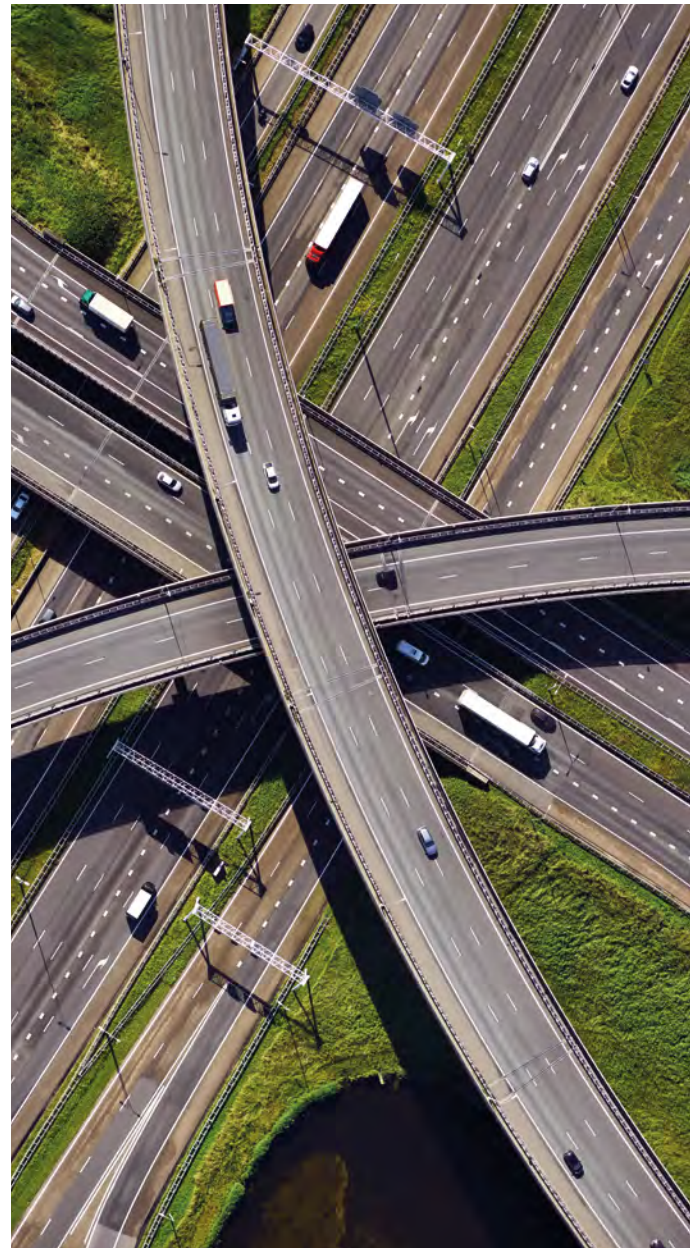




THE SCANIA REPORT 2016

Annual and Sustainability Report



SCANIA

SCANIA – 125 YEARS

In 2016, Scania celebrated its 125th anniversary. Since day one, Scania has been at the forefront of the transport industry. Through ingenious engineering, guided by our core values and a strong focus on continuous improvement we have provided our customers profitable solutions to meet their needs.

From its founding as a small wagon-building company back in 1891 to today's company, Scania has stood steady through even the most challenging times. On our journey towards the next 125 years, Scania is committed to play its role in a world increasingly dependent on safe, sustainable and efficient transport systems.

2009



1980



1969



1897



2003



1891: The wagon-building company Vabis is established in Södertälje and sets about producing open goods wagons and transport wagons. Some 20 years later, Scania-Vabis is created through the merger of Vabis with the Malmö-based machine-manufacturing company Scania.

1923: Scania-Vabis designer August Nilsson develops a four-cylinder, overhead-valve engine. The engine's power and reliability are of major benefit in trucks and buses.

1939: Scania-Vabis unveiled the first engine to use standardised components, thus marking the beginning of Scania's modular system.

1961: Scania-Vabis builds on its success in Brazil, opening its first own production facility outside Sweden in São Bernardo do Campo, near São Paulo.

1970s: Scania's industrial and marine engines gets their characteristic signature colour: paprika red.

1989: Scania delivers the first order of bioethanol-powered buses to SL, the regional public transport company in the Swedish capital.

1891

1950

1936: Scania-Vabis develops its first diesel engine, something that impresses the trade press during test drives. "To my surprise, I could hardly hear the engine," wrote one journalist. "However, I certainly felt its effect as the bus shot forward like an arrow."

1941: The Scania vocational school started. Eventually it became a three-year upper secondary school entirely driven by Scania. Today the school is named Mälardalens Tekniska Gymnasium and is run by Scania, AstraZeneca and Telge.

1969: A legend is born! Scania introduces a 350 hp, 14-litre V8 turbocharged engine. It is the most powerful truck engine in Europe at the time and pioneers Scania's low-rev philosophy with a high-torque output at low engine speeds.

1980: Scania introduces the GPRT range (2-series) – the company's first entirely modularised product range.



2016

Scania and Ericsson announce joint research on connectivity

At the Mobile World Congress in Barcelona, Scania and Ericsson announce joint research efforts to accelerate the connectivity of commercial vehicles and infrastructure.

Scania inaugurates new Technology Centre in Brazil

Scania inaugurates a Technology Centre in São Bernardo do Campo, Brazil, with engine test cells that will be used for the developing, testing and certifying of its engines.

Autonomous vehicles demonstration

Scania is showcasing self-driving trucks, in Södertälje, Sweden, in a unique demonstration with two collaborating vehicles. The technology will initially be used in, for example, mines and ports.

Inauguration of electric road E16 with a Scania hybrid truck

The world's first electric road is being inaugurated outside Gävle, Sweden. It is the result of a unique partnership demonstrating the path towards fossil-free transportation and Scania is supplying the electrically-powered trucks.

Launch of the Next Generation Scania in Paris

In the biggest-ever product launch in company's history, Scania introduces a new truck range, the result of ten years of development work and an investment of over SEK 20 billion.

The new truck generation honoured

The S-series is elected for the prestigious "International Truck of the Year 2017" award. The jury's motivation emphasises the new truck generation's driver comfort, safety aspects and its positive impact on hauliers' overall economy, among other factors.

A premium bus factory inaugurated in China

Scania and Higer inaugurate a new, state-of-the-art bus and coach factory in Suzhou, China. The new factory will exclusively build Scania Touring and Scania-Higer dual-branded high-end buses and coaches.

Scania tests fast wireless charging in urban traffic

The Nordic region's first bus service featuring wireless (inductive) bus stop charging is inaugurated. A newly developed electric hybrid bus from Scania will be operating in 2017 in regular urban traffic in Södertälje, Sweden, as part of the efforts to identify new, more sustainable solutions for public transport in urban environments.

2016

1990 – 1995: A major development process is initiated to improve efficiency, working conditions and the status of blue collar workers, resulting in a production method where continuous process improvements and personal involvement become part of the job.

2000

2003: Scania's Young European Truck Driver competition makes its debut. The competition has since evolved into the world's largest truck driving and training event. Over the years more than 350,000 drivers in 50 countries have participated.

2009: Scania tackles the financial crises and a very sharp decline in market demand by introducing the four-day week – a key element of Scania's strategy to preserve the collective competency of the company through difficult times.

2013:

A demonstrator project with electrified trucks begin in partnership with Siemens at its research facility outside Berlin.

1996 – present: The continuous improvement work evolves into the Scania Production System (SPS), which gradually develops into a new leadership strategy and a set of new working methods throughout the company.

2009: Scania launches the Scania Touring, a new coach built in partnership with Chinese bus bodybuilder Higer. Scania and Higer have joined forces to produce buses in China for the world market – a pioneering step forward in bus manufacturing.

2011: The Scania Communicator device becomes standard in all trucks for the European market and Scania begins to systematically leverage data on vehicle performance.

2011: Two years before it becomes legally compulsory, Scania introduces Europe's first Euro 6 truck.

2013: A record number of inventions disclosures, a whole 700 of them, are submitted to Scania's Patent Department. The majority are on the development of electronics and control systems.



For more on Scania's heritage see www.scania.com/group/en

At Scania, we share the belief that sustainability and profitability go hand in hand. We also recognise the critical role the transport industry will play in solving the challenges the world is facing.

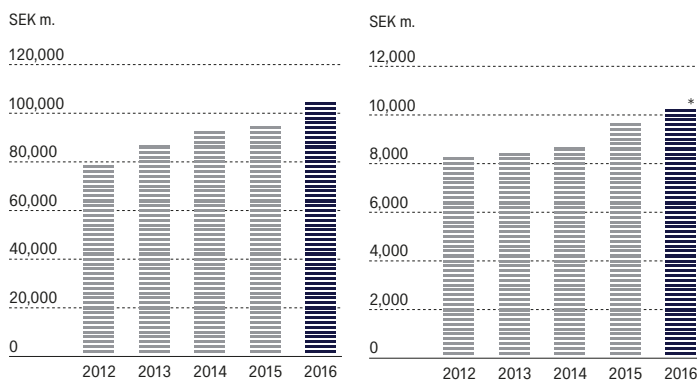
Scania's vision is to drive the shift towards a sustainable transport system, creating a world of mobility that is better for business, society and the environment.

Our starting point is to ensure profitability for our customers and make them more efficient. In close dialogue and in partnership with our customers we provide tailored transport solutions in order to meet their needs.



HIGHLIGHTS

Financial highlights



Net sales

103,927

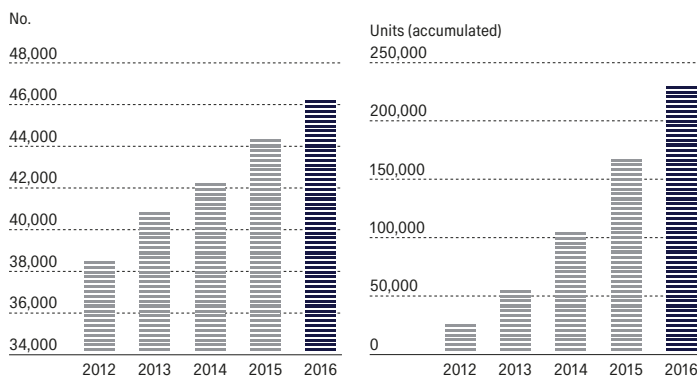
Total vehicle deliveries and service sales reached all-time high levels and Scania's net sales rose to a record level in 2016.

Operating income

10,184*

Scania's operational performance was strong during the year despite difficult market conditions. *Operating income including items affecting comparability amounted to SEK 6,384 m.

Non-financial highlights



Number of employees

46,243

At the end of 2016 the number of employees had increased by 1,834 people compared to the end of 2015.

Connected Scania vehicles

230,470

The number of connected vehicles is steadily increasing, enabling Scania to further optimise customer solutions.

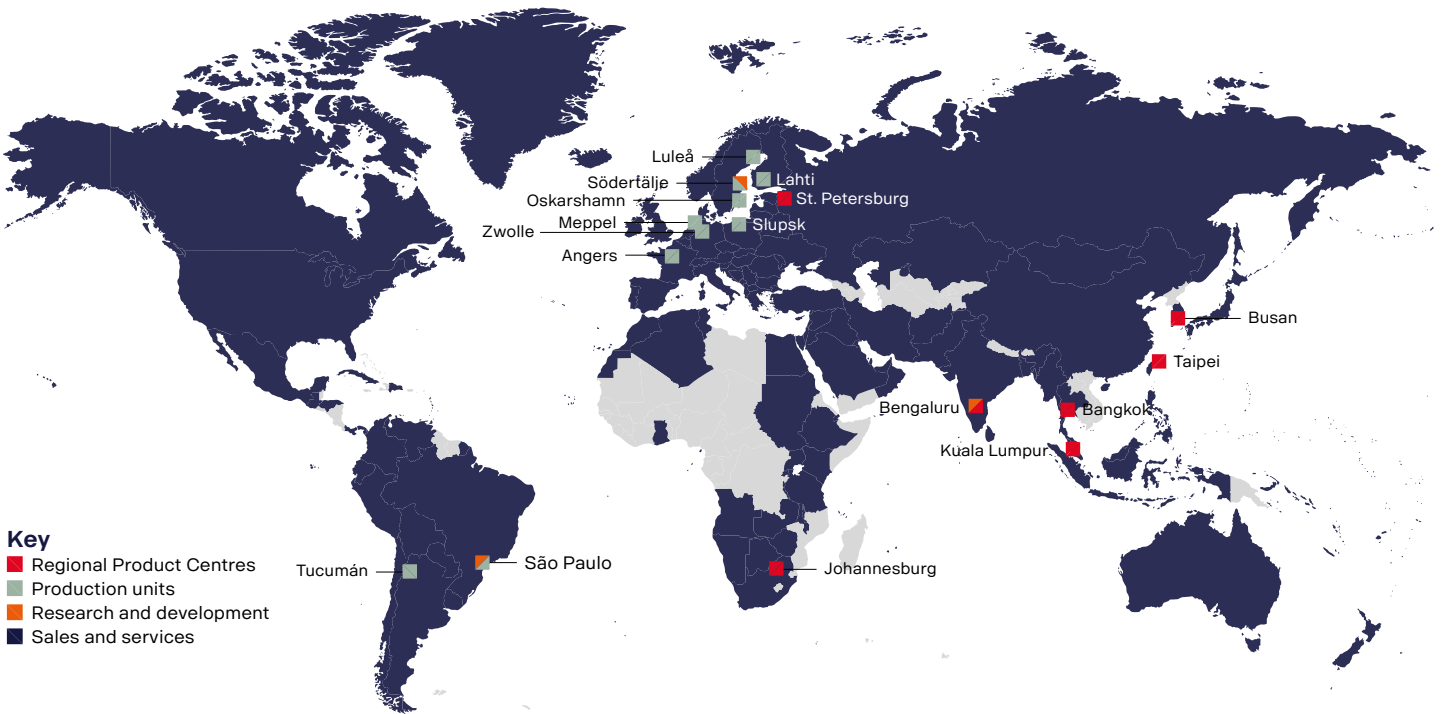
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This is our Communication on Progress in implementing the principles of the United Nations Global Compact and supporting broader UN goals. We welcome feedback on its contents.

SCANIA AT A GLANCE 2016



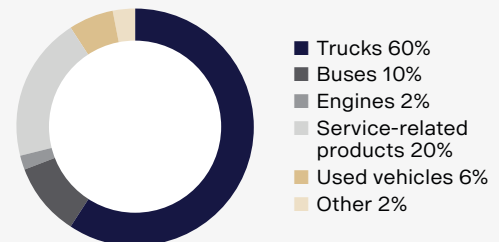
A global presence

Scania is a world-leading provider of transport solutions, including trucks and buses for heavy transport applications combined with an extensive service offering. Scania offers vehicle financing, insurance and rental services to enable our customers to focus on their core business. Scania is also a leading provider of industrial and marine engines.

With some 46,000 employees in about 100 countries, our sales and service network is strategically placed where our customers need us, no matter where they operate. Research and development activities are mainly concentrated in Sweden, with branches in Brazil and India. Production takes place in Europe, Latin America and Asia with facilities for global interchange of both components and complete vehicles. In addition there are regional production centres in Africa, Asia and Eurasia.

Scania is part of Volkswagen Truck & Bus.

Net sales by product segment 2016, %



Scania's solutions

Trucks



Scania supports transport companies across the world by delivering tailor-made heavy trucks used for each customer's need, including long-haulage, distribution and construction.

Buses and coaches



Scania offers a complete range of city buses and coaches for public transport operators and coach companies. As urbanisation increases, public transport is growing in importance.

Engines



Scania engines can be found at the heart of machines required to be in use 24 hours a day, including wheel loaders, patrol boats and emergency power gensets.

Services



Scania's extensive service offering includes workshop services, tailor-made maintenance plans, financing and insurance solutions, driver training and coaching and services for support and management of our customers operations.

Driver training

39,146

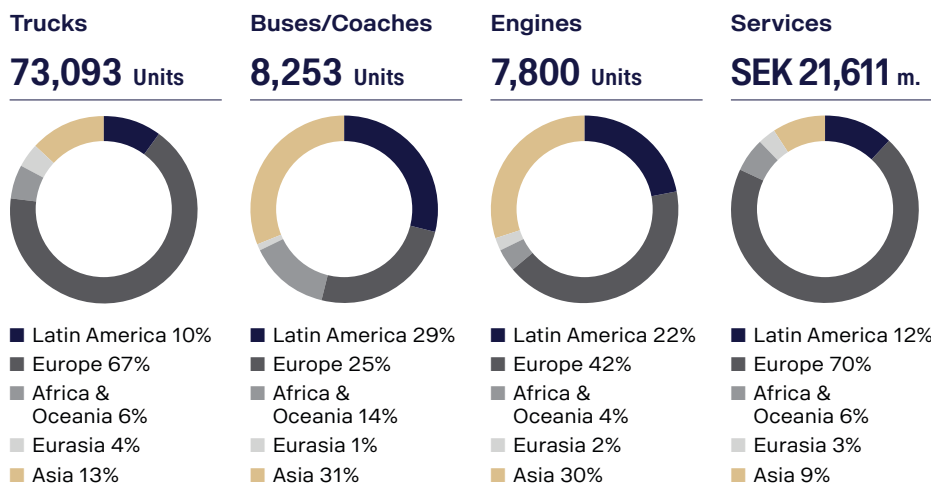
In 2016 Scania trained 39,146 drivers in safe and efficient driving.

Health attendance

95.9%

The total global health attendance in 2016 was on a high and stable level.

Sales and deliveries 2016, geographic distribution, %



THE SCANIA WAY

Scania's success is based on our core values and our management system supported by our main principles, in particular our commitment to continuous improvement. This is the basis of our unique corporate culture and it gives us a strong leadership position in a world increasingly dependent on safe, sustainable and efficient transport systems. We call it "The Scania Way".

Our core values

Our success is based on the core values – Customer first, Respect for the individual and Elimination of waste. Strongly interrelated, they have always guided our actions and been the foundation for all business development. They have highlighted the importance of our customers, employees, the company and our role in society as a whole throughout Scania's history.

On the journey towards a more sustainable future, Scania believes that partnerships will be required in order to accelerate change. Given our commitment to continuous improvement we also review our core values. During 2016, we have therefore extended our core values to better reflect our role in the ecosystem as well as our position within Volkswagen Truck & Bus.

By adding the values Determination, Team Spirit and Integrity to our existing three core values, Scania now has a set of six core values.

Our core values will continue to be integral to the way we run our company, building a global leadership in sustainable transport.



Customer first

We are only successful when our customers are successful. By understanding our customers' business, we provide tailored solutions that make them winners in a sustainable transport system. The customer's operations and efficiency are at the centre of our value chain. From R&D, sourcing and production to sales, delivery and financing of vehicles, engines and services.



Respect for the individual

We treat others the way we want to be treated. We listen and understand. From drivers of our vehicles to all of our employees and society at large, the individual stands at the centre of all that we do. We seek to capture the knowledge, experience and ambition of each individual to continuously improve what we do, and how we do it.

The way we work

Our working methods, defined as continuous improvement and the close involvement of employees in their daily work – has been a central throughout the Scania history.

Inspired by Toyota, Scania adopted a production philosophy (Lean) in the early 1990s. The system called the Scania Production System (SPS) is one of the most efficient and employee-inclusive management systems in the world.

This management system has been integrated to all parts of our company, and the heart of its approach is to encourage involvement and commitment among employees to improve processes and eliminate waste. It is supported by our main principles, in particular Continuous improvements but also Right from me, Demand driven output and Leadership, all closely connected to our core values.



Elimination of waste

With a strong focus on continuous improvements throughout our entire organisation, we ensure safe and high quality output in all areas. Deviations from targets and standards help us to identify and eliminate waste. In everything we do, internally as well as externally, we strive to optimise our flow and resource efficiency while minimising our environmental footprint.



Determination

We are dedicated all the way and motivated to reach beyond the next level. We take pride in meeting challenges with innovative solutions, and always learn from our experiences. Being aware of details, while fully understanding the bigger picture, generates value for us and our customers.



Team spirit

To be number one in our industry, we are joining forces and work openly across borders, towards a common goal. We view differences and diversity as opportunities, and we challenge each other to become better. A shared sense of direction brings collective strength and a group belonging.



Integrity

We recognise that we have a social responsibility and always strive to do the right things in the right way. We act in accordance with our culture, core values and principles. We follow all legal and compliance standards. Trust builds relationships with customers, business partners and society at large, making it one of our most important assets. We always keep our promises and are accountable for what we do.

A REMARKABLE YEAR

2016 was a historic year. Scania celebrated its 125th anniversary, continued to show strong operational performance, and introduced the new truck generation — the biggest product launch ever. From an already leading position Scania set a new benchmark in the industry, committed to its vision to contribute to a sustainable future.

Strong operational performance

It was another year of demand moving sideways for our industry. In Brazil, one of our most important markets, demand was at the lowest level in 14 years and challenges remain. In Russia, we saw some improvement in demand but levels are still on the low side. In Europe, we benefited from the continued positive momentum and reinforced our strong position with an all-time high delivery of trucks. The market share for heavy trucks in Europe was stable at 16.5 percent. In Africa and Asia, we saw relatively good performances as emerging markets continue in the right direction. For Scania buses and coaches, Europe was the highlight along with Asia and Latin America. Services sales volume reached an all-time high, providing a cushion in a volatile overall market. Despite difficult market conditions and a year of high cost levels due to the launch, Scania showed strong operational performance.

In the light of the market volatility that is normal in our industry, we must continue to leverage on Scania's modular system and our global production system; the main keys to our flexibility. We will also

continue to focus on growing in emerging markets. By building a connected rolling fleet, Scania paves the way for new business opportunities within services by offering our customers tailor-made and flexible solutions. Furthermore, good cost control is increasingly important in general, and more specifically with the continuing launch costs for the new truck generation.

A true landmark on our journey

In August, we introduced our new truck generation. The launch was a true landmark on our journey towards a future of sustainable transport. Ten years in the making, and representing over SEK 20 billion of investment, the new truck is the most energy-efficient truck Scania has ever built. It was the culmination of all the knowledge we have built up from engineers, customers and drivers, based on insights from more than 200,000 connected vehicles.

Built to meet the needs of 21st century transport, Scania can offer billions of unique and complete transport solutions that will allow our customers to be more profitable and more sustainable.

“Through smart partnerships we can be more innovative and together accelerate the shift towards a sustainable transport system.”

Henrik Henriksson,
President and CEO, Scania

We are already seeing strong demand for the new trucks, which shows that our focus on our customer, together with our employees' hard work, is giving results.

Driving the shift

The launch of the new truck generation was also a proof point for our belief that sustainability and profitability go hand in hand. The transport industry will play a critical role in solving the challenges the world is facing. Today, we see a lot of waste in the transport industry. My vision for Scania is to drive the shift towards a sustainable transport system, to create a world of mobility that is better for business, society and the environment. Scania has the knowledge and the strength, and we understand transportation and logistical flows. I am committed to leading the Scania team on this journey, committed to playing our role in changing the world of transport.

But we cannot do this alone. In order to accelerate change, we need to collaborate with business partners across the entire ecosystem including governments, universities and other stakeholders. Being part of the Volkswagen Group also opens up for knowledge and resource sharing.

In conjunction with the launch of the new truck generation in Paris, Scania hosted a Sustainability Transport Forum, where we invited key opinion-influencers and decision-makers to discuss how we together can shape a sustainable future for the society.

The Paris Agreement on Climate Change and the UN's 17 Sustainable Development Goals (SDGs), have reinforced the sense of urgency when it comes to continuing to incorporate sustainability further into our business plan.



Innovation and partnership for the future

Transport is one of the industries where the digital revolution is moving fast. Connectivity, electrification and autonomous transport technology will disrupt the traditional transport industry and Scania is well positioned for the future.

Milestones in 2016 include our network of connected vehicles reaching over 230,000, our participation in the electrified highway project in Sweden, and our demonstration of autonomous transport solutions for mining.

Through smart partnerships we can be more innovative and together accelerate the shift towards a sustainable transport system. We are working with external partners such as Ericsson on using 5G networks for commercial vehicles and infrastructure, Siemens on the electric highway in Sweden, and city authorities such as Jakarta, Cartagena and Accra through bus rapid transit systems.

During the year, the cooperation within Volkswagen Truck & Bus on current and future collaboration proceeded and the cooperation with MAN on the

development of common component platforms continued. The aim is to realise synergies while at the same time maintain the uniqueness of each brand within the Group. A strong brand equals a strong group and vice versa.

Positioned for the next 125 years

Our success is built upon our dedicated and skilled employees and their commitment to Scania. Through the decades, our core values Customer first, Respect for the individual and Elimination of waste have been the guiding star in the Scania organisation, together with our working methods based on a mindset of continuous improvement. During 2016 we decided to integrate the values of Determination, Team spirit and Integrity with our existing ones, to better reflect a changing world where partnership is key.

Practising what we preach, we are continuing with our commitment to align our operations with UN Global Compact's 10 principles on human rights, labour, environment and anti-corruption, and take actions that advance societal goals.

In 2016 we opened up a new chapter in our history. To all of our 46,000 dedicated employees that have been part of this journey, and have given so much of themselves along the way – thank you! From our foundation 125 years ago we have been driven by putting our customers first with a strong focus on elimination of waste. By nurturing this mindset and taking it to the next level, I am convinced that we are well positioned for the next 125 years.

Henrik Henriksson,
President and CEO, Scania

OPPORTUNITIES IN A CHANGING WORLD

Since its foundation 125 years ago, Scania has kept pace with changing transport needs. As we play a critical role in responding to the transport needs of a rapidly-changing world, Scania continues to deliver solutions that our customers trust and society values.

Access to competence

In May 2016, Scania inaugurated a new technology centre in São Bernardo do Campo, Brazil, with engine test cells used for development, testing and certification.

The world is faced with a series of complex and momentous global driving forces that are reshaping society and challenging all industries.

Climate change, population growth, digitalisation, urbanisation, a rising middle class, the rapid growth of emerging markets and higher expectations on business transparency are the broad trends that will define the future of transport.

At Scania we are closely monitoring these global trends with the aim to translate them into technical and commercial solutions that benefit customers and society at large.

Scania has a unique position in the transport industry, with a strong commitment to sustainable transport and an offering of here-and-now solutions. We are well-placed to meet these new opportunities in a changing world.

Global trends

- **Climate change**
The Paris agreement on Climate Change came into force in November 2016, and is the first time that governments have agreed to specific, legally-binding limits to global temperature rises. In light of this, the low-carbon transition should only accelerate.
- **Population growth**
The world's population is expected to grow from seven billion today to nine billion by 2050. The rapidity of population growth will put particular pressure on demand for transport links in and out of cities.
- **Urbanisation**
The urban population is expected to grow by 2.5 billion people by 2050, reaching two-thirds of the total global population. The huge growth in cities is driving innovation in public transport as city authorities, facing problems of congestion, pollution and safety issues, look to partnerships to provide new transport solutions.
- **Digitalisation**
New technology facilitates the emergence of interconnected products, value chains and business models.
- **Emerging markets**
By 2030, around one billion people in China could be middle class, while the corresponding figure for India is expected to be 475 million people. With this growth comes big changes to those countries' transport needs.
- **Access to energy**
Many countries rely on importing oil, which today is the primary energy source for transport. To cut costs, secure independence and combat climate change, these nations see a need to find alternatives and rid themselves of dependency on oil.
- **Transparency and accountability**
Stakeholder expectations are high on the industry conducting business ethically, openly, honestly and responsibly.



Alternatives to fossil fuels

During 2016 Scania initiated ETHA in cooperation with Lantmännen (a Swedish agricultural cooperative). The purpose is to make it easy for companies to choose a sustainable solution without compromising on their needs. ETHA is a full scale solution for the customer where Scania provides the vehicle technology and Lantmännen provides locally produced bioethanol as well as the needed infrastructure. With this combined effort, the result is a 90 percent CO₂ reduction for the customer and the environment.

Road safety

The Scania 'Angel Call' app was launched by Scania-Rus in October 2016, and monitors how alert or fatigued the driver is on the road. Connected to Scania's Fleet Management system (FMS), the app detects that a driver has exceeded the set time limit for driving, and alerts the nominated 'guardian angel' who can call the driver and tell them to stop and rest.

Connected vehicles

With a constantly growing fleet of connected trucks and buses in more than 50 countries, Scania's customers can access services to evaluate and follow up the performance of their vehicles.

Road safety

Scania's new truck generation can be equipped with rollover side curtain airbags – a unique solution which has never previously been offered in trucks. The rollover side curtain airbags provide significantly enhanced protection for those travelling in the vehicle in the event of a rollover, one of the most serious types of truck accidents.

Urbanisation

In Ghana's capital city Accra, Scania is rolling out the most comprehensive and complete Bus Rapid Transit (BRT) system in the company's history, with 245 connected buses operating in their own dedicated lanes.

Access to competence

In February 2016, Scania opened a new R&D centre in Bengaluru, India, to join the facilities in Sweden and Brazil. Focus here lies on locally produced buses as well as adapting trucks for the Indian market.

Industry impact

– **Alternatives to fossil fuels**

The world of transport is increasingly looking to alternative fuels and electrification to tackle CO₂ emissions, noise pollution, and provide sustainable alternatives to fossil fuels. These demands are driven by operators and transport buyers but mainly by end consumers.

– **Automation**

Automation is still in a developmental rather than commercial stage in the heavy vehicle industry, and is some years away from the marketplace, subject to the necessary legislation. However, there is a great interest in the technology already and it should eventually have a positive impact on safety, energy efficiency and congestion.

– **Connected vehicles**

The digitalisation trend is bringing huge growth in vehicle connectivity, allowing users and manufacturers to analyse their vehicles' performance data to improve their fuel consumption and change how they work, the way they are maintained and the way they function in the logistical flow.

– **Road safety**

Every year 1.24 million people die in road accidents. A growing need for transport brings with it issues of road safety, especially in emerging markets where the infrastructure has not previously been as developed.

– **Access to competence**

The rapidly-changing nature of transport means that in several years we will require very different competencies than we do today.

– **Efficient use of energy**

Efficient use of energy, where less fuel, energy and emissions are expended in production and in the usage of vehicles, is crucial to achieve a transport system that can support itself economically and environmentally for the long term.

– **Local emissions**

Emissions from transport results in poor air quality. It is estimated that 3.5 million people die prematurely due to outdoor pollution.

– **Stronger legislation**

The transport industry is being directly affected by a growing and increasingly robust range of policies and regulations that are aimed at combatting climate change, improving air and water quality and addressing issues of safety and traffic congestion.

Sources:

McKinsey, UN - Department of Economic and Social Affairs of the United Nations Secretariat, Ernst & Young, WHO, OECD, WeForum

TOWARDS A SUSTAINABLE TRANSPORT SYSTEM

As the world's population keeps growing and cities keep expanding, we are seeing a rapidly increasing demand for mobility of goods and people, putting pressure on the environment, economies and society.

The United Nations Sustainable Development Goals and the Paris agreement to limit the global temperature increase to 2°C both acknowledge that the world is at a tipping point, and there is a need to act now.

Driving the shift towards a sustainable transport system

Scania's vision is to drive the shift towards a transport system that is sustainable in terms of its impact on the environment, on people and on economies.

An efficient transport system is the foundation of a competitive economy, and the efficient flow of goods and people is an absolute necessity in a modern society. At the same time, the fact that transport is responsible for about 14 percent of CO₂ emissions means that we cannot continue in the way that we have been proceeding up until now.

We want to change the world of transport to a clean, safe and efficient one, where we can move people and goods while contributing to economic

and social development, without putting human health and safety or the environment at risk of harm.

CO₂ emissions

The transport industry is the second-biggest emitter of CO₂ emissions after the energy industry. Two-thirds of the transport industry's emissions come from road transport, with transport being responsible for 60 percent of the world's oil consumption. Local and global emissions have a huge impact on people's health, the environment and on the climate. This shows the scale of the issue, but also the potential scale of the solution if the transformation towards decarbonised transport is to be achieved.

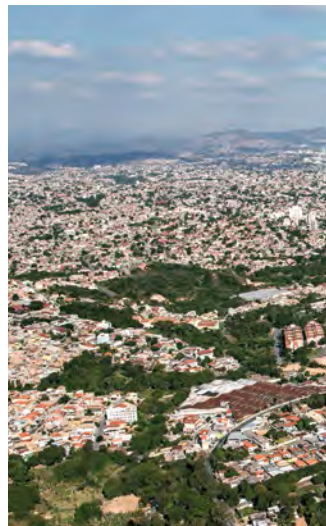
Rapid urbanisation

The world is now seeing the largest wave of urban growth in history, according to the United Nations Population Fund (UNFPA); around 60 percent of the world's population will live in cities by 2030, most in emerging markets. Cities are not only the areas where rapid improvements in socio-economic and environmental conditions are possible, but also the areas where change is

“We need to bend the curve of global CO₂ emissions within four years.”

Professor Johan Rockström,
Director of Stockholm Resilience Centre

Urban challenge
Rapidly growing cities are both the problem and the solution to the global climate challenge.



Voices on how to drive the shift

On 23 August 2016, Scania held a Sustainable Transport Forum in Paris, bringing together some of the world's most prominent decision-makers and influencers in the sustainability sphere. 'Driving the Shift' focused on how the transport industry can play a crucial transformative role in moving the world towards a sustainable future. There was an unanimous agreement of the Forum of the overwhelming and urgent need to make lasting changes for the better of all.



"I'm committed to lead Scania on a path where we will take the leadership in driving the shift towards a more sustainable transport system. We believe it's about redefining the role of transport. That's my vision for Scania."

Henrik Henriksson,
President and CEO of Scania



"We need to bend the curve of global CO₂ emissions within four years and then steeply reduce emissions until 2050 to reach a fossil-free world economy. For me, it's no longer a question if humanity will move in a sustainable direction, but if we will manage to do it fast enough. The transportation sector plays a vital role in the transformation that has to happen."

Professor Johan Rockström,
Director of Stockholm Resilience Centre



"Moving towards a more sustainable society is urgent and should be a priority for all businesses – in all sectors. Businesses cannot succeed in a society that fails."

Kofi Annan,
Former Secretary-General of the United Nations, founder and Chairman of the Kofi Annan Foundation



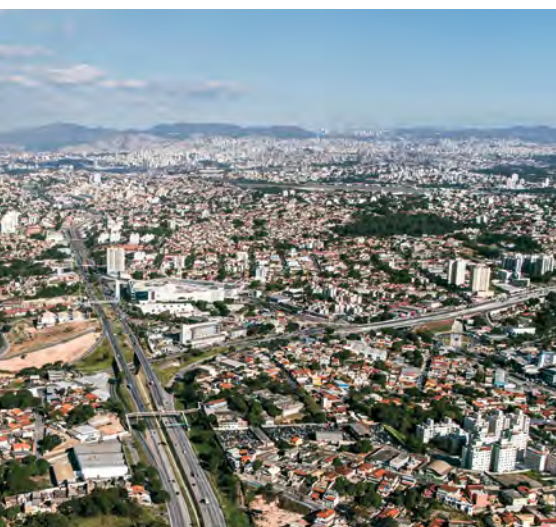
"We must mobilise the global business community as never before. Businesses are best placed, both economically and technologically, to adopt new patterns of production and consumption. Companies have moved from being reactive to being proactive. It's a big shift since the Global Compact was established."

Georg Kell,
Founding Director of the United Nations Global Compact



"Great challenges lie ahead of us. But so does the potential that goes along with the digital revolution. Fully exploiting this enormous potential requires both constant innovation and the willingness to change throughout the whole organisation. But most important, it will demand the willingness to collaborate across sectors and industries."

Andreas Renschler,
CEO of Volkswagen Truck & Bus



needed most. Rapid urbanisation is putting huge strain on cities worldwide; traffic congestion, air pollution and issues of road safety are all facts of life.

How can it be done?

We are faced with the challenge of transporting goods and people in a way that can balance the needs of socio-economic development and sustainability. At the same time we have to make sure that there is a connection between urban and rural areas, to ensure that the latter are not left behind by this fast change process.

Scania's vision is to drive the shift towards a sustainable transport system, taking a holistic view and a three-pillar approach, focusing on:

- Energy efficiency
- Alternative fuels and electrification
- Smart and safe transport

Read more on our three-pillar approach on pages 30-37.

Scania is well positioned but recognises the importance of strategic partnerships to accelerate the ability of delivering solutions for the future. With partnerships we can build on each other's knowledge and resources to achieve these far-reaching goals. Read more on pages 22-23.

Sources:
EPA – United States Environmental Protection Agency, Kofi Annan Foundation, WHO

SUSTAINABILITY AT SCANIA

Driving customer profitability through sustainable solutions and pursuing responsible business are complementary long-term perspectives for continuing being a profitable company. While the core of our contribution to society is delivering sustainable transport solutions by improving customer profitability, it does not mean that our responsibility ends there.

Sustainable transport is all about moving people and goods while contributing to economic and social development without jeopardising human health and safety or endangering the environment.

There is no single solution for transforming the transport system into a sustainable one. Rather, a holistic approach is called for, considering the specific transport assignment and the maturity of the transport and logistics infrastructure in different parts of the world. Our approach is based on three pillars (see the illustration below).

Understanding our priorities

Scania's materiality analysis is part of the company's commitment to continuous improvement. Understanding our stakeholders' views of the material considerations allows Scania to focus on the areas that matter and improve our cooperation. It also helps us to tailor our responses and supports us in getting our priorities right, as well as informing us on our reporting.

The results of this year's exercise show that our focus areas are in line with our stakeholders' expectations.

For more on our materiality analysis see www.scania.com/group/en

	Why?	What?	How?
Doing the right things: Sustainable transport	Contribute to a better society in a way that engages internally and externally, while strengthening our long-term business.	Our three pillar approach: <ul style="list-style-type: none"> • Energy efficiency • Alternative fuels and electrification • Smart and safe transport 	Through a partnership driven approach. Work in close dialogue with customers, customers' customer and strategic partnerships (industries, academia etc) to ensure innovation leadership.
Partnership driven leadership			
Doing things right: Responsible business	Ensure that we act responsibly with controlled risks and in accordance with expectations in a manner that strengthens our business and brand.	<ul style="list-style-type: none"> • Resource and energy-efficient operations • Diversity and inclusion • Health and safety • Human and labour rights • Anti-corruption • Community impact 	Through strong core values with a strong focus on continuous improvement, a robust management approach, clear tools and supportive education and training.

Complementary sustainability is about how we operate our business, our manufacturing and about our employees – it is about being responsible and delivering value across our value chain and in our relationships. We have identified six business responsibility areas (see the illustration above).

Pursuing high standards in our operations and in our value chain will strengthen our ability to change the game of transport by generating experience, knowledge and capabilities that can be translated into product and service development as well as giving us the credibility needed on the market.

For Scania, working sustainably is rooted in our ways of being and operating. Our efforts builds on our heritage and our strengths such as the core values, our management system inspired by the Lean philosophy, the modular system and our leadership principles.

CREATING CUSTOMER PROFITABILITY AND STAKEHOLDER VALUE

Scania aims to improve customer profitability by providing our customers with sustainable solutions while creating a world of mobility that is better for society and the environment.

At Scania, we believe that sustainability and profitability go hand in hand. Providing the customer with the right high quality vehicle and the right services at the right time is the starting point.

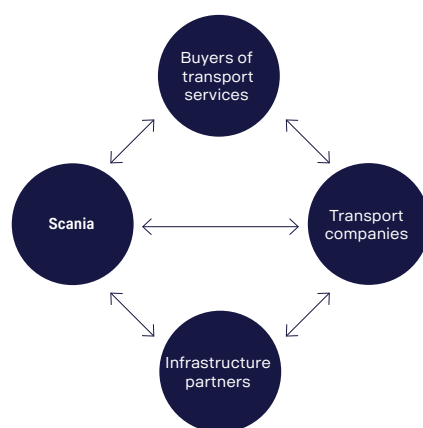
In close dialogue with our customers we can continuously improve their transport operations and positively impact the bottom line in a sustainable manner.

We need to understand our customers' needs (transport companies), and the demands from their customers (buyers of transport services). Through this insight Scania can tailor solutions that eliminate waste and improve efficiencies in the entire transport flow.

We are also part of an ecosystem and need to team up with infrastructure partners such as fuel producers, governments and city planners, to accelerate change towards sustainable transport solutions.

Customer profitability at the core

Our business model is about understanding and improving the cost and revenue aspects of the applications or industries in which our customers operate. This allows us to tailor solutions that optimise the vehicles and services for our customers' operations that improves fuel efficiency.



The business model also identifies ways to optimise our customers' transport operation over the entire product life cycle, that maximises the vehicles time in operation through a cost efficient management of the entire transport flow.

It is all about our ability to tailor the best solution to our customer; from a high quality product that has a long lifetime with a maximum time in operation, good residual value, and appropriate insurance and financing to a complete solution that ensures cost efficient transport management. With a holistic view, Scania provide sustainable transport solutions that create greater value for our customers and society.

Delivering on our business model defines our brand and ensures a profitable Scania. Our own profitability is therefore directly linked to the quality we deliver to our customers and how well the customers' business perform.

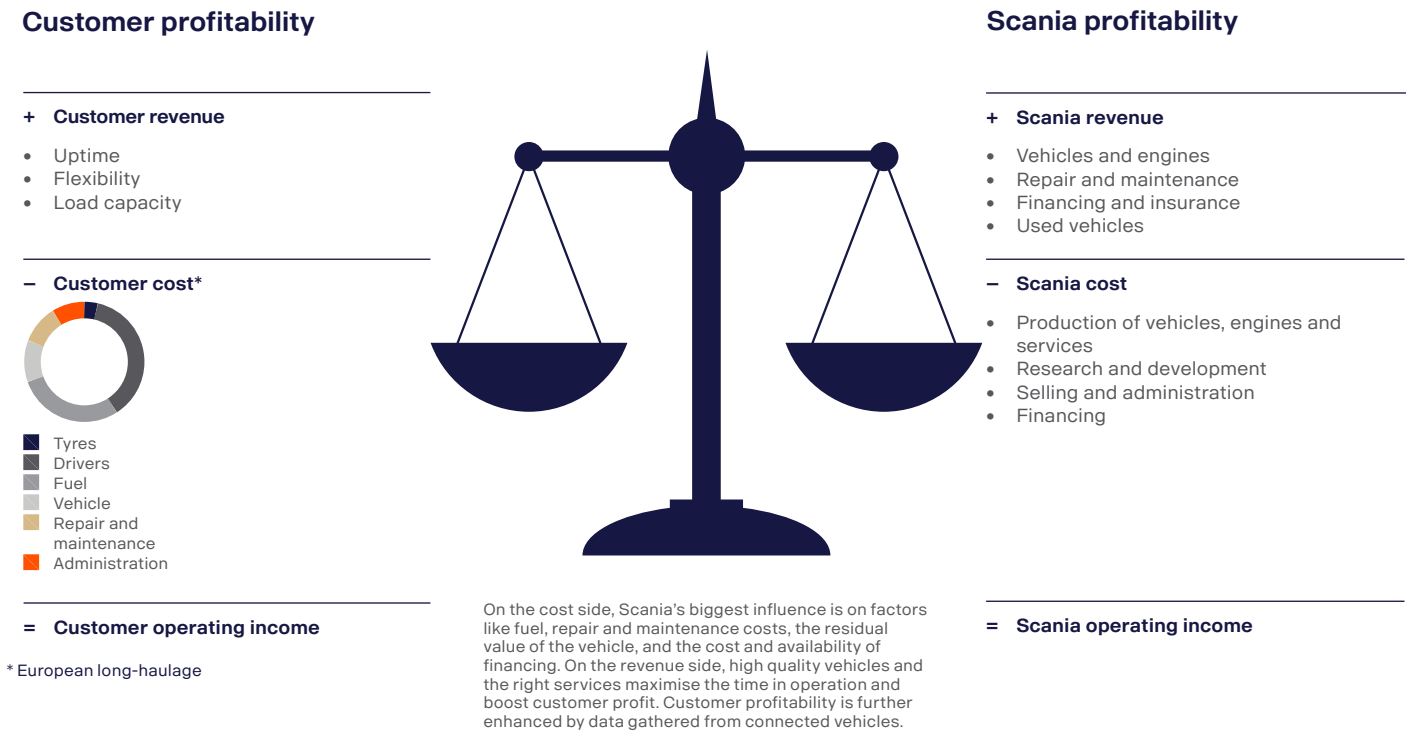
Well positioned

By ensuring profitability for our customers, we strengthen our own profitability and future success. The basis for this is a robust Scania. Guided by our core values and with a strong focus on continuous improvement, Scania is resilient and well positioned to drive the shift towards a sustainable transport system.

