON SE

Report on the audit of the consolidated financial statements and of the group management report

OPINIONS

We have audited the consolidated financial statements of TRATON SE, Munich, and its subsidiaries (the Group), which comprise the consolidated income statement and statement of comprehensive income for the fiscal year from January 1, 2020 to December 31, 2020, the consolidated balance sheet as of December 31, 2020, the consolidated statements of changes in equity and cash flows for the fiscal year from January 1, 2020 to December 31, 2020, and the notes to the consolidated financial statements, including a summary of significant accounting policies. In addition, we have audited the group management report of TRATON SE, which is combined with the management report of the Company, for the fiscal year from January 1, 2020 to December 31, 2020. In accordance with the German legal requirements, we have not audited the content of the parts of the group management report mentioned in the appendix to the auditor's report and the Company information listed there outside the annual report, which is referred to in the group management report.

In our opinion, on the basis of the knowledge obtained in the audit,

- the accompanying consolidated financial statements comply, in all material respects, with the IFRSs as adopted by the EU, and the additional requirements of German commercial law pursuant to Sec. 315e (1) of the HGB ["Handelsgesetzbuch": German Commercial Code] and, in compliance with these requirements, give a true and fair view of the assets, liabilities and financial position of the Group as at December 31, 2020 and of its financial performance for the reporting year from January 1, 2020 to December 31, 2020, and
- the accompanying group management report as a whole provides an appropriate view of the Group's position. In all material respects, this group management report is consistent with the consolidated financial statements, complies with German legal requirements and appropriately presents the opportunities and risks of future development. Our opinion on the group management report does not cover the content of the components of the group management report referred to in the appendix to the auditor's report.

Pursuant to Sec. 322 (3) Sentence 1 HGB we declare that our audit and our examination have not led to any reservations relating to the legal compliance of the consolidated financial statements and of the Group management report.

BASIS FOR THE OPINIONS

We conducted our audit of the consolidated financial statements and of the group management report in accordance with Sec. 317 HGB and the EU Audit Regulation (No 537/2014, referred to subsequently as "EU Audit Regulation") and in compliance with German Generally Accepted Standards for Financial Statement Audits promulgated by the Institut der Wirtschaftsprüfer [Institute of Public Auditors in Germany] (IDW). Our responsibilities under those requirements and principles are further described in the "Auditor's responsibilities for the audit of the consolidated financial statements and of the consolidated management report" section of our auditor's report. We are independent of the group entities in accordance with the requirements of European law and German commercial and professional law, and we have fulfilled our other German professional responsibilities in accordance with these requirements.

In addition, in accordance with Art. 10 (2) f) of the EU Audit Regulation, we declare that we have not provided non-audit services prohibited under Art. 5 (1) of the EU Audit Regulation. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinions on the consolidated financial statements and on the group management report.

KEY AUDIT MATTERS IN THE AUDIT OF THE CONSOLIDATED FINANCIAL STATEMENTS

Key audit matters are those matters that, in our professional judgment, were of most significance in our audit of the consolidated financial statements for the fiscal year from January 1, 2020 to December 31, 2020. These matters were addressed in the context of our audit of the consolidated financial statements as a whole, and in forming our opinion thereon; we do not provide a separate opinion on these matters.

Below, we describe what we consider to be the key audit matters:

IMPAIRMENT TESTING OF GOODWILL

Reasons why the matter was determined to be a key audit matter:
Goodwill constitutes a significant part of the TRATON GROUP's assets. Due to the judgment involved in estimating future cash flows and capitalization rates, we consider there is a significant risk of material misstatement in impairment testing of goodwill, especially because of the impact of the COVID-19 pandemic that has to be taken into account. Therefore, and also due to the complexity of the measurement models, the impairment testing of goodwill was a key audit matter in our audit.

Auditor's response:
As part of our audit procedures, we discussed with management the demarcation of cash-generating units and the allocation of assets and liabilities to the respective cash-generating units and assessed their consistency with the internal reporting structure. We assessed the underlying valuation models for the determination of value in use calculated using the discounted cash flow model in terms of methodology and reperformed the calculations with the assistance of internal valuation specialists. Taking into account the impact of the COVID-19 pandemic, we discussed the operative planning prepared by the executive directors in connection with the development of sales markets, production costs, margins and growth rates applied with the employees responsibility for planning and compared it with external information, particularly with market studies. We assessed the derivation of the capitalization rates, in particular by evaluating the composition of the peer-group used for this purpose using the beta factor applied and comparing the country-specific parameters used by the TRATON GROUP on the current development of interest rates and market risks. We performed sensitivity analyses to assess the impairment risk in the case of a reasonably possible change in one of the significant assumptions.

Our audit procedures did not lead to any reservations relating to the impairment testing of goodwill.

Reference to related disclosures:
The Company's disclosures regarding the relevant accounting principles for the recognition and measurement of goodwill are contained in section 4. "Accounting policies" and section 16. "Intangible assets" of the notes to the consolidated financial statements.