Scania's modular system provide us with an in-built flexibility that gives us economies of scale and resource efficiency. Another competitive advantage is being part of the Volkswagen Group that enables competence and resource sharing. Our global production set-up enables us to balance production to mitigate fluctuations in demand. Sales and services have always been part of our core business as the service business is more stable when demand drops for new vehicle investments. It also means we get closer to our customers and gain insight into their business. Adding to that the vehicle operating data we gather through our connected vehicles gives us leverage in developing our vehicle and services.

THE BUSINESS MODEL

Scania's profitability begins with our core value Customer first. The balance can only be achieved when the customer is profitable. Together, our principles, working methods and approach to sustainable transport, including our competitive advantages, make Scania well positioned in a world increasingly dependent on safe, sustainable and efficient transport.



* European long-haulage

The Scania way see page 4

Our core values:

Customer first, Respect for the individual, Elimination of waste, Determination, Team spirit and Integrity

Our principles:

For example: Continuous improvement, Right from me, Demand driven output and Leadership

Our methods:

For example: Scania Production System and Scania Retail System

Our approach

A holistic view of transport logistics flows, **see page 13**

Tailor-made for all applications, **see page 17**

Solutions which provide a full offering of hardware and services, **see page 18**

Striving for resource efficiency and minimising our internal logistics footprint, **see page 26**

Form partnerships for maintaining leadership in innovation and technology, **see page 22**

A three-pillar approach; energy efficiency, alternative fuels and electrification and smart and safe transport, **see page 30**

Our competitive advantages

Strong company culture with skilled and dedicated employees, **see page 24**

Long-term, well-developed and flexible modular system, **see page 16**

Sales and services as part of our core business, **see page 18**

Flexibility of our global production system, **see page 2**

Benefits of cost and knowledge synergies from being part of a larger group, **see page 23**

Early standardisation of connectivity to leverage operational vehicle data, **see page 19**

Customer-oriented, cutting-edge R&D, **see page 22**

Built-in sustainability from resource-efficient working methods, **see page 26**

Driving the shift towards a sustainable transport system

THE VALUE CHAIN

The business model is also the basis of how we create value for our stakeholders throughout our value chain.

<p>Customer first</p> <p>Putting our customers first in all we do generates added value for all of our stakeholders and paves the way for a profitable and sustainable transport industry in the future.</p>	<p>R&D</p> <p>With a high level of investment in R&D, Scania creates value for customers by meeting their demands for higher uptime and greater efficiency, and for society by developing innovative solutions, supporting a safe and efficient transport system.</p>	<p>Sourcing</p> <p>With rigorous environmental, ethical and social demands, we support businesses throughout our global supply chain that maintain fair conditions. In return, we benefit from higher supplier quality and productivity, and minimise negative impact during the life cycles of our products.</p>	<p>Production</p> <p>With a strong focus on continuous improvement, SPS helps eliminate waste, improve resource efficiency and optimise production flow, thereby reducing our environmental footprint.</p>	<p>Stakeholder value 2016</p> <p>Customers Our focus on customer profitability has brought Scania industry-wide recognition for fuel efficiency, performance and quality products and services. We score very high with customers on services aimed at better economy, such as driver training and driver coaching.</p> <p>Scania driver training: 39,146 drivers Scania driver coaching: 40,038 sessions</p> <hr/> <p>Employees Scania's employees are key to our success, and we place great importance on having a healthy, inspiring and productive workplace that rewards good performance. Every year, many of our people develop their skills in our tailored training programmes.</p> <p>Total global healthy attendance: 95.9% Training hours per employee: 25 hours</p> <hr/> <p>Suppliers By providing business opportunities and shared technology to meet the highest environmental and social standards, Scania creates value for our suppliers and society, with suppliers delivering higher quality and productivity in return.</p> <p>Cost of goods: SEK 49,599 m.</p> <hr/> <p>Owners and lenders Scania continues to deliver growth with profitability and generates positive cash flows for our owners and lenders.</p> <p>ROCE: 21.5%* Cash flow: SEK 3,427 m. <small>*14,0% including items affecting comparability</small></p> <hr/> <p>Society Scania's major contributions to society are our tailored solutions, which drive efficiency, sustainability and profitability in the value chain. Our employment, staff training and R&D investment strengthen local communities, develop our workforce and bring low-carbon transport solutions that reduce environmental impact.</p> <p>Sales of Evolution by Scania contracts: 2,725 Sales of alternative fuels and hybrids: 4,984 vehicles</p>
<p>End of life</p> <p>Scania's ambition is to continuously reduce non-recyclable components and provide guidelines for end-of-life treatment and dismantling, also in partnership with others, to minimise impact from our products' life cycle.</p> <p>Made mainly out of high recovery value materials like cast iron and steel, our trucks are 95 percent commercially recyclable.</p>	<p>Services</p> <p>By continuously improving our global sales and services operations and working close to our customers, we improve our ability to meet their sustainability goals, identify efficiencies and deliver high value-added services.</p>	<p>In-use</p> <p>With logistics thinking we focus on how to make the system flow more efficiently. By applying connectivity and focusing on life cycle optimisation, we help customers improve operational efficiency, reduce fuel consumption and noise, impacts and costs, and improve road safety and security.</p>	<p>Sales</p> <p>With a global presence, we work together with our customers to ensure the vehicles are optimised for their specific transport assignment and to address their environmental impact. This sense of responsibility in sales is reflected in our principles and also extends forward in the value chain.</p>	

TAILOR-MADE FOR EVERY NEED

Scania's unique modular system is one of our most important success factors. Developed over several decades, it is integral to our flexible approach and lies at the heart of our business model. Combined with our ability to tailor services, this ingenious toolbox enables Scania to package solutions optimised for a vast number of different transport needs.

The modular system enables Scania to provide individual specifications with a limited number of parts and components, and thus offer our customers an extremely wide product range. This is achieved through the design of the interfaces between different components. Each interface is precisely defined to allow the greatest possible flexibility when components are combined into the correct performance steps in the vehicle.

With relatively few components and parts, the modular system enables Scania to achieve economies of scale and maximise resource efficiency in research and development and production. In service operations, the modular systems ensures high availability of spare parts and continuity for the service technicians. Customers benefit through a tailor-made vehicle with high uptime, reduced fuel consumption and optimised load capacity.

It is this strategic approach that gives Scania the flexibility to tailor solutions to different transport needs and to accommodate various regional market demands. The toolbox allows each vehicle to be tailored to its specific purpose; new, high quality technologies are brought to market quickly and efficiently.

Scania's modular product system is applied to our entire product portfolio – trucks, buses, coaches, and engines. A great deal of the chassis components in a bus are shared with those in a truck. Scania's industrial and marine engines are developed from the base engines for vehicles, making full use of the modular concept.

Scania's modular system is based on three principles:

Standardised interfaces

Standard interfaces are the foundation of modularisation. They are designed in such a way that they do not change over time. In line with Scania's continuous introductions approach, this makes it possible to install new components that improve product performance without the need to change the surrounding components and structure. As an example Scania could introduce the Euro 6 engines without having to change the cab.

Same need, identical solution

Several components are often the same despite different applications. The shortest truck cab variant may be needed in order to maximise cargo capacity both in light distribution service and in a heavy tipper truck operating in a mine. The same needs should always result in identical solutions.

Well-balanced performance steps

The selected performance steps are well balanced to match the specific customer needs; this results in differences in cab sizes, engine output, frame strengths and number of axles. Scania Research and Development continuously evaluates how to further refine the modular system in order for Scania to have the smallest possible number of parts and the largest possible selection of variants in its product portfolio to give each customer an optimised product.



Cabs

Scania's cabs are strongly modularised, with a common frame, common outer panels and interior parts. Cabs are fitted at different heights and lengths to suit different applications and to give the customers ample opportunities to optimise space and comfort in the cab. Only one size of windshield is used in all cabs.



Axles

Driven, steered and tag axles are part of Scania's modularised range, and used in various combinations in 2-, 3-, 4- and 5-axle vehicles. Some driven axles are available with hub reduction.



Frames

Frames are manufactured in several strength classes and lengths. The most rugged ones feature an inner frame to handle extra-heavy loads.



Trucks



Buses



Engines



Gearboxes

With two main gearboxes in combination with range and splitter units, Scania can build 28 types to cover haulage needs ranging from 16 tonnes to 200 tonnes gross train weight. Gearboxes are available with manual or automated gear changing (Scania Opticruise), and can be ordered with an integrated Scania Retarder, a hydraulic auxiliary brake system, attached to the gearbox.



Engines

Scania's engine range is based on three engine series featuring five, six or eight cylinders. From these engine building blocks, made out of 2 litre unit cylinders, 63 basic types of engines can be built. With output levels ranging from 230-730 hp, torque of 1,050-3,500 Nm, and in compliance with all applicable emission standards. In addition the engines can be built to run on either diesel, biodiesel, hydrotreated vegetable oil (HVO), bioethanol, liquified or compressed natural gas.

Tailor-made for application

Scania offer tailor-made solutions for a wide range of different applications, allowing us to meet specific demands of various industries, from mining, forestry, bus systems, to retail distribution and waste handling. By using real-time data from our connected vehicles, the possibilities to tailor optimised solutions for all types of driving assignments have never been bigger.

In close cooperation with different industries and selected customers, Scania has analysed the relevant data for each application and driving activity, and has also monitored typical routes and transport patterns in order to develop truly application-focused products and solutions that offer improved efficiency, high performance and lower environmental impact.

These carefully-tailored specification recommendations are made possible by the operational and performance data gathered by Scania's extensive network of connected vehicles. From this data we extract the necessary intelligence to optimise the customer's vehicle and its maintenance. The data is also used to optimise the sales process when customers seek to replace or up-grade their fleet.

With the insights from having an application approach, Scania can continuously improve the modular system to develop the right components best suited for each application.

SERVICES WITH THE CUSTOMER'S PROFITABILITY IN FOCUS

Scania views every vehicle as a production unit. The better suited it is to its unique duties and the more supported it is by tailor-made services, the bigger the customer's potential to get a return on its investment. This embodies our core value of putting the customer first.

Services are integral to Scania's offering. Inspired by the product modularisation concept, we tailor services to meet each customer's needs. Quick access to parts, speedy repairs, driver coaching and tailor-made maintenance plans are among the services Scania offers to enhance the vehicles' performance and the customers' profitability.

Maximising uptime

Scania's repair and maintenance services make sure the vehicles stay in top condition, from the superstructure and trailer to the body and parts. With comprehensive maintenance plans, accident repair and vehicle-related services, its aim is maximum uptime for the customer.

One example is **Scania Maintenance with Flexible Plans**, by which the customer's vehicles are called in for service when the operating data indicate that maintenance is needed, rather than based on set mileage. Thus the vehicle receives the maintenance it needs and, in most cases, spends less time in the workshop.

Scania has an extensive network of around 1,700 workshops. Around 20,000 people work with sales and services in Scania's subsidiaries worldwide. Our service workshops are strategically located along transport routes and near logistics centres to enable high uptime for the customer. Scania's global logistics network ensures that all Scania parts are available for rapid delivery.

Quickly back in business

Scania offers emergency service to all customers via **Scania Assistance** or local country offices. Scania Assistance is available for customers 24/7 and allows customers in some 50 countries to maintain continuous contact with Scania in their own language via 16 Assistance centres, in order to minimise unplanned downtime.

Drivers reach their full potential

Scania Driver Services help even the most experienced drivers to drive more safely and economically. Other positive effects include longer-lasting tyres and powertrain as well as increased road safety awareness.

Our driver services include: **Driver training** which combines classroom training with practical in-vehicle training, including fuel-efficient driving, and **Driver coaching**, a personalised training programme for drivers, based on their actual performance behind the wheel, to reach their full potential in fuel-efficient driving.

Ecolution by Scania combines our tailored products with driver services. Based on a continuous customer dialogue, the shared goal is improved fuel efficiency. Through optimised vehicle specification, performance diagnostics, driver training and monthly follow-ups, our results show an average 10 percent reduction in fuel consumption.

Based on each customer's need

Scania conducts financing operations in 53 countries, which builds trust and loyalty in the Scania brand. These services aim to make vehicle 'ownership' easy by offering leasing, financing and insurance, based on each customer's needs and abilities.



Scania Financial Services offer flexible **financing** to suit the customers' business plan and budget – whether buying one vehicle or expanding a fleet. Scania's **insurance** offering provides efficient claims handling and replacement vehicles when needed – helping to improve uptime.

The **Scania truck rental fleet** has an extensive range of vehicles, and suits customers seeking to avoid tying up operational capacity and capital.

Letting customers focus on their core business

Operation support and operation management are services enabling customers to focus on their core business. Examples include **Scania Fleet Care**, our monitoring, repair and maintenance service that makes sure each vehicle is performing at peak condition.

Scania's customer **workshop services** provide customers with Scania technicians for their own workshops to meet servicing needs at the customer site.

Scania Fleet Management gives the transport company tools for efficient transport operation and planning, execution and integration in customer operations to increase the efficiency of the fleet. Customers can choose from different packages that track vehicle utilisation, driver performance and fuel consumption. Interfaces include smartphones and data can be received in real time.

Scania also offers services tailored to optimise transport solutions, whereby we look at a customer's overall operation and identify waste and advise on improvements in logistics flows.

On the digital transformation journey

Digitalisation is one of the global trends transforming the transport industry and bringing huge growth in connected products. Smart use of big data and digital technology makes logistical flows more efficient, boosting transport operators' profitability.

At the forefront

Connectivity is increasingly integral to all of Scania's customer-facing activities. It brings huge benefits to everything from product development to sales tools and intelligent services.

Scania's first connected truck was introduced in 2002. In 2011 we began to systematically leverage data on vehicle performance, when we standardised connectivity by fitting the Scania Communicator in all our trucks on the first markets.

This strategic decision to invest early in connected products means that Scania now has a critical mass of data to help us transform our customer offering, opening up further opportunities for helping our customers further increase their efficiency and profitability.

We use the data from connected vehicles to study how they are used in real time, enabling continuous improvement of vehicle and driver performance, and our workshop services. Scania's service workshops can not only remotely read vehicle data and diagnose the vehicle in connection to planned workshops visits, but also ensure precisely the right maintenance plans based on specific use and driving style rather than just driving distance. The customer benefits from increased vehicle availability.

Scania had 230,000 connected vehicles at the end of 2016, and the connected fleet is rapidly increasing as the communicator is standard in vehicles delivered to 55 of our markets.

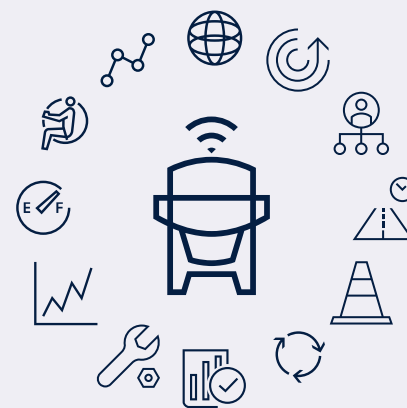
Improving our own processes

The digital transformation Scania is going through is also a driver in making our own processes more efficient. Our sales representatives use connected sales tools which help them offer tailor-made solutions for customers; and real-time data from our customers' operations enables us to offer flexible maintenance, which in turn allow us to work more efficiently in our workshops.

Potential for our industry

With a growing need for transport, more efficient logistical flows and improved filling rates, connectivity has the potential to really change the industry for the better. As digitalisation advances, Scania is working to ensure our trucks, buses and engine installations will be part of 'ecosystems' of integrated mobility, where machinery and road infrastructure, such as signs and traffic lights, communicate with each other and with people.

The real transformative potential lies in enabling communication within the whole transport system. Connectivity has the potential to optimise flows within the whole system, not just the logistical flow of different industries. This will be particularly significant when it comes to sustainable public transport solutions for cities. The need for low-carbon mobility that minimises the effect on climate, air quality, and on the safety and liveability of urban areas can be addressed through buses and rapid transport systems that use digitalisation technology.



THE NEW PREMIUM

In August 2016, Scania marked its 125th anniversary with the launch of its new truck generation, the biggest investment in the company's history. Created to set a new standard for what is premium in the transport industry, the new products and services are also a major landmark on our journey towards a future of sustainable transport.

Scania's new truck range introduces new technologies, services and insights that are designed to help our customers get an overview of their costs and revenues. Our aim is to offer all customers sustainable profitability, regardless of the type of assignment or the conditions in which they are working.

Together with Scania Maintenance with Flexible Plans, a service based on monitoring operating data from connected vehicles, the new truck generation delivers on all points of Scania's aim of being the drivers' favourite. It also offers our customers the best profitability in the industry, while supporting our vision to drive the shift towards a sustainable transport system.

During the development of the new truck, customer operations and resource efficiency have been at the centre of every single step we have taken: from research and development, sourcing and production to tailoring the services meeting up to each customer's needs.

The new truck generation cost more than SEK 20 billion to develop, our biggest-ever investment, and was ten years in the making. With the new range Scania is extending the offering available to customers. With our unique modular system, more performance steps, data

Scania's new truck range in numbers

Scania's new truck range is brimming with new features. The range is stronger, safer and even more aerodynamically optimised. Here are some key facts and figures.

10 million kilometres. The total distance of the field tests of the new trucks, and the equivalent of **250** laps around the earth.

24 cab variants. Allowing Scania's new truck generation to provide excellent opportunities for drivers to customise solutions that suit them best.

More than **10,000**. The number of customers invited to Södertälje to experience the purpose-built launch arena and to test drive the new truck range at Scania's Demo Centre.



3,600. The number of sales staff trained, with a special focus on using the full extent of Scania's toolbox to offer customers tailor-made sustainable and profitable solutions.

5 percent fuel savings on average. Due to improved powertrain and better aerodynamics.

-30 to 40°C. The trucks were tested in dramatic winter conditions in Swedish Lapland and extreme heat and high altitudes in Spain.





More time spent in operation

Scania Maintenance with Flexible Plans is a new uptime-effective, tailor-made service that uses connectivity technology and real-time data from the customers' operations to ensure that they get the right level of care and get the maximum use out of their vehicles. Instead of a service being based on set mileage, vehicles are only called to the workshop when their on-board computer's operating data indicate that maintenance is needed. Thus, the time the truck spends in operation is maximised to ensure the greatest profitability from the customer's fleet.

“With its new range, Scania has delivered a truck that represents a real “state-of-the-art” offering in the heavy duty segment, capable of satisfying not only today’s but also tomorrow’s transport needs.”

The motivation for the International Truck of the Year award

gained from our connected fleet and a comprehensive palette of productivity-enhancing services, the new truck generation offers sustainable transport solutions that are precisely tailored for each type of customer.

Each of the new trucks is connected, which benefits customers and drivers but also the environment. There is an extensive network of connected Scania vehicles being used around the world and with new vehicles adding to the ranks, that network is constantly expanding. These connected vehicles provide valuable insight into operating conditions as well as the necessary intelligence to develop future vehicles and services for even better performance – providing key insights for Scania's ongoing research and development work, in keeping with our commitment to continuous improvement.

Outperforming the competition

Within a few weeks of the launch, the S-series in the new truck range was honoured with the prestigious “International Truck of the Year” award. The jury was fulsome in its praise, saying, “With its new range, Scania has delivered a truck that represents a real “state-of-the-art” offering in the heavy duty segment, capable of satisfying not only today’s but also tomorrow’s transport needs.”

The new truck was also named the winner in Europe's 1,000 Point Test, one of Europe's largest comparative truck tests and, according to many, the toughest.



230,470. The number of connected Scania vehicles in service at the end of 2016. Data from many of these trucks has provided valuable operational and performance insights throughout the development of the new truck generation.

The world's **1st** rollover side curtain airbag for trucks. Scania's unique solution has the potential to significantly reduce the severity of injuries from rollover accidents.

36 different applications. In addition to the new product range itself, Scania is introducing tailor-made solutions to offer customers the most sustainable features for every type of transport assignment.

INNOVATION AND PARTNERSHIP

Scania's Research and Development successfully blends innovation with partnership. In 2016 the landmarks of their work include the biggest-ever product launch in the company's history, and exciting new transport technologies developed with industry and academic partners.

Taking the demands of our customers as our point of departure, Scania's R&D innovations are aimed at helping transport businesses achieve profitability in a way that is sustainable for society.

For Scania's Research and Development team, 2016 has been a remarkable year, with the launch of the new truck generation, trials of autonomous and electrification technologies, plus further advances in connectivity, alternative fuels, buses, engines and optimised transport solutions.

In 2016, Scania invested SEK 7.2 billion in R&D, a high-watermark that partly reflected the launch of the new truck generation. Ten years in development, the new truck range saw a total investment of over SEK 20 billion.

The achievements of 2016 are to a great extent due to innovation by our 3,600 R&D employees based in Sweden, in partnership with suppliers, universities and research institutions.

Key focus areas in R&D

There is no single solution that will enable us to make the shift to a sustainable transport system. Scania is embracing a portfolio of different solutions, but nonetheless we need to decide where to focus our priorities and investment when it comes to R&D, just like any major player in the industry. Our key focus areas are:

Combustion engine technology

Scania develops engines that enable hauliers and bus companies to reduce CO₂ emissions, help lower fuel consumption, and improve after-treatment. In fact the Scania product program is already prepared for the fossil free future since all our Euro 6 engines can run on HVO and several of them on pure biodiesel (FAME). We also offer dedicated solutions for alternative fuels such as biogas, bioethanol and hybrid-application, where brake energy can be recovered.

Digitalisation

Scania is making a significant investment in connectivity. Connected vehicles allow us to obtain a huge amount of valuable information in real time, allowing us to tailor services to address customers' specific needs. We are lowering fuel consumption by developing a better understanding of each driver's driving style, while Scania Maintenance with Flexible Plans means vehicles are only called in for service when the operating data indicate that maintenance is needed.

Autonomous transport solutions

The work with automation includes developing self-driving vehicles that interpret high-level commands from 'control towers', truck platooning, virtual co-driver technologies, and smart sensors to help buses or trucks negotiate heavy traffic.

Electrification

Scania's ongoing development of hybrid and full electric trucks and buses, combined with electrified roads, shows that this technology is at a mature stage and is close to becoming commercial reality.

Partnerships

Scania is well positioned but the scale of the challenge of coming up with low-carbon transport solutions and the breadth of possible solutions means that we need partnerships to accelerate change in the transport industry.

As part of the Volkswagen Group, Scania continues to explore knowledge and production synergies with MAN. Group synergies will play an important role in the overall R&D process. By sharing knowledge, experience and production, there is the potential for increasing cost and energy efficiency. The joint Scania-MAN production site in St Petersburg, Russia, which started up in September 2016 is one example. Scania and MAN's agreement on the responsibility for development of a future common platform of powertrain components (engines, gearboxes and axles) within Volkswagen Truck & Bus is another example.

Collaborations with Ericsson (using 5G communications networks in transport) and Siemens (the electric highway in Gävle, Sweden) are key to our development of smart transport and electrification. Bus Rapid Transit systems in Jakarta, Indonesia and Cartagena, Colombia, have been launched in collaboration with those cities' transport authorities.

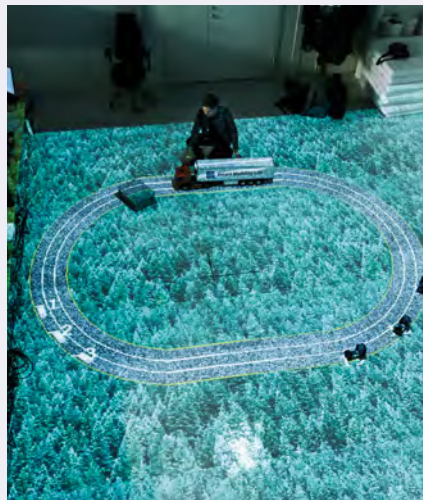
With Stockholm's KTH Royal Institute of Technology, Scania uses the Integrated Transport Research Lab to solve issues of sustainable transport. KTH and other academic partners are also producing the R&D talent of the future.

The challenge ahead for Scania is to stay on top of the huge changes in the transport industry, and also ensure that we have the employees with the right skills who can work with the new technologies, so that we can meet our customers' demands as they change to reflect the way the transport industry is changing.



The world's first electric road

In June 2016, the world's first electric road was inaugurated near the Swedish city of Gävle. It was Scania's electrically-powered truck that was the first to drive the route in open highway traffic, using conductive technology developed by Siemens. The truck on the road is a Euro 6-certified hybrid that operates as an electric vehicle when on the electrified road lane and as a regular hybrid running on biofuel, at other times, such as when overtaking. The second truck starts operation in June 2017.



Ideas for tomorrow's transport solutions

The Integrated Transport Research Lab (ITRL) is a joint initiative between Scania, Ericsson and Stockholm's Royal Institute of Technology (KTH). It is bringing together research and demonstrations by means of radically new and holistic technical solutions. The approach is that seamless transport services, infrastructure, novel vehicle concepts, business models and policies, all need to be tuned and optimised in chorus.



A digital marketplace

Scania is cooperating with Ericsson on 5G mobile networks and connectivity research for commercial vehicles and infrastructure. The **Scania One** solution is a new channel for the distribution and management of digital services for our customers such as fleet management, driver tools and entertainment, using Ericsson's Connected Vehicle Marketplace technology. The combination of existing and future Scania services with third party services constitutes an ecosystem for optimised, sustainable and efficient transport solutions that create value for our customers.

OUR PEOPLE ARE OUR GREATEST ASSET

Our greatest asset is our employees. Ensuring a safe, healthy and highly motivated workforce is therefore our priority. In order to deliver on our vision, we have a strong focus on attracting and retaining top employees from a diverse range of backgrounds.

Everyone who works for Scania, no matter what their job is, contributes to our continuous improvement with their experience, knowledge, ideas and potential. Our core values and Scania Production System encourages this and support our aim of becoming a top employer with top employees.

A safe and healthy organisation

To ensure our employees' well-being, a safe and healthy workplace is a priority. Scania's health attendance level is 95.9 percent, reflecting the importance we place on having a safe and healthy workforce. One of Scania's six core values is Respect for the individual, meaning the individual stands at the centre in all that we do. The Scania Safety, Health and Environment (SHE) standard provides the guidelines for how we address workplace issues such as safety equipment, the handling of chemicals, mental and social well-being, crisis support and road safety. We use The Scania Way as the foundation for working with these issues in a systematic way, by involving our employees at all levels. Specific

guidelines and training have been developed to address issues concerning physical and psychosocial risk assessment, with a preventative and proactive focus. As Scania enters new markets and areas, new requirements are imposed for health and safety.

A highly motivated workforce

Scania carries out an annual survey of our employees using an Employee Satisfaction Barometer. In 2016, a total of 10,000 Scania employees took part in the survey, and will be implemented in stages globally as from 2017. Pleasingly, survey findings include enormous respect for and pride in the company.

Another key measure of workforce satisfaction is the employee turnover. Developing our employees within the company is a strongly prioritised. Scania's high internal employee turnover of 4.6 percent, where employees move to another area of the business, proves the strength of developing our own employees within the company and their willingness to develop themselves.

As a global employer, with 46,000 employees in 100 countries, we offer our workforce the chance to work internationally. We have more than 340 employees from 30 different countries, who are working on international assignments in 50 different countries outside their nation of origin. Being part of the Volkswagen Group also opens up the possibilities of more employee rotation and mobility, enabling us to broaden the base from which to find the right competencies, and also giving our employees international opportunities.

A diverse workforce, with the best competencies

The need to secure a business-driven competency supply is more important than ever. As we expand our operations, we are focusing on securing the right skills base, anchoring our new competencies and maximising the opportunities afforded by global mobility. To deliver on our vision of being a leader in sustainable transport means understanding the competencies we need today, in 2025 and beyond. That's why we are focusing our efforts on finding and developing employees who have the right skills and motivation and who are from a diverse range of backgrounds. To bridge the competency gaps we have to assess where we can develop competencies ourselves, where we can employ them, or where we can enter strategic partnerships with academia. The key is breaking down the business goals into roles or competencies and last year a competence manager was employed as a step towards this aim. Her role is trying to assess whether Scania has the engineering expertise it needs to work with the world-leading technologies of the future.

We also need to ask ourselves if our employees have the right skills already or if they need further training. Scania Academy trains employees at all levels from all of Scania's business units, as



Employee turnover
8.5%

Internal turnover
4.6%

Female managers per 1,000 Scania managers
169

well as people employed at Scania's independent dealers around the world. Scania Academy provides digital material as well as physical classes and continuously develops the course offering. Another way in which we are developing the competencies Scania needs is the close dialogue we have with universities and colleges, through initiatives such as the Scania Engineering Programme, the Scania Global Champion Trainee Programme, and our Industrial Doctorate Programme.

To make full use of Scania's competency pool, Scania is committed to diversity, and aims to have a diverse workforce in terms of gender, age, background and experience for example. We believe that a diverse company, with a broad enough range of people to choose from, can better ensure it has the best competencies and the best people for each individual position.

During 2015, Scania initiated Skill Capture, management seminars to ensure that we continue to be successful. The process starts with Skill Capture Initial Labs, which discuss how to establish ways of working that will allow all of our present and future employees to perform at their full potential in a diverse and inclusive corporate culture. This leads to concrete actions in management teams, to spread best practice and

bring together the most-necessary improvement activities. Scania will be tracking how the corporate mindset changes throughout the process. Starting in 2016 the Initial Labs have been conducted with Scania's top management teams, including the Executive Board itself. To measure the progress of employees' perception on Scania as a diverse and inclusive company, questions on this matter were included in the 2016 Employee Satisfaction Barometer.

Increasing our social dialogue

We have decided to endorse the Global Deal declaration: Enhanced Social Dialogue for Decent Work and Inclusive Growth. It is a multi-stakeholder partnership that aims to encourage governments, businesses, unions and other organisations to make commitments to enhance social dialogue. Social dialogue in the labor market and quality industrial relations can reduce possible inequalities arising from globalisation, increase productivity, boost economic growth and contribute to sustainable development. In September 2016, Scania participated in the launch of Global Deal at the UN headquarters in New York.

SUSTAINABLE EVERY STEP OF THE WAY

Scania's approach to sustainability is firmly rooted in our core values and our way of working with continuous improvement. We strive to ensure that our business is sustainable in all aspects and that at every stage we are complying with the highest social, ethical and environmental standards.

Conducting a responsible business is a key priority for Scania, from our supply chain, to our production system, how we interact at the workplace and towards our business partners as well as our role in the communities where we operate.

Scania is a signatory to the UN Global Compact, which has now been complemented by Agenda 2030 and its sustainability goals.

Guided by the core values, Scania closely reviews its plans and priorities so as to reduce our environmental footprint and ensure adherence to ethical principles. With elimination of waste as the cornerstone, the Scania Production System (SPS) and the Scania Retail System (SRS), both central components of The Scania Way, guide our employees in their daily work.

Scania promotes clarity and simplicity in governance for sustainability and ethics. Every manager shall ensure that Scania's approach to sustainability is understood and acted upon in every unit. Because of the cross-functional nature of sustainability issues, the Sustainability Advisory Board has been set up to prepare decisions and coordinate efforts across the organisation.

From 2016, all major investments in our industrial and commercial operations will be assessed using sustainability criteria. Before any investment decision, factors such as energy and carbon savings are taken into account and a full picture is presented to the decision-making groups.



Energy and resource-efficient operations

Scania works to use resources as efficiently as possible in our production processes. To reduce our environmental impact we have identified five priorities:

- Efficient use of energy and water in facilities and operations
- Reducing the use of raw materials and chemicals
- Reducing air and wastewater emissions
- Increasing reuse and reducing waste material
- Reducing the risks of accidents and spill; effectively managing them if they occur

In this report we describe how we work with energy reduction and waste handling. For more on our identified environmental priorities see:

www.scania.com/group/en

Efficient use of energy

Energy efficiency is included in Scania's strategic plan as a natural integral part of business.

All Scania production sites use SPS to identify and eliminate energy waste. During 2016 all Scania units have developed energy roadmaps to identify the activities and investments that need to be taken or potentially can be taken.

Reducing waste

It is important for Scania to have a trustworthy way of handling waste. Scania has decided on a specific target to increase reuse and recycling within production: by 2020 we aim to reduce the amount of waste material that is not recycled by 25 percent from its level in 2015. To support this goal all units have studied material flows to identify ways to increase recycling of materials.

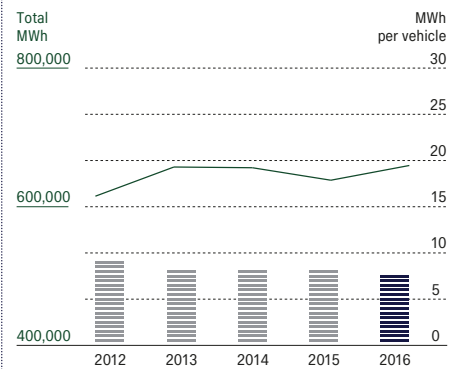
Sustainable logistics

Scania wants to be the benchmark in sustainable logistics. This means that we set the standard on how to act as a transport buyer. We ensure that social and legal aspects are accounted for, in parallel with actively improving our own transport network to increase efficiency in the logistic flows and to minimise CO₂ emissions. To adopt these best practices, decisions within our logistical operations are based on achieving the best balance between three requirements: CO₂ emissions, quality and cost. When sourcing transport solutions Scania values CO₂ reduction on the same level as we value decreased cost or better quality. This way of working has led to a reduction of emissions of 19 percent and 22 percent in two important tenders while maintaining high quality and balanced cost levels.

We use the same methods and principles as we use in our production system to improve our logistical efficiency; as a result, we have seen a greater use of assets and have reduced supply chain waste. Teaming up with partners who share our goals to be energy-efficient is key for Scania. All of our logistics suppliers must be able to meet our requirement for a three percent annual reduction in CO₂ emissions. The intention of this is to stimulate our partners to work with continuous improvement.

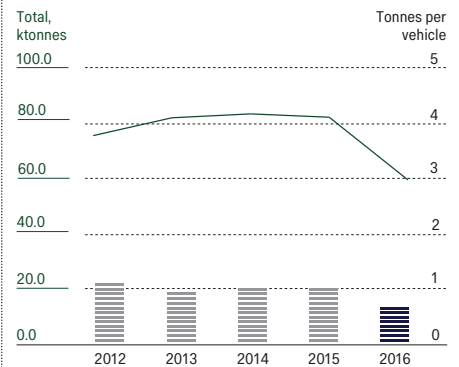
Working with alternative fuels is another way of cutting CO₂ emissions. The potential for implementing alternative fuels solutions is evaluated by **Scania Fleet Composer**; the results assist us and our partners in implementing new solutions.

Energy consumption from our industrial facilities



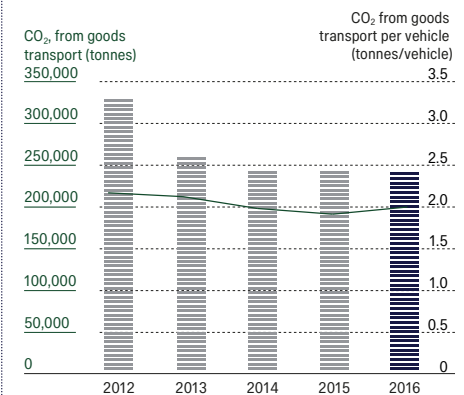
Energy use has decreased per vehicle produced thanks to higher volumes and an active work to reduce wastage. It amounts to 7.9 MWh/vehicle.

Emissions of CO₂ tonne/vehicle



Carbon dioxide emissions have been greatly reduced by energy efficiency measures and the ambition to continuously sign contracts for fossil-free electricity. The reduction is 31 percent and amounts to 0.71 tonnes CO₂ per vehicle produced.

CO₂ emissions from our own transport



The transport related CO₂ emissions per produced vehicle has decreased during 2016.

Responsible sourcing

Scania works cross-functionally with purchasing at a global level. By setting high standards for quality and sustainability we limit our exposure to business risks. As a global company Scania has suppliers from all over the world and works systematically to ensure that high standards are maintained by all of our partners.

Educating our employees

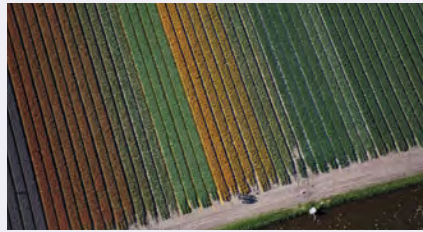
Scania works continuously to improve sustainability performance throughout its value chain. A mandatory full-day sustainability education for all employees involved in the purchasing process was implemented during 2016.

Scania also sets explicit requirements for all of its suppliers. New suppliers are subject to a review process, and must meet Scania's standards, follow our sustainability requirements and require the same of their suppliers. All suppliers are evaluated on a regular basis and trained in sustainability processes. In regions where the risk is found to be high, such as in India, Scania is performing corporate social responsibility assessments on all suppliers and works actively with developing existing suppliers.

A collaborative approach

Scania works closely together with customers, suppliers and other automotive manufacturers, and finds that collaborating with a greater number of partners improves effectiveness. Through its membership of the CSR Europe Automotive Working Group (EAWG) Scania works with other automotive companies to improve sustainability throughout the value chain.

Through this group, an industry-specific sustainability questionnaire has been created, which all our suppliers have to fill in. This tool is used to monitor our suppliers' sustainability performance to find knowledge and process gaps; working in close collaboration with the group, we further develop and close these gaps. In 2016, this was a main focus of our sustainability work and the number of suppliers monitored by this tool was increased significantly.



Towards a circular economy

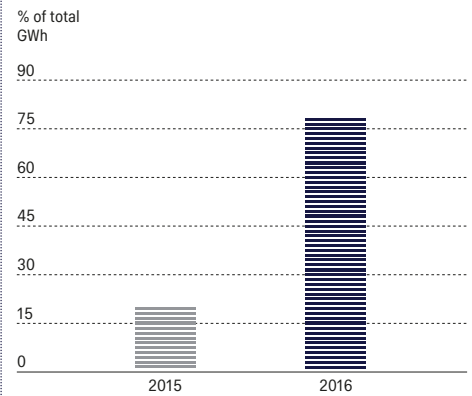
Scania Service Exchange is an initiative where faulty or worn items or components are sent back to Scania from its dealers, to be stripped down and remanufactured. By 'remaking' (not repairing) them to the state they were in when they were brand new, they are ready for resale at a lower cost for the customer and Scania. "By remanufacturing parts we can save energy, reduce CO₂ emissions, save resources and save costs," explains Anders Mossberg, who runs Scania Service Exchange. It's an example of moving from the 'linear economy' (taking, making and then disposing of) to the 'circular economy' (taking, making, using, collecting, and then remanufacturing and recycling so the whole process can start anew).

Strong stance on anti-corruption

Scania has zero tolerance for corruption and bribery, and the first priority is to ensure the company is in compliance with all relevant laws and regulations wherever Scania does business. As a signatory to the UN Global Compact, Scania adheres to its ten principles, including anti-corruption. For more on Scania's strong stance on anti-corruption see:

www.scania.com/group/en

Fossil free electricity



In 2016 our sites in Scandinavia, France and Poland, became fossil free. By 2020 purchased electricity in all factories globally will be fossil free where the necessary prerequisites are in place, i.e. there is a deregulated electricity market and availability of non-fossil alternatives in the grid.

Community impact

Scania aims to be a positive agent for social change, wherever we operate in the world.

We assess the needs of our surrounding communities and see how our capabilities and expertise can help, adapting them to local needs.



A driving force for positive change

Since its inception in 2003, the **Scania Driver Competition** has had more than 350,000 truck drivers taking part, and is the largest driving competition in the world. The event is supported by the European Commission and the International Road Transport Union. The network of events in more than 50 countries worldwide allows Scania to spread the messages of fuel-saving driving techniques and road safety. In Kenya, the 2016 competition focused on combating the country's serious road safety problem. With the belief that safe drivers are healthy drivers, Scania provided the possibility for drivers to be tested for blood pressure, body mass index and HIV, with counselling also available.



Developing four Indian villages

Scania India has for the past few years been working with four villages on Education, Health and Hygiene and Environment. The foundation stone is providing basic education, which leads to employment possibilities, changes in the mindset on issues like child marriage and prioritisation of health and hygiene through better sanitary conditions and functioning toilets. Scania also supplies safe drinking water to schools and day care centres in these villages and runs a programme called **Scania for Nutrition**, supplying nutritional supplements with an incentive to reduce health issues and improve daily lives.



Transport academy to secure the operation of Ghana's BRT-system

The capital of Ghana, Accra, continues to expand, causing traffic problems such as congestion and increased emission levels. That means that skilled technicians are needed more than ever for the successful operation of the new BRT system. To provide in demand knowledge of heavy duty vehicles, Scania offers students vocational training at its modern workshop facility. In collaboration with the vocational school Government Technical Training Centre (GTTC), Scania provides specialised training for 30 students per year.

A SOLUTION FOR EVERY FLOW

Scania's vision to drive the shift towards a sustainable transport system is founded on our insight into entire logistics flows, be it for cities, industries or long-haul transport. Our approach rests on the three pillars of Energy efficiency, Alternative fuels and electrification and Smart and safe transport.

Scania recognises that there is no single solution to driving the shift towards a sustainable transport system. Rather a holistic approach is called for, considering the specific transport assignment and the maturity of the logistics and infrastructure in different parts of the world. Scania's approach rests on three pillars: Energy efficiency, Alternative fuels and electrification and Smart and safe transport.

Our starting point is to ensure profitability for our customers and make them more efficient. It is therefore fundamental for Scania to have deep knowledge about the sector as well as the specifics around our customer's operations.

By applying our flow thinking to everything we do, we see a huge potential to take out waste from the entire transport system. Depending on the flow: in and between cities, in industries or in long-haulage logistics our tailor-made solutions differ in functionality and optimisation.