MEASUREMENT OF THE PROVISIONS FOR RISKS FROM EU ANTITRUST PROCEEDINGS

Reasons why the matter was determined to be a key audit matter:
In September 2017, the EU Commission issued a decision making Scania AB responsible for a potential infringement of the competition law in the form of a cartel for price coordination and an alleged exchange of information, and imposed a fine totaling EUR 0.88bn. Scania AB appealed this decision in December 2017 before the European Court of Justice and offered a bank guarantee as cash-backed security until the decision. The consolidated financial statements of TRATON SE contain provisions to cover the risk of a fine at Scania AB. Since MAN SE acted as key witness, the EU Commission granted it full immunity from the fine.

Furthermore, both MAN and Scania are exposed to claims for damages filed by customers in various countries.

As part of our audit, we determined this to be a key audit matter because the risk assessment and the amount of the provision to cover the aforementioned risks are subject to a high level of uncertainty and are influenced by estimates and assumptions made by the executive directors with regard to the outcome of the proceedings.

Auditor's response:
As part of our audit procedures, we obtained an understanding of the process installed by the Group to deal with the facts of the EU Commission's investigation. We assessed the estimates and assumptions of the executive directors and Company's in-house lawyers in connection with the current development related to the

ongoing proceedings in the various countries and discussed and verified the reasons underlying these estimates and assumptions involving internal experts for cartel law with management and the Company's legal department. In addition, we obtained quarterly external confirmations from lawyers and addressed the significant topics and developments in discussions with external lawyers. In particular, we discussed whether the oral hearing in June 2020 before the General Court of the European Commission in Luxembourg has any effects on the presumptions about the outcome of the proceedings. We assessed the calculation of the provision by inspecting the underlying documents.

Our audit procedures did not lead to any reservations relating to the accounting treatment of the provision for risks from EU antitrust proceedings.

Reference to related disclosures:
The Company's disclosures on the EU antitrust proceedings can be found in the sections "33. Other provisions" and "41. Litigation/legal proceedings" of the notes to the consolidated financial statements.

MEASUREMENT OF ASSETS LEASED OUT AND USED VEHICLES

Reasons why the matter was determined to be a key audit matter:
Assets leased out, among other things, result from sales of vehicles with sale and buyback transactions. When selling vehicles, the Group companies conclude sale and buyback agreements with the customers at the same time of selling or soon after, which include the sale or buyback of these vehicles at specified terms and conditions at the end of the defined term. These assets are reported under "Assets leased out" in the balance sheet. There is a higher risk of errors in the measurement of the reported assets leased out because the measurement taking into account any possible impairment risks depends heavily on the executive directors' assessment of the future development on the used vehicles market and thus requires considerable judgment.

The same applies to the used vehicles inventory, as the market for used vehicles in the past fiscal year was characterized by high levels of surplus inventory and significantly lower sales prices, due also in no small part to effects related to the coronavirus pandemic.

Particularly against the background of higher uncertainty caused by the COVID-19 pandemic regarding the forward-looking measurement and the underlying assumptions of the executive directors that are subject to judgment, the measurement of the assets leased out and used vehicles was a key audit matter.

Auditor's response:
As part of our audit procedures, we examined the underlying business processes regarding the assets leased out and used vehicles existing in the portfolio. Using cross-border portfolio and margin analyses of the last year, we discussed and assessed with Company representatives the executive directors' assumptions with reference to the future development of the used vehicles market, particularly against the background of the effects of the COVID-19 pandemic. The audit procedures relating to a possible residual value risk for the assets leased out particularly included the reconciliation of a sample of contractual buyback values with the prices achieved from the current sales of similar models. To assess the residual value determined per vehicle, we compared the carrying amounts of the vehicles reported under assets leased out with the measurement of the vehicles of the current portfolio. We verified the underlying quantity structure via the unit sales reported in the system for fiscal year 2020 and compared the input data underlying the measurement with the contractual documents on a sample basis.

We verified the method and calculation of the measurement of used vehicles with reference to consistency of methods and compared them with the values of publicly available valuation lists or market data available and also compared these with the actual sales prices achieved.

Our audit procedures related to the measurement of assets leased out and used vehicles did not lead to any reservations.

Reference to related disclosures:
The Company's disclosures regarding the relevant accounting principles for the measurement of assets leased out and used vehicles are contained in section 4. "Accounting policies" and section 18. "Assets leased out" of the notes to the consolidated financial statements.

COMPLETENESS AND MEASUREMENT OF PROVISIONS FOR WARRANTY OBLIGATIONS ARISING FROM SALES

Reasons why the matter was determined to be a key audit matter:
Warranty obligations arising from sales are recognized for statutory and contractual warranty obligations as well as for ex gratia arrangements with customers. They constitute a significant share of other provisions of the TRATON GROUP. The recognition of this provision involves a high degree of judgment for assumptions and estimates related to the calculation of the estimated future course of claims for damages, both regarding the scope and costs as well as discount rates. Due to these facts, we consider the completeness and measurement constitutes a significant risk of material misstatement and was therefore was determined to be a key audit matter.

Auditor's response:
During our audit, we examined the process implemented by the executive directors to determine whether and how it takes into account the complete recognition of all the relevant warranty events. To achieve this, we initially examined on a sample basis whether an addition is automatically made to the provision for warranties for each vehicle recognized in revenue. We reperformed the system-based calculation of provisions computed for each vehicle sold for statutory and contractual warranty obligations. We discussed the assumptions regarding the estimated claims for damages with the responsible employees and assessed them based on past experience. We performed analytical audit procedures by comparing the development of revenue and vehicles sold with the development of warranty provisions and discussed the deviations from our expectations with the executive directors. We compared the interest rates prevailing during the term with the market data and verified the calculation with these rates.