Energy efficiency

Offering the most efficient technology for our products and services is a core principle for Scania. Scania focuses on three aspects to provide customers with energy-efficient products and solutions:

- **Powertrain performance.** The aim is to maximise driveability, reliability and quality, while minimising the environmental impact.
- **Vehicle optimisation.** The whole vehicle needs to be built to reduce air resistance and rolling resistance. Furthermore, the vehicle specification has to be appropriate to the transport task. It's the job of Scania's sales persons to work with the customer to achieve the vehicle solution that best meets the customer's needs.
- **Fuel consumption.** Scania combines its work on achieving low fuel consumption with driver coaching and driver support products that allow operators to realise the vehicle's fuel consumption potential, backed up by service and maintenance that helps extend this efficiency even further. This is the offering we call Ecolution by Scania. Reduced CO₂ emission levels and lower costs are also products of this process.

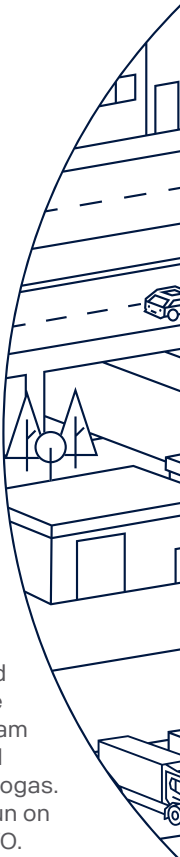


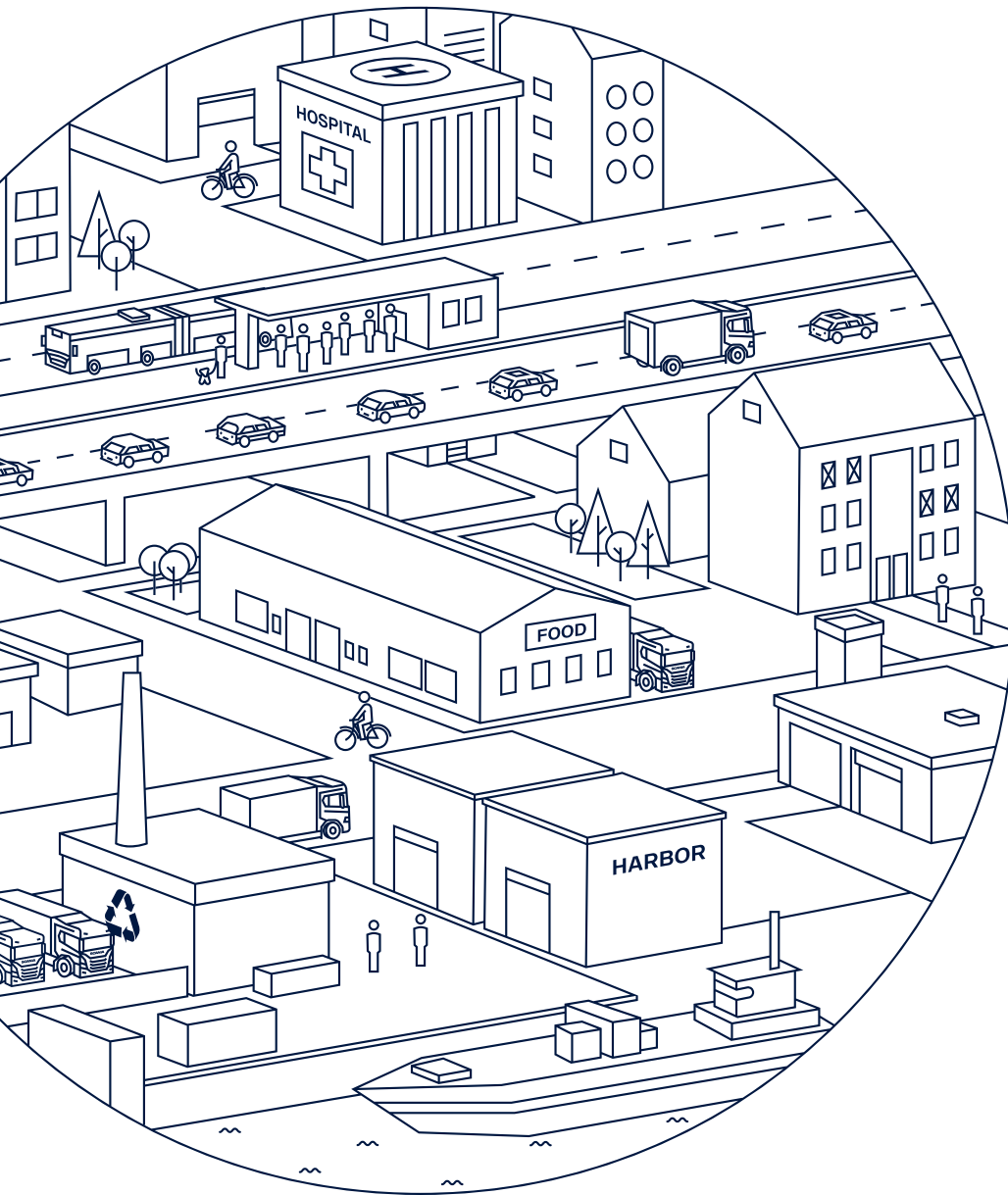
Alternative fuels and electrification

Alternative fuels and electrification can act together or separately, and they both have crucial roles to play.

Scania vehicles already operate on the alternative fuels of a fossil-free future. The company has pioneered the use of alternative fuels over the last 30 years, with a product program ranging from bioethanol trucks and buses to vehicles using liquefied biogas. The ordinary diesel vehicles may run on biodiesel and up to 100 percent HVO. Today, Scania has the broadest range of alternative fuel-enabled vehicles on the market. Our global engine platform allows customers with access to high quality fuels to choose engines with the best environmental performance and fuel efficiency, no matter where in the world they operate. The rise of emerging markets brings a growing demand for alternative fuel solutions, particularly for cities with pressing public transport issues.

Electrification is a fast-emerging technology that is already present in hybrid buses and recently in hybrid trucks as well, while electric highways





Smart and safe transport

Scania is well-known globally for the way we work with flows to maximise the performance of our production system. For us, smart transport means that we apply the same philosophy to the logistics chain to help our customers, and our customers' customers. The potential is enormous. Long-haulage operations in Europe have an average filling rate of 60 percent. 40 percent waste is a great opportunity and we are convinced that efficiency could increase a lot through better planning and smarter systems. We believe smart and safe transport can be a 'game changer' for sustainability in the transport sector.

Smart and safe transport uses digitalisation technologies to achieve the most efficient transport solutions for cities, industries or logistics. The most obvious application of digitalisation is connectivity. Starting already in 2011 to standard equip Scania vehicles with the on-board Communicator computer, has resulted in a vast number of connected trucks and buses on the road. Vehicle data that is collected and used in the right way can create huge opportunities to reduce waste and optimise transport flows, while also allowing us to provide our customers, and in turn their customers, with the ideas and solutions for improving efficiency in the transport value chain.

In the past year, Scania has publicly showcased its tests of autonomous transport solutions, a glimpse of the near future that has been enabled by digitalisation. Autonomous transport not only has the potential to be smart and safe transport, but to be clean and energy-efficient, too.

and wirelessly-charged buses are on the verge of becoming reality. Powertrain electrification technologies promise to significantly improve functionality and cost efficiency and in addition improve air quality.



CITIES – THE KEY TO CHANGE

Cities are key crucibles of change in the modern world. The global ‘mega-trend’ of rapid urbanisation is expected to lead to more than 60 percent of the world’s population living in cities by 2030, and this brings with it the challenge of securing sustainable development for the future, so that cities can continue to be liveable, attractive and competitive.

Estimates suggest that cities are responsible for 75 percent of global CO₂ emissions, with transport and buildings being among the largest contributors. Increased concentration of CO₂ in the atmosphere cause climate change, which in turn will disrupt daily life and thus also economic growth.

To make cities better places in which to live, the key issues of air pollution, traffic congestion, road safety and noise need to be addressed, using transport solutions that are accessible, efficient and attractive.

To that end, cities are looking for the right partners to fulfil a range of roles, including how they transport people and goods. City density, GDP, local

resources, political considerations and history will all influence the solutions that are selected. And the solutions that we apply in cities can in turn form the basis of knowledge that can be applied elsewhere around the world.

Scania’s approach

Efficient transport is essential for sustainable cities. Future mobility requires an understanding of the complexity of urban planning, including intermodal solutions where the use of more buses is one way to increase efficiency and decrease cost. Through the bus, coach and services offering, Scania aims to ensure sustainable mobility in rapidly growing cities with clever, cost-efficient bus systems.

But strategic partnerships are crucial to accelerate change. Scania is working in private and public sector partnerships worldwide with local authorities, academia and other industry players. One example is the recently launched concept of the Activity Based City where Scania, together with construction group Skanska, consultancy firm WSP and railway operator MTR, takes a joint approach to building sustainable cities, where people are at the centre.

Scania sees cities as our stakeholders, and we believe we have a natural role to play in providing urban transport solutions that are smart, safe and sustainable. By working together we can realise the enormous potential of new technology to make city living better, cleaner and more efficient for the long term, so improving the lives of millions of city-dwellers worldwide.

Sources:
WHO, UNEP



'Cow-powered buses' are a world's first



In October 2016, the English town of Reading became the world's first user of double-decker gas-powered buses. Scania supplied five double deckers to Reading Buses for the town's public transport system, joining single-decker gas-powered buses in the fleet. All the new buses comply with Euro 6 emissions standards, and are powered by compressed biogas that comes from a certified carbon neutral biomethane source (which is where the cow manure come in). The buses are quieter and they also improve the town's air quality, as the gas produces almost no particulates or hydrocarbons, almost zero carbon emissions and 99 percent less nitrogen oxide.

Night-time the right time for delivery trucks



An innovative two-year trial of night-time deliveries in Stockholm has found that the economic, social and environmental advantages far outweigh added noise disturbance. The tests, featuring a Scania biogas delivery truck programmed to operate as silently as possible, were carried out for the City of Stockholm by the Royal Institute of Technology (KTH)'s Integrated Transport Research Lab, of which Scania is a partner. By featuring deliveries between the usually off-limits period of 10pm and 6am, the truck's average speed was 30-60 percent higher compared with daytime deliveries, which are usually made during rush hour of 7 to 9am. Drivers therefore make more deliveries with shorter stops at each call, with huge fuel cost savings and less congestion as key solutions for city flows. KTH researcher Anastasios Koutoulos says, "With these increases in efficiency, transport companies could save one truck in five." Noise was only a minor issue in the trial, with loading and unloading in quiet areas, and the results of the tests are now being analysed by the City of Stockholm.



Easing the gridlock



Scania has partnered with the TransJakarta transport network in Indonesia's capital Jakarta to help the city of 10 million inhabitants address its huge traffic flow problem. Encouraging people away from cars to public transport is a smart and safe move that is crucial to improve congestion and traffic pollution. Scania has provided 100 buses that meet Euro 6 emissions standards for the city's Bus Rapid Transit system, with the buses having dedicated bus lanes that escape the traffic gridlock. The buses have already made a significant impact, proving to be comfortable and efficient enough to attract new users.

Our approach to sustainable transport



Wirelessly charged



Tested for the first time in Scandinavia in December 2016, a Scania electric-hybrid city bus equipped with inductive technology was inaugurated in Scania's hometown, Södertälje. The project is being conducted as part of a joint research between Scania and the KTH Royal Institute of Technology in Stockholm in partnership with Södertälje Municipality, Stockholm County Council and the electricity

supplier Vattenfall, with financing from The Swedish Energy Agency.

The batteries of the electric-hybrid bus can be wirelessly charged while it stands at a bus stop, providing it with the power it needs to complete its 10km route. The invisible charging station is able to recharge the vehicle wirelessly from the road surface in just seven minutes. This solution contributes to lower CO₂ emissions, energy use and silent public transport. The bus will be in operation during 2017.

HELPING INDUSTRIES BECOME MORE EFFICIENT

Transport is a key part of the industry value chain. It accounts for a large part of the total production costs for the process and manufacturing as well as building and construction industries. That means that if a flow is managed well, total production costs can be significantly reduced.

Transport journeys from a single production site (such as factory, mine, forest or harbour) to a single destination tend to be predictable; yet there are often unexplored potential to increase efficiency. Perhaps the vehicle combination could be longer, to maximise capacity and reduce the number of transports, and by that cutting the fuel consumption. Perhaps there may be bottlenecks in the production process that means the transport is waiting idle, wasting time and money. Other bottlenecks could be inefficient manual administration or stock levels that are insufficient to cover demand.

Scania's approach

Scania is bringing logistics expertise to industries in several ways. Through close collaboration with companies in industries such as mining and forestry, Scania gains an in-depth understanding of the customer's situation. The core of Scania's approach to flows in industries, is seeing the vehicles we make not just as products, but as part of the production value chain itself. By applying our flow thinking and our approach to elimination of waste, we analyse the various industries' logistical flows and the hidden waste and inefficiency that exists in all logistics systems can be identified. Scania can suggest actions to improve those processes and thus a

solution for the overall logistical flow. There is great potential for Scania's tailor-made service offerings to contribute to a whole industry's profitability, and with this in mind, the Scania owned company LOTS (Lean Optimised Transport Solutions) is developing its consultancy offering for customers.

Longer, heavier vehicles, such as in the construction or timber industries, make for a more efficient use of energy than vehicles of smaller size that have to make multiple trips; Sweden is one country that has recognised this, approving loads of up to 74 tonnes on certain roads. Making the vehicle more energy-efficient makes the overall production process more efficient, meaning lower production costs.

Digitalisation is another factor with the potential to have a great impact on flows in industries, as connectivity will enable the use of smart and safe autonomous or semi-autonomous technology in closed areas such as mines or container terminals. Scania's testing of this technology is already well underway.

Autonomous: A glimpse of the near future



With the support of the Swedish innovation agency Vinnova, Scania has partnered with leading technology companies such as Ericsson and academic institutions such as KTH to trial autonomous transport solutions designed for mines and other closed environments. Self-driving trucks respond to high-level commands given from a 'control tower' and are able to load, transport and unload materials from one site to another. When commercially available in just a few years' time, these and other automated transport solutions are expected to radically change the way mines operate. "There are many environments in the mining industry that are dangerous or unhealthy to people," says Tom Nyström, Senior Engineer at Scania. "For example, work needs to cease while ventilating harmful gases after blasting. Autonomous vehicles can go to work immediately."



Longer, heavier trucks changing the timber industry



The 84-tonne 'Pikkujätti', or 'Little Giant', is a 12-metre Scania truck that operates on behalf of the Finnish State Forest Enterprise, Metsähallitus, with the approval of the Finnish Transport Safety Agency, Trafi. The V8 Scania R 730 rigid truck has been exceptionally equipped with a shorter-than-normal cab to accommodate a longer chassis bed. The truck can carry two log bundles,

which are usually 4 to 4.5 metres long. The 25.25-metre truck and trailer combination truck can be manoeuvred with sufficient traction on unpaved forest roads, even while unloaded. With the first two and the last axle steered, the truck can follow previously-carved tyre tracks without causing irreparable damage to sensitive roads. "We believe that the Little Giant has the makings of a future model for timber transport," says Ari Siekkinen, Development Expert at Metsähallitus.



Connected vehicles raise productivity



In VPR Mining's Jayant open pit coal mine in Madhya Pradesh, India, Scania has connected more than 100 vehicles and 400 drivers in an 18-month

project. Scania Site Optimisation is a framework of tools and methods based on Scania's Lean production heritage which is used to improve mining transport operations. By measuring and analysing time, load, road safety and sustainability factors, we can raise productivity, cut waste and reduce costs.

The Jayant site produces 50 million tonnes of overburden a year, but, like many mines, its truck fleet stands idle about a third of the time, due to stand-by, delays or downtime.

Fuel consumption is an initial focus, as fuel accounts for half of the mine's transport costs and driving consumption levels vary between 17 and 30 litres per hour. Using Scania Fleet Management, the project assesses data of every driver's performance, motivating better driving behaviour.

Step by step we will also help to increase productivity by balancing the transport and maintenance flow measuring for example tact times in order to reduce queuing and waiting. Also flexible maintenance based on the conditions the vehicles operate under will be a part of it.



A HOLISTIC VIEW OF LOGISTICS FLOWS

Moving freight over short and long distances is vital to the progress of modern societies. Globalised production and consumption patterns and the rise of e-commerce mean the demand for goods transport keeps rising. The challenge is to manage this while cutting emissions and inefficiencies; in other words, to change the game of transport.

Logistics has become an ever-growing ecosystem that involves carriers, freight forwarders, distribution centres and warehouses. Transport is multimodal – by road, rail, sea and air. All of this makes for complex, unpredictable logistic flows. It is clear that there is major scope for eliminating waste in the value chain. For example, a standard European long-haulage truck can fill 26 tonnes of goods, but in Europe today trucks travel with average loads of just 14 tonnes. Another example is when trucks make multiple trips, where just one in a longer truck configuration would do. Eliminating such inefficiencies would have major effects on CO₂ emissions.

In an industry of low margins and fierce competition, transport companies value cost efficiency and reliability above all. They want to avoid unplanned stoppages and waiting times, all of which increase operating costs. They want high filling rates if they are paid by m² or tonnes.

In addition, today's transport operators also need to be sustainable, because their customers and end-consumers demand it. That means being more energy-efficient, cutting CO₂ emissions, and being safer and smarter in their work.

Scania's approach

Scania takes a holistic view of logistic flows. By listening closely to our customers – transport companies and

buyers of transport services – we tailor solutions for vehicles and services that improve our customers' profitability.

Using the data from our network of connected vehicles allows Scania to optimise whole transport flows, not just the logistical flow of different industries. Digitalisation means wireless technologies for convoy driving to minimise air drag, reduce fuel consumption and optimise the logistical flow, or on-board units that can monitor the way a vehicle is being driven so that drivers can be coached to drive in a safer and more fuel-efficient manner.

Waiting time during maintenance, a common issue for transport companies, is also being addressed in a smart way. Connected vehicles signal to Scania workshops when it is time to come in for a service, and even what part is needed, thereby maximising the amount of time the transport operator's vehicle is in use.

Scania believes alternative fuels such as HVO, biodiesel or bioethanol are another key way to tackle the problem of CO₂ emissions. Today, Scania has the broadest range of alternative fuel-enabled vehicles on the market.



Platooning: reducing fuel consumption by up to 12%



In spring 2016, Scania took part in the European Truck Platooning Challenge, the world's first cross-border initiative with smart trucks, which saw six platoons drive to the Port of Rotterdam, to mark the Netherlands' EU Presidency. Wireless communication between vehicles makes it possible for them to be driven in convoys, close to one another, by allowing the system to go in and take over functions such as steering and braking. This allows for air drag to be reduced, resulting in a lowering of fuel consumption and exhaust emissions. Vehicle convoys also allow for the creation of more flexible traffic flows and for roads to be used more efficiently.

Food distribution giant chooses full Scania service contracts for improved uptime



When Danish food distribution company Frode Laursen wanted a truck and service solution for its expansion into the Swedish market, it chose Scania. As well as supplying the company with hundreds of new trucks, Scania is also providing flexible repair and maintenance contracts for many of the new vehicles. With this service, Scania

customises maintenance activity based on operational data collected and transmitted from the Scania Communicator unit on the truck. The workshop continuously monitors operations and signals when a service is needed. And with a view to achieving better sustainability, all new trucks have the Scania Driver Support system to help drivers assess their performance, plus the Scania Fleet Management system to monitor fuel consumption.



Scania and Asko – Testing hydrogen gas propulsion



Asko, Norway's largest wholesaler, will start testing Scania-made three-axle trucks that are equipped with an electric powertrain, where the internal combustion engine in the powertrain is replaced by an electric motor powered by electricity from fuel cells and hydrogen gas. The hydrogen gas will be produced locally, using solar cells and the trucks will run in distribution service with distances of almost 500 km. Asko consists of 13 different regional companies and is, with a fleet of 600 trucks, one of Norway's largest haulage companies.

CORPORATE GOVERNANCE

Scania AB and its direct wholly-owned subsidiary Scania CV AB (together “Scania”) maintain a high international standard of corporate governance through the clarity and simplicity of its management systems and governing documents. Corporate governance at Scania is based on the Articles of Association, Swedish legislation, in particular the Swedish Companies Act, the Annual Accounts Act and internal governing documents. The Volkswagen Group’s governing documents are also being implemented.

Governing documents at Scania

The most important governing documents at Scania are:

- The Rules of Procedure of the Board of Directors, including the Board’s instruction to the President and CEO and guidelines for essential reporting processes at Scania
- The Rules of Procedure of the Audit/Remuneration Committees
- How Scania is Managed
- Corporate Governance Manual
- Scania Financial Manual

Application

This Corporate Governance Report has been prepared in compliance with Chapter 6, Section 7 of the Annual Accounts Act.

The shareholders

Shareholders of Scania that hold more than 10 percent of the voting rights on 31 November 2016 are Volkswagen Truck & Bus GmbH and its subsidiary MAN SE. Volkswagen Truck & Bus GmbH holds 82.63 percent of the shares in Scania AB and MAN SE holds 17.37 percent of the shares in Scania AB. The Volkswagen Group thus directly or indirectly owns 100 percent of the shares in Scania and therefore, directly or indirectly, controls all of the voting rights in Scania.

The Annual General Meeting

The right of shareholders to make decisions on Scania’s affairs is ultimately exercised at the Annual General Meeting (AGM). According to the Swedish Companies Act, within six months of the expiry of each financial year, Swedish limited liability companies shall hold a general meeting of shareholders, where the Board of Directors shall present the Annual Report and the Auditors’ Report.

This shareholder meeting is called the Annual General Meeting. At Scania, the AGM is normally held during April or May. Notice convening the AGM shall be issued no earlier than six and no later than four weeks before the Meeting. Notice convening an Extraordinary General Meeting (EGM) shall be issued no earlier than six and no later than three weeks before the Meeting. In accordance with the Swedish Companies Act and Scania's Articles of Association, the composition of the Board is decided by election. Decisions at the AGM are usually made by simple majority. In some cases such as an amendment to the Articles of Association, however, the Swedish Companies Act or the Articles of Association stipulates either a certain level of attendance in order to reach a quorum or a qualified majority of votes. During 2016, the AGM did not authorise the Board to resolve on the issue or repurchase of shares.

The Board of Directors

Scania's Board of Directors, which is identical for Scania AB and Scania CV AB, is elected every year by the shareholders at the AGM. The Board is the link between the shareholders and the company's management. It is of great importance in the task of developing Scania's strategy and business operations.

According to the respective Articles of Association, in addition to those Board members who are appointed pursuant to Swedish law by a party other than the AGM, the Board shall comprise a minimum of three and a maximum of ten members plus a maximum of two deputy members. The members are elected each year at the AGM for the period up to the end of the next AGM.

Scania's Board is composed of eight elected Board members and no deputy members. On 31 December 2016, they were:

Helmut Aurenz
Annika Falkengren
Matthias Gründler
Henrik Henriksson
Marcus S Piëch
Christian Porsche
Andreas Renschler
Peter Wallenberg Jr

Andreas Renschler is the Chairman of the Board of Directors. In addition, the trade unions at Scania have appointed two Board members and two deputy members for them. They were for 2016:

Johan Järvklo
Lisa Lorentzon
Mikael Johansson, deputy member
Mari Carlquist, deputy member

Instruction to the President and CEO

In the instruction of the Board to Scania's President and CEO, the Board specifies his duties and powers. This instruction includes guidelines on capital expenditures, financing, financial reporting and external communications.

The Board's Committees

The Board currently has two committees: the Remuneration Committee and the Audit Committee. The Board appoints the members of the committees from among its own members. The Remuneration Committee discusses issues concerning compensation principles and incentive programmes. It also prepares decisions concerning the conditions of employment of the President & CEO and the Executive Board. The Audit Committee discusses and monitors issues related to administrative processes, refinancing, treasury operations, risk control and the controller organisation. Its brief also includes discussing and evaluating the company's application of important accounting issues and principles and the company's financial reporting, as well as evaluating the auditors and approving the use of external auditors for non-auditing-related services.

The Audit Committee shall also receive and discuss complaints concerning accounting, internal controls or auditing in the company.

The Remuneration Committee only exists in Scania AB, while the Audit Committee is identical and common to Scania CV AB.

Auditors

At Scania, the independent auditors are elected annually by the shareholders at the AGM, for a period until the end of the next financial year's AGM. The auditors report to the shareholders at the company's AGM.

To ensure that the requirements concerning information and controls that are incumbent on the Board are being met, the auditors report on a continuous basis to the Audit Committee on all substantive accounting issues as well as any errors and suspected irregularities. The auditors also participate in at least one Board meeting per year and are invited, as needed, to participate in and report to the meetings of the Board.

Once a year, the auditors report to the Audit Committee without the President and CEO or any other member of the company's operative management being present at the meeting. The auditors have no assignments for the company that affect their independence as auditors for Scania.

The management of the company

The decision-making structure and management of Scania are described in the internal governing document "How Scania is Managed". It also describes Scania's policies concerning quality, employment and employees, and environment and sustainability issues, competitive methods and ethics.

The principles and rules presented in the governing document "Scania Financial Manual" also apply to the Scania Group. Financial, commercial, legal and tax risks are reported regularly to the Audit Committee.

The companies in the Scania Group also work in compliance with the principles established in Scania's "Corporate Governance Manual". The main responsibility for the operations of subsidiaries, ensuring that the established profitability targets are achieved and ensuring that all of Scania's internal rules and principles are followed, rests with the Board of Directors of each respective subsidiary.

All managers in the company are responsible for working and communicating in compliance with the company's strategy. At the annual Top Management Meeting, the Executive Board communicates the Scania Group's strategic direction, which serves as the foundation for the Scania Group's business and operating plans.

The President and CEO

Under the Board of Directors, the President and CEO has overall responsibility for the Scania Group.

The Executive Board

At the side of the President and CEO is the Executive Board. The Executive Board makes joint decisions – in compliance with guidelines approved by the Board and the instruction on the division of labour between the Board of Directors and the President and CEO – on issues in its area of competency that are of a long-term, strategic nature, such as the development of the company, research and development, purchasing, overall human resource matters, environmental work, marketing, pricing policy, capital expenditures, and financing. The Executive Board also prepares such issues that shall be decided by the Board of Directors.

The strategy meetings of the Executive Board take place once each month. The strategies are summarised from a global perspective and updated, taking into account market developments.

The corporate units

The heads of corporate units are responsible to the Executive Board for ensuring that the appropriate actions are taken in their respective fields of responsibility based on the strategies that have been decided. Each corporate unit reports to one of the members of the Executive Board. The heads of corporate units also have a general responsibility for issues that affect the entire company, and they assist the President and CEO and the Executive Board in their work.

The members of the Executive Board and most of the heads of corporate units who are not prevented by other obligations also gather at a brief meeting once each normal work week.

Internal control of financial reporting

The cornerstones of Scania's internal control system consist of the control environment, risk assessment, control activities, information and communication as well as monitoring.

Control environment

Internal control at Scania is based on the decisions on organisational structure, powers and guidelines made by the Board of Directors. The Board's decisions have been transformed into functioning management and control systems by the Executive Board. Organisational structure, decision-making procedures, powers and responsibilities are documented and communicated in governing documents, such as internal policies, manuals and codes. Also included in the basis for internal control are Group-wide accounting and reporting instructions, instructions regarding powers and authorisation rights as well as manuals. The Group reporting system for integrated financial and operational information is another central element of the control environment and internal control. Integrated reporting of financial and operational information ensures that external financial reporting is firmly based on business operations. In addition to information on final outcome figures, the reporting system also includes quarterly moving forecast information. Corporate Control is responsible for continuous updating of accounting and reporting instructions, with due regard for external and internal requirements.

Risk assessment and control activities

Risk management and risk assessment are an integral element of the business management and decision-making processes. Risk areas identified in financial reporting are handled and scrutinised via Scania's controller organisation.

The controller organisation, like financial responsibility, follows the company's organisational and responsibility structure. Controllers who closely scrutinise business operations are found at all levels of the organisation. Clear reporting to higher levels takes place regularly, ensuring a solid understanding of how a unit's business operations are reflected in the figures. In its task of compiling, verifying and analysing financial information, the corporate-level controller organisation has access to the figures and business-related comments of all operational units.

Information and communication

In order to inform, instruct and coordinate financial reporting, Scania has formal information and communications channels to the affected employees regarding policies, guidelines and reporting manuals. These formal information and communications channels are supplemented by frequent dialogue between Finance and Business Control and the individuals in charge of financial reporting at operational units. The Group holds internal seminars and conferences regularly, with a focus on quality assurance in financial reporting and governance models.

Monitoring

Scania monitors compliance with the above described governing documents and the effectiveness of the control structure. Monitoring and evaluation are performed by the company's corporate controller departments in industrial operations, all sales and services companies, and finance companies. During the 2016 financial year, in its control and investigative activities the company prioritised areas and processes with large flows and values as well as selected operational risks. Monitoring compliance with the Scania Corporate Governance Manual and Scania Financial Manual remained high priority areas, along with units undergoing changes.

Scania Group's Internal Audit, whose main task is to independently monitor and review the internal control and risk management of Scania, prepares at least twice a year an internal control report which is reported directly to the Audit Committee.

The Board receives monthly financial reports. This financial information increases in terms of content in the run-up to each interim report. The full year-end and half year reports are decided by the Board.

Through the organisational structure and the work methods described above, the company deems the internal control system concerning financial reporting well suited to the company's operations.

MARKET TRENDS 2016

It was another year of global economic volatility in 2016. For Scania it was a year of record net sales, all-time high in total vehicle deliveries and a solid demand for service – a development mainly driven by Europe, while continuing low demand in Brazil offset some of the positive effects.

Vehicles and services

In 2016 Scania's total vehicle deliveries reached an all-time high of 81,346 units (76,561), an increase of six percent from 2015. There were 73,093 truck deliveries in full year 2016 compared to 69,762 in full year 2015, a rise of 5 percent. Deliveries of buses and coaches in full year 2016 increased by 21 percent from the previous year, to 8,253 units (6,799). Demand for Scania's service-related products continues to increase, and service revenue for 2016 amounted to a record of nearly SEK 22 billion, an increase of 5 percent from 2015. In local currency, the increase was 7 percent. In engines, the total number of deliveries decreased by 8 percent to 7,800 (8,485) units during full year 2016.

The truck market in Europe

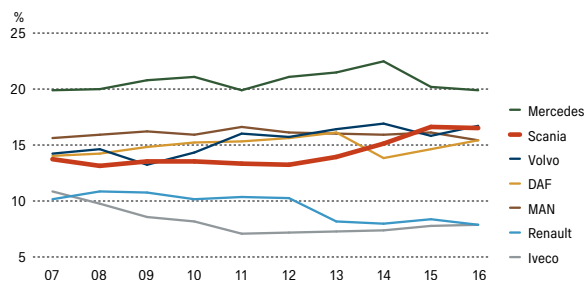
The economic growth in Europe continued during 2016. The total market for heavy trucks in 25 of the European Union member countries (all EU countries except Greece, Bulgaria, and Malta) plus Norway and Switzerland increased by 12.4 percent to about 300,200 (267,100) units during full year 2016. The replacement need, due to relatively high average age of the truck population, and the economic situation in Europe continues to have a positive impact on demand for trucks.

Continued high market share

Scania's truck registrations rose to 49,469 units in 2016, reaching a market share of 16.5 percent, compared to 16.4 2015. The high level confirms that the current Scania truck range delivers a level of quality and performance that customers highly appreciate. The high market share is also connected to the early and very successful introduction of the Euro 6 range and Scania's broad engine range for alternative fuels. Increased sales activities in new segments have also contributed to the high market share in Europe. Deliveries in Europe were high in most countries, but the increase was mainly related to Italy, France, Poland and UK.

Market share

Trucks above 16 tonnes, 25 EU countries plus Norway and Switzerland (all EU countries except Greece, Bulgaria and Malta).



16.5%

Scania's market share in Europe based on truck registrations 2016

49,469

Number of registered Scania trucks in Europe 2016

**SEK
21,611 m.**

Service revenue 2016

Uncertainty remains in Latin America

The persistent economic uncertainty in Scania's biggest Latin American market of Brazil continues to hold back demand of trucks. Scania truck registrations in Brazil amounted to some 4,245 units, equivalent to a market share of about 14.3 (12.6) percent. Demand held up relatively well in other Latin American markets such as Chile and Peru.

Varying demand in other markets

In Eurasia, where Russia is the largest market, Scania's truck deliveries increased to 3,233 units during 2016. The Russian market seems to have bottomed out but with the geopolitical turbulence in the region, the outlook remains uncertain.

In Asia, truck deliveries of 9,287 were lower than the total of 11,514 in full year 2015, mainly explained by a decrease in Turkey, partly offset by increases in South Korea, China and Iran.

Truck deliveries for Africa and Oceania decreased very slightly in full year 2016 to 4,449 units (4,465) the previous year, explained by decreases in South Africa, Kenya and Tanzania, partly offset by an increase in Algeria.

The bus and coach market

Total deliveries of buses and coaches in full year 2016 increased by 21 percent from the previous year, to 8,253 units (6,799). In Europe, Scania has increased its market share in buses and coaches to 7.1 percent, compared to a 6.8 percent share in 2015.

The joint opening of a new bus factory in Suzhou, China, with its partner Higer, saw Scania continue to develop its presence in the Chinese bus market. In Colombia, Scania unveiled the world's first bi-articulated Euro 6 gas bus. The bus has capacity for 250 passengers.

In the bus and coach segment, Scania's main competitors are Irisbus, MAN, Mercedes, Neoplan, Setra and Volvo.

Mixed picture in engines

In Engines, demand for industrial and marine engines is at an all-time high level, while on the power generation side it remains weak due to reduced demand in Brazil and South Africa. Engine deliveries decreased by 8 percent to 7,800 units (8,485) during the full year 2016.

Scania has a number of major agreements with global OEMs such as Doosan, Atlas Copco and Terex. There are also partnerships with Oshkosh Corporation to supply engines for airport vehicles and with Hyundai Heavy Industries for the supply of excavators and wheel loaders.

Record high revenue in the service business

Service demand was good throughout the year and revenue amounted to a record high of SEK 21.6 billion (20.6), an increase of 5 percent. Higher volumes, mainly in Europe, had a positive impact, while currency effects were negative. In local currencies, revenue increased by 7 percent.

In Europe, service revenue rose by 6 percent to SEK 15,0 billion (14,2) compared to the full year 2015. In Latin America, revenue decreased by 1 percent to SEK 2,7 billion (2,7) and revenue in Asia was 11 percent higher than the previous year at SEK 2,0 billion (1,8). In Africa and Oceania, service revenue rose by 4 percent to SEK 1,4 billion (1,3), while in Eurasia it decreased by 5 percent to SEK 540 m. (570) compared to the full year 2015.

Demand for services is more stable than vehicles due to the necessity of repair and maintenance, and Scania's expanding service offering is having a significant growth effect.

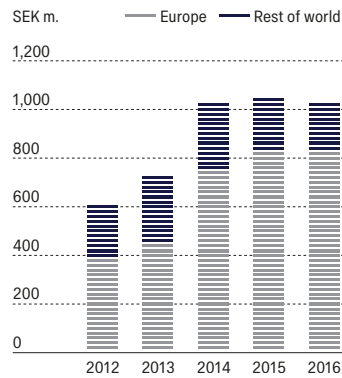
Financial services

At the end of 2016, the size of Scania's customer finance portfolio amounted to SEK 67.9 billion, which was SEK 11.4 billion higher than the end of 2015. In local currencies, the portfolio increased by SEK 8 billion, equivalent to 14.2 percent. Scania's share of financed vehicles was 43 (42) percent during the full year 2016 in those markets where Scania has its own financing operations. The increase was mainly attributable to the market mix and increased penetration in Latin America. Operating income in Financial Services decreased to SEK 1,015 m. (1,040) during the full year 2016, compared to 2015. A larger portfolio had a positive impact on earnings but it was negatively impacted by lower margins and negative currency effects. Bad debt expenses nearly halved to 0.25 (0.44) percent in relation to portfolio.



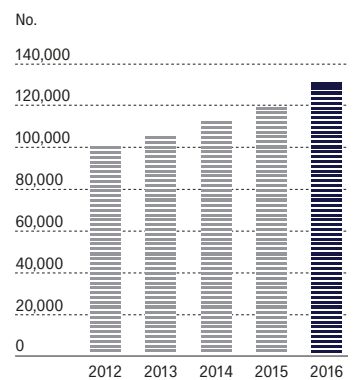
**Operating income
Financial Services**

The operating income decreased somewhat to SEK 1,015 million during 2016. A larger portfolio had a positive impact on earnings while lower margins and negative currency rate effects had an adverse impact.



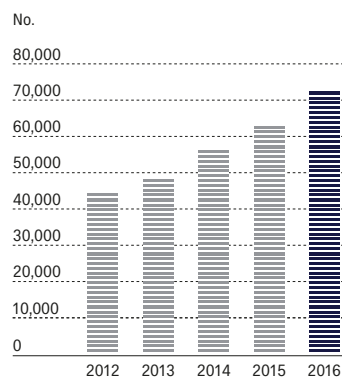
Finance contracts

Customers are increasingly choosing Scania as their long-term partner in vehicle financing.



Insurance contracts

There was an increasing demand for Scania's insurance solutions during 2016. Efficient claims management and fast repairs in Scania's service network is the core of the offer.



Most of Scania's portfolio consists of customers in European markets. The financing portfolio is well diversified in terms of geography and types of customers as well as their size, economic sector and vehicle applications. Scania reduces its risk by pursuing a conservative credit policy and a refinancing profile that matches borrowing to lending. Close collaboration between Financial Services and Scania's sales organisation is a major explanation for Scania's expanding financing portfolio. This collaboration allows both operations to mutually benefit from insights concerning customers and their businesses. Experience shows that brand loyalty is higher among customers that select financing, insurance and maintenance contracts with Scania.



Our employees

Scania believes that its employees are crucial to its success, and ensuring that all employees, regardless of their form of employment, feel dedicated and interested in their work is an important task for managers at all levels of the organisation. Regardless of what work they do, or where they are in the world, people who work at Scania need to feel job satisfaction and a sense of well-being. Scania's systematic efforts to monitor job satisfaction have been developed with a single common survey and in 2016, for the first time, we included three specific questions on employees' views of Scania as a diverse and inclusive company.

Scania is convinced that diverse work groups, reflecting diversity in gender, ethnicity and background, are key to success and therefore aims to work for a more diversified workforce in all its operations.

Issues relating to well-being, working environment, safety and health have high priority. All managers and employees at production units are involved in improving working methods. In this way, Scania has been able to maintain low levels on the employee turnover and keep healthy attendance at a high stable level over the years, while increasing its production capacity. The working principles, developed over many years at Scania's production units, have been adapted and are being implemented in the other parts of the company. The number of employees at Scania increased to 46,243 at the end of 2016, compared with 44,409 on the same date in 2015.

Share of female managers

Diversity is important for Scania and a number of projects have been initiated to increase the share of women among executive officers.



Production and environment

The continuing high demand for vehicles in Europe was reflected in the high capacity production level at Scania's European units. Due to falling demand, primarily in Brazil, production at the unit in São Bernardo do Campo was affected, but thanks to the common global production system Scania was able to make use the excess capacity there to supply other markets, such as Africa, the Middle East and Asia.

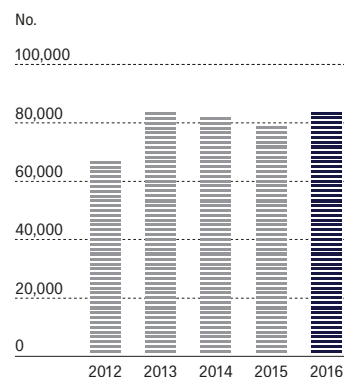
Scania has expanded its technical capacity to 120,000 vehicles from 100,000. The work on ensuring flexibility to meet short-term fluctuations in demand is continuing as Scania expands its capacity. During 2016, Scania produced 83,940 vehicles (79,350).

Ahead of the introduction of the new truck generation, the new state-of-the-art cab factory in Oskarshamn was taken into use. During the latter part of 2016 the current truck generation was produced alongside the new generation in Södertälje.

Scania's production units are continuously working to improve their environmental performance. SPS is central to the work with energy efficiency and reduction of waste and chemicals. Scania places a special focus on the environmental impact from transport, both inbound in the form of components and articles from suppliers and also from outbound delivery of parts and vehicles. So far the results are very encouraging.

Vehicles produced

During 2016, Scania produced 83,940 vehicles (79,350). Quality and delivery precision improved.



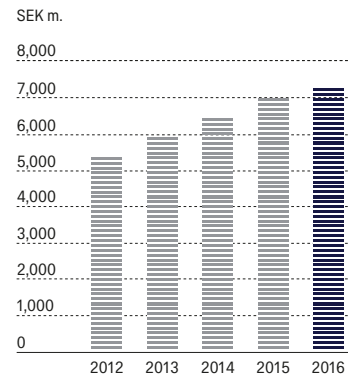


Research and development

The aim of Scania's research and development organisation is to develop sustainable solutions that improve productivity and profitability in customer operations based on low fuel consumption, high vehicle uptime and low service costs, combined with good performance. Scania puts significant investment and resources into research and development, which is concentrated at the Scania Technical Centre in Södertälje, where some 3,600 people are employed. During 2016, investments in research and development amounted to SEK 7.2 billion (7.0), which corresponded to 6.9 percent of net sales.

R&D Investments

Scania maintains a high level of investments to strengthen the product portfolio in the coming years.



RISK AND RISK MANAGEMENT

Risks are a natural feature of business operations and entrepreneurship, but they may have a negative impact on Scania, directly affecting business operations and the company's reputation. Therefore, part of the day-to-day work of Scania is to manage risks, to prevent them from harming the company or to limit any damage that may arise.

Scania is one of the leading companies in the heavy vehicle industry. This leads to high expectations from all stakeholders, especially customers, about how Scania should behave as a company and about the quality of its products and services. Scania's brand and reputation are crucial to its success, so it is important to monitor events and behaviour that might have a negative effect on the company's image.

Scania has a strong corporate culture that is based on established values, principles and methods, and this corporate culture is the foundation of the company's risk management. It is Scania's Board of Directors that is responsible to the company's owners for Scania's risk management. The company continuously reports on risk-related matters to the Board and the Audit Committee of the Board.

Strategic risks

Corporate governance and policy-related risks

The Executive Board has overall responsibility for managing corporate governance and policy-related risks. All units of the company work according to a management system that meets Scania's requirements, guidelines and policies, and this system is well documented. The rapid communication of appropriate information is safeguarded by following the company's management structures and processes. Management systems are continuously being improved, through day-to-day work and through regular review internally and by third parties.

Business development risks

Risks associated with business development and long-term planning are mainly managed through Scania's cross-functional meeting structure, which brings together various departments for decision-making of a strategic and tactical nature, and also through the annual process established by Scania for strategic planning. Such planning is not a static process, and in fact is discussed and challenged throughout the company, based on external and internal considerations. All units and levels of the company are involved in the strategic process.

Both the cross-functional meeting structure and the strategic process are long-established and are evolving all the time. This process of continuous evaluation and adaptation minimises the risks of the company overlooking threats and opportunities and making wrong decisions that may lead to its operations not meeting the required standard. It also means that the risk of uncertainty and lack of clarity concerning the company's strategy and business development can be managed in a precise and efficient way.

Research and development projects are also revised continuously, on the basis of each project's technological and commercial relevance.

Operational risks

Market risks

The demand for Scania's products is mainly driven by transport needs and also by a certain replacement need for vehicles to maintain high availability and low life-cycle cost of the vehicles.