Our procedures did not lead to any reservations with regard to the completeness and measurement of warranty provisions from the sales transactions.

Reference to related disclosures:
The Company's disclosures regarding the recognition and measurement of provisions for warranty obligations are contained in the sections 4 "Accounting policies – other provisions" and "33. Other provisions" of the notes to the consolidated financial statements.

OTHER INFORMATION

The Supervisory Board is responsible for the Report of the Supervisory Board in the 2020 Annual Report. The executive directors and the Supervisory Board are responsible for the declaration pursuant to Sec. 161 AktG ["Aktiengesetz": German Stock Corporation Act] on the German Corporate Governance Code, which is part of the declaration on corporate governance. In all other respects, the executive directors are responsible for other information. The other information comprises the components of the Annual Report mentioned in the appendix.

Our opinions on the consolidated financial statements and on the consolidated management report do not cover the other information, and consequently we do not express an opinion or any other form of assurance conclusion thereon.

In connection with our audit, our responsibility is to read the other information and, in so doing, to consider whether the other information

- is materially inconsistent with the consolidated financial statements, with the group management report or our knowledge obtained in the audit, or
- otherwise appears to be materially misstated.

RESPONSIBILITIES OF THE EXECUTIVE DIRECTORS AND THE SUPERVISORY BOARD FOR THE CONSOLIDATED FINANCIAL STATEMENTS AND THE GROUP MANAGEMENT REPORT

The executive directors are responsible for the preparation of the consolidated financial statements that comply, in all material respects, with IFRSs as adopted by the EU and the additional requirements of German commercial law pursuant to Sec. 315e (1) HGB, and that the consolidated financial statements, in compliance with these requirements, give a true and fair view of the assets, liabilities, financial position, and financial performance of the Group. In addition, the executive directors are responsible for such internal control as they have determined necessary to enable the preparation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the consolidated financial statements, the executive directors are responsible for assessing the Group's ability to continue as a going concern. They also have the responsibility for disclosing, as applicable, matters related to going concern. In addition, they are responsible for financial reporting based on the going concern basis of accounting unless there is an intention to liquidate the Group or to cease operations, or there is no realistic alternative but to do so.

Furthermore, the executive directors are responsible for the preparation of the group management report that, as a whole, provides an appropriate view of the Group's position and is, in all material respects, consistent with the consolidated financial statements, complies with German legal requirements, and appropriately presents the opportunities and risks of future development. In addition, the executive directors are responsible for such arrangements and measures (systems) as they have considered necessary to enable the preparation of a group management report that is in accordance with the applicable German legal requirements, and to be able to provide sufficient appropriate evidence for the assertions in the group management report.

The Supervisory Board is responsible for overseeing the Group's financial reporting process for the preparation of the consolidated financial statements and of the group management report.

AUDITOR'S RESPONSIBILITIES FOR THE AUDIT OF THE CONSOLIDATED FINANCIAL STATEMENTS AND OF THE GROUP MANAGEMENT REPORT

Our objectives are to obtain reasonable assurance about whether the consolidated financial statements as a whole are free from material misstatement, whether due to fraud or error, and whether the group management report as a whole provides an appropriate view of the Group's position and, in all material respects, is consistent with the consolidated financial statements and the knowledge obtained in the audit, complies with the German legal requirements and appropriately presents the opportunities and risks of future development, as well as to issue an auditor's report that includes our opinions on the consolidated financial statements and on the group management report.

Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with Sec. 317 HGB and the EU Audit Regulation and in compliance with German Generally Accepted Standards for Financial Statement Audits promulgated by the Institut der Wirtschaftsprüfer (IDW) will always detect a material misstatement. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these consolidated financial statements and this group management report.

We exercise professional judgment and maintain professional skepticism throughout the audit. We also:

- Identify and assess the risks of material misstatement of the consolidated financial statements and of the group management report, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinions. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.
- Obtain an understanding of internal control relevant to the audit of the consolidated financial statements and of arrangements and measures (systems) relevant to the audit of the group management report in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of these systems.
- Evaluate the appropriateness of accounting policies used by the executive directors and the reasonableness of estimates made by the executive directors and related disclosures.

- Conclude on the appropriateness of the executive directors' use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Group's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in the auditor's report to the related disclosures in the consolidated financial statements and in the group management report or, if such disclosures are inadequate, to modify our respective opinions. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Group to cease to be able to continue as a going concern.
- Evaluate the overall presentation, structure and content of the consolidated financial statements, including the disclosures, and whether the consolidated financial statements present the underlying transactions and events in a manner that the consolidated financial statements give a true and fair view of the assets, liabilities, financial position and financial performance of the Group in compliance with IFRSs as adopted by the EU and the additional requirements of German commercial law pursuant to Sec. 315e (1) HGB.
- Obtain sufficient appropriate audit evidence regarding the financial information of the entities or business activities within the Group to express opinions on the consolidated financial statements and on the group management report. We are responsible for the direction, supervision and performance of the group audit. We remain solely responsible for our audit opinions.
- Evaluate the consistency of the group management report with the consolidated financial statements, its conformity with German law, and the view of the Group's position it provides;
- Perform audit procedures on the prospective information presented by the executive directors in the consolidated management report. On the basis of sufficient appropriate audit evidence we evaluate, in particular, the significant assumptions used by the executive directors as a basis for the prospective information, and evaluate the proper derivation of the prospective information from these assumptions. We do not express a separate opinion on the prospective information and on the assumptions used as a basis. There is a substantial unavoidable risk that future events will differ materially from the prospective information.

We communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

We also provide those charged with governance with a statement that we have complied with the relevant independence requirements, and communicate with them all relationships and other matters that may reasonably be thought to bear on our independence and where applicable, the related safeguards.

From the matters communicated with those charged with governance, we determine those matters that were of most significance in the audit of the consolidated financial statements of the current period and are therefore the key audit matters. We describe these matters in our auditor's report unless law or regulation precludes public disclosure about the matter.

Other legal and regulatory requirements

Report on the assurance in accordance with Sec. 317 (3b) HGB on the electronic reproduction of the consolidated financial statements and the group management report prepared for publication purposes

OPINION

We have performed assurance work in accordance with Sec. 317 (3b) HGB to obtain reasonable assurance about whether the reproduction of the consolidated financial statements and the group management report (hereinafter the "ESEF documents") contained in the attached electronic file "TRATON_SE_KA+ZLB_ESEF-2020-12-31.zip" and prepared for publication purposes complies in all material respects with the requirements of Sec. 328 (1) HGB for the electronic reporting format ("ESEF format"). In accordance with German legal requirements, this assurance only extends to the conversion of the information contained in the consolidated financial statements and the group management report into the ESEF format and therefore relates neither to the information contained in this reproduction nor to any other information contained in the abovementioned electronic file.

In our opinion, the reproduction of the consolidated financial statements and the group management report contained in the abovementioned attached electronic file and prepared for publication purposes complies in all material respects with the requirements of Sec. 328 (1) HGB for the electronic reporting format. We do not express any opinion on the information contained in this reproduction nor on any other information contained in the abovementioned file beyond this reasonable assurance opinion and our audit opinion on the accompanying consolidated financial statements and the accompanying group management report for the fiscal year from January 1, 2020 to December 31, 2020 contained in the "Report on the audit of the consolidated financial statements and of the group management report" above.

BASIS FOR THE OPINION

We conducted our assurance work on the reproduction of the consolidated financial statements and the group management report contained in the abovementioned attached electronic file in accordance with Sec. 317 (3b) HGB and Exposure Draft of IDW Assurance Standard: Assurance in Accordance with Sec. 317 (3b) HGB on the Electronic Reproduction of Financial Statements and Management Reports Prepared for Publication Purposes (ED IDW AsS 410) and the International Standard on Assurance Engagements 3000 (Revised). Our responsibilities under that standard are further described in the "Group auditor's responsibilities for the assurance work on the ESEF documents" section. Our audit firm applied the standards for the quality assurance system set forth in IDW Quality Control Standard: "Anforderungen an die Qualitätssicherung in der Wirtschaftsprüferpraxis" [Requirements for Quality Control in the Practice of Public Auditors] (IDW QS 1).

RESPONSIBILITIES OF THE EXECUTIVE DIRECTORS AND THE SUPERVISORY BOARD FOR THE ESEF DOCUMENTS

The executive directors of the Company are responsible for the preparation of the ESEF documents including the electronic reproduction of the consolidated financial statements and the group management report in accordance with Sec. 328 (1) Sentence 4 No. 1 HGB and for the tagging of the consolidated financial statements in accordance with Sec. 328 (1) Sentence 4 No. 2 HGB.

Furthermore, the Company's executive directors are responsible for such internal controls as they determine necessary to enable the creation of ESEF documents that are free from material infringements of the requirements of Sec. 328 (1) HGB for the electronic reporting format, whether due to fraud or error.

The Company's executive directors are also responsible for submitting the ESEF documents – together with the auditor's report and the attached audited consolidated financial statements and group management report – as well as other documents to be disclosed to the Bundesanzeiger [German Federal Gazette].

The supervisory board is responsible for overseeing the creation of the ESEF documents as part of the financial reporting process.

RESPONSIBILITIES OF THE GROUP AUDITOR FOR THE AUDIT OF ESEF DOCUMENTS

Our objectives are to obtain reasonable assurance about whether the ESEF documents are free from material infringements of the requirements of Sec. 328 (1) HGB, whether due to fraud or error. We exercise professional judgment and maintain professional skepticism throughout the engagement. We also:

- Identify and assess the risks of material non-compliance with the requirements of Sec. 328 (1) HGB, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain assurance evidence that is sufficient and appropriate to provide a basis for our assurance opinion.
- Obtain an understanding of internal control relevant to the assurance on the ESEF documents in order to design assurance procedures that are appropriate in the circumstances, but not for the purpose of expressing an assurance opinion on the effectiveness of these controls.
- Evaluate the technical validity of the ESEF documents, i.e., whether the electronic file containing the ESEF documents meets the requirements of Delegated Regulation (EU) 2019/815, in the version valid as of the reporting date, on the technical specification for this electronic file.