Variations in world financial markets can have a large or small impact on real economic cycles and, in turn, for Scania, an impact on the demand for its products. Since commercial vehicles are capital investments, demand is not only affected by need but also by the availability and cost of the capital that must be invested. Markets may temporarily slow down or stand still, and local currencies may lose some of their value as a result. The status of public finances and the extent of fiscal austerity programmes in different countries may have a negative impact on demand for our products. Demand for service-related products is less affected by variations in the economic cycle than demand for vehicles.

Scania's well-diversified sales in more than 100 countries help to limit the effect of a downturn in any given market. In individual markets, substantial changes can occur in the business environment, such as the introduction of or increase in customs duties and taxes, the introduction or ending of stimulus measures, and a change in the requirements for vehicle specifications. The imposition of economic sanctions against certain countries can also reduce the potential for marketing Scania's products. In addition, different countries' legal systems may have features that affect Scania's ability to carry out operations and sales. Scania monitors all of its markets continuously for early warning signs, which means the company can make the necessary changes to its marketing strategy.

Risks in the sales and services network

In the major markets, distributors are mainly owned by Scania. Apart from the risks to sales volumes that are linked to the market risks described above, there are commercial risks in the sales and services network for various types of contracted services, as well as in relation to residual value obligations and used vehicle prices. Repair and maintenance contracts are one important element of the sales and services business, and help to ensure that customers can get maximum use out of their vehicle ('uptime') and that workshops' resources are used efficiently; they also help to strengthen customer loyalty. These contracts are often tied to prices that have been worked out in advance, so there are risks relating to price and handling.

As a result of residual value obligations and repurchase guarantees and trade-ins, the sales and services organisation handles a large volume of used trucks and buses, and prices and sales figures can vary over economic cycles. Scania has extensive knowledge of handling these price and sales variations because its sales and services network are highly integrated.

Sales and services units assume a credit risk in relation to their customers, mainly for workshop services performed and parts sold. However, the company's customer base is widespread, which limits the risk in relation to each individual customer.

Operational risks in the sales and services network are detected and minimised by using the Scania Retail System (SRS), which is an adaptation for the commercial operations of the Scania Production System (SPS).

Independent dealers sometimes suffer problems that may have an adverse effect on Scania's operations. There could be shortcomings in management or limitations on how much can be invested, or problems relating to generational changes in family businesses. If the problems prove to be more than short-term ones, Scania may replace dealers or take over the business. Scania continuously maintains close contact with its independent dealers in order to spot warning signs at an early stage, allowing it to take action where necessary.

Regulatory risks in the Financial Services operations

Scania's operations include the provision of financing and insurance services, which have to comply with the rules set out by financial services authorities (FSAs). Non-compliance with these rules can lead to penalties or even the revocation of operating licences. The company has specialised staff in the parts of the business that are affected, so it can monitor and control these risks. Those working in this area include Risk Managers, Anti Money Laundering Officers, Compliance Manager and Internal Audit.

Production risks

Scania's integrated component manufacturing network has two bases: Europe and South America. The concentration of the network in two locations carries some risk, but that is offset by the fact that the company's uniform global production system allows it to source components from either area.

According to the Business Continuity Concept at Scania, the company must always be prepared so it can maintain its level of operation, including delivery of products and services, without unacceptable impact to customer or other stakeholders.

Scania has a Business Continuity model which is defined in the steering and supporting structure of how Scania is managed. The concept focus on responsibility by local management to assure that Business Continuity is owned, operated and embedded with local needs, resources and competence. At corporate-level the responsibility rest for support to line management. The concept includes Business Impact Analyses, Business Continuity Plan as well as training and exercise with the relevant employees and service providers at Scania's production units. The concept includes areas such as suppliers' or third parties' effect on Scania's capability to deliver products and services.

Yearly reports are submitted to Scania Top Management.

Production and quality risks in the workshop network's services are managed through the Scania Retail System, the Scania Dealer Operating Standard (DOS) certification and the Scania Code of Practice.

Supplier risks

Scania continually checks that suppliers meet the company's stringent quality, financial, logistic, environmental and ethical requirements. Such checks are also made during the nomination of new agreements. This work is regularly reported to Scania Purchasing management.

Scania's suppliers agree to comply with the United Nations Global Compact on sustainability in the areas of human rights, labour standards, the environment and anti-corruption.

To minimise the impact of production interruptions or financial problems among suppliers, Scania tries wherever possible to work with more than one supplier for critical items.

Scania continuously safeguards the quality and delivery precision of purchased items. It carries out day-to-day monitoring, and prioritises and categorises anything that does not meet the required standard. If there are repeated instances of not meeting the standard, an escalation model to focus on the problem to ensure normal service is resumed.

Variations in the world's financial markets also risk affecting Scania's suppliers to a greater or lesser degree. Therefore, the financial status of suppliers is monitored continuously.

Natural hazards

It is hard to predict the occurrence of natural disasters as well as their frequency and impact. For Scania's own business processes or suppliers located in geographical regions that are repeatedly affected, or where the risk is deemed higher for other reasons, the natural disaster risk is given special attention in both the risk assessment and in the Business Impact Analyse as well as the Business Continuity Planning process. Natural hazards are important part of dealing with risks in existing business as well as in the decision of new locations for business and suppliers.

Human resource and talent recruitment

For its future success, Scania is dependent on its ability to attract and retain motivated employees with the right expertise, to ensure that the company's operations can deliver the required product and service quality. Some of the important risks from a human resource and talent recruitment perspective that may affect deliveries are:

- Not enough of the right expertise
- Lack of expertise
- Recruitment errors

Scania has structured, well-established working methods for close cooperation with a number of universities and institutes of technology to create and recruit cutting-edge expertise. Scania runs an upper secondary school in Södertälje, Mälardalens Tekniska Gymnasium MTG, offering high quality technical upper secondary school education aimed at vocational or university preparation.

Uniform structures, common and coordinated recruitment methods and tools as well as clearly described job requirements all help minimise the risk of recruitment errors.

Scania achieves the right quality and continuously improves its human resource activities by taking a coordinated approach to human resource and talent development.

By collating and analysing key employee figures for healthy attendance, employee turnover, age structure and professional job satisfaction, as well as using development dialogues, the company is able to monitor trends and carry out targeted actions as and when needed.

Information risks

For Scania, it is crucial to handle information in a way that enables operations to share and process it efficiently and reliably, within the company and also when working together with customers, suppliers and other business partners. The main risks that can affect information management are:

- Interruptions in critical information systems, regardless of the cause
- Strategic or other sensitive information is revealed to an unauthorised person or persons
- Strategic or other sensitive information is intentionally or unintentionally changed or corrupted

Scania has a central unit for information security, which is responsible for the introduction and follow-up of Scania's information security policy. As part of their normal responsibilities, managers monitor and approve the risk level in their respective area of responsibility and ensure that all employees are aware of their responsibilities. Scania and third parties follow up with monitoring of the system to ensure that the policy is being followed properly.

Sustainability risks

The term 'sustainability risks' refers to risks that have negative effects on the environment, health and safety, human rights and business ethics in Scania's business operations. Risk assessment and Business continuity management are part of every manager's responsibilities, and include analysis, planning and implementation, which has been adapted to each operating unit.

Training and drills occur with all the relevant employees and service providers at Scania's production units. There is a follow-up process of monitoring systems, reporting and response procedures.

Scania has carried out orientation studies and risk assessments of buildings, as well as soil and groundwater contamination at its production units around the world.

Additional investigations and required actions have been carried out whenever and wherever needed. This work takes place in close cooperation with local or regional authorities.

All production units have permits that comply with their specific national legislation. In addition to legal requirements and the conditions included in these permits, operations may also be subject to local requirements and rules.

Whenever it seeks to increase production levels, Scania applies for new permits covering the affected operations, although for certain Scania operations, regular permit assessments are required.

Scania has adopted a safety, health and environment standard, which covers 16 prioritised areas. Scania Blue Rating – Safety, Health & Environment is a method used in Scania's production and research and development operations to evaluate safety, health and environment work. Follow-up occurs based on Scania's environment and work environment policy and on the targets and legal requirements of the ISO 14001 environmental management standard. Based on the result of this audit, Scania can identify areas for improvement and promote good working methods in order to gradually improve operational working environments and reduce environmental impacts. This method is also one of the tools for improving efforts to avoid and reduce work environment and environmental risks.

Scania's work with values and the Scania Code of Practice creates a natural basis for an ethical and responsible approach among management and employees in relation to Scania's role in society.

Further guidance and support is given to employees through manuals and training. Special emphasis is placed on ethical and human rights issues in complex geographical locations and business segments.

Climate change constitutes a global risk and Scania works continually to reduce the impact of its products and in its operating activities.

Research and development risks

Research and product development occur in close contact with the production network, purchase to assure involvement from the supplier base, and the sales and service organisation to effectively safeguard high quality. Scania is in a process to align the development process with VW Truck & Bus. The outcome of this cooperation is of importance to assure access to new future technologies and improve the cost efficiency. Due to continually increasing complexity and competition in new technologies there is a technology risk. This is managed by utilising the full competence and knowledge both at Scania and in the VW Group.

New legislation

The ability to meet upcoming environmental and safety standards in various markets is of great importance for Scania's future. In particular, this relates to legal requirements for reduced levels of pass-by noise and carbon dioxide declaration legislation for heavy vehicles in the EU, which enters into effect gradually, starting in 2018.

Other important future environmental regulations are upgraded national emissions standards in several of Scania's markets. On safety standards, the revision of the general safety regulation will introduce several advance driver assistance systems as mandatory in a few years' time.

Furthermore, the upcoming revision of the European framework directive may introduce new and stricter surveillance and certification processes. To meet new regulations, Scania is utilising its global, modularised product range and is adapting technologies in its future product portfolio.

Product launch risks

Political decisions aimed at influencing the vehicle market in a given direction – for example, for environmental reasons – by such means as tax cuts and levies as well as regional environmental zoning rules may lead to rapid changes in demand. This may require acceleration of product introductions and increases in research and development resources at an earlier stage. Scania manages this by integrating the work done by the business intelligence group into all its development and introduction projects. Throughout the development period, work occurs on a cross functional basis to ensure that the results of business intelligence gathered by all units are taken into account and that Scania establishes the right priorities in its development portfolio. The product launch process includes carrying out risk analyses on a number of occasions in order to manage this type of risk.

Product liability

Introducing a new product to the market can include a liability risk, this risk is managed by the development, verification and validation processes at Scania. It is Scania's objective to develop products that are reliable and safe to the user, the general public and the environment. However, if a product should show signs of technical shortcomings that might be harmful to people or property, that is dealt with by the Scania Product Liability Council. This body decides what technical solutions should be used in order to solve the problem and what marketing measures are needed. The Product Liability Council also conducts a review of the processes in question to ensure that the problem does not recur. Where applicable Scania has a fair risk-sharing with our suppliers regarding product liability, which minimises the financial risk for Scania.

Insurable risks

Scania works continuously with the identification, analysis and administration of insurable risks, both at Group and local level. A corporate unit is responsible for the Group's global insurance portfolio. Customary Group insurance policies to protect the Group's goods shipments, assets and obligations are arranged in accordance with Scania's Corporate Governance Manual and Finance Policy. Local insurance policies are obtained in accordance with the laws and standards of the country in question. When needed, Scania receives assistance from outside insurance consultancy companies in identifying and managing risks. Insurance is obtained only from well-reputed insurance companies, whose financial strength is continuously monitored. Risk inspections, mainly focusing on physical risks, are performed yearly in most cases at all production units and at a number of Scania-owned sales and services units/workshops according to the standardised Scania Blue Rating Fire Safety system. This work maintains a high claim prevention level and a low incidence of claims.

Legal risks

Contracts and rights

Scania's operations include a wide variety of intangible licensing agreements, patents and other intellectual property rights. Scania also concludes numerous commercial and financial contracts, which is normal for a company of Scania's scale and type. Scania's operations are not dependent on any single commercial or financial contract, patent, licensing agreement or similar right.

Legal actions

Scania is affected by legal proceedings as a consequence of the company's operating activities. This includes alleged breaches of contract, non-delivery of goods or services, producer liability, patent infringement or infringements related to other intellectual property, or alleged violations of laws and regulations in force. Even if disputes of this kind should be decided in a favourable way without adverse economic consequences, they may adversely affect Scania's reputation. For further information, see Note 2.

Administration of contracts, essential rights, legal risks and risk reporting

Administration of contracts, essential rights and legal risks occur in the normal course of operations. Scania has also introduced a Legal Risk Reporting system, according to which risks are defined and reported. At least once a year, a report on such risks is submitted to the Audit Committee of the Board.

Tax risks

Scania and its subsidiaries are the object of a number of tax cases, as a consequence of the company's operating activities. For further information, see Note 2. None of these cases is deemed capable of resulting in a claim that would substantially affect Scania's financial position. Tax risks above a certain level are reported regularly to management. Once a year, a report is submitted to the Audit Committee of the Board.

Financial risks

Beyond business risks, Scania is exposed to various financial risks. Those that are of the greatest importance are currency, interest rate, refinancing and credit risks. Especially in Scania's Financial Services, access to competitive funding is critical and to a large extent dependent on Scania's credit rating on the financial markets. As a consequence of Scania being a wholly owned subsidiary of the Volkswagen Group, Scania is also affected by changes in credit ratings for Volkswagen. The rating institute Standard & Poor's considers Volkswagen's ownership of Scania to be 'Highly Strategic' rather than 'Core' and their ratings methodology therefore dictates that Scania's issuer credit rating shall be limited to the higher of (i) its stand-alone credit rating and (ii) a rating corresponding to one notch lower than Volkswagen's. Scania's issuer credit rating can never be higher than Volkswagen's. Any downgrade by Standard & Poor's of Volkswagen's credit rating therefore may result in a downgrade by Standard & Poor's of Scania's issuer credit rating. Financial risks are managed in accordance with the Financial Policy adopted annually by Scania's Board of Directors. See also Note 27.

BOARD OF DIRECTORS



Andreas Renschler

Chairman of the Board of Directors since 2015. Chairman, Remuneration Committee.

Born: 1958.

Education: Degrees in business engineering and business administration.

Other directorships: Member of the Board of Management, Volkswagen AG. Chairman of the Board of Directors, MAN SE, the Board of Directors, MAN Truck & Bus AG and the Board of Directors, MAN Latin America Indústria e Comércio de Veículos Ltda. Member of the Board of Directors, Deutsche Messe AG and the Board of Directors, Sinotruck (Hongkong) Limited.

Relevant work experience:

Member of the Board of Management, Volkswagen AG, responsible for Commercial Vehicles. CEO Volkswagen Truck & Bus GmbH. Various management positions at Daimler AG, responsible for Purchasing and Production for Mercedes-Benz Cars and Mercedes-Benz Vans. Member of the Board of Management at Daimler AG, responsible for Daimler Trucks and Daimler Buses. President of Smart GmbH. Head of Executive Management Development at Daimler AG. Various managerial positions at Daimler AG.



Henrik Henriksson

Member of the Board of Directors since 2016.

Born: 1970.

Education: BSc Bachelor of Science in Business Administration.

Relevant work experience:

Various managerial positions at Scania since 1999. President and CEO of Scania since 2016.



Helmut Aurenz

Member of the Board of Directors since 2008.

Born: 1937.

Education: Apprenticeship in Horticulture, Entrepreneur.

Other directorships: Member of various boards and advisory bodies, among them the advisory assemblies for Baden-Württembergische Bank and Landesbank Baden-Württemberg. Independent Board member of Audi AG and Automobili Lamborghini Holding Spa. Senator h.c. to the University of Hohenheim. Honorary Consul of the Republic of Estonia for Baden-Württemberg.

Relevant work experience: Started in 1958 a now-sizeable garden and fertiliser products business in the ASB Group in Stuttgart, Germany.



Annika Falkengren

Member of the Board of Directors since 2015. Member, Remuneration Committee and Audit Committee.

Born: 1962.

Education: BSc.

Other directorships: Chairman of the Swedish Bankers' Association. Director of Skandinaviska Enskilda Banken AB and of FAM AB. Member of the Supervisory Board of Volkswagen AG.

Relevant work experience: Various managerial positions at Skandinaviska Enskilda Banken AB. President and CEO of Skandinaviska Enskilda Banken AB.



Matthias Gründler

Member of the Board of Directors since 2015. Chairman, Audit Committee.

Born: 1965.

Education: Studies of Economics at the IFW (Institute for Knowledge Transfer) in cooperation with the Daimler Academy, training as Industrial Clerk Daimler Benz AG.

Other directorships: Member of the Supervisory Board, MAN SE, the Supervisory Board, MAN Truck & Bus AG and the Supervisory Board, MAN Latin America Indústria e Comércio de Veículos Ltda.

Relevant work experience: CFO Volkswagen Truck & Bus GmbH. Formerly CFO Daimler Trucks & Buses. Various managerial positions at Daimler AG.



Markus S. Piëch

Member of the Board of Directors since 2015.

Born: 1985.

Education: Mag. rer. soc. oec., Bakk.

Other directorships: Member of the Supervisory Board of MAN Truck & Bus AG.

Relevant work experience: Member of the Executive Board of Salzach Privatstiftung.



Christian Porsche

Member of the Board of Directors since 2014. Member, Audit Committee.

Born: 1974.

Education: Dr. Dr.

Other directorships: Member of the Board of MAN Truck & Bus AG.

Relevant work experience: "General Partner" for several companies at Porsche Holding GmbH, Salzburg (2005–2009).



Peter Wallenberg Jr

Member of the Board of Directors since 2005.

Born: 1959.

Education: MBA.

Other directorships: Chairman of the Board of Knut and Alice Wallenberg Foundation, Wallenberg Foundations AB, The Grand Group AB. Board member of Atlas Copco AB, Aleris Holdings AB and EQT Holdings AB.

Relevant work experience: Various positions at Grand Hôtel.



Lisa Lorentzon

Representative of PTK at Scania. Member of the Board of Directors since 2015.

Previously deputy member since 2012.

Born: 1982.

Relevant work experience: Various positions at Scania since 2007.



Mari Carlquist

Representative of PTK at Scania. Deputy member of the Board of Directors since 2015.

Born: 1969.

Relevant work experience: Various positions at Scania since 1987.



Johan Järvklo

Representative of the Swedish Metal Workers' Union at Scania. Member of the Board of Directors since 2008.

Previously deputy member since 2006.

Born: 1973.

Relevant work experience: Various positions at Scania.



Mikael Johansson

Representative of the Swedish Metal Workers' Union at Scania. Deputy Member of the Board of Directors since 2008.

Born: 1963.

Relevant work experience: Various positions at Scania.

EXECUTIVE BOARD



Henrik Henriksson

Member of the Board of Directors, President and CEO.

Born: 1970.

Education: BSc Bachelor of Science in Business Administration. Joined Scania in 1997.



Johan Haeggman

Executive Vice President, Chief Financial Officer (CFO).

Born: 1960.

Education: BSc Bachelor of Science in Business and Economics. Joined Scania in 1989, employed until 1999. Rejoined Scania in 2003.



Kent Conradson

Executive Vice President, Head of Human Resources.

Born: 1958.

Education: BSc Bachelor of Science in Business Administration and Economics. Joined Scania in 1979.



Mathias Carlbaum

Executive Vice President, Head of Commercial Operations.

Born: 1972.

Education: MBA. Joined Scania in 1997.



Claes Erixon

Executive Vice President, Head of Research and Development.

Born: 1969.

Education: MSc Master of Science in Engineering Physics. Joined Scania in: 1994.



Christian Levin

Executive Vice President, Head of Sales and Marketing.

Born: 1967.

Education: MSc Mechanical Engineering and MBA Economics and Business Administration. Joined Scania in 1994.



Anders Williamsson

Executive Vice President, Head of Purchasing.

Born: 1969.

Education: MSc Master of Science Industrial Engineering and Management. Joined Scania in 1994.



Ruthger de Vries

Executive Vice President, Head of Production and Logistics.

Born: 1965.

Education: MSc Master of Science in Industrial Engineering and Management. Joined Scania in 1990.

Group financial review

Net sales

The net sales of the Scania Group, in the Vehicles and Services segment, increased by 10 percent to SEK 103,927 m. (94,897). Currency rate effects had a negative impact on sales of 2 percent.

New vehicle sales revenue increased by 9 percent. Sales were positively influenced by a positive market mix and an increased share of Euro 6 vehicles while negative effected by currency effects. Engine sales revenue were essentially unchanged. Service revenue increased by 5 percent and amounted to SEK 21,611 m. (20,585). Higher volume, mainly in Europe, of workshop hours and parts had a positive impact while currency rate effects had a negative impact.

Interest and lease income in the Financial Services segment increased by 18 percent due to higher financing volume, higher interest rates while currency rate effects had a negative impact.

Net sales by product, SEK m.	2016	2015
Trucks	65,615	61,250
Buses	10,867	8,994
Engines	1,647	1,656
Services	21,611	20,585
Used vehicles	6,452	6,236
Miscellaneous	2,753	1,836
<i>Delivery sales value</i>	<i>108,995</i>	<i>100,557</i>
Adjustment for lease income ¹	-5,018	-5,660
Total Vehicles and Services	103,927	94,897
Financial Services	6,529	5,517
Elimination ²	-3,558	-2,622
Scania Group total	106,898	97,792

¹ Consists of the difference between sales value based on delivery and revenue recognised as income. This difference arises when a lease or delivery is combined with a residual value guarantee or a repurchase obligation. Significant risks remain, therefore recognition is based on an operating lease contract.

² Elimination refers to rental income from operating leases.

Deliveries

During 2016, Scania delivered 73,093 (69,762) trucks, an increase of 5 percent. Bus deliveries increased by 21 percent to 8,253 (6,799) units. Engine deliveries decreased by 8 percent to 7,800 (8,485) units.

Vehicles delivered	2016	2015
Vehicles and Services		
Trucks	73,093	69,762
Buses	8,253	6,799
<i>Total new vehicles</i>	<i>81,346</i>	<i>76,561</i>
Used vehicles	17,868	17,046
Engines	7,800	8,485

Financial Services

Number financed (new during the year)	2016	2015
Trucks	27,073	23,837
Buses	752	687
<i>Total new vehicles</i>	<i>27,825</i>	<i>24,524</i>
Used vehicles	6,098	5,915
New financing, SEK m.	35,249	32,120
Portfolio, SEK m.	67,935	56,486

Earnings

Scania's operating income amounted to SEK 6,384m. (9,641) during 2016. Operating margin amounted to 6.1 (10.2) percent. Adjusted for the provision of SEK 3,800 m. regarding the EU investigation, the operating income amounted to SEK 10,184 m. and the operating margin amounted to 9.8 percent.

Operating income in Vehicles and Services totalled SEK 5,369 m. (8,601) during 2016. Adjusted for the provision of SEK 3,800 m. regarding the EU investigation, the operating income amounted to SEK 9,169 m. Higher vehicle deliveries in Europe and higher service volume had a positive impact on earnings while lower vehicle volume to Latin America (mostly Brazil), higher costs and investments related to Scania's new truck generation and currency rate effects had a negative effect.

Scania's research and development expenditure amounted to SEK 7,199 m. (7,043). After adjusting for SEK 1,682 m. (1,863) in capitalised expenditure and SEK 387 m. (393) in depreciation of previously capitalised expenditure, recognised expenses increased to SEK 5,904 m. (5,573).

Compared to the full year 2015, the total currency rate effect was negative and amounted to SEK 900 m.

Group financial review, continued

Operating income in Financial Services declined to SEK 1,015 m. (1,040). This was equivalent to 1,6 (1.9) percent of the average portfolio during the year. The decreased earnings were mainly due to a larger portfolio, lower margins and negative currency rate effects. Bad debt expenses decreased during the year.

At year-end 2016, the size of the customer finance portfolio amounted to SEK 67,9 billion, which represented an increase of SEK 11,4 billion since the end of 2015. In local currencies, the portfolio increased by SEK 8 billion, equivalent to 14 percent.

Operating income per segment, SEK m.	2016	2015
Vehicles and Services		
Operating income	5,369	8,601
Operating margin, %	5,2	9,1
Financial Services		
Operating income	1,015	1,040
Operating margin, % ¹	1,6	1,9
Operating income, Scania Group	6,384	9,641
Operating margin, %	6,1	10,2
Income before taxes	5,963	9,109
Taxes	-2,720	-2,356
Net income	3,243	6,753

¹ The operating margin of Financial Services is calculated by taking operating income as a percentage of the average portfolio.

Scania's net financial items amounted to SEK -421 m. (-532). Net interest items amounted to SEK -405 m. (-259). Net interest items were affected by higher borrowing costs. Other financial income and expenses amounted to SEK -16 m. (-273). These included SEK 88 m. (-171) in valuation effects related to financial instruments where hedge accounting was not applied.

Income before taxes amounted to SEK 5,963 m. (9,109). The Scania Group's tax expense for 2016 was equivalent to 45.6 (25.9) percent of income before taxes. The tax rate was mainly affected by the non-deductible provision 2016 of SEK 3,800 m. related to the EU investigation.

Net income for the year totalled SEK 3,243 m. (6,753), corresponding to a net margin of 3.1 (7.1) percent. Adjusted for the provision of SEK 3,800 m. the net income for the period amounts to 7,043 with a net margin of 6.8%.

Cash flow

Cash flow in Vehicles and Services amounted to SEK 3,427 m. (4,376). Tied-up working capital decreased by SEK 878 m.

Net investments amounted to SEK 7,864 m. (7,737), including SEK 1,682 m. (1,863) in capitalisation of development expenses. At the end of 2016, the net cash position in Vehicles and Services amounted to SEK 10,954 m. (7,579).

Cash flow in Financial Services amounted to SEK -7,784 m. (-3,816), due to a growing customer finance portfolio.

Financial position

Financial ratios related to the balance sheet	2016	2015
Equity/assets (E/A) ratio, %	26,0	26,8
E/A ratio, Vehicles and Services, %	36,3	35,2
E/A ratio, Financial Services, %	9,0	9,8
Return on capital employed, Vehicles and Services, % ²	14,0	19,3
Net debt/equity ratio, Vehicles and Services ³	-0,31	-0,24

² Calculation is based on average capital employed for the thirteen most recent months.
³ Net cash (-) Net debt (+).

During 2016, the equity of the Scania Group increased by SEK 4,475 m. and totalled SEK 42,312 m. (37,837) at year-end. Net income added SEK 3,243 m. (6,753) while decided dividend decreased equity by SEK 0 m. (9,600). Equity increased by SEK 1,932 m. (-2,465) because of exchange rate differences that arose when translating net assets outside Sweden. In addition, equity decreased by SEK -936 m. (1,773) because of actuarial gains/losses on pension liabilities.

Taxes attributable to items reported under "Other comprehensive income" totalled SEK 249 m. (-448). The non-controlling interest decreased during the year with -27 comprising of SEK -1 m. due to currency rate effects, share of the result for the period with SEK -13 m. and the Group additional acquisition of shares with SEK -13 m.

Financial risks

Currency risk

The largest currency flows were in Euros, British pounds and Norwegian krone.

According to Scania's financial policy, future cash flows may be hedged during a period that is allowed to vary between 0 and 12 months. The Board of Directors approves maturities of more than 12 months. At year-end 2016, no future cash flows were hedged.

The net foreign assets of subsidiaries are normally not hedged. However, to the extent a foreign subsidiary has significant net monetary assets in functional currency, they may be hedged. At the end of 2016, no foreign net assets were hedged.

Interest rate risk

Scania's financial policy concerning interest rate risks in Vehicles and Services is that the interest rate refixing period on its net debt should normally be within the 0–6 month range, but divergences may be allowed up to 24 months. The Board of Directors approves maturities of more than 24 months. In Financial Services the interest rate refixing period on borrowings shall be matched with the interest rate refixing period on assets. To manage interest rate risks in the Scania Group, derivative instruments are used.

Credit risk

The management of credit risks in Vehicles and Services is regulated by a credit policy. In Vehicles and Services, credit exposure consists mainly of receivables from independent dealerships as well as end customers.

To maintain a controlled level of credit risk in Financial Services, the process of issuing credit is supported by a credit policy as well as credit instructions.

The management of the credit risks that arise in Scania's treasury operations, among other things in investment of cash and cash equivalents and derivatives trading, is regulated in Scania's Financial Policy document. Transactions occur only within established limits and with selected, creditworthy counterparties.

Borrowing and refinancing risk

Scania's borrowings primarily consist of bonds issued under capital market programmes, and other borrowing mainly via the banking system. As part of Scania's management of refinancing risk, there are five committed credit facilities: three in the international borrowing market and two in the Swedish market.

During 2016, Scania CV AB's credit rating was unchanged by Standard & Poor's (S&P) and remains at BBB+ regarding the credit risk of long-term debt, i.e. longer than one year.

For more information about management of financial risks, see also Note 27.

Other contractual risks

Residual value exposure

Scania delivers some of its vehicles with guaranteed residual value or with repurchase obligations, where Scania thus has residual value exposure. There is also residual value exposure for short-term rental vehicles with an estimated residual value. The amount for residual value exposure at year-end was SEK 15,200 m. (12,752). Exposure rose by SEK 2,448 m., mainly due to an increased number of newly contracted obligations in Europe. During 2016, the volume of new contracts with guaranteed residual value or with repurchase guarantees, was about 11,900 (11,400), excluding short-term rental contracts.

Service contracts

A large proportion of Scania's sales of parts and workshop hours occurs through repair and service contracts. Selling a service contract involves a commitment by Scania to provide servicing to customers during the contractual period in exchange for a predetermined fee. The cost of the contract is allocated over the contractual period according to estimated consumption of service, and actual divergences from this are recognised in the accounts during the period. From a portfolio perspective, Scania continually estimates possible future divergences from the expected cost curve. Negative divergences from this result in a provision, which affects earnings for the period.

The number of contracts rose during 2016 by 25,500 and totalled 175,000 at year-end. Most of these are in the European market.

The parent company

The Parent Company, Scania AB, is a public company whose assets consist of the shares in Scania CV AB. The Parent Company conducts no operations. Income before taxes of Scania AB during 2016 totalled SEK 0 m. (0).

Scania CV AB is a public company and parent company of the Scania CV Group, which includes all production, sales and services and finance companies in the Scania Group.





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Consolidated income statements

January – December, SEK m.	Note	2016	2015
Vehicles and Services			
Net sales	3	103,927	94,897
Cost of goods sold	4	-77,688	-70,389
<i>Gross income</i>		<i>26,239</i>	<i>24,508</i>
Research and development expenses ¹	4	-5,904	-5,573
Selling expenses	4	-9,736	-9,071
Administrative expenses	4	-1,490	-1,309
Share of income in associated companies and joint ventures	11	60	46
Items affecting comparability	2, 16	-3,800	-
Operating income, Vehicles and Services		5,369	8,601
Financial Services	5		
Interest and lease income		6,529	5,517
Interest and depreciation expenses		-4,521	-3,543
Interest surplus		2,008	1,974
Other income		205	178
Other expenses		-117	-45
Gross income		2,096	2,107
Selling and administrative expenses	4	-925	-823
Bad debt expenses, realised and anticipated		-156	-244
Operating income, Financial Services		1,015	1,040
Operating income		6,384	9,641
Interest income		630	599
Interest expenses		-1,035	-858
Other financial income		292	12
Other financial expenses		-308	-285
Total financial items	6	-421	-532
Income before taxes		5,963	9,109
Taxes	7	-2,720	-2,356
Net income		3,243	6,753

¹ Total research and development expenditures during the year amounted to SEK 7,199 m. (7,043).

January – December, SEK m.	Note	2016	2015
Other comprehensive income	14		
<i>Items that may be reclassified to net income</i>			
Translation differences		1,932	-2,465
Cash flow hedges			
change in value for the year		-	-
reclassification to net income		-	23
Taxes		42	-44
		1,974	-2,486
<i>Items that will not be reclassified to net income</i>			
Remeasurements of defined-benefit plans	15	-936	1,773
Taxes		207	-404
		-729	1,369
<i>Total other comprehensive income</i>		1,245	-1,117
Total comprehensive income for the year		4,488	5,636
Net income attributable to:			
Scania shareholders		3,256	6,764
Non-controlling interest		-13	-11
Total comprehensive income attributable to:			
Scania shareholders		4,502	5,645
Non-controlling interest		-14	-9
Operating income includes depreciation of ²	8	-3,595	-3,261

² Depreciation on operating leases is not included.

Consolidated balance sheets

31 December, SEK m.	Note	2016	2015
ASSETS			
Non-current assets			
Intangible assets	9	8,438	6,855
Tangible assets	10	29,078	25,309
Lease assets	10	25,532	20,428
Holdings in associated companies and joint ventures	11	605	516
Long-term interest-bearing receivables	28	30,985	26,359
Other long-term receivables ¹	13, 28	1,292	1,353
Deferred tax assets	7	3,832	2,947
Tax receivables		519	429
<i>Total non-current assets</i>		<i>100,281</i>	<i>84,196</i>
Current assets			
Inventories	12	19,119	16,918
<i>Current receivables</i>			
Tax receivables		369	195
Interest-bearing receivables	28	20,481	16,373
Non-interest-bearing trade receivables	28	8,446	6,981
Other current receivables ¹	13, 28	5,541	4,094
<i>Total current receivables</i>		<i>34,837</i>	<i>27,643</i>
Current investments	28	1,122	213
<i>Cash and cash equivalents</i>	28		
Current investments comprising cash and cash equivalents		3,352	8,225
Cash and bank balances		4,282	4,070
<i>Total cash and cash equivalents</i>		<i>7,634</i>	<i>12,295</i>
<i>Total current assets</i>		<i>62,712</i>	<i>57,069</i>
Total assets		162,993	141,265
1 Including fair value of derivatives for hedging of borrowings:			
Other non-current receivables, derivatives with positive value		374	595
Other current receivables, derivatives with positive value		291	554
Other non-current liabilities, derivatives with negative value		778	508
Other current liabilities, derivatives with negative value		420	390
Net amount		-533	251

31 December, SEK m.	Note	2016	2015
EQUITY AND LIABILITIES			
Equity			
Share capital		2,000	2,000
Other contributed capital		1,120	1,120
Reserves		-1,968	-3,943
Retained earnings		41,140	38,613
Equity attributable to Scania shareholders		42,292	37,790
Non-controlling interest		20	47
<i>Total equity</i>	14	42,312	37,837
Non-current liabilities			
Non-current interest-bearing liabilities	28	27,298	26,206
Provisions for pensions	15	8,627	7,339
Other non-current provisions	16	6,439	2,893
Accrued expenses and deferred income	17	11,409	9,085
Deferred tax liabilities	7	2,369	1,849
Other non-current liabilities ¹	28	916	567
<i>Total non-current liabilities</i>		57,058	47,939
Current liabilities			
Current interest-bearing liabilities	28	30,713	28,736
Current provisions	16	3,221	2,001
Accrued expenses and deferred income	17	10,987	9,278
Advance payments from customers		990	684
Trade payables	28	12,740	10,841
Tax liabilities		1,388	788
Other current liabilities ¹	28	3,584	3,161
<i>Total current liabilities</i>		63,623	55,489
Total equity and liabilities		162,993	141,265
Net debt, excluding provisions for pensions, SEK m.		49,788	42,183
Net debt/equity ratio		1,18	1.11
Equity/assets ratio, %		26,0	26.8
Capital employed, SEK m.		109,483	99,867

Consolidated statement of changes in equity

In Note 14 there is a description of the consolidated equity items and information about the company's shares. The equity of the Scania Group has changed as follows:

	Share capital	Other contributed capital	Hedge reserve	Currency translation reserve	Retained earnings	Total, Scania shareholders	Non-controlling interest	Total equity
2016								
Equity, 1 January	2,000	1,120	0	-3,943	38,613	37,790	47	37,837
Exchange differences on translation				1,933		1,933	-1	1,932
Remeasurements of defined-benefit plans					-936	-936		-936
Tax attributable to items recognised in other comprehensive income				42	207	249		249
<i>Total other comprehensive income</i>			0	1,975	-729	1,246	-1	1,245
Net income for the year					3,256	3,256	-13	3,243
Change in non-controlling interest							-13	-13
Equity, 31 December	2,000	1,120	0	-1,968	41,140	42,292	20	42,312

	Share capital	Other contributed capital	Hedge reserve	Currency translation reserve	Retained earnings	Total, Scania shareholders	Non-controlling interest	Total equity
2015								
Equity, 1 January	2,000	1,120	-18	-1,437	40,080	41,745	56	41,801
Exchange differences on translation				-2,467		-2,467	2	-2,465
<i>Hedge reserve</i>								
Change in value related to cash flow hedge recognised in other comprehensive income			-			-		-
Cash flow reserve transferred to operating income			23			23		23
Remeasurements of defined-benefit plans					1,773	1,773		1,773
Tax attributable to items recognised in other comprehensive income			-5	-39	-404	-448		-448
<i>Total other comprehensive income</i>			18	-2,506	1,369	-1,119	2	-1,117
Net income for the year					6,764	6,764	-11	6,753
Dividend to Scania AB shareholders					-9,600	-9,600		-9,600
Equity, 31 December	2,000	1,120	0	-3,943	38,613	37,790	47	37,837

Consolidated cash flow statements

January – December, SEK m.	Note	2016	2015
Operating activities			
Income before tax	21 a	5,963	9,109
Items not affecting cash flow	21 b	8,030	4,423
Taxes paid		-2,721	-2,094
<i>Cash flow from operating activities before change in working capital</i>		11,272	11,438
<i>Change in working capital</i>			
Inventories		-1,245	-1,294
Receivables		-2,487	-768
Provisions for pensions		309	302
Trade payables		1,421	892
Other liabilities and provisions		2,880	2,524
<i>Total change in working capital</i>		878	1,656
Cash flow from operating activities		12,150	13,094
Investing activities			
Net investments through acquisitions/divestments of businesses	21 c	0	-125
Net investments in non-current assets, Vehicles and Services	21 d	-7,864	-7,612
Net investments in credit portfolio etc., Financial Services	21 d	-8,643	-4,797
Cash flow from investing activities		-16,507	-12,534
Cash flow before financing activities		-4,357	560
Financing activities			
Change in debt from financing activities	21 e	-925	1,962
Cash flow from financing activities		-925	1,962
Cash flow for the year		-5,282	2,522
Cash and cash equivalents, 1 January		12,295	10,915
Exchange rate differences in cash and cash equivalents		621	-1,142
Cash and cash equivalents, 31 December	21 f	7,634	12,295
Cash flow statement, Vehicles and Services		2016	2015
Cash flow from operating activities before change in working capital		10,413	10,457
Change in working capital etc.		878	1,656
Cash flow from operating activities		11,291	12,113
Cash flow from investing activities		-7,864	-7,737
Cash flow before financing activities		3,427	4,376

NOTE 1 Accounting principles

The Scania Group encompasses the Parent Company, Scania Aktiebolag (publ), Swedish corporate identity number 556184-8564 and its subsidiaries, associated companies and joint ventures. The Parent Company has its registered office in Södertälje, Sweden. The address of Scania's head office is SE-151 87 Södertälje, Sweden.

The consolidated accounts of the Scania Group have been prepared in compliance with International Financial Reporting Standards (IFRS) issued by the International Accounting Standards Board (IASB) as well as the interpretations by the IFRS Interpretations Committee (IFRS IC) as adopted by the European Union. In addition, Recommendation RFR 1, "Supplementary Accounting Rules for Groups" from the Swedish Financial Reporting Board has been applied. The Parent Company applies the same accounting policies as the Group except in the instances described below in the section "Parent Company accounting principles". The functional currency of the Parent Company is Swedish kronor (SEK), and the financial reports are presented in Swedish kronor. Assets and liabilities are recognised at historical costs, aside from certain financial assets and liabilities which are carried at fair value. Financial assets and liabilities that are carried at fair value are mainly derivative instruments. Preparing the financial reports in compliance with IFRS requires that Management make judgements and estimates as well as make assumptions that affect the application of accounting principles and amounts recognised in the financial reports. The actual outcome may diverge from these estimates and judgements. Judgements made by Management that have a substantial impact on the financial reports, and estimates which have been made that may lead to significant adjustments, are described in more detail in Note 2, "Key judgements and estimates". Estimates and assumptions are reviewed regularly. Amendments of estimates are reported in the period in which the amendment was made if the amendment only affects this period, or in the period in which the amendment was made and future periods if the amendment affects both the current period and future periods. The principles stated below have been applied consistently for all periods, unless otherwise indicated below. Furthermore, the Group's accounting principles have been consistently applied by Group companies, in respect of associate companies and joint ventures, if necessary, by adjustment to the Group's principles.

Changes in accounting principles

A number of revised and amended IFRS standards have been applied by the Group from 2016 but had none or no material impact on the Group financial statements.

Application of accounting principles

Consolidated financial statements

The consolidated financial statements encompass Scania AB and all subsidiaries. "Subsidiaries" refers to companies in which Scania directly or indirectly owns more than 50 percent of the voting rights of the shares or otherwise has control. The composition of the Group is shown in note 29. Subsidiaries are reported according to the acquisition method of accounting. This method means that acquisition of a subsidiary is treated as a transaction through which the Group indirectly acquires the subsidiary's assets and assumes its liabilities. The acquisition analysis establishes the fair value on the acquisition date of the acquired identifiable assets, liabilities assumed and contingent liabilities and any non-controlling interests. The consideration transferred on acquisition of a subsidiary consists of the fair values on the transfer date of assets given, liabilities that have arisen to previous owners and equity instruments issued as payment in exchange for the acquired net assets. Transaction costs directly attributable to the acquisition are recognised directly in the income statement as they arise.

Non-controlling interests are either recognised at their proportionate share of net assets or at their fair value. The choice between the various alternatives may be made for each acquisition.

In business combinations where the consideration transferred, any non-controlling interests and the fair value of previously owned shares (in step acquisitions) exceed the fair value of the acquired identifiable assets, liabilities and contingent liabilities assumed, the difference is recognised as goodwill. When the difference is negative, this is recognised directly in the income statement. Only earnings arising after the date of acquisition are included in the equity of the Group. Divested companies are included in the consolidated financial statements until the date when controlling influence ceases. Intra-Group receivables and liabilities, revenue or expenses and unrealised gains or losses that arise from intra-Group transactions between Group companies are eliminated in their entirety during the preparation of the consolidated financial statements. Unrealised gains that arise from transactions with associated companies and joint ventures are eliminated to the extent that corresponds to the Group's percentage of ownership in the company. Unrealised losses are eliminated in the same way as unrealised gains, but only to the extent that there is no impairment loss. Non-controlling interests, that is, equity in a subsidiary not attributable to the Parent Company, are reported as an item under equity that is separate from share capital owned by the Parent Company's shareholders. A separate disclosure of the portion of the year's earnings that belongs to non-controlling interests is provided.

Associated companies and joint ventures

The term “associated companies” refers to companies in which Scania, directly or indirectly, has a significant influence. “Joint ventures” refers to companies in which Scania, through contractual cooperation with one or more parties, has a joint controlling influence on operational and financial management.

Foreign currencies – translation

Transactions in foreign currencies are translated to the functional currency at the exchange rate on the transaction date. Monetary receivables and liabilities in foreign currencies are translated at the exchange rate on the balance sheet date, and exchange rate differences that arise are recognised in the income statement. Non-monetary items are recognised at historic cost using the exchange rate on the transaction date.