- Evaluate whether the ESEF documents enable an XHTML reproduction with content equivalent to the audited consolidated financial statements and to the audited group management report.
- Evaluate whether the tagging of the ESEF documents with Inline XBRL technology (iXBRL) enables an appropriate and complete machine-readable XBRL copy of the XHTML reproduction.

Further information pursuant to Art. 10 of the EU Audit Regulation

We were elected as auditor of the consolidated financial statements by the Annual General Meeting on 23 September 2020. We were engaged by the Supervisory Board on 3 November 2020. We have been the group auditor of TRATON SE since the fiscal year 2020.

We declare that the opinions expressed in this auditor's report are consistent with the additional report to the Audit Committee pursuant to Art. 11 of the EU Audit Regulation (long-form audit report).

German Public Auditor responsible for the engagement

The German Public Auditor responsible for the engagement is Heiko Hummel.

Appendix to the auditor's report:

1. PARTS OF THE GROUP MANAGEMENT REPORT WHOSE CONTENT IS UNAUDITED

We have not audited the content of the following parts of the group management report:

- the corporate governance statement contained in the section "Supplemental information on fiscal year 2020" of the group management report.

2. FURTHER OTHER INFORMATION

The other information further comprises the prescribed components of the Annual Report, which were provided to us prior to us issuing this auditor's report, including, but not limited to the following sections:

- Section 1 To Our Shareholders
- Section 3 Operating Units of the TRATON GROUP
- Section 5 Further Information

but not the consolidated financial statements, nor the disclosures in the group management report included in our audit or our associated auditor's report.

3. COMPANY INFORMATION OUTSIDE THE ANNUAL REPORT, WHICH HAS BEEN REFERRED TO IN THE GROUP MANAGEMENT REPORT

The management report contains cross-references to the websites of the Group and the Group companies. We have not audited the contents of information to which the cross-references refer.

Munich, February 15, 2021

Ernst & Young GmbH
Wirtschaftsprüfungsgesellschaft

Meyer	Hummel
Wirtschaftsprüfer	Wirtschaftsprüfer
[German Public Auditor]	[German Public Auditor]

Financial Calendar
(expected dates)[1]

05/10/2021
3M 2021 Interim Statement

06/30/2021
Annual General Meeting

07/30/2021
2021 Half-Year Financial Report

10/29/2021
9M 2021 Interim Statement

1 The latest information can be found on our website traton.com/financialcalendar

Supplementary Information and Glossary

1. Overview by quarter

INCOMING ORDERS, INDUSTRIAL BUSINESS

Units	Q4 2020	Q3 2020	Q2 2020	Q1 2020	Q4 2019	Change Q4 2020 v. Q4 2019
Incoming orders, Industrial Business	**70,318**	**58,502**	**33,270**	**54,161**	**57,532**	**12,786**
of which trucks[1]	67,007	55,304	30,726	48,603	52,923	14,084
of which buses	3,311	3,198	2,544	5,558	4,609	–1,298

1 Incl. MAN TGE vans (Q4 2020: 5,761 units; Q3 2020: 5,040 units; Q2 2020: 3,888 units; Q1 2020: 4,549 units; Q4 2019: 4,107 units)

UNIT SALES BY COUNTRY

Units	Q4 2020	Q3 2020	Q2 2020	Q1 2020	Q4 2019	Change Q4 2020 v. Q4 2019
Unit sales, Industrial Business	**62,520**	**49,922**	**31,748**	**45,990**	**63,128**	**–608**
Unit sales, trucks[1]	**58,186**	**45,331**	**28,529**	**41,960**	**57,407**	**779**
EU27+3	34,510	24,686	15,724	24,093	32,905	1,605
of which in Germany	10,710	7,895	4,505	7,020	8,885	1,825
South America	12,859	11,345	7,214	10,865	11,532	1,327
of which in Brazil	10,481	9,337	6,271	9,649	10,163	318
Other regions	10,817	9,300	5,591	7,002	12,970	–2,153
Unit sales, buses	**4,334**	**4,591**	**3,219**	**4,030**	**5,721**	**–1,387**
EU27+3	2,068	1,403	1,323	1,304	1,898	170
of which in Germany	801	379	171	378	534	267
South America	1,436	2,546	1,278	1,829	1,873	–437
of which in Brazil	1,116	1,672	981	1,348	1,193	–77
Other regions	830	642	618	897	1,950	–1,120

1 Incl. MAN TGE vans (Q4 2020: 6,243 units; Q3 2020: 5,037 units; Q2 2020: 2,927 units; Q1 2020: 3,428 units; Q4 2019: 4,677 units)

SALES REVENUE BY PRODUCT GROUP

€ million	Q4 2020	Q3 2020	Q2 2020	Q1 2020	Q4 2019	Change Q4 2020 v. Q4 2019
TRATON GROUP	**6,839**	**5,667**	**4,394**	**5,679**	**7,075**	**–235**
Industrial Business	**6,736**	**5,565**	**4,290**	**5,564**	**6,953**	**–217**
New Vehicles	4,372	3,331	2,393	3,290	4,601	–229
After Sales[1]	1,228	1,163	1,033	1,268	1,260	–31
Others	1,136	1,072	865	1,006	1,092	44
Financial Services	**208**	**200**	**197**	**216**	**215**	**–7**
Consolidation/Others	–104	–98	–93	–101	–93	–11