When preparing the consolidated financial statements, the income statements and balance sheets of foreign subsidiaries are translated to the Group’s reporting currency, Swedish kronor. All items in the income statements of foreign subsidiaries are translated using the average exchange rates during the year. All balance sheet items are translated using the exchange rates on the balance sheet date (closing day rate). The translation differences that arise when translating the financial statements of subsidiaries outside Sweden are recognised under “Other comprehensive income” and accumulate in the currency translation reserve in equity. Subsidiaries use the local currency as their functional currency, aside from a few subsidiaries for which the euro is the functional currency.

Monetary long-term items in a business outside Sweden for which settlement is not planned or will probably not occur within the foreseeable future are, in practice, part of the company’s net investment in operations outside Sweden. Exchange rate differences on such monetary items, which comprise part of the company’s net investment (extended investment) are recognised under “Other comprehensive income” and accumulate in the currency translation reserve in equity.

Balance sheet – classifications

Scania’s operating cycle, that is, the time that elapses from the purchase of materials until payment for goods delivered is received, is less than 12 months. This means that operations-related items are classified as current assets and current liabilities, respectively, if these are expected to be realised/ settled within twelve months, counting from the balance sheet date. Cash and cash equivalents are classified as current assets unless they are restricted. Other assets and liabilities are classified as non-current. For classification of financial instruments, see the section on financial assets and liabilities under “Financial assets and liabilities”.

Classification of finance and operating leases (Scania as lessor)

Lease contracts with customers are carried as finance leases in cases where substantially all risks and rewards associated with ownership of the asset have been transferred to the lessee. At the beginning of the leasing period, sales revenue and a financial receivable equivalent to the present value of future minimum lease payments are recognised. As a result, the difference between the sales revenue and the cost of the leased asset is recognised as income. Lease payments received are recognised as payment of the financial receivable and as interest income.

Other lease contracts are classified as operating leases and are carried as lease assets among tangible non-current assets. Revenue from operating leases is recognised on a straight-line basis over the leasing period. Depreciation of the asset occurs on mainly a straight-line basis to the estimated residual value of the asset at the end of the leasing period.

Transactions that include repurchase obligations or residual value guarantees, which mean that important risks remain with Scania, are carried as operating leases; see above.

Lease obligations (Scania as lessee)

In case of a finance lease, when the risks and rewards associated with ownership have been transferred to Scania, the leased asset is carried as a tangible non-current asset and the future commitment as a liability. The asset is initially carried at the present value of minimum lease payments at the beginning of the leasing period. The leased asset is depreciated according to a schedule and the lease payments are recognised as interest and principal payments on the liability. Operating leases are not carried as assets, since the risks and rewards associated with ownership of the asset have not been transferred to Scania. Lease payments are expensed continuously on a straight-line basis over the lease term.

Balance sheet – valuation principles

Tangible non-current assets including lease assets

Tangible non-current assets are carried at cost less accumulated depreciation and any impairment losses. A non-current asset is divided into separate components, each with a different useful life and depreciated separately. Machinery and equipment as well as lease assets have useful lives of 3–12 years. The average useful life of buildings is 40 years, based on 50–100 years for frames, 20–40 years for frame supplements and inner walls, 20–40 years for installations, 20–30 years for exterior surface layers and 10–15 years for interior surface layers. Land is not depreciated.

NOTE 1 Accounting principles, continued

Depreciation is mainly recognised on a straight-line basis over the estimated useful life of an asset, and in those cases where a residual value exists, the asset is depreciated down to this value. Useful life and depreciation methods are examined regularly and adjusted in case of changed circumstances.

Borrowing costs are included in the cost of assets that take a substantial period of time to get ready.

Intangible non-current assets

Scania's intangible assets consist of goodwill, capitalised expenditures for development of new products and software. Intangible non-current assets are recognised at cost less any accumulated amortisation and impairment losses. Borrowing costs are included in the cost of assets that take a substantial period of time to get ready.

Goodwill

Goodwill is carried at cost less any accumulated impairment losses. Recognised goodwill has arisen from acquisitions of distribution and dealer networks, which have resulted in increased profitability upon their integration into the Scania Group. Goodwill has an indefinite useful life and impairment testing is done at least yearly.

Capitalised product development expenditures

Scania's research and development activities are divided into a concept phase and a product development phase.

Expenditures during the concept phase are expensed as they arise. Expenditures during the product development phase are capitalised, beginning on the date when the expenditures are likely to lead to future economic benefits. This implies that it is technically possible to complete the intangible asset, the company has the intention and the potential to complete it and use or sell it, there are adequate resources to carry out development and sale, and remaining expenditures can be reliably estimated. Impairment testing occurs annually for product development projects that have not yet gone into service, according to the principles stated below. The amortisation of capitalised development expenditures begins when the asset is placed in service and occurs on a straight-line basis during its estimated useful life. For capitalised product development expenditures, useful life is estimated at between three and ten years.

Capitalised software development expenditures

Capitalised software development expenditures include expenditures directly attributable to completion of the software. They are amortised on a straight-line basis during the useful life of the software, which is estimated at between three and five years.

Impairment testing of non-current assets

The carrying amounts of Scania's intangible and tangible assets as well as its shareholdings are tested annually to assess whether there is indication of impairment. This includes intangible assets with an indefinite useful life, which refer in

their entirety to goodwill. The recoverable amount of goodwill and intangible assets that have not yet gone into service is calculated annually regardless of whether there is an indication of impairment loss or not.

Inventories

Inventories are carried at the lower of cost and net realisable value. Cost is calculated by applying the first in, first out (FIFO) principle. An allocable portion of indirect expenses is included in the value of the inventories, estimated on the basis of normal capacity utilisation. The net realisable value is the estimated selling price in the ordinary course of business less the estimated costs of completion and of making a sale.

Financial assets and liabilities

Financial instruments are any form of contract that gives rise to a financial asset in one company and a financial liability or equity instrument in another company. These encompass cash and cash equivalents, current (short-term) investments, interest-bearing receivables, trade receivables, trade payables, borrowings and derivative instruments. Cash and cash equivalents consist of cash and bank balances as well as current liquid investments with a maturity amounting to a maximum of 90 days, which are subject to an insignificant risk of fluctuations in value. "Current investments" consist of investments with a longer maturity than 90 days.

Classification of financial instruments

All financial assets and liabilities are classified in the following categories:

- a) Financial assets and financial liabilities carried at fair value through the income statement consist of two sub-categories:
 - i) Financial assets and financial liabilities held for trading, including mortgage bonds and all of Scania's derivatives aside from those derivatives that are used as hedging instruments when hedge accounting is applied. The main purpose of Scania's derivative trading is to hedge the Group's currency and interest rate risks.
 - ii) Financial assets and financial liabilities that were identified from the beginning as an item measured at fair value through profit or loss. Scania has no financial instruments classified in this sub-category.
- b) Loans and receivables

These assets have predetermined or determinable payments and are not quoted in an active market. Scania's cash and cash equivalents, trade receivables and loan receivables belong to this category.
- c) Other financial liabilities

Includes financial liabilities not held for trading. Scania's trade payables as well as borrowings belong to this category.

Recognition and carrying amounts

Non-derivative financial assets and liabilities are initially recognised at their cost, which is equivalent to their fair value at that time plus transaction costs, aside from those classified as financial assets recognised at fair value through profit or loss. The last-mentioned category is recognised at fair value, excluding transaction costs. Financial assets and liabilities in foreign currencies are translated to Swedish kronor at the closing day exchange rate. Scania applies settlement date accounting for everything except assets held for trading, where recognition occurs on the transaction date. Derivatives with positive value (unrealised gains) are recognised as “Other current receivables” or “Other non-current receivables”, while derivatives with negative values (unrealised losses) are recognised as “Other current liabilities” or “Other non-current liabilities”.

Hedge accounting

Scania is exposed to various financial risks in its operations. In order to hedge currency rate risks and interest rate risks, derivatives are mainly used. For accounting purposes, cash flow hedging is used for hedging of currency rate risks. Scania’s external financing occurs mainly via different borrowing programmes. To convert this borrowing to the desired interest rate refixing structure, interest rate derivatives are used. To the extent that hedging of borrowings with variable interest rates is used, derivatives are recognised according to cash flow hedging rules. In those cases where hedging of borrowings with fixed interest rates is used, derivatives are recognised according to fair value hedging rules.

Due to the very strict requirements in order to apply hedge accounting, Scania has chosen not to apply hedge accounting to all hedging transactions. In cases where hedge accounting is not applied, because of the separate treatment of derivatives, which are carried at market value, and liabilities, which are carried at accrued cost, accounting volatility arises in net financial items. Financially speaking, Scania considers itself hedged and its risk management adheres to the Financial Policy approved by the Board of Directors.

Cash flow hedging

Hedging instruments, primarily currency futures that were acquired for the purpose of hedging expected future commercial payment flows in foreign currencies (hedged items) against currency rate risks are recognised according to cash flow hedging rules. This implies that all derivatives are accounted for in the balance sheet at fair value, and changes in the value of futures contracts are recognised under “Other comprehensive income” and accumulate in a hedge reserve in equity. Amounts that have been recognised in the hedge reserve in equity are recognised in the income statement at the same time as the payment flows reach the income statement.

Hedging instruments, primarily interest rate swaps that were acquired for the purpose of hedging future interest flows, are recognised according to cash flow hedging rules. This means that borrowings with variable interest rate are converted to a fixed interest rate. The derivative is recognised in the balance sheet at fair value, and changes in value are recognised under “Other comprehensive income” and accumulated in the hedge reserve in equity. The interest portions of the derivative are recognised continuously in the income statement and thus affect net financial items in the same period as interest payments on the borrowings. Any gain or loss attributable to an inefficient portion is immediately recognised in the income statement.

Fair value hedging

Hedging instruments, primarily interest rate derivatives that eliminate the risk that changes in the market interest rate will affect the value of the liabilities (hedged item), are recognised according to fair value hedging rules. In these hedging relationships, the hedging instrument i.e. the derivative, is carried at fair value and the hedged item, i.e. the borrowing, is carried at fair value with regard to the risk that has been hedged. This means that the change in value of the derivative instrument and that of the hedged item match in net financial items.

Hedging of net investments outside Sweden

Currency rate risk related to net investments in subsidiaries outside Sweden that have a functional currency different from that of the Parent Company is hedged to the extent that the subsidiary is over-capitalised or has sizeable monetary assets that will not be utilised in its operations. Hedging occurs by using derivatives as hedging instruments. Translation differences on financial instruments used as hedging instruments are recognised including tax effects under “Other comprehensive income” and accumulate in the currency translation reserve in equity, provided that the hedge is efficient. This effect thus matches the translation differences that arise in equity when translating the accounts of the subsidiary outside Sweden into the functional currency of the Parent Company.

Provisions

Provisions are recognised if an obligation, legal or constructive, exists as a consequence of events that occur. It must also be deemed likely that an outflow of resources will be required to settle the obligation and that the amount can be reliably estimated. Provisions for warranties for vehicles sold during the year are based on warranty conditions and the estimated quality situation. Provisions on service contracts are related to expected future unavoidable expenses that exceed contractual future revenue. Provisions for residual value obligations arise as a consequence either of an operating lease (Scania as lessor) or a delivery with a repurchase obligation. The provision must cover the current assessment that expected future market value will be below the price agreed in the lease

NOTE 1 Accounting principles, continued

contract or repurchase contract. In this case, a provision for the difference between these amounts is to be reported, to the extent that this difference is not less than an as yet unrecognised deferred profit. Assessment of future residual value risk occurs continuously over the contract period. For provisions related to pensions, see the description under "Employee benefits" below and in Note 15, "Provisions for pensions and similar commitments". For provisions related to deferred tax liabilities, see below under "Taxes".

Taxes

The Group's total tax consists of current tax and deferred tax. Income taxes are recognised in the income statement except when the underlying transaction is recognised in other comprehensive income, such as remeasurements of defined-benefit plans, or in equity, causing the related tax effect to be recognised in other comprehensive income or in equity, respectively. Deferred tax is recognised in case of a difference between the carrying amount of assets and liabilities and their tax base ("temporary difference"). Valuation of deferred tax is based on how the underlying assets or liabilities are expected to be realised or settled. Deferred tax is calculated using tax rates and laws that have been enacted or substantively enacted on the balance sheet date. Deferred tax assets minus deferred tax liabilities are recognised only to the extent that it is likely that they can be utilised.

Employee benefits

Within the Scania Group, there are a number of both defined contribution and defined benefit pension and similar plans, some of which have plan assets that are managed by special foundations, funds or the equivalent.

The plans include retirement pensions, survivor pensions, health care and severance pay. These are financed mainly by provisions to accounts and partially via premium payments.

Plans in which Scania only pays fixed contributions and has no obligation to pay additional contributions if the assets of the plan are insufficient to pay all compensation to the employee are classified as defined contribution plans. The Group's expenditures for defined contribution plans are recognised as an expense during the period when the employees render the services in question.

Defined benefit plans are all plans that are not classified as defined contribution. These are calculated according to the "Projected Unit Credit Method", for the purpose of fixing the present value of the obligations for each plan. Calculations are performed and are based on actuarial assumptions that are set on the closing day. The obligations are carried at the present value of expected disbursements, taking into account inflation, expected future pay increases and using a discount rate equivalent to the interest rate on top-rated corporate or government bonds with a remaining maturity corresponding to the obligations in question.

The interest rate on top-quality corporate bonds is used in those countries where there is a functioning market for such bonds. In other countries, the interest rate on government bonds is used instead. For plans that are funded, the fair value of the plan assets is subtracted from the estimated present value of the obligation. Remeasurements of net pension liabilities, which include actuarial gains and losses, return on plan assets excluding amounts that are part of net interest income on net defined benefit liability and each change in the effect of the asset ceiling excluding amounts that are part of net interest income on net defined benefit liability, are recognised in "Other comprehensive income" and do not affect net income. Remeasurements are not reclassified to net income in subsequent periods.

In the case of some of the Group's defined-benefit multi-employer plans, sufficient information cannot be obtained to calculate Scania's share in these plans. They have thus been accounted for as defined contribution. For Scania, this applies to the Dutch pension funds Pensioenfond Metaal en Techniek and Bedrijfstakpensioenfond Metal Elektro, which are administered via MN Services, as well as the portion of the Swedish ITP occupational pension plan that is administered via the retirement insurance company Alecta.

Most of the Swedish plan for salaried employees (the collectively agreed ITP plan), however, is accounted for by provisions in the balance sheet, safeguarded by credit insurance from the mutual insurance company Forsäkringsbolaget PRI Pensionsgaranti, which also administers the plan. See also Note 15, "Provisions for pensions and similar commitments". Scania follows the rules in IAS 19 concerning limits in the valuation of net assets, the so-called asset ceiling since these are never valued at more than the present value of available economic benefits in the form of repayments from the plan or in the form of reductions in future fees to the plan. This value is determined as present value taking into account the discount rate in effect.

Income statement – classifications

Research and development expenses

This item consists of the research and development expenses that arise during the research phase and the portion of the development phase that does not fulfil the requirements for capitalisation, plus amortisation and any impairment loss during the period of previously capitalised development expenditures. See Note 9, "Intangible non-current assets".

Selling expenses

Selling expenses are defined as operating expenses in sales and service companies plus costs of corporate-level commercial resources. In the Financial Services segment, selling and administrative expenses are reported as a combined item, since a division lacks relevance.

Administrative expenses

Administrative expenses are defined as costs of corporate management as well as staff units and corporate service departments.

Financial income and expenses

“Interest income” refers to income from financial investments and pension assets. “Other financial income” includes gains that arise from the valuation of non-hedge-accounted derivatives (see the section on financial instruments) and exchange rate gains attributable to financial items. “Interest expenses” refers to expenses attributable to loans, pension liability and changes in the value of loan hedging derivatives. “Other financial expenses” include current bank fees, losses arising from valuation of non-hedge-accounted derivatives and exchange rate losses attributable to financial items.

Income statement – valuation principles**Revenue recognition**

Revenue from the sale of goods is recognised when substantially all risks and rewards are transferred to the buyer. Where appropriate, discounts provided are subtracted from sales revenue.

Net sales – Vehicles and Services**Sales**

In case of delivery of new trucks, buses and engines as well as used vehicles in which Scania has no residual value obligation, the entire revenue is recognised at the time of delivery to the customer.

Leases

- Operating lease – in case of delivery of vehicles that Scania finances with an operating lease, revenue is allocated on a straight-line basis over the lease period. The assets are recognised as lease assets in the balance sheet.
- Residual value obligation – in case of delivery of vehicles for which substantial risks remain with Scania and on which Scania has a repurchase obligation at a guaranteed residual value, revenue is allocated on a straight-line basis until the repurchase date, as with an operating lease.
- Short-term rental – in case of short-term rental of vehicles, revenue is allocated on a straight-line basis over the contract period. Leasing and rentals mainly involve new trucks and buses. In such cases, the asset is recognised in the balance sheet as a lease asset.

Service-related products

Income for service and repairs is recognised as income when the service is performed. For service and repair contracts, income is allocated over the life of the contracts, as expenses for the fulfilment of the contract arise.

Financial Services

In case of financial and operating leases, with Scania as the lessor, the recognition of interest income and lease income, respectively, is allocated over the lease period. Other income is recognised on a continuous basis.

Miscellaneous**Related party transactions**

Related party transactions occur on market terms.

Government grants including EU grants

Government grants received that are attributable to operating expenses reduce these expenses. Government grants related to investments reduce the gross cost of non-current assets.

Contingent liabilities

A contingent liability is a possible obligation that arises from past events and whose existence will be confirmed only by the occurrence or non-occurrence of one or more uncertain future events. A contingent liability can also be a present obligation that is not recognised as a liability or provision because it is not probable that an outflow of resources will be required, or because the amount of the obligation cannot be measured with sufficient reliability.

Incentive programmes

The outcome of the incentive programme for executive officers is recognised as a salary expense in the year the payment is related to.

Changes in accounting principles during the next years

New standards, amended standards and interpretations that enter into force on 1 January 2017 and subsequently have not been applied in advance. The following new and amended standards have been issued but are not yet effective. Scania has chosen not to pre-adopt these standards.

IFRS 9, “Financial Instruments” – This standard will replace IAS 39, “Financial Instruments: Recognition and Measurement”. The standard is adopted by the EU and is effective from January 1, 2018, with early application permitted. IFRS 9 contains rules for classification and measurement of financial assets and liabilities, impairment of financial instruments and hedge accounting. Today’s four classification categories for assets are replaced by three – financial instruments measured at amortised cost, fair value through profit and loss and fair value through other comprehensive income. Fair value changes due to own credit on liabilities should be recognised in other comprehensive income for the fair value option category. Scania’s preliminary view is that Scania’s financial assets will be classified into the Amortized Cost category. Expected losses shall be considered in the impairment model. Impairment should be performed either through a general approach or a simplified approach.

NOTE 1 Accounting principles, continued

Scania's preliminary view is to apply the simplified approach. Hedge accounting is based more on the internal risk management so that the entity's risk management is reflected in the financial statements. Scania's use of hedge accounting is limited and Scania does not expect that IFRS 9 will have a significant impact. However Scania's model for hedge accounting needs to be adjusted to be in line with the model in IFRS 9. So-called macro hedges have been moved to a separate project and entities can opt to continue to apply hedge accounting under IAS 39 pending the completion of the project.

Scania is still assessing the total impact of IFRS 9 on the financial statements and additional effects may be identified. However Scania does not expect to identify additional areas with significant impact.

IFRS 15 "Revenue from Contracts with Customers" replaces existing revenue standards and interpretations. The standard is adopted by the EU and is effective from January 1, 2018 with earlier application permitted. Transition to IFRS 15 shall either be done based on a full retrospective approach or a modified approach meaning that the comparative period are not recalculated, however with additional disclosures. Scania's preliminary view is to apply the modified approach. Scania is yet to decide which, if any, practical expedients that will be used.

The core principle of IFRS 15 is that an entity shall recognise revenue to depict the transfer of promised goods or services to customers in an amount that reflects the consideration to which the entity expects to be entitled in exchange for those goods or services. IFRS 15 gives among other detailed guidance regarding the accounting for:

Multiple deliverables: Scania's current accounting principle for revenue recognition of transactions with multiple deliverables is in line with IFRS 15.

Variable consideration: IFRS 15 requires variable consideration, for example discounts and rebates, bonuses, to be estimated and taken into account when determining the consideration, to the extent that it is highly probable that a significant reversal in the amount of cumulative revenue recognised will not occur. Scania's current accounting principle is in line with IFRS 15.

Right of return: In a transaction which gives the customer the right to return the product an entity shall recognise revenue in the amount of consideration to which the entity expects to be entitled, a refund liability and an asset for its right to recover products from the customer on settling the refund liability. According to Scania's current accounting principles no provision is recorded for expected returns. However, the existence of customers' right of return is limited and Scania does not expect that IFRS 15 will have a significant impact.

Incremental costs for obtaining a contract: Sales commissions and equipment subsidies granted to dealers for obtaining a specific contract should be capitalised and deferred over the contract term if the contract is beyond one year. Scania currently does not capitalise such costs. Accounting for sales commission in accordance with IFRS 15 is not expected to have any significant impact since the existence of sales commission is limited.

Disclosures: IFRS 15 contains a number of disclosure requirements. The disclosure requirements will be analysed further.

Scania is still assessing the total impact of IFRS 15 on the financial statements and additional effects may be identified. However Scania does not expect to identify additional areas with significant impact.

IFRS 16, "Leases" – In January 2016, IASB issued a new lease standard that will replace IAS 17 Leases and the related interpretations IFRIC 4, SIC-15 and SIC-27. The standard requires assets and liabilities arising from all leases, with some exceptions, to be recognised on the balance sheet. This model reflects that, at the start of a lease, the lessee obtains the right to use an asset for a period of time and has an obligation to pay for that right. The accounting for lessors will in all material aspects be unchanged. The standard is effective for annual periods beginning on or after 1 January 2019. Early adoption is permitted. EU has not yet adopted the standard. The Group has not yet assessed the impact of IFRS 16.

Other changes in standards and interpretations that enter into force on 1 January 2017 or subsequently are not expected to have any material impact on Scania's accounting.

Parent company

Parent Company accounting principles

The Parent Company has prepared its Annual Report in compliance with Sweden's Annual Accounts Act and Recommendation RFR 2, "Accounting for Legal Entities" of the Swedish Financial Reporting Board. RFR 2 implies that the Parent Company in the Annual Report of a legal entity shall apply all International Financial Reporting Standards and interpretations approved by the EU as far as this is possible within the framework of the Annual Accounts Act, and taking into account the relationship between accounting and taxation. The recommendation states what exceptions from IFRS and additions shall or may be made.

The Parent Company does not apply IAS 39, "Financial instruments", but instead applies a cost-based method in accordance with the Annual Accounts Act.

The scope of financial instruments in the accounts of the Parent Company is extremely limited. The reader is thus referred to the Group's disclosures related to IFRS 7, "Financial instruments – Disclosures".

Subsidiaries

Holdings in subsidiaries are recognised in the Parent Company financial statements according to the cost method of accounting. Testing of the value of subsidiaries occurs when there is an indication of a decline in value. Dividends received from subsidiaries are recognised as income.

Anticipated dividends

Anticipated dividends from subsidiaries are recognised in cases where the Parent Company has the exclusive right to decide on the size of the dividend and the Parent Company has made a decision on the size of the dividend before having published its financial reports.

Taxes

The Parent Company financial statements recognise untaxed reserves including deferred tax liability. The consolidated financial statements, however, reclassify untaxed reserves to deferred tax liability and equity. Correspondingly, no allocation of part of the appropriations is made to deferred tax expense in the Parent Company's income statement.

Group contributions

The Parent Company recognises Group contributions received and provided as appropriations in the income statement.

NOTE 2 Key judgements and estimates

The key judgements and estimates for accounting purposes that are discussed in this section are those that Group Management and the Board of Directors deem the most important for an understanding of Scania's financial reports, taking into account the degree of significant influence and uncertainty. These judgements are based on historical experience and the various assumptions that Management and the Board deem reasonable under the prevailing circumstances. The conclusions drawn in this way provide the basis for decisions regarding recognised values of assets and liabilities, in those cases where these cannot easily be established through information from other sources. Actual outcomes may diverge from these judgements if other assumptions are made or other conditions emerge. Note 1 presents the accounting principles the company has chosen to apply. Important estimates and judgements for accounting purposes are attributable to the following areas.

Obligations

Scania delivers about 15 percent of its vehicles with residual value obligations or repurchase obligations. These are recognised as operating lease contracts, with the consequence that recognition of revenue and earnings is allocated over the life of the obligation.

If there are major downturns in the market value of used vehicles, this increases the risk of future losses when divesting the returned vehicles. When a residual value guarantee is deemed likely to result in a future loss, a provision is recognised in those cases where the expected loss exceeds the profit on the vehicle not yet recognised as revenue.

Changes in market value may also cause an impairment loss in used vehicle inventories, since these are recognised at the lower of cost and estimated net realisable value.

At the end of 2016, obligations related to residual value or repurchase amounted to SEK 15,200 m. (12,752).

Credit risks

In its Financial Services operations, Scania has an exposure in the form of contractual payments. At the end of 2016, these amounted to SEK 67,935 m. (56,486). In all essential respects, Scania has collateral in the form of the right to repossess the underlying vehicle. In case the market value of the collateral does not cover the exposure to the customer, and the customer has a problem completing its contractual payments, Scania has a risk of loss. On 31 December 2016, the reserve for doubtful receivables in Financial Services operations amounted to SEK 973 m. (872). See also "Credit risk" under Note 27, "Financial risk management".

Intangible assets

Intangible assets at Scania are essentially attributable to capitalised product development expenditures and "acquisition goodwill". All goodwill items at Scania stem from acquisitions of previously independent importers/dealerships. All goodwill items are subject to an annual impairment test, which is mainly based on recoverable amounts, including important assumptions on the sales trend, margin and discount rate before tax; see also below.

In the long term, the increase in sales of Scania's products is deemed to be closely correlated with economic growth (GDP) in each respective market, which has been estimated at 2 percent (2 percent). The revenue/cost ratio, or margin, for both vehicles and service is kept constant over time compared to the latest known level. When discounting to present value, Scania uses its average cost of capital, currently 10 percent (10 percent) before taxes.

These assumptions do not diverge from information from external information sources or from earlier experience. To the extent the above parameters change negatively, an impairment loss may arise. On 31 December 2016, Scania's goodwill amounted to SEK 1,357 m. (1,231). The impairment tests that were carried out showed that there are ample margins before impairment losses will arise.

Scania's development costs are capitalised in the phase of product development where decisions are made on future production and market introduction. At that time there is future predicted revenue and a corresponding production cost. In case future volume or the price and cost trend diverges negatively from the preliminary calculation, an impairment loss may arise. Scania's capitalised development costs amounted to SEK 6,618 m. (5,317) on 31 December 2016.

Pension obligations

In the actuarial methods that are used to establish Scania's pension liabilities, a number of assumptions are highly important. The most critical one is related to the discount rate on the obligations. Other vital assumptions are average life expectancy and average duration of the obligations. A higher discount rate decreases the recognised pension liability. In calculating the Swedish pension liability, the discount rate used was 2.75 percent (3.00). Changes in the above-mentioned actuarial parameters are recognised in "Other comprehensive income", net after taxes.

Product obligations

Scania's product obligations are mainly related to vehicle warranties in the form of a one-year "factory warranty" plus extended warranties and, in some cases, special quality campaigns. For each vehicle sold, Scania makes a warranty provision. For extended warranties and campaigns, a provision is made at the time of the decision. Provisions are dependent on the estimated quality situation and the degree of utilisation in the case of campaigns. An essential change in the quality situation may require an adjustment in earlier provisions. Scania's product obligations can be seen in Note 16, "Other provisions" and amounted to SEK 1,683 m. (1,381) on 31 December 2016.

Legal and tax risks

On 31 December 2016, provisions for legal and tax risks amounted to SEK 1,017 m. (1,336). See Note 16, "Other provisions".

Legal risks

Demands and claims aimed at the Group, including demands and claims that lead to legal proceedings, may be related to infringements of intellectual property rights, faults and deficiencies in products that have been delivered, including product liability, or other legal liability for the companies in the Group.

The Group is party to legal proceedings and related claims that are normal in its operations. In addition, there are demands and claims normal to the Group's operations that do not lead to legal proceedings. In the best judgement of Scania's management, such demands and claims will not have any material impact on the financial position of the Group, beyond the provisions that have been set aside.

In 2011, Scania became the subject of an investigation conducted by the European Commission concerning inappropriate cooperation. Scania received a statement of objections in the investigation in November 2014. In light of the European Commission's Statement of Objections and developments in the investigation, Scania has, in accordance with relevant accounting principles, made a provision in the June closing 2016 in the amount of SEK 3,800 m. in order to cover possible fines. Scania has fully cooperated with the European Commission during the investigation. However, Scania contests the Commission's view that the company has entered into a pan-European agreement with other manufacturers with regard to pricing, and that Scania has delayed the introduction of new engines compliant with EU-legislation for exhaust emissions. Scania will continue to fully exercise its rights of defence in the ongoing investigation. Scania is also the subject of related civil claims by direct or indirect customers of Scania, and may face additional similar claims.

Tax risks

The Group is party to tax proceedings. Scania's management has made the assessment, based on individual examination, that the final outcome of these proceedings will not have any material impact on the financial position of the Group, beyond the recognised reserves.

Significant judgements are made in order to determine both current and deferred tax liabilities/assets. As for deferred tax assets, Scania must assess the likelihood that deferred tax assets will be utilised to offset future taxable profits. The actual result may diverge from these judgements, among other things due to future changes in business climate, altered tax rules or the outcome of still uncompleted examinations of filed tax returns by authorities or tax courts. The judgements that have been made may affect income both negatively and positively.

NOTE 3 Operating segments

Scania's operations are divided into two different operating segments, which are based on how the Board of Directors and the Executive Board monitor operations. The results and financial position of each respective segment are monitored by the Board of Directors and the Executive Board, serving as the basis for decision making and allocation of resources.

The Vehicles and Services operating segment encompasses the following products: trucks, buses and engines, including the services associated with these products. All products are based on shared basic components, and monitoring of results thus occurs on an aggregated basis.

Vehicles and Services are, moreover, organised into shared areas of responsibility. The Financial Services operating segment provides financial solutions to Scania customers, such as loan financing, lease contracts and insurance solutions. Scania's internal pricing is determined according to market principles, at "arm's length distance". The revenue and expenses, as well as the assets and liabilities, of each operating segment are – in all essential respects – items directly attributable to that respective segment. Scania has a large number of customers all over the world, which means that its dependence on a single customer in each respective operating segment is very limited.

Operating segment

Income statement	Vehicles and Services		Financial Services ⁵		Eliminations		Scania Group	
	2016	2015	2016	2015	2016	2015	2016	2015
January – December								
Revenue from external customers ¹	103,927	94,897	6,529	5,517	-3,558	-2,622	106,898	97,792
Expenses ¹	-94,818	-86,342	-5,514	-4,477	3,558	2,622	-96,774	-88,197
Share of income in associated companies and joint ventures	60	46	0	0	0	0	60	46
Items affecting comparability ²	-3,800						-3,800	
Operating income	5,369	8,601	1,015	1,040	0	0	6,384	9,641
Interest income	630	599	-	-	-	-	630	599
Interest expenses	-1,035	-858	-	-	-	-	-1,035	-858
Other financial income and expenses ³	-16	-273	-	-	-	-	-16	-273
Income before tax	4,948	8,069	1,015	1,040	-	-	5,963	9,109
Taxes ³	-2,355	-2,082	-365	-274	-	-	-2,720	-2,356
Net income for the year	2,593	5,987	650	766	-	-	3,243	6,753
Depreciation/amortisation included in operating income ⁴	-3,572	-3,242	-23	-19	-	-	-3,595	-3,261

¹ Elimination of the amount that corresponds to depreciation/amortisation of operating leases in the Financial Services segment. At Group level, the revenue from operating leases shall consist of accrued income in the Vehicles and Services segment and interest income in the Financial Services segment, which is achieved by elimination of depreciation/amortisation.

² Provision 2016 regarding EU investigation, see note 2.

³ Financial income and expenses as well as taxes are reported at segment level to better reflect the Financial Services operating segment, whose operations are based on net financing expense after taxes. For reasons of comparability, the corresponding information is also shown for the Vehicles and Services operating segment.

⁴ Value decrease in operating leases is not included.

⁵ Scania's revenue in the Financial Services segment by type can be seen in Note 5.

Cash flow statement by segment	Vehicles and Services		Financial Services		Scania Group	
	2016	2015	2016	2015	2016	2015
Cash flow from operating activities before change in working capital	10,413	10,457	859	981	11,272	11,438
Change in working capital etc.	878	1,656		-	878	1,656
Cash flow from operating activities	11,291	12,113	859	981	12,150	13,094
Cash flow from investing activities	-7,864	-7,737	-8,643	-4,797	-16,507	-12,534
Cash flow before financing activities	3,427	4,376	-7,784	-3,816	-4,357	560

Balance sheet	Vehicles and Services		Financial Services		Eliminations		Scania Group	
	2016	2015	2016	2015	2016	2015	2016	2015
31 December								
Assets								
Intangible assets	8,404	6,825	34	30	–	–	8,438	6,855
Tangible assets	28,967	25,198	111	111	–	–	29,078	25,309
Lease assets ⁶	11,218	8,771	16,715	13,889	–2,401	–2,232	25,532	20,428
Holdings in associated companies and joint ventures	605	516	0	0	–	–	605	516
Interest-bearing receivables, non-current ⁷	60	29	30,925	26,330	–	–	30,985	26,359
Other receivables, non-current	5,074	4,431	569	298	–	–	5,643	4,729
Inventories	19,119	16,918	0	0	–	–	19,119	16,918
Interest-bearing receivables, current ⁷	186	106	20,295	16,267	–	–	20,481	16,373
Other receivables, current ⁸	13,651	11,052	1,499	1,134	–793	–916	14,356	11,270
Current investments, cash and cash equivalents	11,487	17,056	1,441	1,063	–4,173	–5,611	8,756	12,508
Total assets	98,771	90,902	71,589	59,122	–7,367	–8,759	162,993	141,265
Equity and liabilities								
Equity	35,859	32,035	6,453	5,802	–	–	42,312	37,837
Interest-bearing liabilities ⁹	0	9,728	62,184	50,825	–4,173	–5,611	58,011	54,942
Provisions for pensions	8,555	7,279	72	60	–	–	8,627	7,339
Other non-current provisions	6,436	2,891	3	2	–	–	6,439	2,893
Other liabilities, non-current	13,960	10,887	734	614	–	–	14,694	11,501
Current provisions	3,148	1,982	73	19	–	–	3,221	2,001
Other liabilities, current ⁷	30,813	26,100	2,070	1,800	–3,194	–3,148	29,689	24,752
Total equity and liabilities	98,771	90,902	71,589	59,122	–7,367	–8,759	162,993	141,265
Gross investment for the period in								
– Intangible assets	1,855	1,941	10	18	0	–	1,865	1,959
– Tangible assets	5,674	5,559	33	20	0	–	5,707	5,579
– Lease assets ⁸	5,789	4,334	8,904	7,933	–1,002	–1,170	13,691	11,097

6 Elimination refers to deferred profit on lease assets.

7 Interest-bearing receivables in the Financial Services segment mainly consist of hire purchase receivables and financial lease receivables.

8 Elimination refers to intra-Group receivables and liabilities between the two segments.

9 Refers to interest-bearing liabilities that are not allocated between non-current and current by segment.

NOTE 3 Operating segment reporting, continued

PRODUCTS AND SERVICES		
Vehicles and Services	2016	2015
Trucks	65,615	61,250
Buses	10,867	8,994
Engines	1,647	1,656
Service	21,611	20,585
Used vehicles	6,452	6,236
Other products	2,753	1,836
<i>Total delivery value</i>	<i>108,945</i>	<i>100,557</i>
Adjustment for lease income ¹	-5,018	-5,660
Net sales, Vehicles and Services	103,927	94,897
Financial Services	6,529	5,517
Eliminations ²	-3,558	-2,622
Revenue from external customers	106,898	97,792

1 Refers mainly to new trucks, SEK -4,083 m. (-4,832) and new buses, SEK -589 m. (-497). The adjustment amount consists of the difference between sales value based on delivery and revenue recognised as income. This difference arises when a lease or delivery is combined with a residual value guarantee or a repurchase obligation. Significant risks remain, therefore recognition is based on an operating lease contract. This means that recognition of revenue and earnings is allocated based on the term of the obligation.

2 Elimination of the amount that corresponds to depreciation/amortisation of operating leases in the Financial Services segment. At Group level, the revenue from operating leases shall consist of accrued income in the Vehicles and Services segment and interest income in the Financial Services segment, which is achieved by elimination of depreciation/amortisation.

Geographical areas

MSEK	Europe		Eurasia		Asia		America ³⁾		Afrika & Oceania		Total	
	2016	2015	2016	2015	2016	2015	2016	2015	2016	2015	2016	2015
Vehicles and Services												
Net sales, January–December ^{1,4}	68,174	59,880	3,291	2,623	13,194	13,055	10,713	11,781	8,555	7,558	103,927	94,897
Assets, 31 December ²	78,513	71,324	604	877	2,357	5,000	15,553	10,833	1,744	2,868	98,771	90,902
Gross investments ²	6,154	6,444	46	47	70	182	1,233	753	26	74	7,529	7,500
Non-current assets ⁵	45,336	39,286	463	362	1,200	1,161	6,448	4,227	881	735	54,328	45,770
Financial Services												
Revenue, January–December ^{1,6}	5,275	4,346	262	278	140	126	530	523	322	244	6,529	5,517
Assets, 31 December ²	55,715	47,173	2,203	1,541	2,342	1,804	8,065	6,538	3,264	2,066	71,589	59,122
New financing customers	35,724	29,307	1,466	1,030	1,310	1,026	2,602	3,672	1,959	1,693	43,061	36,728
Non-current assets ⁷	39,350	33,659	983	793	1,588	1,199	4,344	3,678	2,089	1,329	48,354	40,658

1 Revenue from external customers is allocated by location of customers.

2 Assets and gross investments, respectively (excluding lease assets), by geographic location.

3 Refers mainly to Latin America.

4 Of which Sweden 6,496 (5,338).

5 Of which Sweden 25,482 (22,485).

6 Of which Sweden 270 (241).

7 Of which Sweden 3,462 (2,972).

The geographic areas of Scania are based on where the customers are located. In the section definitions the countries in each geographic area are listed. Sales of Scania's products occur in all five geographic areas. Financial Services is found mainly in the European markets and to a lesser extent in the others. Most of Scania's research and development work occurs in Sweden. Manufacturing of trucks, buses and industrial and marine engines occurs in Sweden, Argentina, Brazil, Finland, France, the Netherlands, Poland and Russia.

NOTE 4 Operating expenses

Vehicles and Services	2016	2015
Cost of goods sold		
Cost of goods	49,599	44,134
Staff	15,824	14,100
Depreciation/amortisation ¹	2,552	2,263
Other	9,713	9,892
Total	77,688	70,389
¹ Of which an impairment loss of SEK 59 m. (0).		
Research and development expenses		
Staff	2,237	2,028
Depreciation/amortisation	718	675
Other	2,949	2,870
Total	5,904	5,573
Selling expenses		
Staff	5,282	4,986
Depreciation/amortisation ¹	293	297
Other	4,161	3,788
Total	9,736	9,071
¹ Of which an impairment loss of SEK 9 m. (10).		
Administrative expenses		
Staff	780	677
Depreciation/amortisation	9	7
Other	701	625
Total	1,490	1,309

Financial Services	2016	2015
Selling and administrative expenses		
Staff	625	563
Depreciation/amortisation	23	19
Other	277	241
Total	925	823

Cost of goods includes new trucks, buses, engines, parts, used vehicles, bodywork and cars. The cost of goods may vary, depending on the degree of integration in different markets. Capitalised product development expenditures have reduced the expense categories "Staff" and "Other".

NOTE 5 Financial Services

Financial Services offers various forms of financing solutions, ordinarily with maturities of between 3–5 years, with the vehicle as underlying collateral. Market conditions as well as civil law and tax rules in each country often determine what financing solution is offered. Financing consists mainly of financial leases, in which the right of ownership of the vehicle remains with Scania during the lease term, but material risks and rewards have been transferred to the lessee. If hire purchase contracts are offered, the right of ownership is transferred to the customer on the date of sale, but Financial Services receives collateral in the form of a lien on the vehicle. If Financial Services offers a lease when delivering vehicles for which substantial risks remain with Scania, primarily attributable to guaranteed residual values, the contract is recognised as an operating lease.

	2016	2015
Interest income	2,294	2,373
Lease income	4,235	3,144
Depreciation	-3,558	-2,622
Interest expenses	-963	-921
<i>Net interest income</i>	<i>2,008</i>	<i>1,974</i>
Other income and expenses	88	133
<i>Gross income</i>	<i>2,096</i>	<i>2,107</i>
Selling and administrative expenses	-925	-823
Bad debt expenses ¹	-156	-244
Operating income	1,015	1,040

¹ These expenses were equivalent to 0.25 (0.44) percent of the average credit portfolio.

Lease assets (operating leases)	2016	2015
1 January	13,889	11,613
New contracts	8,904	7,932
Depreciation	-3,558	-2,622
Terminated contracts	-2,701	-2,629
Change in value adjustments	-5	5
Exchange rate differences	186	-410
Carrying amount, 31 December²	16,715	13,889

² The consolidated balance sheet also includes elimination of deferred profit of SEK 2,401 m. (2,232).

NOTE 5 Financial Services, continued

Financial receivables (hire purchase contracts and financial leases)	2016	2015
1 January	42,597	43,943
New receivables	26,345	24,188
Loan principal payments/terminated contracts	-20,541	-22,203
Divestment of business	-46	-
Change in value adjustments	-78	-128
Exchange rate differences	2,943	-3,203
Carrying amount, 31 December	51,220	42,597
Total receivables and lease assets³	67,935	56,486

3 The number of contracts in the portfolio on 31 December totalled about 132 000 (120,000).

Net investments in financial leases	2016	2015
Receivables related to future minimum lease payments	31,769	25,448
Less:		
Reserve for bad debts	-628	-601
Imputed interest	-2,308	-1,945
Net investment⁴	28,833	22,902

4 Included in the consolidated financial statements under "current" and "non-current interest-bearing receivables".

Future minimum lease payments ⁵	Operating leases	Financial leases
2017	3,329	11,259
2018	2,440	8,506
2019	1,498	6,286
2020	657	3,546
2021	199	1,714
2022 and later	87	458
Total	8,210	31,769

5 "Minimum lease payments" refers to the future flows of incoming payments related to the contract portfolio, including interest. For operating leases, the residual value is not included since this is not a minimum lease payment for these contracts.

NOTE 6 Financial income and expenses

	2016	2015
Interest income		
Bank balances and financial investments	361	359
Derivatives ¹	268	237
Pension assets	1	3
Total interest income	630	599
Interest expenses		
Borrowings	-589	-516
Derivatives ¹	-759	-622
Total borrowings and derivatives	-1,348	-1,138
Less interest expenses recognised in Financial Services ²	568	536
Pension liability	-255	-256
Total interest expenses	-1,035	-858
Total net interest	-405	-259
Other financial income ³	292	12
Other financial expenses ³	-308	-285
Total other financial income and expenses	-16	-273
Net financial items	-421	-532

1 Refers to interest on derivatives that are used to match interest on borrowings and lending as well as the interest component in derivatives that are used to convert borrowing currencies to lending currencies.

2 Recognised in the operating income of Financial Services.

3 Refers to SEK 88 m. (-171) in market valuation of financial instruments for which hedge accounting is not applied, as well as exchange rate differences and unrealised/realised gains of SEK 7,288 m. (3,661) and unrealised/realised losses of SEK 7,298m. (3,723) attributable to foreign exchange derivatives and bank-related costs.

NOTE 7 Taxes

Tax expense/income for the year	2016	2015
Current tax ¹	-2,725	-2,461
Deferred tax	5	105
Total	-2,720	-2,356
1 Of which, taxes paid:	-2,721	-2,094

Deferred tax is attributable to the following:	2016	2015
Tax related to temporary differences	292	108
Tax due to changes in tax rates and tax rules ²	14	12
Tax income due to tax value of loss carry-forwards recognised during the year	32	143
Tax expense due to utilisation of previously recognised tax value of tax loss carry-forwards	-208	-107
Tax related to change in provision to tax allocation reserve	-186	-99
Other deferred tax liabilities/assets	61	48
Total	5	105

2 The effect of changes in tax rates mainly refers to Germany, Norway and Chile (during 2016) and Italy, Brazil and Great Britain (during 2015).

Reconciliation of effective tax	2016		2015	
	Amount	%	Amount	%
Income before tax	5,963		9,109	
Tax calculated using Swedish tax rate	-1,312	22,0	-2,004	22,0
Tax effect and percentage influence:				
Difference between Swedish and foreign tax rates	-164	3	-214	2
Tax-exempt income	152	-3	121	-1
Non-deductible expenses	-1012	17	-170	2
Utilisation of tax value of loss carry-forwards not previously recognised	2	0	64	-1
Valuation of tax value of loss carry-forwards not previously recognised	0	0	10	0
Not recognised tax loss carry-forward	-128	2	-64	1
Derecognised deferred tax assets not utilized	-188	3	-11	0
Adjustment for taxes pertaining to previous years	-92	2	-66	1
Changed tax rates	22	0	9	0
Other	0	0	-31	0
Tax recognised	-2,720	46	-2,356	26

Deferred tax assets and liabilities are attributable to the following:	2016	2015
Deferred tax assets		
Provisions	1,096	921
Provisions for pensions	1,571	1,287
Non-current assets	1,426	1,227
Inventories	819	675
Unutilised tax loss carry-forwards ³	254	425
Other liabilities	3,002	2,083
Other	1	233
Offset within tax jurisdictions	-4,337	-3,904
Total deferred tax assets⁴	3,832	2,947
Deferred tax liabilities		
Provisions	202	162
Non-current assets	6,136	5,328
Other liabilities	74	76
Tax allocation reserve ⁵	287	121
Other	7	66
Offset within tax jurisdictions	-4,337	-3,904
Total deferred tax liabilities	2,369	1,849
Deferred tax assets (-)/tax liabilities (+), net amount	-1,463	-1,098

3 Of the deferred tax assets attributable to unutilised tax loss carry-forwards, SEK 313 m. may be utilised without time constraints.

4 Deferred tax assets related to tax loss carry-forwards are recognised to the extent that it is likely that the loss carry-forwards can be utilised to offset profits in future tax returns. Deferred tax assets related to unutilised tax loss carry-forwards of SEK 166 m. (12,443) were not assigned a value. Tax loss carry-forward not assigned a value may be utilised without time constraints.

5 In Sweden, tax laws permit provisions to an untaxed reserve called a tax allocation reserve. Deductions for provisions to this reserve are allowed up to a maximum of 25 percent of taxable profits. Each provision to this reserve may be freely withdrawn and face taxation, and must be withdrawn no later than the sixth year after the provision was made.

NOTE 7 Taxes, continued

Reconciliation of deferred tax assets (-) / liabilities (+), net amount	2016	2015
Carrying value on 1 January	-1,098	-1,573
Deferred taxes recognised in the year's income	-5	-105
Exchange rate differences	-153	149
Acquired/divested businesses	0	23
Recognised in "Other comprehensive income", changes attributable to:		
- remeasurements of defined-benefit plans	-207	403
- hedge reserve		5
Deferred tax assets (-)/tax liabilities (+), net amount	-1,463	-1,098

NOTE 8 Depreciation/amortisation

Vehicles and Services	2016	2015
Intangible non-current assets		
Research and development expenses	413	419
Selling expenses	67	66
Total	480	485
Tangible non-current assets		
Costs of goods sold ¹	2,552	2,263
Research and development expenses	305	256
Selling expenses	226	231
Administrative expenses	9	7
Total	3,092	2,757
Total depreciation/amortisation, Vehicles and Services²	3,572	3,242

1 Of which, a value decrease of SEK 374 m. (351) related to short-term rentals in Vehicles and Services. In addition, there was a value decrease of SEK 1,484 m. (1,132) in capitalised repurchasing obligations.

2 Of which SEK 70 m. (10) is an impairment loss.

Financial Services	2016	2015
Operating leases (payments of principal)	3,558	2,622
Other non-current assets ¹	23	19
Total depreciation/amortisation, Financial Services	3,581	2,641

In the Group accounts, depreciation/amortisation was adjusted downward by SEK 833 m. (709) to its consolidated value. In Note 10, Group depreciation/amortisation related to short-term rentals, capitalised repurchasing obligations and operating leases under the heading "Lease assets" thus amounted to SEK 4,583 m. (3,396).

1 Of which SEK 8 m. (6) are intangible assets.

NOTE 9 Intangible assets

2016	Goodwill	Development	Other intangibles ¹	Total
Accumulated cost				
1 January	1,253	8,802	959	11,014
Acquisitions/divestment of subsidiaries	1	–	1	2
Additions	–	1,682	183	1,865
Divestments and disposals	–	–	–71	–71
Reclassifications	–	–	52	52
Exchange rate differences	128	6	56	190
Total	1,382	10,490	1,180	13,052
Accumulated amortisation and impairment losses				
1 January	22	3,485	652	4,159
Amortisation for the year				
– Vehicles and Services	–	384	91	475
– Financial Services	–	–	8	8
Impairment loss of the year	3	2	–	5
Divestments and disposals	–	–	–66	–66
Exchange rate differences	0	1	32	33
Total	25	3,872	717	4,614
Carrying amount, 31 December	1,357	6,618	463	8,438
– of which capitalised expenditures for projects that have been placed in service		933		
– of which capitalised expenditures for projects under development		5,685		
<small>1 Refers mainly to software, which is purchased externally in its entirety, and customer relationships capitalised upon acquisitions of subsidiaries.</small>				
Group borrowing expenditures				
Borrowing expenditures included in cost of the item “Development during the year”		3		
Interest rate for determination of borrowing expenditures included in cost		0.48%		

NOTE 9 Intangible assets, continued

2015	Goodwill	Development	Other intangibles ¹	Total
Accumulated cost				
1 January	1,173	6,943	851	8,967
Acquisitions/divestment of subsidiaries	166	–	57	223
Additions	–	1,863	96	1,959
Divestments and disposals	–	–	–8	–8
Reclassifications	–	–	1	1
Exchange rate differences	–86	–4	–38	–128
Total	1,253	8,802	959	11,014
Accumulated amortisation and impairment losses				
1 January	25	3,092	591	3,708
Amortisation for the year				
– Vehicles and Services	–	393	92	485
– Financial Services	–	–	6	6
Impairment loss of the year	–	–	–	–
Divestments and disposals	–	–	–8	–8
Exchange rate differences	–3	–	–29	–32
Total	22	3,485	652	4,159
Carrying amount, 31 December	1,231	5,317	307	6,855
– of which capitalised expenditures for projects that have been placed in service		1,133		
– of which capitalised expenditures for projects under development		4,184		
¹ Refers mainly to software, which is purchased externally in its entirety, and customer relationships capitalised upon acquisitions of subsidiaries.				
Group borrowing expenditures				
Borrowing expenditures included in cost of the item "Development during the year"		6		
Interest rate for determination of borrowing expenditures included in cost		0,8%		

Scania tests the value of goodwill and other intangible assets at least yearly. Goodwill has been allocated to the cash-generating unit to which it belongs, which usually correspond to a reporting unit. Goodwill has been allocated among a number of cash-generating units, and the amount allocated to each unit is not significant compared to the Group's total carrying amount for goodwill. Goodwill that has been allocated to cash-generating units coincides with the total carrying value of goodwill. Goodwill is tested for impairment on the lowest level at which the goodwill is monitored for internal management purposes and is not larger than an operating segment. The assumptions used in estimating recoverable amounts are disclosed in Note 2, "Key judgements and estimates".

Intangible assets are essentially attributable to capitalised product development expenditures and "acquisition goodwill". All goodwill items are attributable to acquisitions of previously independent importers/dealers that comprise separate cash-generating units.

NOTE 10 Tangible assets

2016	Buildings and land	Machinery and equipment	Construction in progress and advance payments	Lease assets ¹	Total
Accumulated cost					
1 January	19,497	31,488	5,417	25,752	82,154
Acquisitions/divestments of subsidiaries ²	0	2	0	–	2
Additions	169	836	4,702	13,691	19,398
Divestments and disposals ³	–66	–820	–5	–6,192	–7,083
Reclassifications	923	3,776	–4,770	1,670	–1,741
Exchange rate differences	887	1,108	201	648	2,844
Total	21,410	36,390	5,545	32,229	95,574
Accumulated depreciation and impairment losses⁴					
1 January	8,039	23,054	–	5,324	36,417
Acquisitions/divestments of subsidiaries	0	2	–	–	2
Depreciation for the year					
– Vehicles and Services	460	2,194	–	1,858	4,512
– Financial Services	2	13	–	3,558	3,573
– Elimination	–	–	–	–833	–833
Impairment loss for the year	46	18	–	14	78
Divestments and disposals	–25	–709	–	–2,784	–3,518
Reclassifications	8	–3	–	–590	–585
Exchange rate differences	330	838	–	150	1,318
Total	8,860	25,407	–	6,697	40,964
Carrying amount, 31 December	12,550	10,983	5,545	25,532	54,610
– of which “Buildings”	9,393				
– of which “Land”	3,157				
– of which Financial Services	60	49	1	16,715	16,825

1 Including assets for short-term rentals, operating leases as well as assets capitalised due to repurchase obligations.

2 Of which increase through business combinations amounts to SEK 2 m.

3 An amount of SEK 12 m. as compensation for damaged tangible assets was obtained from third parties and recognised as income in the income statement.

4 Impairment losses on lease assets refer to value adjustment for credit losses.

NOTE 10 Tangible assets, continued

2015	Buildings and land	Machinery and equipment	Construction in progress and advance payments	Lease assets ¹	Total
Accumulated cost					
1 January	19,313	31,539	3,250	22,712	76,814
Acquisitions/divestments of subsidiaries ²	2	4	–	–	6
Additions	179	1,030	4,370	11,097	16,676
Divestments and disposals ³	–101	–853	–6	–5,660	–6,620
Reclassifications	942	1,202	–2,086	–1,353	–1,295
Exchange rate differences	–838	–1,434	–111	–1,044	–3,427
Total	19,497	31,488	5,417	25,752	82,154
Accumulated depreciation and impairment losses ⁴					
1 January	7,811	22,969	–	5,223	36,003
Acquisitions/divestments of subsidiaries	0	0	–	–	0
Depreciation for the year					
– Vehicles and Services	453	1,943	–	1,483	3,879
– Financial Services	0	13	–	2,622	2,635
– Elimination	–	–	–	–709	–709
Impairment loss for the year	9	1	–	18	28
Divestments and disposals	–64	–689	–	–2,549	–3,302
Reclassifications	143	–138	–	–529	–524
Exchange rate differences	–313	–1,045	–	–235	–1,593
Total	8,039	23,054	–	5,324	36,417
Carrying amount, 31 December	11,458	8,434	5,417	20,428	45,737
– of which “Buildings”	8,520				
– of which “Land”	2,938				
– of which Financial Services	79	32		13,889	14,000

¹ Including assets for short-term rentals, operating leases as well as assets capitalised due to repurchase obligations.

² Of which increase through business combinations amounts to SEK 6 m.

³ An amount of SEK 100 m. as compensation for damaged tangible assets was obtained from third parties and recognised as income in the income statement.

⁴ Impairment losses on lease assets refer to value adjustment for credit losses.

NOTE 11 Holdings in associated companies and joint ventures

	2016	2015
Carrying amount, 1 January	496	515
Acquisitions, capital contributions, divestments and impairment losses during the year ^{1,2}	4	-9
Exchange rate differences	38	28
Share in income for the year	60	41
Dividend	-18	-79
Carrying amount, 31 December	580	496
Contingent liabilities	-	-

1 SEK -9 m. refers to divestment of the shareholding in Cummins-Scania HPI LLC in 2015.

2 SEK 4 m. refers to acquisition of N.W.S S.R.L., 2016

Associated companies / Corporate ID number / Country of registration	Ownership, %	Carrying amount in Parent Company financial statements	Value of Scania's share in consolidated financial statements	
			2016	2015
BITS DATA i Södertälje AB, 556121-2613, Sweden	33	2	5	10
Laxå Specialvehicles AB, 556548-4705, Sweden	47.5	24	50	45
ScaValencia S.A., A46332995, Spain	26	15	24	22
N.W.S S.R.L., IT1541500227, Italy	46.5	4	3	-
Holdings in associated companies		45	82	77
Share of:				
Net income ³			17	19
Total comprehensive income			17	19

3 Includes a gain of SEK 5 m. referring to divestment of the shareholding in Cummins-Scania HPI LLC in 2015.

Joint ventures / Corporate ID number / Country of registration	Ownership, %	Carrying amount in Parent Company financial statements	Value of Scania's share in consolidated financial statements	
			2016	2015
Cummins-Scania XPI Manufacturing LLC, 20-3394999, USA	50	502	489	411
Oppland Tungbilservice A/S, 982 787 602, Norway	50	1	5	4
Tynset Diesel A/S, 982 787 580, Norway	50	1	4	4
Holdings in joint ventures		504	498	419
Share of:				
Net income			43	27
Total comprehensive income			43	27
Holdings in associated companies and joint ventures			580	496
Other shares and participations			25	20
Total			605	516

NOTE 11 Holdings in associated companies and joint ventures, continued

Summarised financial information regarding Scania's holdings in the joint venture Cummins-Scania XPI Manufacturing LLC is set out below:

Summarised income statement	2016	2015
Net sales	2,062	2,276
Operating income ¹	120	61
Interest income/expenses and Other financial expenses	-2	12
Taxes	-35	-22
Net income for the year	83	51
Other comprehensive income for the year	-	-
Total comprehensive income for the year	83	51
Scania Group's share (50%)	42	26

¹ Depreciation amounting to SEK 114 m. (114) is included in Operating income.

NOTE 12 Inventories

	2016	2015
Raw materials, components and supplies	2,478	2,018
Work in progress	1,508	1,345
Finished goods ¹	15,133	13,555
Total	19,119	16,918
1 Of which, used vehicles.	2,139	1,811
Value adjustment reserve, 31 December	-959	-1,025

Summarised balance sheet	2016	2015
Non-current assets	686	638
Current investments and cash and cash equivalents	314	323
Other current assets	485	507
Total assets	1,485	1,468
Equity	979	822
Other current liabilities	506	646
Total equity and liabilities	1,485	1,468
Scania Group's share of equity (50%)	490	411
Carrying amount	490	411

Scania has received dividends from Cummins-Scania XPI Manufacturing LLC amounting to SEK 0 m. (67). Cummins-Scania XPI Manufacturing LLC is a joint venture with Scania and Cummins as partners. The joint venture manufactures fuel injection systems with extra-high pressure injection (XPI). Cummins-Scania XPI Manufacturing LLC is recognised using the equity method.

NOTE 13 Other receivables

	2016	2015
Prepaid expenses and accrued income	519	423
Derivatives with positive market value	374	595
Advance payments	24	1
Pension asset	10	107
Other receivables	365	227
Total other non-current receivables	1,292	1,353
Prepaid expenses and accrued income	1,346	1,179
Derivatives with positive market value	329	580
Value-added tax	2,243	1,527
Advance payments	239	94
Other receivables	1,384	714
Total other current receivables	5,541	4,094
Total other receivables	6,833	5,447

NOTE 14 Equity

The consolidated statements of changes in equity shows a complete reconciliation of all changes in equity.

The share capital of Scania AB consists of 400,000,000 Series A shares outstanding with voting rights of one vote per share and 400,000,000 Series B shares outstanding with voting rights of 1/10 vote per share. A and B shares carry the same right to a portion of the company's assets and profit. The nominal value of both A and B shares is SEK 2.50 per share. All shares are fully paid and no shares are reserved for transfer of ownership. No shares are held by the company itself or its subsidiaries.

Other contributed capital consists of a statutory reserve contributed by the owners of Scania AB when it became a limited company in 1995.

The hedge reserve consists of the change in market value of commercial cash flow hedging instruments in cases where hedge accounting is applied according to IAS 39, "Financial Instruments: Recognition and Measurement".

The currency translation reserve arises when translating net assets outside Sweden according to the current method of accounting. The currency translation reserve also includes currency rate differences related to monetary items for businesses outside Sweden deemed to be a part of the company's net investment. The positive exchange rate difference of SEK 1,932 m. (-2,465) arose as a result of the Swedish krona's depreciation against currencies important to Scania. The exchange rate differences were mainly due to the krona's depreciation against the BRL.

Retained earnings consist not only of accrued profits but also of the change in pension liability attributable to remeasurements of defined-benefit plans etc. recognised in "Total other comprehensive income". Regarding changes in actuarial assumptions, see also Note 15, "Provisions for pensions and similar commitments".

Scania AB decided on an Extraordinary General Meeting in December 2015 on a dividend of SEK 9,600 m. which corresponded to approximately 50 percent of the net income for the financial years 2013, 2014 and 2015. The decided dividend was in line with Scania's policy of distributing approximately 50 percent of the net income to the shareholders, since no dividends was paid in 2014 and 2015.

For the Annual General Meeting in 2017 the Board decided on a proposal of SEK 0 for the financial year 2016. The dividend policy of distributing approximately 50 percent of the net income over time is still valid, why future dividends can comprise accumulated earnings from several years. Retained earnings amounting to SEK 6,882 m. will therefore be carried forward.

Non-controlling interests refer to the share of equity held by external owners outside of Scania in certain subsidiaries in the

Group. Scania Group has a few non-wholly owned subsidiaries of which one is considered to have a substantial non-controlling interest. Qanadeel AL Rafidain Automotive Trading Co. Ltd. in Iraq has non-controlling interest amounting to 24,5 percentage (49) of the shares and voting power in the company. In 2016, income attributable to non-controlling interests amounted to SEK -13 m. (-11) and accumulated non-controlling interests in the company amounted to SEK 20 m. (47) as of 31 December 2016.

Reconciliation of change in number of shares outstanding	2016	2015
Number of A shares outstanding, 1 January	400,000,000	400,000,000
Number of A shares outstanding, 31 December	400,000,000	400,000,000
Number of B shares outstanding, 1 January	400,000,000	400,000,000
Number of B shares outstanding, 31 December	400,000,000	400,000,000
Total number of shares, 31 December	800,000,000	800,000,000

The equity of the Scania Group consists of the sum of equity attributable to Scania's shareholders and equity attributable to non-controlling interests. At year-end 2016, the Group's equity totalled SEK 42,312 m. (37,837). According to the Group's Financial Policy, the Group's financial position shall meet the requirements of the business objectives it has established. At present, this is deemed to presuppose a financial position equivalent to the requirements for obtaining at least an BBB+ credit rating from the one of the most important rating institutions.

In order to maintain the necessary capital structure, the Group may adjust the amount of its dividend to shareholders, distribute capital to the shareholders or sell assets and thereby reduce debt.

Financial Services includes eleven companies that are subject to oversight by national financial inspection authorities. In some countries, Scania must comply with local capital adequacy requirements. During 2016, these units met their capital adequacy requirements.

The Group's Financial Policy contains targets for key ratios related to the Group's financial position. These coincide with the ratios used by credit rating institutions. Scania's credit rating according to Standard and Poor's at the end of 2016 was for:

- long-term borrowing: BBB+
- outlook: Negative
- short-term borrowing: A-2
- short-term borrowing, Sweden: K-1.

NOTE 15 Provisions for pensions and similar commitments

The Group's employees, former employees and their survivors may be included in both defined-contribution and defined-benefit plans related to post-employment compensation. The plans include retirement pensions, early retirement pensions, survivor pensions, health care and severance pay. For defined-contribution plans, Scania makes continuous payments to public authorities and independent organisations, which thus take over obligations towards employees.

The Group's expenses for defined-contribution plans amounted to SEK 910 m. (847) during 2016. The commitment that is recognised in the balance sheet stems from the defined-benefit plans. The plans are secured through reinsured provisions in the balance sheet, foundations and funds. Calculations are performed according to the Projected Unit Credit Method, using the assumptions presented under each country below. Scania's forecast pension payments related to defined-benefit plans, both funded and unfunded plans, is SEK 290 m. for 2017.

The largest plans are described in more detail below.

Sweden

Blue-collar workers are covered by the SAF/LO plan, which is a defined-contribution multi-employer plan based on collective agreements, covering a number of different sectors.

Salaried employees are covered by the ITP plan, which is also a multi-employer plan based on collective agreements, covering a number of different sectors. The ITP plan has two parts, firstly, ITP1, which is a defined-contribution pension plan applying to employees born in 1979 or later, and secondly, ITP2, which is a defined-benefit pension plan applying to employees born before 1979.

Most of the ITP2 plan is managed internally by Scania in the PRI system. Financing occurs through provisions to an account in the balance sheet, safeguarded by credit insurance from the mutual insurance company Försäkringsbolaget PRI Pensionsgaranti. However, a portion of the ITP2 plan is safeguarded via premiums to the retirement insurance company Alecta. These obligations are recognised under the heading "Multi-employer defined-benefit plans".

Aside from these obligations, there are defined-benefit obligations in Scania CV relating to blue-collar workers who at the age of 62 have worked for 30 years or who at the age of 63 have worked for 25 years in the company, as well as to a limited number of persons in managerial positions. Special payroll tax is included in the provision for pension provisions.

Switzerland

The Pensionskasse and the Wohlfahrtsstiftung are the legal carriers of the pension plans and reviewing early retirement pension. There are two pension plans:

1. A basic pension plan for employees and management, covering retirement pension, disability pension, spouse pension, children's pension and life insurance.
2. A supplementary plan for members of the management, covering retirement pension, disability pension, spouse pension, children's pension and life insurance. This plan also includes early retirement pension, which covers employees with at least five years of service or who have retired prematurely at the request of the company.

Contributions are split between employer and employees for the basic pension plan and in the supplementary plan for members of the management.

Switzerland recognises the net pension assets in the balance sheet and an asset ceiling is thus applied.

Brazil

Employees at Scania Latin America Ltda are covered by four post-employment defined-benefit plans. Three health care plans cover medical, dental and pharmaceutical expenses as well as the cost of a life insurance plan. The plans are open to personnel retiring at a minimum age of 55 with at least 10 years' service.

Great Britain

Employees at Scania Great Britain (SGB) are covered by a premium-based occupational pension. Both the company and employees contribute to the plan. There are defined-benefit plans, which are closed for future accruals since 31 May 2003. The defined-benefit plans operated by SGB include the following:

1. The Scania Staff Pension Plan
2. The Scania Executive Pension Plan
3. The Scania Reliable Vehicles Staff Pension Plan

All plans are administered by trustees who are responsible for ensuring that SGB has sufficient financing to fully meet all vested/earned benefits for all members.

The normal retirement age in the schemes is 65.

Multi-employer defined-benefit plans

Sweden

A portion of the ITP2 plan is safeguarded by premiums to Alecta. These obligations are also defined-benefit plans but since Alecta can not present information necessary to account for the plan as a defined-benefit plan it is accounted for as a defined-contribution plan.

At year-end 2016, Alecta's surplus, in the form of a collective consolidation level (assets in relation to the insurance obligation), amounted to 148 percent (153). If the consolidation level falls below or exceeds the normal range (122-155), Alecta shall take measures, for example raise agreed subscription prices and extension of existing benefits, or introduce premium reductions.

Alecta's insurance obligation is calculated according to Alecta's actuarial methods and assumptions, which deviate from the methods and assumptions applied in measurement of defined-benefit pensions according to IAS 19. Premiums to Alecta amounted to SEK 114 m. (109).

The Netherlands

Employees at Scania's Dutch companies are covered by the Dutch collectively-agreed pension plans, which are multi-employer defined benefit plans. The plans Pensioenfonds Metaal en Techniek (PMT) and Bedrijfstakpensioenfonds Metalelktro (PME) are administered by MN Services. PMT and PME do not have information about allocation and therefore these obligations are recognised as a defined-contribution plan. In the Dutch plans, both companies and employees contribute to the plan. Companies' premiums to MN Services totalled SEK 85 m. (82). The consolidation level of PMT was 97 percent (97) and for PME 92 percent (98).

Information regarding the largest plans during 2016	Sweden	Switzerland	Brazil	Great Britain
Present value of defined-benefit obligations	7,098	978	637	933
Fair value of plan assets	-	-988	-78	-703
Net assets not fully valued due to curtailment rule	-	-	14	-
Recognised as pension liability (asset) in the balance sheet, SEK m.	7,098	-10	573	230
Breakdown into categories				
Present value of defined-benefit obligations for persons in active employment, SEK m.	4,738	522	-41	-
Persons in active employment, number	8,885	342	2,845	-
Present value of defined-benefit obligations for paid-up policy holders, SEK m.	1,145	-	-	713
Paid-up policy holders, number	2,609	-	-	407
Present value of defined-benefit obligations for retired employees, SEK m.	1,215	456	678	220
Retired employees, number	2,393	104	1,095	204
Assumptions/conditions				
Discount rate, %	2,8	0,5	12,0	2,6
Average life expectancy, women/men, years	88	88	83	88
Average duration of obligations, years	22,0	15,0	15,1	22,0
Sensitivity analysis concerning change in present value of obligations, SEK m.				
0.5% increase in discount rate	-717	-66	-44	-92
0.5% decrease in discount rate	826	75	47	105
1 year increase in life expectancy	263	11	18	36

NOTE 15 Provisions for pensions and similar commitments, continued

Information regarding the largest plans during 2015	Sweden	Switzerland	Brazil	Great Britain
Present value of defined-benefit obligations	6,107	821	490	816
Fair value of plan assets	–	–928	–55	–665
Net assets not fully valued due to curtailment rule	–	–	16	–
Recognised as pension liability (asset) in the balance sheet, SEK m.	6,107	–107	451	151
Breakdown into categories				
Present value of defined-benefit obligations for persons in active employment, SEK m.	4,046	434	83	–
Persons in active employment, number	8,396	334	3,127	–
Present value of defined-benefit obligations for paid-up policy holders, SEK m.	997	–	–	607
Paid-up policy holders, number	2,557	–	–	433
Present value of defined-benefit obligations for retired employees, SEK m.	1,064	387	407	209
Retired employees, number	2,304	99	1,131	183
Assumptions/conditions				
Discount rate, %	3.0	0.9	13.3	3.7
Average life expectancy, women/men, years	86	86	83	88
Average duration of obligations, years	22.0	14.9	14.3	22.0
Sensitivity analysis concerning change in present value of obligations, SEK m.				
0.5% increase in discount rate	–608	–55	–34	–81
0.5% decrease in discount rate	698	64	36	94
1 year increase in life expectancy	235	9	10	24

Expenses for pensions and other defined-benefit payments recognised in the income statement	Expenses for pensions and similar commitments	
	2016	2015
Current service expenses	–359	–371
Interest expenses, net liabilities	–255	–256
Interest income, net assets	1	3
Past service expenses	–8	0
Net gains (+) and losses (–) due to curtailments and settlements	0	0
Total expense for defined-benefit payments recognised in the income statement	–621	–624

Pension expenses and other defined-benefit payments are found in the income statement under the headings "Research and development expenses", SEK 134 m. (140), "Cost of goods sold", SEK 113 m. (114), "Selling expenses", SEK 105 m. (102) and "Administrative expenses", SEK 15 m. (15). The interest portion of the net liability is recognised as an interest expense and the interest portion in net assets is recognised as interest income.

	Expenses related to pensions and similar commitments	
	2016	2015
Expenses for pensions and other defined-benefit payments recognised in "Other comprehensive income"		
Experience-based adjustments in net liabilities	-194	409
Effects of changes in demographic assumptions	-111	-71
Effects of changes in financial assumptions	-734	1,452
Actual return on plan assets excluding amount included in interest income	94	-18
Changes in present value of asset ceiling not included in interest expense	9	1
Total expense/revenue for defined-benefit payments recognised in "Other comprehensive income"	-936	1,773

	Pension commitments	
	2016	2015
Recognised as provision for pensions in the balance sheet		
Present value of defined-benefit obligations, wholly or partly funded	3,099	2,626
Present value of defined-benefit obligations, unfunded	7,646	6,581
Present value of defined-benefit obligations	10,745	9,207
Fair value of plan assets	-2,142	-1,992
Net assets not fully valued due to curtailment rule	14	17
Recognised in the balance sheet	8,617	7,232
Of which, pension liabilities recognised under the heading "Provisions for pensions"	8,627	7,339
Of which, pension assets recognised under the heading "Other long-term receivables"	-10	-107

	Liabilities related to pensions and similar commitments	
	2016	2015
Present value of defined-benefit obligations changed during the year as follows:		
Present value of defined-benefit obligations, 1 January	9,207	10,811
Present value of reclassified obligations, 1 January	0	0
Current service expenses	359	371
Interest expenses	299	302
Payments made by pension plan participants	13	12
Experience-based actuarial gains and losses	194	-409
Adjustment effects from changes in demographic assumptions	111	71
Adjustment effects from changes in financial assumptions	734	-1,452
Exchange rate differences	147	-156
Disbursements of pension payments	-327	-343
Past service expenses	8	0
Present value of defined-benefit obligations in acquired/divested companies	-	-
Settlements	0	-
Gains and losses due to net settlements for the year	-	-
Present value of defined-benefit obligations, 31 December	10,745	9,207

NOTE 15 Provisions for pensions and similar commitments, continued

Fair value of plan assets changed as follows during the year:	Plan assets related to pensions and similar commitments	
	2016	2015
Fair value of plan assets, 1 January	1,992	1,937
Fair value of plan assets related to reclassified obligations, 1 January	0	-1
Interest income on plan assets	47	51
Actual return on plan assets excluding amount included in interest income	94	-18
Effects of changes in financial assumptions	0	0
Exchange rate differences	16	35
Payments to pension plan	115	102
Payments made by pension plan participants	16	15
Disbursements of pension payments	-138	-129
Fair value of plan assets in acquired/divested companies	-	-
Settlements	0	-
Fair value of plan assets, 31 December	2,142	1,992

Present value of asset ceiling	Asset ceiling	
	2016	2015
Present value of asset ceiling, 1 January	17	21
Present value of reclassified asset ceiling, 1 January	-	-
Interest expenses	2	2
Changes in present value of asset ceiling not included in interest expense	-9	-1
Exchange rate differences	4	-5
Present value of asset ceiling, 31 December	14	17

Allocation of fair value in plan assets	2016		2015	
	Quoted price in an active market	Unquoted price	Quoted price in an active market	Unquoted price
Cash and cash equivalents	40	-	12	-
Equity instruments issued by others	6	-	8	-
Debt instruments issued by Scania	-	3	-	3
Debt instruments issued by others	111	-	95	-
Properties leased to Scania companies	-	39	-	43
Investment properties	20	-	18	-
Equity mutual funds	823	-	771	-
Fixed income mutual funds	624	-	629	-
Real estate funds	341	-	311	-
Other investment funds	20	21	14	20
Other plan assets	94	-	68	-
Total	2,079	63	1,926	66

NOTE 16 Other provisions

2016	Product obligations	EU investigation ²	Legal and tax risks	Other provisions ¹	Total
1 January	1,381	0	1,336	2,177	4,894
Provisions during the year	1,437	3,800	193	1,603	7,033
Provisions used during the year	-950		-484	-613	-2,047
Provisions reversed during the year	-196		-21	-18	-235
Exchange rate differences	11		-7	11	15
31 December	1,683	3,800	1,017	3,160	9,660
- of which, current provisions	1,290		222	1,709	3,221
- of which, non-current provisions	393	3,800	795	1,451	6,439

2015	Product obligations	Legal and tax risks	Other provisions ¹	Total
1 January	1,572	1,377	2,026	4,975
Provisions during the year	1,372	282	1,528	3,182
Provisions used during the year	-960	-38	-1,181	-2,179
Provisions reversed during the year	-532	-69	-105	-706
Exchange rate differences	-71	-216	-91	-378
31 December	1,381	1,336	2,177	4,894
- of which, current provisions	1,024	82	895	2,001
- of which, non-current provisions	357	1,254	1,282	2,893

1 "Other provisions" include provisions for potential losses on service agreements. Total number of contracts increased during 2016 by 25,500 contracts (12,900) and amounted to 175,500 contracts (150,000) at year-end.

2 "EU investigation" include provision for the investigation conducted by the European Commission concerning inappropriate cooperation. Scania received a Statement of Objection in November 2014. In light of that objection and the developments in the investigation Scania made a provision in June 2016.

Uncertainty about the expected outflow dates is greatest for legal and tax disputes as well as the EU claim regarding inappropriate cooperation. Otherwise outflow is expected to occur within one to two years. Provisions are recognised without discounting and at nominal amounts, as the time factor is not deemed to have a major influence on the size of the amounts, since the future outflow is relatively close in time. For a description of the nature of the obligations, see also Note 1, "Accounting principles", and Note 2, "Key judgements and estimates".

NOTE 17 Accrued expenses and deferred income

	2016	2015
Accrued employee-related expenses	4,729	3,944
Deferred income related to service and repair contracts	4,920	4,030
Deferred income related to repurchase obligations ¹	9,831	7,589
Other accrued expenses and deferred income	2,916	2,800
Total	22,396	18,363
- of which, current	10,987	9,278
- of which, non-current	11,409	9,085
Of the above total, the following was attributable to Financial Services operations	453	336

1 Of the above deferred income related to vehicles sold with repurchase obligations, SEK 1,471 m. (1,214) is expected to be recognised as revenue within 12 months. SEK 651 m. (472) is expected to be recognised as revenue after more than five years.

NOTE 18 Assets pledged and contingent liabilities

Assets pledged	2016	2015
Financial receivables ²	174	198
Other	0	2
Total¹	174	200
¹ Of which, assets pledged for:		
Borrowings	174	198
Liabilities of others	0	2

² Refers mainly to pledged leases in Financial Services, SEK 146 m. (180).

Contingent liabilities	2016	2015
Contingent liability related to FPG credit insurance	66	62
Loan guarantees	2	2
Other guarantees	382	229
Total	450	293

In addition to the above contingent liabilities, the Group has issued vehicle repurchase guarantees worth SEK 22 m. (73) to customers' creditors.

NOTE 19 Lease obligations

As a lessee, the Scania Group has entered into finance and operating leases.

Future payment obligations on non-cancellable operating leases

Operating leases	2016		2015	
	Future minimum lease payments	Of which, related to premises	Future minimum lease payments	Of which, related to premises
Within one year	622	261	577	255
Between one year and five years	1,095	539	1,052	595
Later than five years	419	370	369	352
Total	2,136	1,170	1,998	1,202

Expensed minimum lease payments amounted to SEK 655 m. (713), of which SEK 285 m. (313) related to costs for leases on premises.

Future payment obligations on non-cancellable finance leases

Finance leases	2016			2015		
	Future minimum lease payments	Interest	Present value of future minimum lease payments	Future minimum lease payments	Interest	Present value of future minimum lease payments
Within one year	14	1	13	10	1	9
Between one year and five years	14	7	7	17	7	10
Later than five years	3	3	0	5	5	0
Total	31	11	20	32	13	19

NOTE 19 Lease obligations, continued

Finance lease assets in balance sheet

Carrying amount	2016	2015
Buildings	20	17
Machinery	15	15
Other	6	10
Total	41	42

NOTE 21 Cash flow statement

In those cases a breakdown in segment is not done the cash flow specification below refers to the Scania Group.

	2016	2015
a. Vehicles and Services: Interest and dividends received/paid		
Dividends received from associated companies	18	79
Interest received	786	484
Interest paid	-869	-432
b.1. Vehicles and Services: Items not affecting cash flow		
Depreciation/amortisation	3,572	3,242
Bad debts	41	26
Associated companies	-42	33
Deferred profit recognition, lease assets	404	642
EU investigation	3,800	-
Other	31	182
Total	7,806	4,125
b.2. Financial Services: Items not affecting cash flow		
Depreciation/amortisation	23	19
Bad debts	156	244
Other	45	35
Total	224	298
c. Net investment through acquisitions/divestments of businesses¹		
Divestments of businesses	0	0
Acquisitions of businesses	0	-125
Total	0	-125

¹ See Note 22, "Businesses acquired/divested".

NOTE 20 Government grants and assistance

During 2016, the Scania Group received government grants amounting to SEK 25 m. (1) attributable to operating expenses of SEK 98 m. (38).

	2016	2015
d.1. Vehicles and Services: Acquisitions of non-current assets		
Investments in non-current assets ²	-9,058	-8,561
Divestments of non-current assets ³	1,194	949
Total	-7,864	-7,612
<p>² Of which, SEK 1,682 m. (1,863) in capitalised research and development expenditure. ³ Also includes moving vehicles for short-term rentals to inventory.</p>		
d.2. Financial Services: Net investments in credit portfolio etc.		
New financing ⁴	-35,292	-32,158
Payments of principal and completed contracts	26,649	27,361
Total	-8,643	-4,797
<p>⁴ Refers mainly to financing of customer purchases of Scania vehicles. Includes other tangible and intangible assets.</p>		
e. Change in debt through financing activities		
Net change in current investments	-768	-190
Net change in current borrowings	-12,878	-8,792
Decrease in non-current borrowings	-1,078	-5,447
Increase in non-current borrowings	13,799	16,391
Total	-925	1,962
f. Cash and cash equivalents		
Cash and bank balances	4,282	4,070
Short-term investments comprising cash and cash equivalents	3,352	8,225
Total	7,634	12,295

NOTE 22 Businesses acquired/divested

Scania is not an acquisition-intensive Group or a Group that divests businesses to a large extent and no significant acquisitions or divestments have occurred during the years 2015–2016. Business acquisitions usually consist mainly of dealerships. During 2015, an acquisition was made of a dealership in Brazil.

Total consideration transferred for the acquisition of the dealership in Brazil was SEK 218 m., of which SEK 60 m. consisted of remission of previous receivables to the seller. In 2015, SEK 128 m. was paid and the remaining amount was paid

during 2016. The acquisition was made in the end 2015 and therefore no result was recorded for the year 2015. If the acquisitions had occurred in the beginning of 2015, the acquired operations would have had the following impact on the 2015 financial statements: Net sales minus intra-Group sales, SEK 85 m. and Income before taxes, SEK –7 m.

NOTE 23 Wages, salaries and other remuneration and number of employees

Wages, salaries and other remuneration, pension expenses and other mandatory payroll fees (excluding personnel on hire)	2016	2015
Boards of Directors, Presidents and Executive (or Group) Vice Presidents ¹	430	391
– of which bonuses	132	99
Other employees	15,894	14,983
<i>Subtotal</i>	<i>16,324</i>	<i>15,374</i>
Pension expenses and other mandatory payroll fees	5,447	5,021
– of which pension expenses ²	1,364	1,290
Total	21,771	20,395

¹ The number of Board members and executive officers was 532 (539).

² Of the pension expense in the Group, SEK 29 m. (37) was for Boards of Directors and executive officers in the Scania Group. At year-end, the total pension obligation was SEK 176 m. (154) for this category.

Average number of employees (excluding personnel on hire)	2016		2015	
	Total	Women	Total	Women
Sweden	14,702	21%	13,335	20%
Europe (excluding Sweden)	14,526	14%	14,347	14%
Eurasia	735	27%	850	25%
America	6,347	14%	6,083	14%
Asia	2,353	18%	2,248	18%
Africa and Oceania	1,623	18%	1,630	17%
Total	40,286	17%	38,493	17%

Gender distribution	2016	2015
Board members in subsidiaries and the Parent Company	424	434
– of whom, men	384	402
– of whom, women	40	32
Presidents/Managing Directors of subsidiaries and the Parent Company, plus the Group's Executive Board	108	105
– of whom, men	104	102
– of whom, women	4	3

Number of employees, 31 December	2016	2015
Vehicles and Services		
Production and corporate units	21,736	20,453
Research and development	3,900	3,801
Sales and service companies	19,718	19,331
<i>Subtotal</i>	<i>45,354</i>	<i>43,585</i>
Financial Services	889	824
Total	46,243	44,409
– of whom, on temporary contracts and on hire	5,533	5,411

NOTE 24 Related party transactions

	Revenue		Expenses		Receivables		Liabilities	
	2016	2015	2016	2015	2016	2015	2016	2015
Volkswagen Group	248	257	402	731	1,538	917	7,194	11,579
Associated companies and joint ventures								
BITS DATA i Södertälje AB	0	0	14	17	0	0	0	2
Cummins-Scania HPI L.L.C	–	–	–	25	–	–	–	–
Cummins-Scania XPI Manufacturing L.L.C	115	88	750	666	14	12	0	88
Laxå Special Vehicles AB	78	44	158	176	17	11	20	48
ScaValencia S.A.	146	119	88	52	8	4	1	0
Others	8	8	6	5	1	1	0	0

Disclosures of relationships with related parties that include a controlling influence are provided in the list of subsidiaries. See also the presentation of Scania's Board of Directors and Executive Board as well as Note 25, "Compensation to executive officers". Disclosures of dividends from, and capital contributions to, associated companies and joint ventures etc. are provided in Note 11, "Holdings in associated companies and joint ventures". Disclosures of pension plans are provided in Note 15, "Provisions for pensions and similar commitments"

and Note 23, "Wages, salaries and other remuneration and number of employees". Purchases and leases of company cars are included in the transactions with the Volkswagen Group.

All related party transactions occur on market terms.

NOTE 25 Compensation to executive officers

Principles for compensation to executive officers

The principles for compensation to Scania executive officers are adopted by the AGM. The purpose is to offer a market-related compensation package that will enable the company to recruit and retain executive officers. Compensation to executive officers consists of the following parts:

1. Fixed salary
2. Variable earnings-dependent salary
3. Pension

The fixed salary of executive officers shall be competitive in relation to position, individual qualifications and performance. The fixed salary is reviewed annually. The size of the variable salary is dependent on Scania Group's operating income, Volkswagen T&B return of sales and a Volkswagen long-term incentive index. The pension comprises a premium-based pension system that applies in addition to the public pension and the ITP occupational pension.

Termination conditions for the executive board

If the President and CEO resigns of his own volition, he is entitled to his salary for a six-month notice period. Any variable salary during the year in question is disbursed according to conditions adopted by the Annual General Meeting. In case of termination by the company, a six-month notice period applies with retained benefits and severance pay equivalent to 24 months of salary is payable.

If the company terminates their employment, the other members of the Executive Board are entitled to severance pay equivalent to a maximum of 18 months of salary, in addition to their salary during the six-month notice period. If they obtain new employment within 18 months, counting from their termination date, the severance pay ceases.