1 Incl. spare parts and workshop services

CONDENSED TRATON GROUP INCOME STATEMENT

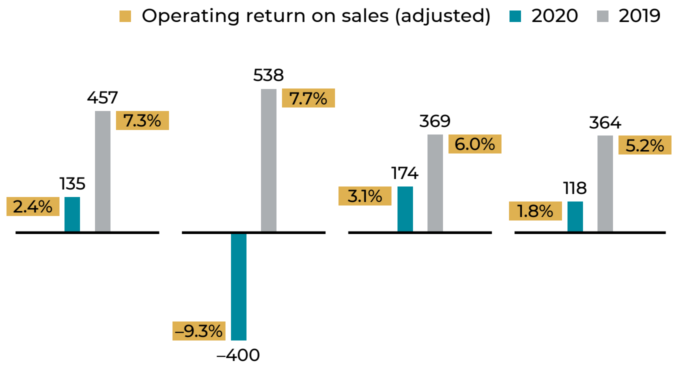
€ million	Q4 2020	Q3 2020	Q2 2020	Q1 2020	Q4 2019	Change Q4 2020 v. Q4 2019
Sales revenue	6,839	5,667	4,394	5,679	7,075	–235
Cost of sales	–5,777	–4,708	–3,978	–4,659	–5,792	16
Gross profit	**1,063**	**960**	**416**	**1,020**	**1,282**	**–219**
Distribution expenses	–611	–532	–510	–594	–670	59
Administrative expenses	–231	–222	–185	–238	–238	7
Other operating result	–82	–44	–103	–27	27	–109
Operating result	**139**	**162**	**–382**	**161**	**401**	**–262**
Operating return on sales (in %)	2.0	2.9	–8.7	2.8	5.7	–3.6 pp
Financial result	–40	25	–71	–30	–22	–17
Earnings before tax	**100**	**187**	**–453**	**131**	**379**	**–279**
Income taxes	–65	–56	68	–35	–53	–13
Earnings after tax	**35**	**131**	**–385**	**96**	**327**	**–292**

KEY PERFORMANCE INDICATORS, INDUSTRIAL BUSINESS

€ million	Q4 2020	Q3 2020	Q2 2020	Q1 2020	Q4 2019	Change Q4 2020 v. Q4 2019
Operating result	114	125	–400	135	364	–250
Operating result (adjusted)	118	174	–400	135	364	–246
Operating return on sales (in %)	1.7	2.2	–9.3	2.4	5.2	–3.5 pp
Operating return on sales (adjusted) (in %)	1.8	3.1	–9.3	2.4	5.2	–3.5 pp
Capex	390	164	220	218	424	–34
Primary R&D costs	368	238	273	285	394	–26

ADJUSTED OPERATING RESULT IN THE INDUSTRIAL BUSINESS SEGMENT BY QUARTER

€ million



	Q1		Q2		Q3		Q4	
	2020	2019	2020	2019	2020	2019	2020	2019
Operating result, Industrial Business	135	457	–400	551	125	369	114	364
Adjustments, Industrial Business	–	–	–	–13	50	–	4	–
Operating result, Industrial Business (adjusted)	**135**	**457**	**–400**	**538**	**174**	**369**	**118**	**364**

ADJUSTED EBITDA IN THE INDUSTRIAL BUSINESS SEGMENT

€ million	Q4 2020	Q3 2020	Q2 2020	Q1 2020	Q4 2019	Change Q4 2020 v. Q4 2019
Operating result	114	125	–400	135	364	–250
Adjustments	4	50	–	–	–	4
Adjusted operating result	118	174	–400	135	364	–246
plus share of earnings of equity-method investments	–11	77	–5	23	13	–24
plus other financial result	34	–5	–20	–22	53	–19
plus depreciation and amortization of, and impairment losses on, intangible assets, property, plant, and equipment, and investment property, net of impairment reversals	238	236	239	220	233	5
plus amortization of, and impairment losses on, capitalized development costs, net of impairment reversals	66	57	87	57	48	18
plus impairment losses on equity investments, net of impairment reversals	0	0	0	1	0	0
Adjusted EBITDA	**446**	**538**	**–99**	**414**	**711**	**–265**

KEY PERFORMANCE INDICATORS, FINANCIAL SERVICES

	Q4 2020	Q3 2020	Q2 2020	Q1 2020	Q4 2019	Change Q4 2020 v. Q4 2019
Operating result (€ million)	25	37	19	26	38	–13
Operating return on sales (in %)	12.2	18.7	9.5	12.0	17.6	–5.5 pp

NET PORTFOLIO, FINANCIAL SERVICES

€ million	12/31/2020	12/31/2019
Financial services receivables	7,733	7,981
Value of buyback obligations in the Financial Services segment	1,033	1,127
Vehicles with buyback obligations	754	828
Net portfolio	**9,520**	**9,936**