	Fixed salary	Board remuneration ¹	Variable salary	Other remuneration	Total salary and remuneration	Pension expenses, defined contribution system	Pension expenses, defined benefit system	Total pension expenses	Pension obligations
2016, SEK thousand									
Chairman of the Board					0			0	
President and CEO	6,500		10,595	283	17,378	1,719	185	1,904	2,332
Former President and CEO	3,375		–	9,649	13,024	1,101	291	1,392	8,817
Rest of Executive Board (7 persons)	27,936		31,407	8,953	68,296	6,083	2,471	8,554	31,061

¹ Other Board members' total fees: Helmut Aurenz 500; Peter Wallenberg Jr 500; Christian Porsche 0; Annika Falkengren 650, Matthias Gründler 0; Markus S. Piëch 0; Johan Järvklo 0; Lisa Lorenzon 0.

	Fixed salary	Board remuneration ¹	Variable salary	Other remuneration	Total salary and remuneration	Pension expenses, defined contribution system	Pension expenses, defined benefit system	Total pension expenses	Pension obligations
2015, SEK thousand									
Chairman of the Board									
President and CEO	4,523		5,271	139	9,933	1,777	867	2,644	8,154
Former President and CEO	2,739		–	10,359 ²	13,098	2,544	318	2,862	2,655
Rest of Executive Board (7 persons)	25,673		22,097	2,087	49,857	5,353	2,768	8,121	22,274

¹ Other Board members' total fees: Hans Dieter Pötsch 0; Francisco J. Garcia Sanz 0; Peter Abele 375; Helmut Aurenz 550; Peter Wallenberg Jr 500; Ferdinand K. Piëch 0; Leif Östling 0; Christian Porsche 0; Annika Falkengren 325, Matthias Gründler 0; Markus S. Piëch 0. Ferdinand K. Piëch resigned on 27 April 2015. Leif Östling, Peter Abele, Francisco J. Garcia Sanz and Hans Dieter Pötsch resigned at the Annual General Meeting on 26 June 2015.

² Includes payment of vacation pay liability and salary during notice period.

Pension expenses, defined-contribution system: annual premiums according to a defined contribution pension system and ITPK (defined contribution portion of the ITP occupational pension).

Pension expenses, defined-benefit system (ITP): risk insurance premiums and the increase of retirement pension liability according to the ITP occupational pension plan.

Other remuneration: taxable portion of car allowance, newspaper subscriptions and other perquisites.

Retirement age: the retirement age according to agreements is 60 for the President and CEO and the Executive Board. The retirement age for the ITP occupational pension is 65.

NOTE 26 Fees and other remuneration to auditors

Fees and other remuneration to auditors that were expensed during the year are reported below. Remuneration for consultations is reported in cases where the same public accountancy firm has the assignment to audit an individual company. "Auditing assignments" refers to statutory examination of the annual accounts as well as the administration of the Board of Directors and the President and CEO. "Auditing activities beyond auditing assignments" refers to examination of administration or financial information that

shall be performed in accordance with laws, articles of association, statutes or agreements that is also intended for parties other than the client, and which is not included in the auditing assignment. "Tax consultancy" is consultation on matters of tax law. "Other services" refers to consultancy that cannot be attributed to any of the other categories. Auditing expenses that have arisen because Scania is a subsidiary of Volkswagen have been reinvoiced.

Auditing firm	2016		2015	
	PwC	Other auditors	PwC	Other auditors
Auditing assignments	36	1	34	1
Auditing activities beyond auditing assignments	1	1	1	3
Tax consultancy	2	1	3	1
Other services	2	0	1	1
Total	41	3	39	6

NOTE 27 Financial risk management

Financial risk management in the Scania group

In addition to business risks, Scania is exposed to various financial risks in its operations. The financial risks that are of the greatest importance are currency, interest rate, credit and refinancing risk, which are regulated by a Financial Policy adopted by Scania's Board of Directors.

Credit risk related to customer commitments is managed, within established limits, on a decentralised basis by means of local credit assessments. Decisions on major credit commitments are made in corporate credit committees. Other risks are managed primarily at corporate level by Scania's treasury unit. On a daily basis, the corporate treasury unit measures the risks of outstanding positions, which are managed within established limits in compliance with the Financial Policy.

Currency risk

Currency Risk is the risk of negative effects on earnings and balance sheet items denominated in foreign currency, due to currency movements. Changes in exchange rates also affect Scania's income statement and balance sheet as follows:

- An individual company may have monetary assets and liabilities in a currency other than its functional currency, which are translated to the functional currency using the exchange rate on the balance sheet date. When settling monetary assets and liabilities, an exchange rate difference arises between the exchange rate on the balance sheet date and on the payment date. All changes in exchange rates attributable to translation or settlement of monetary items are recognised in the income statement (transaction effect).

NOTE 27 Financial risk management, continued

– Revenue, expenses, assets and liabilities in a functional currency other than the reporting currency of the Parent Company (SEK) are translated at the average exchange rate during the year and the exchange rate on the balance sheet date, respectively. The effect that arises because the exchange rate on the balance sheet date is changed from the beginning of the year and the average exchange rate of the year deviates from the balance sheet rate is recognised in the translation reserve in other comprehensive income (translation effect).

During 2016, 94 (94) percent of Scania's sales occurred in countries outside Sweden. Since a large proportion of production occurs in Sweden, at costs denominated in Swedish kronor, this means that Scania has large net inflows of foreign currencies.

During 2016, total currency exposure in Scania's operating income amounted to about SEK 40,600 m. (37,800). The largest currencies in this flow were EUR, GBP and NOK. The table on the next page shows currency exposure in Scania's operating income in the most commonly occurring currencies.

Currency exposure in operating income, Vehicles and Services	2016	2015
British pound (GBP)	6,500	7,000
Euro (EUR)	5,500	5,200
Polish zloty (PLN)	3,000	2,200
Korean won (KRW)	3,000	1,800
Norwegian krone (NOK)	2,800	2,900
Russian rouble (RUB)	1,900	1,500
Australian dollar (AUD)	1,900	1,800
United Arab Emirates diram (AED)	1,600	1,100
South African rand (ZAR)	1,600	1,700
Danish krone (DKK)	1,500	1,400
Swiss franc (CHF)	1,300	1,100
US dollar (USD)	1,000	2,100
Brazilian real (BRL)	-3,000	-1,800
Other currencies	10,800	8,600
Total currency exposure in operating income	39,400	36,600

Currency exposure in operating income, Financial Services	2016	2015
Euro (EUR)	500	500
Other currencies	700	700
Total currency exposure in operating income	1,200	1,200

Based on revenue and expenses in foreign currencies during 2016, a one percentage point change in the Swedish krona against other currencies, excluding currency hedges, has an impact on operating income of about SEK 406 m. (378) on an annual basis. In Vehicles and Services, compared to 2015, the total negative currency rate effects amounted to about SEK -900 m. (2,270).

According to Scania's financial policy, Scania's Management may hedge future currency flows with a hedging period varying between 0 and 12 months. Maturity over 12 months is decided by the Board of Directors. When currency risks are hedged, currencies are mainly sold by means of forward contracts, but currency options may also be used. At year-end 2016, no future currency flows were hedged.

To ensure efficiency and risk control, borrowings in Scania's subsidiaries largely occur through the corporate treasury unit, mainly in EUR and SEK, and are then transferred to subsidiaries in the form of internal loans in their local currencies.

By means of derivative contracts, corporate-level borrowings are converted to lending currencies. In Financial Services, assets should be financed by liabilities in the same currency. Scania's borrowings in various currencies excluding and including currency derivatives can be seen in the table "Borrowings" in the section on interest rate risk.

At the end of 2016, Scania's net assets in foreign currencies amounted to SEK 26,600 m. (23,700). The net foreign assets of subsidiaries are normally not hedged. To the extent subsidiaries have significant net monetary assets in functional currencies, however, they may be hedged. At year-end 2016 no foreign net assets were hedged (-).

Net assets, Vehicles and Services	2016	2015
Euro (EUR)	4,900	4,100
Brazilian real (BRL)	4,700	4,600
British pound (GBP)	1,200	1,100
Argentine peso (ARS)	1,100	1,500
Norwegian krone (NOK)	700	600
Polish zloty (PLN)	600	500
Korean won (KRW)	600	300
Swiss franc (CHF)	500	500
Danish krone (DKK)	400	400
Australian dollar (AUD)	400	400
Russian rouble (RUB)	400	300
Indian rupee (INR)	300	500
US dollar (USD)	-100	-100
Other currencies	1,900	1,500
Total net assets in foreign currencies, Vehicles and Services	17,600	16,200

Net assets, Financial Services	2016	2015
Euro (EUR)	4,900	4,300
Other currencies	4,100	3,200
Total net assets in foreign currencies, Financial Services	9,000	7,500
Total net assets in foreign currencies, Scania Group	26,600	23,700

Effect on exchange rate differences on net income

Net income for the year was affected by exchange rate differences as shown in the following table:

	2016	2015
Operating income	-49	-187
Financial income and expenses	-10	-62
Taxes	0	0
Effect on net income for the year	-59	-249

Interest rate risk

Interest Rate Risk is the risk of negative effects on interest income and expenses due to movements in interest rates. For Scania's assets and liabilities that carry variable interest rates, a change in market interest rates has a direct effect on cash flow, while for fixed-interest assets and liabilities, the fair value of the portfolio is affected instead. To manage interest rate risks, Scania primarily uses interest rate derivatives in the form of interest rate swap agreements.

At year-end 2016, Scania's interest-bearing assets mainly consisted of assets in Financial Services and of short-term investments and cash and cash equivalents. Interest-bearing liabilities consisted mainly of loans, to a great extent intended to fund lending in Financial Services operations and to a lesser extent to fund working capital in Vehicles and Services.

Interest rate risk in Vehicles and Services

Borrowings in Vehicles and Services are mainly used for funding of working capital. To match the turnover rate of working capital, a short interest rate refixing period is used in the borrowing portfolio. Scania's policy concerning interest rate risks in the Vehicles and Services segment is that the interest rate refixing period on its net debt should normally be within 0–6 month range, but that divergences are allowed up to 24 months. The Board of Directors approves maturities of more than 24 months.

Net cash in Vehicles and Services was SEK 10,954 m. (7,579) at year-end 2016. The borrowing portfolio amounted to SEK 0 m. (9,728) and the average interest rate refixing period for this portfolio was less than 0 (6) months. Short-term investments and cash and cash equivalents amounted to SEK 11,487 m. (17,056) and the average interest rate refixing period on these assets was less than 1 (1) month. The net cash also includes derivatives that hedge borrowings with a net value of SEK -533 m. (251).

Given the same loan liabilities, short-term investments, cash and cash equivalents and interest rate refixing periods as at year-end 2016, a change in market interest rates of 100 basis points (1 percentage point) would change the interest expenses in Vehicles and Services by about SEK 0 m. (50) and interest income by about SEK 110 m. (160) on an annual basis.

NOTE 27 Financial risk management, continued

Interest rate risk in Financial Services

Scania's financial policy regarding interest rate risks in the Financial Services segment is that assets and liabilities should match in terms of interest rates and maturity periods. Interest rate refixing related to the credit portfolio and borrowing in Financial Services had the following structure as of 31 December 2016:

Interest rate refixing in Financial Services, 31 December 2016	Interest-bearing portfolio ¹	Interest-bearing liabilities ²
2017	35,208	35,673
2018	14,073	13,247
2019	10,491	8,948
2020	5,428	3,313
2021	2,154	631
2022 and later	581	102
Total	67,935	61,914

Interest rate refixing in Financial Services, 31 December 2015	Interest-bearing portfolio ¹	Interest-bearing liabilities ²
2016	29,232	28,872
2017	11,662	10,971
2018	8,699	8,034
2019	4,750	2,629
2020	1,736	285
2021 and later	407	35
Total	56,486	50,826

¹ Including operating leases.

² Including the effect of interest rate derivatives. Other funding consists mostly of equity.

Given the same lending and borrowing structure as at year-end 2016 a change in market interest rate of 50 basis points (0.5 percent point) would change the interest in Financial Services by about SEK 7,8 m. (2,5) on an annual basis.

Scania's total borrowing portfolio amounted to SEK 58,011 m. (54,942) at year-end 2016.

Borrowings, 31 December 2016	Borrowings incl. currency swap agreements	Borrowings excl. currency swap agreements
EUR	27,668	20,135
BRL	7,128	7,128
GBP	4,785	-
ZAR	2,830	1,676
RUB	1,801	121
CLP	1,663	517
DKK	1,479	-
PEN	1,343	-
NOK	1,230	-
USD	1,116	1,468
KRW	1,108	200
SEK	1,008	24,488
CHF	673	-
THB	650	67
MYR	611	-
MXN	358	-
Other currencies	2,374	2,025
Total¹	57,825	57,825
Accrued interest	186	186
Total	58,011	58,011

¹ Total borrowings excluded SEK 186 m. (134) related to accrued interest.

Credit risk

Credit risk is the risk that the counterparty in a transaction will not fulfil its contractual obligations and that any collateral will not cover the company's claim. An overwhelming share of the credit risk for Scania is related to receivables from customers. Scania sales are distributed among a large number of end customers with a large geographic dispersion, which limits the concentration of credit risk.

Credit risk in Vehicles and Services

In the Vehicles and Services segment, carried receivables before provisions for bad debts from customers totalled SEK 8,598 m. (7,097), most of which consisted of receivables from independent dealerships and end customers. The total estimated fair value of collateral was SEK 1,526 m. Most of the collateral consisted of repossession rights and bank guarantees. During the year, collateral valued at SEK 12 m. was repossessed.

Timing analysis of portfolio assets past due but not recognised as impairment losses	Past-due payments 2016	Past-due payments 2015
< 30 days	991	687
30–90 days	228	362
91–180 days	237	57
> 180 days	109	56
Total	1,565	1,162

Provisions for bad debts amounted to SEK 332 m. (313), equivalent to 3.7 (4.2) percent of total receivables. The year's bad debt expense amounted to SEK 41 m. (26).

Timing analysis of portfolio assets

	2016			2015		
	Past-due payments	Total exposure ¹	Estimated fair value of collateral	Past-due payments	Total exposure ¹	Estimated fair value of collateral
Past due but not recognised as impairment losses						
< 30 days	76	3,480	3,535	60	2,209	2,146
30–90 days	114	1,650	1,610	93	1,315	1,301
Past due and recognised as impairment losses						
91–180 days	30	234	224	31	229	206
> 180 days	48	221	213	44	130	122
Inactive contracts	101	427	299	78	310	196
Total	369	6,012	5,881	306	4,193	3,971

¹ Exposure is defined as maximum potential loss, without regard to the value of any collateral.

Provisions for bad debts changed as follows:

Provisions for bad debts	2016	2015
Provisions, 1 January	313	370
Provisions for potential losses	15	-16
Withdrawals due to actual credit losses	-22	-22
Currency rate effects	28	-20
Other	-2	1
Provisions, 31 December	332	313

Credit risk in Financial Services

The credit portfolio including operating leases in the Financial Services segment can be seen in the table below:

Credit portfolio	2016	2015
Exposure	68,908	57,358
– of which, operating leases	16,731	13,899
Credit risk reserve	973	872
Carrying amount	67,935	56,486
– of which, operating leases	16,715	13,889

To maintain a controlled level of credit risk in the segment, the process of issuing credit is supported by a credit policy as well as credit instructions. Credit risks are limited by active credit assessment, management of the loan portfolio and its underlying assets as well as an intensive focus and constructive dialogue with those customers who do not follow the agreed payment plan. Collateral in Financial Services operations mainly exists in the form of the possibility of repossessing the financed assets.

NOTE 27 Financial risk management, continued

The portfolio mainly consists of financing of trucks, buses and trailers for small and medium-sized companies. The credit risk concentration in 2016 was equivalent to that of 2015.

A description of credit risk exposure can be seen in the table below:

Concentration of credit risk	31 December 2016			31 December 2015		
	Number of customers	Percentage of total number of customers	Percentage of portfolio value	Number of customers	Percentage of total number of customers	Percentage of portfolio value
Exposure < SEK 15 m.	32,268	98,4	68,6	29,970	98,6	69,4
Exposure SEK 15–50 m.	443	1,3	15,7	334	1,1	14,1
Exposure > SEK 50 m.	105	0,3	15,7	87	0,3	16,5
Total	32,816	100,0	100,0	30,391	100,0	100,0

Accounts with past-due receivables ordinarily lead to relatively quick repossession of the item being financed. Renegotiation only occurs in those cases where, after a new credit evaluation, Financial Services deems the customer's payment problems to be of a short-term, temporary nature and where renegotiation can take place without greatly worsening its risk position.

For Scania's customers the renegotiation need was at the same level during 2016 as in 2015. The carrying amount of the financial assets, whose terms had been renegotiated, amounted to SEK 1,561 m. (1,458) at year-end. Contracts are regarded as bad debts when payment is more than 90 days past due or when there is information that causes Scania to terminate the contracts early.

The resale market for repossessed and used vehicles functioned smoothly during 2016. During the year, 1,287 (1,283) financed vehicles were repossessed. At year-end, the number of repossessed but not yet sold vehicles amounted to 284 (214), with a total carrying amount of SEK 107 m. (73). Repossessed vehicles are sold off by means of a new financing contract with another customer, direct sale to an end customer or sale via Scania's dealership network.

Provisions for bad debts changed as follows:

Provisions for bad debts	2016	2015
Provisions, 1 January	872	869
Provisions for potential losses	124	210
Withdrawals due to actual credit losses	-74	-160
Exchange rate differences	51	-47
Provisions, 31 December	973	872
<i>Provisions as percentage of gross portfolio</i>	<i>1,4</i>	<i>1,5</i>

The year's expenses for actual and potential credit losses amounted to SEK 156 m. (244).

Other credit risks at Scania

The administration of the financial credit risks that arise primarily in corporate treasury operations, among other things when investing liquidity and in derivatives trading, is regulated in Scania's Financial Policy. Transactions occur only within established limits and with selected, creditworthy counterparties. To reduce credit risk, the volume of exposure allowed per counterparty is limited, depending on the counterparty's credit rating. To further limit credit risk, Scania has entered into International Swaps and Derivatives Association (ISDA) netting contracts with all of its counterparties.

The corporate treasury unit is responsible for ensuring compliance with the rules of Scania's Financial Policy.

Net exposure to counterparty risk related to derivatives trading amounted to SEK -496 m. (255) at the end of 2016. Estimated gross exposure to counterparty risks related to derivatives trading totalled SEK 703. (1,175). Estimated gross exposure to cash and cash equivalents and short-term investments amounted to SEK 8,756 m. (12,508). Short-term investments are deposited with various banks.

Scania had short-term investments worth SEK 4,474 m. (8,438), of which SEK 3,352 m. (8,225) consists of investments with a maturity of less than 90 days and SEK 1,122 m. (213) consisted of investments with a maturity of 91–365 days. In addition to short-term investments, Scania had bank balances worth SEK 4,282 m. (4,070).

Refinancing risk

Refinancing risk is the risk of not being able to meet the need for future funding. Scania applies a conservative policy concerning refinancing risk. For Vehicles and Services, there shall be a liquidity reserve consisting of available cash and cash equivalents as well as unutilised credit facilities which exceeds the funding needs over a two-year period.

For Financial Services, there shall be dedicated funding that covers the estimated demand for funding during the next six months. There shall also always be borrowings that safeguard the refinancing of the existing portfolio.

At the end of 2016, Scania's liquidity reserve, consisting of unutilised credit facilities, cash and cash equivalents and short-term investments, amounted to SEK 45,144 m. (49,913). Scania's credit facilities include customary Change of Control clauses, which means that the counterparty could demand early payment in case of significant changes in ownership involving a change in control of the company.

At year-end, Scania had borrowings, in some cases with related ceilings, as follows:

Borrowings, 2016	Total borrowings	Ceiling
European Medium Term Note Programme	24,982	47,836
Credit facility (EUR, SEK)	–	36,388
Commercial paper, Sweden	802	10,000
Commercial paper, Belgium	8,180	9,567
Bank loans and Other loans	23,861	–
Total¹	57,825	103,791

Borrowings, 2015	Total borrowings	Ceiling
European Medium Term Note Programme	23,233	31,973
Credit facility (EUR)	–	37,405
Commercial paper, Sweden	535	10,000
Commercial paper, Belgium	1,635	3,654
Bank loans	29,405	–
Total¹	54,808²	83,032

1 Of the total ceiling, SEK 36,388 m. (37,405) consisted of guaranteed revolving credit facilities.

2 Total borrowings excluded SEK 186 m. (134) related to accrued interest and fair value adjustments on bonds where hedge accounting was previously applied.

Controlling Scania's refinancing risk includes safeguarding access to credit facilities and ensuring that the maturity structure of borrowings is diversified. At year-end, Scania's total borrowings had the following maturity structure:

Maturity structure of Scania's borrowings	2016	2015
2016	–	28,602
2017	30,527	14,925
2018	8,610	3,149
2019	8,670	2,602
2020	3,612	3,227
2021	3,980	2,303
2022 and later	2,426	–
Total	57,825¹	54,808¹

1 Total borrowings excluded SEK 186 m. (134) related to accrued interest and fair value adjustments on bonds for which hedge accounting was previously applied.

Maturity structure of derivatives attributable to borrowings, 2016	Derivatives with positive value	Derivatives with negative value
2017	28	–
2018	12	–
2019	14	–1
2020	31	–
2021	–	–22
2022 and later	–	–
Total¹	85	–23

Maturity structure of derivatives attributable to borrowings, 2015	Derivatives with positive value	Derivatives with negative value
2016	8	–
2017	40	–
2018	–	–
2019	–	–
2020	–	–
2021 and later	–	–
Total¹	48	–

1 Does not include accrued interest.

NOTE 28 Financial instruments

Financial assets in the Scania Group mainly consist of financial leases and hire purchase receivables that have arisen in the Financial Services segment due to financing of customers' vehicle purchases. Other financial assets of significance are trade receivables from independent dealerships and end customers in the Vehicles and Services segment plus short-term investments and cash and cash equivalents. Scania's financial liabilities consist largely of loans, mainly taken out to fund Financial Services' lending and leasing to customers and, to a lesser extent, to fund capital employed in Vehicles and Services. Financial assets and liabilities give rise to various kinds of risks, which are largely managed by means of various derivative instruments. Scania uses derivative instruments, mainly for the purpose of:

- Transforming corporate-level borrowings in a limited number of currencies to the currencies in which the financed assets are denominated.
- Transforming the interest rate refixing period for borrowings in Financial Services as well as achieving the desired interest rate refixing period for other borrowings.
- Converting future commercial payments to functional currency.
- To a lesser extent, converting surplus liquidity in foreign currencies to SEK.

Fair value of financial instruments

In Scania's balance sheet, items carried at fair value are mainly derivatives and current investments. For derivatives for which hedge accounting is not applied, fair value adjustment is carried via the income statement. Derivatives attributable to cash flow hedging are carried at fair value via "Other comprehensive income". Fair value is established according to various levels, defined in IFRS 13, that reflect the extent to which market values have been utilised. Current investments and cash and cash equivalents are carried according to Level 1, i.e. quoted prices in active markets for identical assets, and amounted to SEK 1,275 m. (3,089). Other assets that are carried at fair value refer to derivatives. These assets are carried according to Level 2, which is based on data other than the quoted prices that are part of Level 1 and refer to directly or indirectly observable market data. Scania applies a valuation technique that consists of estimating the present value of future cash flows based on observable yield curves. The yield curve applied is derived from relevant listed yields for the respective period during which cash flows are received or paid. The derivatives are recognised under other non-current assets, other current assets, other non-current liabilities and other current liabilities and amounted to SEK -495 m. (256) net.

For financial instruments that are carried at accrued cost, fair value disclosures are provided in the table below. The carrying amounts of interest-bearing assets and liabilities in the balance sheet may diverge from their fair value, among other things as a consequence of changes in market interest rates. To establish the fair value of financial assets and liabilities, official market quotations have been used for those assets and liabilities that are traded in an active market.

In those cases where assets and liabilities are not traded in an active market, fair value has been established by discounting future payment flows at current market interest rates and then converting to SEK at the current exchange rate.

Fair value of financial instruments such as trade receivables, trade payables and other non-interest-bearing financial assets and liabilities that are recognised at accrued cost minus any impairment losses, is regarded as coinciding with the carrying amount. Fair value disclosures on all financial instruments that are not carried at fair value are attributable to Level 2.

Impairment losses on assets occur only when there is reason to believe that the counterparty will not fulfil its contractual obligations, not as a consequence of changes in market interest rates.

Financial assets and liabilities that have been offset against each other consist of loans receivable and payable. The gross amounts totalled SEK 14 m. (131). The amount that has been offset from each amount totals SEK 14 m. (131).

Financial assets and liabilities that can be offset against each other consist of derivatives covered by legally binding master netting agreements. Carrying amounts of assets and liabilities amounted to SEK 660 m. (1,148) and SEK 1,190 m. (863). The amount that was not offset from each amount was SEK 598 m. (690).

	Financial assets and financial liabilities carried at fair value via the income statement ("through profit and loss")*	Loan receivables and trade receivables	Other financial liabilities	Total carrying amount	Total fair value
Scania Group, 2016, SEK m.					
Non-current interest-bearing receivables		30,985		30,985	31,086
Current interest-bearing receivables		20,481		20,481	20,167
Non-interest-bearing trade receivables		8,446		8,446	8,446
Current investments and Cash and cash equivalents	1,275	7,481		8,756	8,757
Other non-current receivables ¹	374	95		469	470
Other current receivables ²	329	4		333	333
Total assets	1,978	67,492		69,470	69,259
Non-current interest-bearing liabilities			27,298	27,298	27,200
Current interest-bearing liabilities			30,713	30,713	30,789
Trade payables			12,740	12,740	12,740
Other non-current liabilities ³	778			778	778
Other current liabilities ⁴	420			420	420
Total liabilities	1,198		70,751	71,949	71,927

1 Financial instruments included in the balance sheet under "Other long-term receivables", SEK 1,292 m.

2 Financial instruments included in the balance sheet under "Other current receivables", SEK 5,541 m.

3 Financial instruments included in the balance sheet under "Other non-current liabilities", SEK 916 m.

4 Financial instruments included in the balance sheet under "Other current liabilities", SEK 3,584 m.

* Held for trading

NOTE 28 Financial instruments, continued

	Financial assets and financial liabilities carried at fair value via the income statement ("through profit and loss")*	Loan receivables and trade receivables	Other financial liabilities	Total carrying amount	Total fair value
Scania Group, 2015, SEK m.					
Non-current interest-bearing receivables		26,359		26,359	26,481
Current interest-bearing receivables		16,373		16,373	16,409
Non-interest-bearing trade receivables		6,981		6,981	6,981
Current investments and Cash and cash equivalents	3,089	9,419		12,508	12,491
Other non-current receivables ¹	595	63		658	658
Other current receivables ²	580	–		580	580
Total assets	4,264	59,195	–	63,459	63,600
Non-current interest-bearing liabilities			26,206	26,206	25,938
Current interest-bearing liabilities			28,736	28,736	28,701
Trade payables			10,841	10,841	10,841
Other non-current liabilities ³	508			508	508
Other current liabilities ⁴	411			411	411
Total liabilities	919	–	65,783	66,702	66,399

1 Financial instruments included in the balance sheet under "Other long-term receivables", SEK 1,353 m.

2 Financial instruments included in the balance sheet under "Other current receivables", SEK 4,094 m.

3 Financial instruments included in the balance sheet under "Other non-current liabilities", SEK 567 m.

4 Financial instruments included in the balance sheet under "Other current liabilities", SEK 3,161 m.

* Held for trading

Hedge accounting

During 2016 Scania have not applied hedge accounting according to IAS 39:

Scania considers that it is hedged economically, and risk management follows the financial policy approved by the Board. For more detailed information on accounting of hedging instruments and hedged items, see Note 1, "Accounting principles".

Net gains/losses on financial instruments recognised in the income statement

The table below shows the following items that are recognised in the income statement:

- Gains and losses related to currency rate differences, including gains and losses attributable to cash flow hedge accounting.
- Gains and losses related to financial instruments for which hedge accounting is applied.

Net gains/losses	2016	2015
Financial assets and liabilities held for trading, carried at fair value	–840	310
Loan and trade receivables ¹	2,150	204
Other financial liabilities	–1,194	–952
Total	116	–438

1 Also includes operating leases.

Gains and losses due to currency rate differences related to derivatives, loan receivables and borrowings mainly arise in Scania's treasury unit. Most of the loan receivables that give rise to currency rate differences comprise the treasury unit's receivables from Group companies.

Interest income and expenses on financial instruments

The table below shows interest income and interest expenses for all of Scania's financial assets and financial liabilities:

	2016	2015
Interest income on financial assets ¹	2,855	2,920
Interest expenses on financial liabilities ^{2,3}	-1,765	-1,692
Total	1,090	1,228

1 SEK 270 m. (239) consists of interest income generated from financial assets carried at fair value.

2 Also includes interest expenses related to operating leases and interest expenses related to Financial Services that were recognised in the operating income.

3 SEK -760 m. (-624) consists of interest expenses generated from financial liabilities carried at fair value.

The reason why income diverges from recognised interest income in net financial items is largely that Financial Services is included in the table and that interest income and interest expenses attributable to pensions are excluded.

NOTE 29 Shares and participations in subsidiaries

The following listing shows shareholdings owned directly and indirectly by the Parent Company as of 31 December 2016:

Company	Corporate ID no.	Registered office	Country	% Ownership
Scania Overseas AB	556593-2984	Södertälje	Sweden	100
Scania-Bilar Sverige AB	556051-4621	Södertälje	Sweden	100
Scania Trade Development AB	556013-2002	Södertälje	Sweden	100
Scania Transportlaboratorium AB	556528-9294	Södertälje	Sweden	100
Scania Delivery Center AB	556593-2976	Södertälje	Sweden	100
Scania Used Vehicles AB	556548-4713	Södertälje	Sweden	100
Scania Sales and Services AB	556593-3073	Södertälje	Sweden	100
Scania Trucks & Buses AB	556267-1585	Södertälje	Sweden	100
Kai Tak Holding AB	556548-4739	Södertälje	Sweden	100
Fastighetsaktiebolaget Motorblocket	556716-6698	Södertälje	Sweden	100
Scania CV AB	556084-0976	Södertälje	Sweden	100
Ferruform AB	556528-9120	Luleå	Sweden	100
Volkswagen Truck & Bus AB	556528-9104	Södertälje	Sweden	100
Fastighetsaktiebolaget Flygmotorn	556528-9112	Södertälje	Sweden	100
Fastighetsaktiebolaget Hjulnavet	556084-1198	Södertälje	Sweden	100
Fastighetsaktiebolaget Vindbron	556040-0938	Södertälje	Sweden	100
Scania Real Estate AB	556084-1180	Södertälje	Sweden	100
Scania Real Estate Lund AB	556791-9823	Södertälje	Sweden	100
Vindbron Arendal AB	556822-2367	Södertälje	Sweden	100
SRE Kiruna AB	556185-2129	Södertälje	Sweden	100
Sågverket 6 AB	556528-9062	Södertälje	Sweden	100
Scania Industrial Maintenance AB	556070-4818	Södertälje	Sweden	100
Scania IT AB	556084-1206	Södertälje	Sweden	100
Scania Real Estate Services AB	556593-3024	Södertälje	Sweden	100
Stockholms Industriassistans AB	556662-3459	Södertälje	Sweden	100
MW-Hallen Restaurang AB	556616-7747	Södertälje	Sweden	100
Vabis Försäkringsaktiebolag	516401-7856	Södertälje	Sweden	100
DynaMate Industrial Services AB	556528-9286	Södertälje	Sweden	100
Mälardalens Tekniska Gymnasium AB	556548-4754	Södertälje	Sweden	80
LOTS Group AB	556593-3057	Södertälje	Sweden	100
Scania Bus Financing AB	556728-9433	Södertälje	Sweden	100
CNC Factory AB	556387-4659	Värnamo	Sweden	100
Scania Treasury AB	556528-9351	Södertälje	Sweden	100
Scania Holding Europe AB	556017-7825	Södertälje	Sweden	100
Motorcam S.A.	33-70791031-9	Buenos Aires	Argentina	100
Aconcagua Vehiculos Comerciales S.A.	30-70737179-6	Buenos Aires	Argentina	100
Automotores del Atlantico S.A.	30-70709795-3	Buenos Aires	Argentina	100
Concesionaria Automotores Pesados S.A.	30-55137605-9	Buenos Aires	Argentina	100
Scania Argentina S.A.	30-51742430-3	Buenos Aires	Argentina	100
Scania Australia Pty Ltd.	000537333	Melbourne	Australia	100
Scania Real Estate Österreich GmbH	FN95419y	Brunn am Gebirge	Austria	100
Scania Österreich GmbH	FN366024x	Brunn am Gebirge	Austria	100
Scania Belgium N.V.	BE0402.607.507	Neder-Over-Heembeek	Belgium	100
Scania Real Estate Belgium N.V.	BE0423.251.481	Neder-Over-Heembeek	Belgium	100
Scania BH d.o.o., Sarajevo	4200363460007	Sarajevo	Bosnia-Herzegovina	100
Scania Botswana (Pty) Ltd.	CO.2000/6045	Gaborone	Botswana	100
Santa Catarina Veiculos e Serviços Ltda.	22.416.982/0001-30	Biguaçu	Brazil	100
Scania Administradora de Consórcios Ltda.	96.479.258/0001-91	Cotia	Brazil	99.99
Codema Comercial e Importadora Ltda.	60.849.197/0001-60	Guarulhos	Brazil	99.99
Suvesa Super Veics Pesados Ltda.	88.301.668/0001-10	Eldorado do Sul	Brazil	99.98
Scania Latin America Ltda.	59.104.901/0001-76	São Bernardo do Campo	Brazil	100
Scania Real Estate Bulgaria EOOD	BG201589120	Sofia	Bulgaria	100
Scania Bulgaria EOOD	BG121796861	Sofia	Bulgaria	100
Scania Chile S.A.	96.538.460-K	Santiago de Chile	Chile	100
Scania Sales (China) Co., Ltd.	110000450001661	Beijing	China	100
Scania Sales and Service (Guangzhou) Co., Ltd.	440101400126397	Guangzhou	China	100
Vabis Transportation Services (Guangxi) Ltd	32956526-9	Beihai, Guangxi Province	China	100
Scania (Hong Kong) Ltd.	1205987	Hongkong	China	100
Scania Real Estate Hong Kong Ltd.	2083208	Hongkong	China	100
Scania Colombia S.A.S.	900.353.873-2	Bogotá	Colombia	100
Scania Hrvatska d.o.o.	080213913	Zagreb	Croatia	100
Scania Czech Republic s.r.o.	CZ61251186	Praha	Czech Republic	100
Scania Real Estate Czech Republic s.r.o.	24196746	Praha	Czech Republic	100
Scania Danmark A/S	DK17045210	Ishøj	Denmark	100
Scania Danmark Ejendom Aps	33156332	Ishøj	Denmark	100
Scania Eesti AS	10238872	Tallinn	Estonia	100
Scania Real Estate Holding Oy	2566377-5	Helsinki	Finland	100
Scania Real Estate Finland Oy	2559582-1	Helsinki	Finland	100
SOE Busproduction Finland Oy	26121679	Lahti	Finland	100
Scania Suomi Oy	0202014-4	Helsinki	Finland	100
Scania Production Angers S.A.S.	378442982	Angers	France	100

Company	Corporate ID no.	Registered office	Country	% Ownership
Scania France S.A.S.	307166934	Angers	France	100
Scania Holding France S.A.S.	403092786	Angers	France	100
Scania Real Estate France S.A.S.	78961241300011	Angers	France	100
Scania IT France S.A.S.	412282626	Angers	France	100
B. + V. Grundstücks- Verwaltungs- und Verwertungs-GmbH	HRB 2277	Koblenz	Germany	100
Scania CV Deutschland Holding GmbH	HRB 6077	Koblenz	Germany	100
SCANIA Real Estate Deutschland Holding GmbH	HRB 23798	Koblenz	Germany	100
SCANIA Real Estate Deutschland GmbH	HRB 23796	Koblenz	Germany	100
SCANIA Vertrieb und Service GmbH	HRB 20490	Koblenz	Germany	100
SCANIA DEUTSCHLAND GmbH	HRB 532	Koblenz	Germany	100
B. + V. Grundstücksverwertungs-GmbH & Co. KG	HRA 3377	Koblenz	Germany	100
Scania Flensburg GmbH	15 295 18587	Flensburg	Germany	100
Scania Danmark GmbH	DE 15 295 18862	Flensburg	Germany	100
Scania West Africa Ltd.	CS450862014	Accra	Ghana	100
Scania Great Britain Ltd.	831 017	Milton Keynes	Great Britain	100
Scania Real Estate (UK) Ltd.	7648886	Milton Keynes	Great Britain	100
Griffin Automotive Ltd.	27922106	Road Town	Great Britain	100
Scania Hungaria Kft.	10 415 577	Biatorbágy	Hungary	100
Scania Real Estate Hungaria Kft.	13-09-159119	Biatorbágy	Hungary	100
Scanexpo International S.A.	21.490591.0012	Montevideo	Uruguay	100
Scania Commercial Vehicles India Pvt. Ltd.	U35999KA2011FTC05698	Bangalore	India	100
PT Scania Parts Indonesia	AHU-09655.40.10.2014	Balikpapan	Indonesia	100
Italscania S.p.A.	11749110158	Trento	Italy	100
Scania Commerciale S.p.A.	IT 01184460226	Trento	Italy	100
Scania Milano S.p.A.	IT 02170120220	Trento	Italy	100
Qanadeel AL Rafidain Automotive Trading Co. Ltd.	7500	Erbil	Iraq	75.5
Scania Iraq Automotive Trading Company Ltd	000088307-02	Basra	Iraq	100
Scania Japan Ltd.	0104-01-083452	Tokyo	Japan	100
Scania Central Asia LLP	84931-1910-TOO	Almaty	Kazakhstan	100
Scania East Africa Ltd.	PO51426902Z	Nairobi	Kenya	100
Scania Latvia SIA	50003118401	Riga	Latvia	100
UAB Scania Lietuva	123873025	Vilnius	Lithuania	100
Scania Luxembourg S.A.	B53.044	Münsbach	Luxembourg	100
Scania Real Estate Holding Luxembourg S.à.r.l.	B160795	Münsbach	Luxembourg	100
Scania Makedonija d.o.o.e.l	7027532	Ilinden	Macedonia	100
Scania (Malaysia) Sdn. Bhd.	518606-D	Shah Alam	Malaysia	100
Scania Comercial, S.A. de C.V.	SCO031124MF5	Queretaro	Mexico	100
Scania Servicios, S.A. de C.V.	SSE031124MF5	Queretaro	Mexico	100
Scania Maroc S.A.	06100472	Casablanca	Morocco	100
Scania Moçambique, S.A.	100453150	Beira	Mozambique	100
Scania Namibia (Pty) Ltd.	2004/438	Windhoek	Namibia	100
Norsk Scania A/S	879 263 662	Oslo	Norway	100
Norsk Scania Eiendom A/S	996036545	Oslo	Norway	100
Scania del Perú S.A.	20101363008	Lima	Peru	100
Scania Polska S.A.	KRS0000091840	Nadarzyn	Poland	100
Scania Production Slupsk S.A.	KRS0000083601	Slupsk	Poland	100
Scania Real Estate Polska Sp.z o.o.	435 941	Nadarzyn	Poland	100
Scania Power Polska Sp. z o.o.	517301	Warszawa	Poland	100
Scania Portugal S.A.	PT502929995	Santa Iria de Azóia	Portugal	100
Scania Investimentos Imobiliários S.A.	PT508948118	Vialonga	Portugal	100
Scania Real Estate Romania S.R.L.	J23/2019/29.07.2011	Ciorogârla	Romania	100
Scania Romania S.R.L.	J23/588/27.04.2004	Ciorogârla	Romania	100
OOO Scania Peter	1027804908372	St. Petersburg	Russia	100
OOO Scania-Rus	1025004070079	Golitsino	Russia	100
OOO Scania Service	1035006456044	Golitsino	Russia	100
Scania Schweiz AG	CH-020.3.926.624-8	Kloten	Switzerland	100
Garage Vetterli AG	CH-020.3.909.930-2	Seuzach	Switzerland	100
Scania Real Estate Schweiz AG	CH-020.3.035.714-4	Kloten	Switzerland	100
Scania Real Estate d.o.o. Beograd	20659874	Beograd	Serbia	100
Scania Srbija d.o.o.	17333321	Krnjesevci	Serbia	100
Scania Singapore Pte. Ltd.	200309593R	Singapore	Singapore	100
Scania Real Estate Slovakia s.r.o.	44767668	Senec	Slovakia	100
Scania Slovakia s.r.o.	35826649	Senec	Slovakia	100
Scania Slovenija d.o.o.	1 124 773	Ljubljana	Slovenia	100
Scania Hispania S.A.	A59596734	Madrid	Spain	100
Scania Hispania Holding S.L.	B82853938	Madrid	Spain	100
Scania Real Estate Hispania, S.L.U.	B36682003	Pontevedra	Spain	100
Scania South Africa Pty Ltd.	1995/001275/07	Aeroton	South Africa	100
Scania Incheon Ltd.	120111-0639065	Incheon	South Korea	100
Scania Korea Ltd.	120111-0122515	Seoul	South Korea	100
Scania Korea Seoul Ltd.	110111-5304681	Seoul	South Korea	100

NOTE 29 Shares and participations in subsidiaries, continued

Company	Corporate ID no.	Registered office	Country	% Ownership
Scania Yangsang Ltd.	234111-0084495	Yangsan	South Korea	100
Scania Tanzania Ltd.	39320	Dar es Salaam	Tanzania	100
Scania Siam Co Ltd.	0105543060121	Bangkok	Thailand	100
Scania Thailand Co Ltd.	0105534098031	Bangkok	Thailand	100
Power Vehicle Co. Ltd.	01055547132895	Bangkok	Thailand	100
Scan Siam Service Co. Ltd.	0105545023525	Bangkok	Thailand	100
Scania Production Zwolle B.V.	05020370	Zwolle	The Netherlands	100
Scania Real Estate The Netherlands B.V.	50687921	Breda	The Netherlands	100
Scania Logistics Netherlands B.V.	56552793	Zwolle	The Netherlands	100
Scania Nederland B.V.	27136821	Breda	The Netherlands	100
Scania Production Meppel B.V.	05046846	Meppel	The Netherlands	100
Scania IT Nederland B.V.	05062402	Zwolle	The Netherlands	100
Scania Middle East FZE	150175	Dubai	The United Arab Emirates	100
TOV Scania Ukraine	30 107 866	Kyiv	Ukraine	100
TOV Donbas-Scan-Service	34516735	Makijivka	Ukraine	100
TOV Kyiv-Scan	35706433	Kyiv	Ukraine	100
TOV Scania-Lviv	37497108	Lviv	Ukraine	100
Scania USA Inc.	06-1288161	San Antonio/ TX	United States	100
Scania Holding Inc.	4019619	Wilmington	United States	100
Scania de Venezuela S.A.	J-30532829-3	Valencia	Venezuela	100
Financial Services				
Scania Finans AB	556049-2570	Södertälje	Sweden	100
Scania Credit AB	556062-7373	Södertälje	Sweden	100
Scania Finance Holding AB	556548-4697	Södertälje	Sweden	100
Scania Projektfinans AB	556593-3008	Södertälje	Sweden	100
Scania Finance Australia Pty Ltd.	609 637 596	Melbourne	Australia	100
Scania Leasing Österreich GmbH	FN246699v	Brunn am Gebirge	Austria	100
Scania Österreich Holding GmbH	FN 316321 d	Brunn am Gebirge	Austria	100
Scania Finance Belgium N.V.	BE0413.545.048	Neder-Over-Heembeek	Belgium	100
Scania Banco S.A.	CNPJ11.417.016/00011	São Bernardo do Campo	Brazil	100
Scania Corretora de Seguros Ltda.	CNPJ11.513.179/00105	São Bernardo do Campo	Brazil	100
Scania Finance Bulgaria EOOD	BG175108126	Sofia	Bulgaria	100
Scania Rent Bulgaria EOOD	175108126	Sofia	Bulgaria	100
Scania Finance Chile S.A.	76.574.810-0	Santiago de Chile	Chile	100
Scania Credit (Hong Kong) Ltd.	1945045	Hongkong	China	100
Scania Credit Hrvatska d.o.o.	80516047	Lucko	Croatia	100
Scania Finance Czech Republic spol. s r.o.	CZ225657496	Praha	Czech Republic	100
Scania Finance France S.A.S.	350890661	Angers	France	100
Scania Location S.A.S.	402496442	Angers	France	100
Scania Finance Great Britain Ltd.	2173954	London	Great Britain	100
Scania Finance Deutschland GmbH	HRB 3917	Koblenz	Germany	100
Scania Versicherungsvermittlung GmbH	HRB 22831	Koblenz	Germany	100
Scania Finance Magyarország Zrt.	13-10-040959	Biatorbágy	Hungary	100
Scania Lizing Kft.	13-09-107823	Biatorbágy	Hungary	100
Scania Finance Ireland Ltd.	482137	Dublin	Ireland	100
Scania Finance Italy S.p.A.	03333020158	Milano	Italy	100
Scania Finance Luxembourg S.A.	B0082907	Münzbach	Luxembourg	100
Scania Credit (Malaysia) Sdn. Bhd.	1011611-H	Shah Alam	Malaysia	100
Scania Services del Perú S.A.	20392923277	Lima	Peru	100
Scania Finance Polska Sp.z.o.o.	0000036594	Stara Wies	Poland	100
Scania Insurance Polska Sp.z o.o.	0000478529	Stara Wies	Poland	100
Scanrent - Alguer de Viaturas sem Condutor, S.A.	502631910	Santa Iria de Azóia	Portugal	100
Scania Credit Romania IFN S.A.	J23/1818/2005	Ciorogârla	Romania	100
Scania Regional Agent de Asigurare S.R.L.	J23/534/2011	Ciorogârla	Romania	100
Scania Rent Romania S.R.L.	J23/1669/2008	Ciorogârla	Romania	100
OOO Scania Finance	1045005504774	Moskva	Russia	100
OOO Scania Leasing	1027700203970	Moskva	Russia	100
OOO Scania Strachovanie	1127747003097	Moskva	Russia	100
Scania Finance Slovak Republic s.r.o.	43874746	Senec	Slovakia	100
Scania Leasing d.o.o.	356417700	Ljubljana	Slovenia	100
Scania Commercial Vehicles Renting S.A.	A82853995	Madrid	Spain	100
Scania Finance Hispania EFC S.A.	A82853987	Madrid	Spain	100
Scania Credit Solutions Pty Ltd.	2009/016998/07	Aeroton, Gauteng	South Africa	100
Scania Finance Southern Africa (Pty) Ltd.	2000/025215/07	Aeroton, Guateng	South Africa	100
Scania Finance Korea Ltd.	195411-0007994	Kyungam	South Korea	100
Scania Finance Schweiz AG	CH-020.3.029.627-6	Kloten	Switzerland	100
Scania Credit Taiwan Ltd.	54330725	Taipeh	Taiwan	100
Scania Siam Leasing Co. Ltd.	0105550082925	Bangkok	Thailand	100
Scania Finance Nederland B.V.	3446773	Breda	The Netherlands	100
Scania Insurance Nederland B.V.	1745773	Middelharnis	The Netherlands	100
TOV Scania Credit Ukraine	33052443	Kyiv	Ukraine	100

Dormant companies are not included.