CONDENSED STATEMENT OF CASH FLOWS, INDUSTRIAL BUSINESS

€ million	Q4 2020	Q3 2020	Q2 2020	Q1 2020	Q4 2019	Change Q4 2020 v. Q4 2019
Gross cash flow	642	644	95	465	799	–157
Change in working capital	693	–228	16	–324	172	521
Net cash provided by operating activities	**1,335**	**416**	**111**	**141**	**971**	**364**
Net cash used in investing activities attributable to operating activities	–511	–217	–291	–309	–582	71
Change in marketable securities, investment deposits, and loans	–996	901	–201	1,486	–425	–572
Net cash provided by/used in investing activities	**–1,507**	**683**	**–492**	**1,177**	**–1,007**	**–501**
Net cash provided by/used in financing activities	**–319**	**–1,431**	**1,298**	**–1,532**	**–192**	**–127**
Effect of exchange rate changes on cash and cash equivalents	8	–32	19	–89	13	–4
Change in cash and cash equivalents	**–483**	**–363**	**936**	**–302**	**–216**	**–268**
Cash and cash equivalents at quarter-end	**1,641**	**2,124**	**2,488**	**1,551**	**1,853**	**–212**
Gross cash flow	642	644	95	465	799	–157
Change in working capital	693	–228	16	–324	172	521
Net cash used in investing activities attributable to operating activities	–511	–217	–291	–309	–582	71
Net cash flow	**824**	**199**	**–179**	**–167**	**389**	**435**

NET LIQUIDITY, INDUSTRIAL BUSINESS

€ million	12/31/2020	09/30/2020	06/30/2020	03/31/2020	12/31/2019	Change 12/31/2020 v. 12/31/2019
Cash and cash equivalents	1,641	2,124	2,488	1,551	1,853	–212
Marketable securities, investment deposits, and loans to affiliated companies	2,114	1,114	2,014	1,794	3,288	–1,174
Gross liquidity	**3,755**	**3,238**	**4,502**	**3,345**	**5,141**	**–1,386**
Total third-party borrowings	–3,728	–3,965	–4,878	–3,507	–3,641	–87
Net liquidity/net financial debt	**27**	**–727**	**–376**	**–162**	**1,500**	**–1,473**

2. Defined terms

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.

Basis of consolidation: The basis of consolidation is composed of all companies included in the consolidated financial statements.

Brand: The TRATON GROUP's brands are Scania (including Scania Financial Services), MAN (including the MAN SE holding company), Volkswagen Caminhões e Ônibus, and the RIO digital brand.

Capitalization ratio: The capitalization ratio is defined as the ratio of capitalized development costs to total research and development costs in the Industrial Business segment. It represents the share of total primary expenses for research and development that is required to be capitalized.

Committee of Sponsoring Organizations of the Treadway Commission (COSO): Internationally recognized framework for enterprise risk management and internal control (ICS)

Compliance: Adherence to statutory provisions, internal corporate policies, and ethical principles

Contract liability: Obligation to transfer goods or services to a customer for which it has already provided or is yet to provide consideration

Corporate Governance: A commonly used international term that denotes responsible corporate management and control geared toward long-term value added

DCGK: The German Corporate Governance Code (the "Code") constitutes key statutory requirements for the management and supervision of listed German companies and contains internationally and nationally recognized standards of good, responsible corporate governance in the form of recommendations and suggestions.

Derivatives/derivative financial instruments: Financial instruments whose value is derived primarily from the price and price volatility/expectations of an underlying (e.g., stocks, foreign currency, interest-bearing securities)

Distribution ratio: The distribution ratio means the proportion of the total amount of dividends attributable to ordinary shares to earnings after tax attributable to TRATON SE shareholders. The distribution ratio provides information about the allocation of earnings.

Dividend yield: Dividend yield is defined as the ratio of the dividend for the reporting period to the closing price per share class on the final trading date of the reporting period and indicates the return per share. Dividend yield is used in particular for measuring and comparing shares.

Equity method: Method of including investments that are not consolidated in the investor's consolidated financial statements in cases where the investor has significant influence over the investment's financial and operating policy decisions. The carrying amount of the investment is adjusted for any changes in the investor's share of the investment's equity. These changes are usually reported in the owner's income statement.

Equity ratio: Indicates the ratio of total equity to total capital

European Medium Term Note (EMTN) program: A master agreement between companies and bond dealers that allows companies to place securities on the European capital markets very quickly to obtain debt capital

Fair value: The amount for which an asset could be exchanged, or a liability settled, between knowledgeable, willing parties in an arm's length transaction

Functional expenses: Functional expenses comprise the cost of sales, distribution expenses, and general and administrative expenses.

Incoming orders: Incoming orders are defined as legally effective, binding orders.

IPO: An initial public offering by a previously unlisted company (AG or SE) to subscribe for shares of the issuing company

Operating unit: The three operating units Scania Vehicles & Services, MAN Truck & Bus, and Volkswagen Caminhões e Ônibus belong to the Industrial Business segment. They operate the main business of the TRATON GROUP with the production of trucks, buses, and engines and the provision of services.

Option: Agreement under which the purchaser is entitled, but not obligated, to acquire (call option) or sell (put option) the underlying asset at a future date for a predefined price. By contrast, the seller of the option is obligated to sell or purchase the asset and usually receives a premium for granting the option rights.

Other comprehensive income: Other comprehensive income is a special category within equity. It contains gains and losses recognized in the balance sheet, but not yet realized in profit or loss, in particular from the fair value measurement of other equity investments and hedging transactions, from the translation of foreign Group entities included in the consolidated financial statements, and from remeasurements of pension plans, net of deferred taxes.

Price-earnings ratio: The price-earnings ratio is calculated by dividing the year-end closing price per share by earnings per share. It reflects the earnings power per share and provides information about its development compared over a number of years.

Swap: Agreement between two counterparties to swap cash payments over a certain period. Prime examples are currency swaps, under which principal amounts denominated in various currencies are exchanged, and interest rate swaps, which usually entail the exchange of fixed and variable interest payments in the same currency.

Total cost of ownership (TCO): Sum of all incurred costs for the acquisition, use, and potential disposal of an asset

Unit sales: Unit sales represent the number of vehicles sold by our brands: Scania, MAN, and Volkswagen Caminhões e Ônibus.

Weighted average cost of capital (WACC): WACC is derived from the return required by investors.

Publication Details

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SWM/MVG (p. 5 top right)
Daniel Hovdahl (p. 6)
Malagrine Studio (p. 8)

TRATON GROUP Five-Year Overview

	2020	2019	2018	2017	2016
Trucks and buses (units)					
Incoming orders	216,251	227,240	243,714	229,074	190,573
of which trucks[1]	201,640	206,208	219,825	208,552	172,912
of which buses	14,611	21,032	23,889	20,522	17,661
Unit sales	190,180	242,219	232,992	204,911	183,581
of which trucks[2]	174,006	220,723	210,363	185,693	165,806
of which buses	16,174	21,496	22,629	19,218	17,775
TRATON GROUP					
Sales revenue (€ million)	22,580	26,901	25,927	24,366	21,915
Operating result (€ million)	81	1,884	1,513	1,512	727
Operating result (adjusted) (€ million)	135	1,871	1,650	1,462	1,188
Operating return on sales (in %)	0.4	7.0	5.8	6.2	3.3
Operating return on sales (adjusted) (in %)	0.6	7.0	6.4	6.0	5.4
Employees[3]	82,567	82,679	97,395	92,554	89,334
Industrial Business					
Sales revenue (€ million)	22,156	26,444	24,963	23,403	21,023
Operating result (€ million)	–26	1,741	1,346	1,368	596
Operating result (adjusted) (€ million)	28	1,729	1,484	1,318	654
Operating return on sales (in %)	–0.1	6.6	5.4	5.8	2.8
Operating return on sales (adjusted) (in %)	0.1	6.5	5.9	5.6	3.1
Return on investment (in %)	–0.1	9.7	8.6	9.0	4.0
Adjusted EBITDA (€ million)	1,300	3,022	2,366	2,107	1,911
Primary R&D costs (€ million)	1,165	1,376	1,411	1,427	1,310
Capex (€ million)	992	993	931	839	1,054
Net cash flow (€ million)	676	2,711	221	–162	724
Net liquidity/net financial debt (€ million)[3]	27	1,500	227	2,262	2,115

	2020	2019	2018	2017	2016
Scania Vehicles & Services					
Incoming orders (units)	92,940	88,739	97,446	109,415	85,527
Unit sales	72,085	99,457	96,475	90,777	81,346
Sales revenue (€ million)	11,521	13,934	12,981	12,427	10,990
Operating result (€ million)	748	1,506	1,207	1,167	555
Operating return on sales (in %)	6.5	10.8	9.3	9.4	5.0
MAN Truck & Bus					
Incoming orders (units)	84,921	100,652	112,915	94,003	85,968
Unit sales	81,673	104,887	102,556	89,987	83,199
Sales revenue (€ million)	9,659	11,088	10,815	10,022	9,247
Operating result (€ million)	–553	371	402	526	405
Operating return on sales (in %)	–5.7	3.3	3.7	5.3	4.4
Volkswagen Caminhões e Ônibus					
Incoming orders (units)	38,805	41,103	36,535	27,381	20,369
Unit sales	36,974	41,891	36,362	25,881	20,369
Sales revenue (€ million)	1,235	1,738	1,421	1,162	864
Operating result (€ million)	–15	55	28	–103	–192
Operating return on sales (in %)	–1.2	3.2	2.0	–8.8	–22.3

	2020	2019	2018	2017	2016
Financial Services					
Sales revenue (€ million)	820	849	760	721	709
Operating result (€ million)	107	142	138	111	105
Net portfolio (€ million)[3]	9,520	9,936	8,699	–	–
TRATON shares					
Earnings per share (€)[4]	–0.20	3.04	2.78	2.06	0.42
Dividend per share (€)[5]	0.25	1.00	–	–	–
Number of common shares as of 12/31	500,000,000	500,000,000	10,000,200	–	–
Common shares, closing price (Xetra price in €)	22.61	23.92	–	–	–

1 Including MAN TGE vans (2020: 19,238 units; 2019: 15,234 units; 2018: 10,087 units; 2017: 3,261 units; 2016: 0 units)

2 Including MAN TGE vans (2020: 17,635 units; 2019: 14,788 units; 2018: 7,871 units; 2017: 2,212 units; 2016: 0 units)

3 As of December 31

4 Comparable earnings per share for 2016 to 2018 calculated on the basis of 500 million shares

5 2020: proposed dividend, subject to approval by the 2021 Annual General Meeting

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