Parent Company financial statements, Scania AB

Income statement

January – December, SEK m.	Note	2016	2015
Administrative expenses		0	0
Operating income		0	0
Financial income and expenses		0	0
Income after financial items		0	0
Appropriations		–	–
Income before taxes		0	0
Taxes		–	–
Net income		0	0

Statement of other comprehensive income

January – December, SEK m.	2016	2015
Net income	0	0
Other comprehensive income	–	–
Total comprehensive income	0	0

Balance sheet

31 December, SEK m.	Note	2016	2015
ASSETS			
Financial non-current assets			
Shares in subsidiaries	1	8,435	8,435
Current assets			
Due from subsidiaries	2	1,567	11,167
Total assets		10,002	19,602
SHAREHOLDERS' EQUITY	3		
Restricted Equity			
Share capital		2,000	2,000
Statutory reserve		1,120	1,120
Unrestricted shareholders' equity			
Retained earnings		6,882	6,882
Net income			0
Total shareholders' equity		10,002	10,002
Current liabilities			
Interest-bearing liabilities		–	9,600
Total equity and liabilities		10,002	19,602

Statement of changes in equity

2016	Restricted equity			Total
	Share capital	Statutory reserve	Unrestricted shareholders' equity	
Equity, 1 January	2,000	1,120	6,882	10,002
Total comprehensive income for the year			0	
Dividend			0	
Equity, 31 December 2016	2,000	1,120	6,882	10,002

2015	Restricted equity			Total
	Share capital	Statutory reserve	Unrestricted shareholders' equity	
Equity, 1 January	2,000	1,120	16,482	19,602
Total comprehensive income for the year			0	0
Dividend			–9,600	–9,600
Equity, 31 December 2015	2,000	1,120	6,882	10,002

Cash flow statement

January – December, SEK m.	Note	2016	2015
Operating activities			
Income after financial items	4	0	0
Items not affecting cash flow		–	–
Taxes paid		–	–
Cash flow from operating activities before change in working capital		0	0
Cash flow from change in working capital			
Due from subsidiaries		–	–
Total change in working capital		–	–
Cash flow from operating activities		0	0
Investing activities			
Shareholders' contribution paid		–	–
Cash flow from investing activities		–	–
Total cash flow before financing activities		–	–
Financing activities			
Change in debt from financing activities		–	–
Cash flow from financing activities		–	–
Cash flow for the year		–	–
Cash and cash equivalents, 1 January		–	–
Cash and cash equivalents, 31 December		–	–

Notes to the Parent Company financial statements

Amounts in the tables are reported in millions of Swedish kronor (SEK m.), unless otherwise stated. A presentation of the Parent Company's accounting principles is found in Note 1 to the consolidated financial statements. Taking into account that the operations of the Parent Company consists exclusively of share ownership in Group companies, aside from the notes below, the Scania Group's Report of the Directors and notes otherwise apply where appropriate.

NOTE 1 Shares in subsidiaries

Subsidiary / Corporate ID number / registered office	Ownership, %	Thousands of shares	Carrying amount	
			2016	2015
Scania CV AB, 556084-0976, Södertälje	100.0	1,000	8,435	8,435
Total			8,435	8,435

Scania CV AB is a public company and parent company of the Scania CV Group, which includes all production, sales and service and finance companies in the Scania AB Group.

NOTE 2 Due from subsidiaries

	2016	2015
Current interest-bearing receivable from Scania CV AB	1,567	11,167
Total	1,567	11,167

The receivables are in SEK, so there is no currency risk.

NOTE 3 Equity

For changes in equity, see the equity report.

Under Swedish law, **equity** shall be allocated between non-distributable (restricted) and distributable (unrestricted) funds.

Restricted equity consists of share capital plus statutory reserve. Scania AB has 400,000,000 Series A shares outstanding with voting rights of one vote per share and 400,000,000 Series B shares outstanding with voting rights of 1/10 vote per share. A and B shares carry the same right to a portion of the company's assets and profit. The nominal value of both A and B shares is SEK 2.50 per share. All shares are fully paid and no shares are reserved for transfer of ownership. No shares are held by the company itself or its subsidiaries.

NOTE 4 Cash flow statement

Interest received was SEK 0 m. (0).

NOTE 5 Contingent liabilities

	2016	2015
Loan guarantees on behalf of borrowings in Scania CV AB	44,269	34,754
Total	44,269	34,754

NOTE 6 Salaries and remuneration to Board of Directors, executive officers and auditors

The Board of Directors, the President and CEO of Scania AB and the other executive officers hold identical positions in Scania CV AB. Wages, salaries and other remuneration are paid by Scania CV AB. The reader is therefore referred to the notes to the consolidated financial statements: Note 23, "Wages, salaries and other remuneration and number of employees" and Note 25, "Compensation to executive officers". Compensation of KSEK 30 (15) was paid to auditors with respect to the Parent Company.

NOTE 7 Transactions with related parties

Scania AB is a subsidiary of Volkswagen Truck & Bus GmbH, corporate ID number HRB 100261 registered office in Braunschweig and MAN SE RE SHB RE NTGS, corporate ID number HRB 179426 registered office in Munich.

The consolidated Annual Report of Scania's foreign parent company is available on the website www.volkswagen.com.

Transactions with related parties consist of dividends paid to Volkswagen Truck & Bus GmbH and MAN SE. Dividends decided in 2016 amounted to SEK 0 m. (8,319) to Volkswagen Truck & Bus GmbH and SEK 0 m. (1,281) to MAN SE.

Proposed distribution of earnings

The Board of Directors decided on a dividend proposal of SEK 0 for the financial year of 2016. The dividend policy of distributing approximately 50 percent of the net income over time is still valid, why future dividends can comprise accumulated earnings from several years.

Amounts in SEK m.	
Retained earnings	6,882
Net income for the year	0
Other comprehensive income for the year	-
Total	6,882

Shall be distributed as follows:

To the shareholders, a dividend of SEK – per share	-
To be carried forward	6,882
Total	6,882

After implementing the proposed distribution of earnings, the equity of the Parent Company, Scania AB, is as follows:

Amounts in SEK m.	
Share capital	2,000
Statutory reserve	1,120
Retained earnings	6,882
Total	10,002

The undersigned certify that the consolidated accounts and the annual accounts have been prepared in accordance with International Financial Reporting Standards (IFRSs), as adopted for use in the European Union, and generally accepted accounting principles respectively, and give a true and fair view of the financial positions and results of the Group and the Parent Company, and that the Report of the Directors for the Group and the Parent Company gives a true and fair review of the development of the operations, financial positions and results of the Group and the Parent Company and describes substantial risks and uncertainties faced by the companies in the Group. The annual accounts and the consolidated financial statements were approved for issuance by the Board of Directors on 16 March 2017. The consolidated income statement and balance sheet and the Parent Company income statement and balance sheet will be subject to adoption by the Annual General Meeting on 4 May 2017.

Södertälje, 16 March 2017

Andreas Renschler
Chairman of the Board

Helmut Aurenz
Board member

Annika Falkengren
Board member

Matthias Gründler
Board member

Markus S. Piëch
Board member

Christian Porsche
Board member

Peter Wallenberg Jr
Board member

Johan Järvklo
Board member
Employee representative

Lisa Lorentzon
Board member
Employee representative

Henrik Henriksson
Board member
President and CEO

Our Audit Report was submitted on 20 March 2017

PricewaterhouseCoopers AB

Bo Karlsson
Authorised Public Accountant

Björn Irlé
Authorised Public Accountant

Audit report

To the general meeting of the shareholders of Scania AB. corporate identity number 556184-8564

Report on the annual accounts and consolidated accounts

Opinions

We have audited the annual accounts and consolidated accounts of Scania AB for the year 2016. The annual accounts and consolidated accounts of the company are included on pages 42–118 in this document.

In our opinion, the annual accounts have been prepared in accordance with the Annual Accounts Act and present fairly, in all material respects, the financial position of parent company as of 31 December 2016 and its financial performance and cash flow for the year then ended in accordance with the Annual Accounts Act. The consolidated accounts have been prepared in accordance with the Annual Accounts Act and present fairly, in all material respects, the financial position of the group as of 31 December 2016 and their financial performance and cash flow for the year then ended in accordance with International Financial Reporting Standards (IFRS), as adopted by the EU, and the Annual Accounts Act. The statutory administration report is consistent with the other parts of the annual accounts and consolidated accounts.

We therefore recommend that the general meeting of shareholders adopts the income statement and balance sheet for the parent company and the group.

Basis for Opinions

We conducted our audit in accordance with International Standards on Auditing (ISA) and generally accepted auditing standards in Sweden. Our responsibilities under those standards are further described in the Auditor's Responsibilities section. We are independent of the parent company and the group in accordance with professional ethics for accountants in Sweden and have otherwise fulfilled our ethical responsibilities in accordance with these requirements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinions.

Our audit approach

Audit scope

We designed our audit by determining materiality and assessing the risks of material misstatement in the consolidated financial statements. In particular, we considered where management made subjective judgements; for example, in respect of significant accounting estimates that involved making assumptions and considering future events that are inherently uncertain. As in all of our audits, we also addressed the risk of management override of internal controls, including among other matters consideration of whether there was evidence of bias that represented a risk of material misstatement due to fraud.

We tailored the scope of our audit in order to perform sufficient work to enable us to provide an opinion on the consolidated financial statements as a whole, taking into account the structure of the Group, the accounting processes and controls, and the industry in which the group operates.

In the parent company, Scania AB, no operating activities are carried out. The operating entities in the group can be classified into manufacturing units, sales units, finance companies and intragroup support functions. Manufacturing and development is performed in few entities. The individually largest entity is Scania CV AB where a major part of the group's research and development is carried out, and is audited by the group team. For remaining manufacturing units audit procedures are performed by local auditors according to instructions issued by us. As part of this year's audit procedures we have visited the subsidiaries in Brazil. Sales and finance companies represent a significant part of the number of units in the group spread over a number of countries. In our audit, we have focused on those reporting units that have the largest impact on the financial reporting. For these units, the local audit is performed according to our instructions. All these entities together with the parent company represent some seventy percent of the external sales. Remaining units are mainly smaller sales units and support functions.

Materiality

The scope of our audit was influenced by our application of materiality. An audit is designed to obtain reasonable assurance whether the financial statements are free from material misstatement. Misstatements may arise due to fraud or error. They are considered material if individually or in aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of the consolidated financial statements.

Based on our professional judgement, we determined certain quantitative thresholds for materiality, including the overall group materiality for the consolidated financial statements as a whole as set out in the table below. These, together with qualitative considerations, helped us to determine the scope of our audit and the nature, timing and extent of our audit procedures and to evaluate the effect of misstatements, both individually and in aggregate on the financial statements as a whole.

Key audit matters

Key audit matters of the audit are those matters that, in our professional judgment, were of most significance in our audit of the annual accounts and consolidated accounts of the current period. These matters were addressed in the context of our audit of, and in forming our opinion thereon, the annual accounts and consolidated accounts as a whole, but we do not provide a separate opinion on these matters. The key audit matters below relate to the group.

Audit report continued

Key audit matter

Provision for obligations regarding alleged breaches of competition law in form of a cartel on price coordination and a vast information exchange according to investigations by the EU Commission

As described in note 2 and note 16 to the financial statements, the Scania Group is involved in an alleged breaches of competition law in form of a cartel on price coordination and a vast information exchange according to investigation by the EU Commission. The Commission's investigation has proceeded for several years. In 2016, a provision of SEK 3,8 billion has been recognized for the risk for future penalties. The investigation itself is complex and the valuation of the commitment is highly affected by management's judgment and estimates of final decisions.

How our audit addressed the Key audit matter

Scania's management and board of directors have been highly involved in the handling of the ongoing investigation. In our audit, we assess how these matters are treated on management and board level through reading through supporting documentation and calculations.

To assess this kind of legal disputes is complicated and require us to involve experts within relevant areas to assist us in our assessment of the financial application aspects of the matters.

We have in our audit requested and received written representations from Scania's legal advisors about the development of the investigation by the EU Commission. These representations have been issued each quarter. In addition to the representations from Scania's legal advisors, we have involved internal experts on competition regulation in EU employed by firms in the PwC network. Since Scania is a subsidiary in the VW-group we have also reported and discussed the matter with the parent company's auditors.

As described in the annual report, Scania has recognized a significant provision in 2016. In connection with the provision we have assessed the accuracy in the assumptions used in the valuation of the provision. This was done by reconciling assumptions to external and internal sources of information.

We note that, although the ongoing investigation by the EU Commission has been treated reasonably in the accounting records there is a remaining inherent uncertainty that the final outcome can deviate significantly for management's judgment.

Revenue recognition for vehicles delivered with residual value commitment and allocation of revenue for service contracts

The accounting principles for revenue is described in note 1 to the annual report. For vehicles delivered with residual value commitments, revenue is recognized over the contracted time for the commitment since the residual value risk rests within Scania.

For service and repair contrast, revenue is recognized in line with the costs involved to fulfil the commitment occur.

In both cases there is a risk that revenue is recognised in the incorrect period over the contracted period.

Recognition of revenue in the right period for vehicles with residual value commitment and for service and repair contracts is accounted for in the sales entities. In their accounting manual Scania has developed instructions and models for how to recognise revenue over time for these transactions with customers. From the Group audit team we have assessed whether the accounting models are in line with applicable IFRS.

In our instructions to the component auditors, we have disclosed the accounting principles and models used by Scania and instructed them to confirm that the local components adhere to the accounting principles selected by Scania and that this has been covered in their audit.

Although the accounting model is commonly used throughout the group, estimates used in the calculation are based on local circumstances in different markets. These estimates are assessed by the local audit teams. In connection with the reporting from the local auditors we have discussions with them in order to understand audit procedures performed on the matter.

From our audit procedures we have had no significant to report to the audit committee.

Other Information than the annual accounts and consolidated accounts

This document also contains other information than the annual accounts and consolidated accounts and is found on pages 1–41 and 123–137. The Board of Directors and the Managing Director are responsible for this other information.

Our opinion on the annual accounts and consolidated accounts does not cover this other information and we do not express any form of assurance conclusion regarding this other information.

In connection with our audit of the annual accounts and consolidated accounts, our responsibility is to read the information identified above and consider whether the information is materially inconsistent with the annual accounts and consolidated accounts. In this procedure we also take into account our knowledge otherwise obtained in the audit and assess whether the information otherwise appears to be materially misstated.

If we, based on the work performed concerning this information, conclude that there is a material misstatement of this other information, we are required to report that fact. We have nothing to report in this regard.

Responsibilities of the Board of Directors and the Managing Director

The Board of Directors and the Managing Director are responsible for the preparation of the annual accounts and consolidated accounts and that they give a fair presentation in accordance with the Annual Accounts Act and, concerning the consolidated accounts, in accordance with IFRS as adopted by the EU. The Board of Directors and the Managing Director are also responsible for such internal control as they determine is necessary to enable the preparation of annual accounts and consolidated accounts that are free from material misstatement, whether due to fraud or error.

In preparing the annual accounts and consolidated accounts, The Board of Directors and the Managing Director are responsible for the assessment of the company's and the group's ability to continue as a going concern. They disclose, as applicable, matters related to going concern and using the going concern basis of accounting. The going concern basis of accounting is however not applied if the Board of Directors and the Managing Director intends to liquidate the company, to cease operations, or has no realistic alternative but to do so.

The Audit Committee shall, without prejudice to the Board of Director's responsibilities and tasks in general, among other things oversee the company's financial reporting process.

Auditor's responsibility

Our objectives are to obtain reasonable assurance about whether the annual accounts and consolidated accounts as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinions. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with ISAs and generally accepted auditing standards in

Sweden will always detect a material misstatement when it exists. 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 annual accounts and consolidated accounts.

A further description of our responsibility for the audit of the annual accounts and consolidated accounts is available on Revisorsnämnden's website: www.revisorsinspektionen.se/rn/showdocument/documents/

[rev_dok/revisors_ansvar.pdf](http://www.revisorsinspektionen.se/rn/rev_dok/revisors_ansvar.pdf). This description is part of the auditor's report.

Report on other legal and regulatory requirements

Opinions

In addition to our audit of the annual accounts and consolidated accounts, we have also audited the administration of the Board of Directors and the Managing Director of Scania AB for the year 2016 and the proposed appropriations of the company's profit or loss.

We recommend to the general meeting of shareholders that the profit be appropriated in accordance with the proposal in the statutory administration report and that the members of the Board of Directors and the Managing Director be discharged from liability for the financial year.

Basis for Opinions

We conducted the audit in accordance with generally accepted auditing standards in Sweden. Our responsibilities under those standards are further described in the Auditor's Responsibilities section. We are independent of the parent company and the group in accordance with professional ethics for accountants in Sweden and have otherwise fulfilled our ethical responsibilities in accordance with these requirements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinions.

Responsibilities of the Board of Directors and the Managing Director

The Board of Directors is responsible for the proposal for appropriations of the company's profit or loss. At the proposal of a dividend, this includes an assessment of whether the dividend is justifiable considering the requirements which the company's and the group's type of operations, size and risks place on the size of the parent company's and the group's equity, consolidation requirements, liquidity and position in general.

The Board of Directors is responsible for the company's organization and the administration of the company's affairs. This includes among other things continuous assessment of the company's and the group's financial situation and ensuring that the company's organization is designed so that the accounting, management of assets and the company's financial affairs otherwise are controlled in a reassuring

Audit report continued

manner. The Managing Director shall manage the ongoing administration according to the Board of Directors' guidelines and instructions and among other matters take measures that are necessary to fulfil the company's accounting in accordance with law and handle the management of assets in a reassuring manner.

Auditor's responsibility

Our objective concerning the audit of the administration, and thereby our opinion about discharge from liability, is to obtain audit evidence to assess with a reasonable degree of assurance whether any member of the Board of Directors or the Managing Director in any material respect:

- has undertaken any action or been guilty of any omission which can give rise to liability to the company, or
- in any other way has acted in contravention of the Companies Act, the Annual Accounts Act or the Articles of Association.

Our objective concerning the audit of the proposed appropriations of the company's profit or loss, and thereby our opinion about this, is to assess with reasonable degree of assurance whether the proposal is in accordance with the Companies Act.

Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with generally accepted auditing standards in Sweden will always detect actions or omissions that can give rise to liability to the company, or that the proposed appropriations of the company's profit or loss are not in accordance with the Companies Act.

A further description of our responsibility for the audit of the administration is available on Revisorsnämnden's website: www.revisorsinspektionen.se/rn/showdocument/documents/rev_dok/revisors_ansvar.pdf. This description is part of the auditor's report.

Göteborg 20 March 2017

PricewaterhouseCoopers AB

Bo Karlsson	Björn Irlé
Authorized public accountant	Authorized public accountant
Partner in charge	

Key financial ratios and figures

Scania presents certain performance measures that are used to explain relevant trends and performance of the Group, of which not all are defined under IFRS. As these performance measures are not uniformly defined by all companies, these are not always comparable with the measures used by other companies. These performance measures should therefore not be viewed as substitutes for IFRS-defined measures. The following are the performance measured used by Scania that are not defined under IFRS, unless otherwise stated.

	2016	2015	2014	2013	2012	2011	2010	2009	2008	2007
Scania Group										
Operating margin, %	6.1	10.2	9.5	9.7	10.4	14.1	16.3	4.0	14.1	14.4
– excl. items affecting comparability ²	9.8	10.2	9.5	9.7	10.4	14.1	16.3	4.0	14.1	14.4
Equity/assets ratio, %	26.0	26.8	31.4	31.2	30.6	31.1	30.2	23.7	19.9	27.1
Net debt, excl. provisions for pensions, SEK m. ¹	49,788	42,183	35,780	34,696	31,591	28,213	24,606	39,767	50,112	31,534
Net debt/equity ratio ¹	1.18	1.11	0.86	0.93	0.90	0.82	0.82	1.71	2.28	1.27
Vehicles and Services										
Operating margin, %	5.2	9.1	8.4	8.9	9.7	13.5	16.1	4.3	13.6	13.8
– excl. items affecting comparability ²	8.8	9.1	8.4	8.9	9.7	13.5	16.1	4.3	13.6	13.8
Capital turnover rate, times	2.31	1.99	2.18	2.15	2.02	2.47	2.35	1.77	3.01	2.82
– excl. items affecting comparability ²	2.21	1.99	2.18	2.15	2.02	2.47	2.35	1.77	3.01	2.82
Return on capital employed, %	14.0	19.3	19.9	20.9	21.4	35.9	39.1	9.2	42.8	40.5
– excl. items affecting comparability ²	21.5	19.3	19.9	20.9	21.4	35.9	39.1	9.2	42.8	40.5
Return on operating capital, %	15.7	25.6	24.5	26.0	27.1	44.3	48.7	9.0	47.1	51.2
– excl. items affecting comparability ²	25.4	25.6	24.5	26.0	27.1	44.3	48.7	9.0	47.1	51.2
Net debt, excl. provisions for pensions, SEK m. ¹	-10,954	-7,579	-12,139	-8,019	-8,026	-8,834	-6,575	4,038	8,364	-1,902
Net debt/equity ratio ¹	-0.31	-0.24	-0.35	-0.25	-0.27	-0.29	-0.25	0.21	0.49	-0.09
Financial Services										
Operating margin, %	1.6	1.9	1.9	1.5	1.4	1.3	0.5	-0.4	1.0	1.5
Equity/assets ratio, %	9.0	9.8	11.5	10.4	10.3	10.3	11.1	10.4	9.6	10.1

¹ Net debt (+) and net cash position (-).

² Adjusted for the provision of SEK 3,800 m. recognised in 2016 relating to the EU investigation, see note 2.

Key financial ratios and figures, continued

Scania Group

Net debt, excluding provision for pensions	2016	2015
ASSETS		
Current investments	1,122	213
Cash and cash equivalents	7,634	12,295
Derivatives, non-current	374	595
Derivatives, current	291	554
	9,421	13,657
LIABILITIES		
Interest-bearing liabilities, non current	27,298	26,206
Interest-bearing liabilities, current	30,713	28,736
Derivatives, non current	778	508
Derivatives, current	420	390
	52,209	55,840
Net debt	49,788	42,183

Vehicles and Services

Net debt, excluding provision for pensions	2016	2015
ASSETS		
Current investments	5,294	5,694
Cash and cash equivalents	6,193	11,362
Derivatives, non-current	374	595
Derivatives, current	291	554
	12,152	18,205
LIABILITIES		
Interest-bearing liabilities, non current	0	9,728
Derivatives, non current	778	508
Derivatives, current	420	390
	1,198	10,626
Net debt	-10,954	-7,579

Capital Employed ²	2016	2015
Total assets	92,659	86,198
- Other non-current provisions + current provisions ²	5,311	5,089
- Other liabilities	40,671	33,957
- Net derivatives	-263	-534
Capital Employed	46,940	47,686

Operating Capital ²	2016	2015
Total assets	92,659	86,198
Cash and Cash equivalents	10,794	14,039
Operating liabilities		
- Other non-current provisions + current provisions ²	5,311	5,089
- Other liabilities	40,671	33,957
- Net derivatives	-263	-534
Operating Capital	36,146	33,647

Return on Capital Employed ²	2016	2015
Operating income ²	9,169	8,601
Financial income	922	611
Capital employed	46,940	47,686
Return on Capital Employed	21.5	19.3

Capital turnover	2016	2015
Net sales	103,927	94,897
Capital employed ²	46,940	47,686
Capital turnover	2.21	1.99

Return on operating capital ²	2016	2015
Operating income ²	9,169	8,601
Operating capital ²	36,146	33,647
Return on operating capital	25.4	25.6

Financial Services

Operating margin	2016	2015
Operating income	1,015	1,040
Average portfolio	62,211	56,021
Operating margin	1.6%	1.9%

Equity/asset ratio %	2016	2015
Equity	6,453	5,802
Assets	71,589	59,122
Equity/asset ratio %	9.0%	9.8%

Definitions

Operating margin

Operating income as a percentage of net sales.

Net margin

Net profit for the year as a percentage of net sales

Equity/assets ratio

Total equity as a percentage of total assets on each respective balance sheet date.

Net debt, net cash excluding provision for pensions

Current and non-current borrowings (excluding pension liabilities) minus cash and cash equivalents and net fair value of derivatives for hedging borrowings.

Net debt/equity ratio

Net debt, net cash as a percentage of total equity.

Capital employed

Total assets minus operating liabilities.¹

Operating capital

Total assets minus cash, cash equivalents and operating liabilities.¹

Capital turnover

Net sales divided by capital employed.¹

Return on capital employed

Operating income plus financial income as a percentage of capital employed.¹

Return on operating capital

Operating income as a percentage of operating capital.¹

Operating margin, Financial Services

Operating income as a percentage of average portfolio.

¹ Calculations are based on average capital employed and operating capital for the 13 most recent months.

Geographic areas

Europe: Albania, Austria, Belgium, Bosnia-Herzegovina, Bulgaria, Croatia, Cyprus, the Czech Republic, Denmark, Estonia, Finland, France, Germany, Great Britain, Greece, Hungary, Iceland, Ireland, Italy, Latvia, Lithuania, Luxembourg, Macedonia, Malta, the Netherlands, Norway, Poland, Portugal, Romania, Serbia, Slovakia, Slovenia, Spain, Sweden, Switzerland.

Eurasia: Armenia, Azerbaijan, Belarus, Georgia, Kazakhstan, Russia, Ukraine.

Asia: Bahrain, Bangladesh, Bhutan, Brunei, China, Hong Kong, India, Indonesia, Iran, Iraq, Israel, Japan, Jordan, Lebanon, Malaysia, Mongolia, Myanmar, Oman, Pakistan, Philippines, Qatar, Saudi Arabia, Singapore, South Korea, Sri Lanka, Syria, Taiwan, Thailand, Turkey, the United Arab Emirates, Vietnam.

America: Argentina, Barbados, Bolivia, Brazil, Chile, Colombia, Costa Rica, Cuba, the Dominican Republic, Ecuador, El Salvador, Guatemala, Honduras, Mexico, Netherlands Antilles, Panama, Paraguay, Peru, Trinidad, the United States, Uruguay, Venezuela.

Africa and Oceania: Algeria, Angola, Australia, Botswana, Egypt, Ethiopia, Ghana, Kenya, Liberia, Malawi, Morocco, Mozambique, Namibia, New Caledonia, New Zealand, Nigeria, Rwanda, Senegal, the South Africa, Sudan, Tanzania, Tunisia, Uganda, Zambia.

Multi-year statistical review

SEK m. unless otherwise stated	2016	2015	2014	2013	2012	2011	2010	2009	2008	2007
Delivery value by market area										
Europe	73,363	65,100	53,211	46,712	43,490	47,747	41,533	37,988	60,360	59,553
Eurasia	3,291	2,623	5,319	6,047	5,966	6,084	2,413	1,449	5,267	5,126
America ¹	10,746	11,799	17,648	23,552	18,391	20,912	21,725	11,812	12,822	10,573
Asia	13,187	13,044	12,155	7,758	7,853	10,182	9,035	6,097	6,665	5,699
Africa and Oceania	8,358	7,991	6,952	5,925	5,796	5,360	5,403	5,243	4,364	4,511
Adjustment for lease income ²	-5,018	-5,660	-3,234	-3,146	-1,894	-2,599	-1,941	-515	-501	-976
Total	103,927	94,897	92,051	86,847	79,603	87,686	78,168	62,074	88,977	84,486
Operating income										
Vehicles and Services	5,369	8,601	7,705	7,736	7,694	11,881	12,575	2,648	12,098	11,632
– adjusted for items affecting comparability ⁵	9,169	8,601	7,705	7,736	7,694	11,881	12,575	2,648	12,098	11,632
Financial Services	1,015	1,040	1,016	719	606	517	171	-175	414	532
Total	6,384	9,641	8,721	8,455	8,300	12,398	12,746	2,473	12,512	12,164
Operating margin, %										
Vehicles and Services	5.2%	9.1%	8.4	8.9	9.7	13.5	16.1	4.3	13.6	13.8
– adjusted for items affecting comparability ⁵	8.8	9.1%	8.4	8.9	9.7	13.5	16.1	4.3	13.6	13.8
Total³	6.1%	10.2%	9.5	9.7	10.4	14.1	16.3	4.0	14.1	14.4
Net financial items	-421	-532	-399	-47	-19	214	-213	-871	-534	-258
Net income	3,243	6,753	6,009	6,194	6,640	9,422	9,103	1,129	8,890	8,554
– adjusted for items affecting comparability ⁵	7,043	6,753	6,009	6,194	6,640	9,422	9,103	1,129	8,890	8,554
Specification of research and development expenses										
Expenditures	-7,199	-7,043	-6,401	-5,854	-5,312	-4,658	-3,688	-3,234	-3,955	-3,214
Capitalisation	1,682	1,863	1,454	1,123	860	387	351	282	202	289
Amortisation	-387	-393	-357	-293	-229	-169	-168	-264	-475	-418
Research and development expenses	-5,904	-5,573	-5,304	-5,024	-4,681	-4,440	-3,505	-3,216	-4,228	-3,343
Net investments through acquisitions/ divestments of businesses	0	125	154	26	-25	-44	56	118	-61	268
Net investments in non-current assets	7,864	7,612	5,561	5,294	4,480	3,776	2,753	3,031	5,447	4,277
Portfolio, Financial Services operations	67,935	56,486	55,556	48,863	45,038	42,235	36,137	40,404	47,220	38,314
Cash flow, Vehicles and Services	3,427	4,376	4,690	3,231	3,025	6,970	11,880	5,512	1,774	8,229
Inventory turnover rate, times ⁴	5.4	5.3	5.4	5.8	5.4	6.1	6.4	4.5	6.5	7.5

1 Refers mainly to Latin America.

2 The adjustment amount consists of the difference between sales value based on delivery and revenue recognised as income. This difference arises when a lease or delivery is combined with a residual value guarantee or a repurchase obligation. Significant risks remain, therefore recognition is based on an operating lease contract. This means that recognition of revenue and earnings is allocated based on the term of the obligation. See also Note 3.

3 Includes Financial Services.

4 Calculated as net sales divided by average inventory (adjusted for divested car operations).

5 Adjusted for the provision of SEK 3,800 m. recognised in 2016 relating to the EU investigation, see note 2.

	2016	2015	2014	2013	2012	2011	2010	2009	2008	2007
Number of vehicles produced										
Trucks	75,452	72,382	75,287	75,957	60,647	75,349	60,963	29,573	72,656	71,017
Buses	8,488	6,964	6,921	6,897	6,283	8,708	6,700	6,236	7,709	7,314
Total	83,940	79,346	82,208	82,854	66,930	84,057	67,663	35,809	80,365	78,331
Number of trucks delivered by market area										
Europe	49,102	43,082	34,008	32,625	27,720	31,443	23,315	18,824	41,184	44,433
Eurasia	3,233	2,583	5,964	6,260	6,798	7,445	2,369	1,084	5,455	5,765
America ⁵	7,022	8,118	16,150	23,756	15,391	17,632	18,056	9,566	10,775	9,790
Asia	9,287	11,514	12,889	7,400	8,089	12,485	10,179	4,843	6,721	6,061
Africa and Oceania	4,449	4,465	4,004	3,570	3,053	3,115	2,918	2,490	2,381	2,605
Total	73,093	69,762	73,015	73,611	61,051	72,120	56,837	36,807	66,516	68,654
Number of buses and coaches delivered by market area										
Europe	2,094	1,917	1,361	1,000	1,312	1,916	1,760	1,954	2,412	2,212
Eurasia	62	94	105	850	198	84	82	130	194	235
America ⁶	2,350	2,123	2,542	2,778	2,738	3,272	2,104	1,421	2,009	2,344
Asia	2,568	1,806	1,620	1,388	1,304	2,065	2,120	1,876	1,721	1,495
Africa and Oceania	1,179	859	1,139	837	798	651	809	1,255	941	938
Total	8,253	6,799	6,767	6,853	6,350	7,988	6,875	6,636	7,277	7,224
Total number of vehicles delivered	81,346	76,561	79,782	80,464	67,401	80,108	63,712	43,443	73,793	75,878
Number of industrial and marine engines delivered by market area										
Europe	3,272	2,664	2,823	2,719	3,664	3,450	2,634	1,834	3,019	3,538
America	1,727	3,180	3,176	2,925	2,582	2,809	3,281	1,775	2,798	2,537
Other markets	2,801	2,641	2,288	1,139	817	701	611	626	854	1,153
Total	7,800	8,485	8,287	6,783	7,063	6,960	6,526	4,235	6,671	7,228
Total market for heavy trucks and buses, units										
Europe (EU28) ⁷										
Trucks	302,527	265,769	223,187	237,325	221,188	241,200	178,100	161,100	316,000	326,200
Buses	29,141	27,928	24,815	22,962	21,813	25,200	25,400	26,500	28,700	28,100
Number of employees December 31⁸										
Production and corporate units	21,736	20,453	19,304	19,069	17,663	17,489	17,006	14,672	16,264	17,291
Research and development	3,900	3,801	3,671	3,596	3,509	3,327	2,930	2,642	2,922	2,528
Sales and service companies	19,718	19,331	18,395	17,549	16,734	16,038	14,987	14,475	15,079	14,797
Total Vehicles and Services	45,354	43,585	41,370	40,214	37,906	36,854	34,923	31,789	34,265	34,616
Financial Services companies	889	824	759	739	691	642	591	541	512	480
Total	46,243	44,409	42,129	40,953	38,597	37,496	35,514	32,330	34,777	35,096

6 Refers to Latin America.

7 Twenty-seven of the European Union member countries (all EU countries except Malta plus Norway and Switzerland).

8 Including employees with temporary contracts and employees on hire.

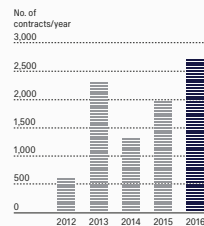
SUSTAINABILITY KPIs

To continuously improve our performance in the area of sustainability 16 KPIs have been developed to facilitate tracking and follow up.

Sustainable transport

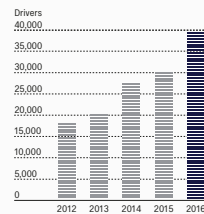
Energy efficiency

Energy efficiency is at the core of our business. Fuel consumption is the number one factor for buying a truck or a bus today. Hence, we work relentlessly on improving the efficiency of our vehicles, the sales of our Ecolution programme, the number of drivers that takes part in our coaching and trainings and the amount of R&M contracts sold with flexible plans; read more about our services on pages 18-19.



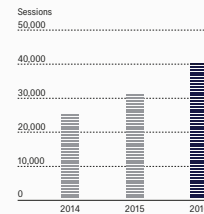
Ecolution by Scania

During 2016 Scania increased the number of sold contracts with Ecolution with 37 percent compared to 2015, and saved our customers on average 12 percent in fuel and CO₂ emissions.



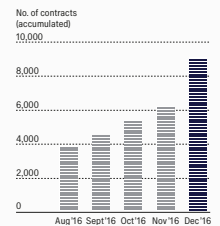
Driver training

During 2016 the number of trained drivers continued to grow with around 30 percent



Driver coaching

During 2016 the number of coaching sessions continued to increase with around 30 percent.

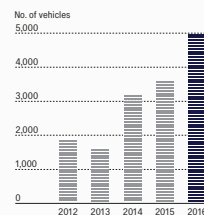


Scania Maintenance with Flexible Plans

Since the launch of Scania Maintenance with Flexible Plans in May, Scania has sold 8,968 contracts.

Alternative fuels and electrification

In order to phase out the use of fossil fuels, alternative fuels can play a much bigger role than we see today, and we don't need to wait: the technology is already here. Scania has produced solutions for commercial biofuels for more than 20 years, and we are proud to provide the largest variety of vehicles for alternative fuels on the market.

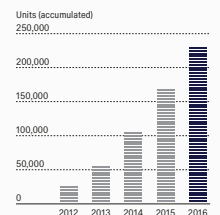


Alternative fuels and electrification¹

Scania continued to increase the number of vehicles sold with alternative fuels and hybrids during 2016.

Smart and safe transport

Smart and safe transport is dependent on digitalization technologies to achieve the most efficient transport solutions for cities, industries or logistics. Since 2011, we equip all Scania vehicles with the vehicle computer Scania Communicator as standard. The Communicator collects and analyses data in order for us to provide our customers, and in turn their customers, with ideas and solutions on how to improve efficiency in the transport value chain.



Number of connected Scania vehicles

There has been a strong growth in deliveries of connected vehicles. By the end of 2016 the total number is up at 230,470 vehicles.

Footnotes:

- Alternative fuels and electrification: Sales of products with gas, ethanol (ED95), FAME prep and hybrids for Bus, Trucks and Engines.
- CO₂ emissions from our own transports: Total emissions of CO₂ equivalents in tonnes from Scania's own transports / produced number of units. Included transports are: transport of production material to our factories, transport of trucks to our customer and transport of spare parts to our workshops.
- Energy consumption from our industrial facilities: This section covers the use of various energy sources in all Scania premises, even leased or rented within P&L exclusive RPC. Including fuel consumed for engine testing.
- Amount of waste material: Sum of waste sent for energy recovery and waste sent for disposal divided by the total number of units produced. Waste sent for energy recovery = Waste used as a fuel due to its energy content, e.g. to produce hot water, steam or electricity. Waste sent for disposal = Waste sent for incineration without energy recovery and/or waste deposited at landfill.

5 Fossil free electricity: Fossil free electricity purchased and internally generated. Share of GWh for Scania CV's industrial operations in SEU and SLA, without commercial operations, and without India.

6 Gender equal opportunities: Female managers/female employees and male managers/male employees.

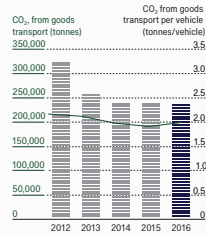
7 Perception of Scania's diversity and inclusion climate from Barometer-survey: The KPI is a weighed result of three questions from Scania's annual barometer survey concerning the employee's perception of the diversity and inclusion climate at their workspace. The result comes from the Swedish operations.

Responsible business

Resource and energy-efficient operations

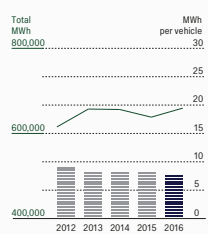
Resource and energy efficiency sits deep in our culture at Scania. Our core value elimination of waste guides us in our work to continuously improve our processes in areas such as CO₂ emissions, energy, amount of waste, and purchased fossil free electricity.

The performance indicators on resource and energy efficient operations are set in relation to the number of produced vehicles.



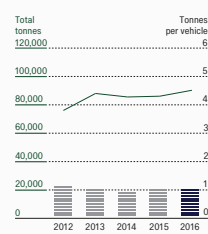
CO₂ emission from our own transport²

The emission level per vehicle produced has been reduced during 2016, down to 2.38 tonnes.



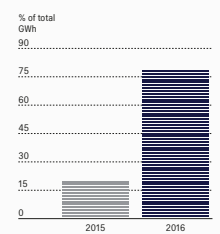
Energy consumption from our industrial facilities³

Energy use has decreased per vehicle produced, thanks to higher volumes and an active work to reduce waste; it amounts to 7.9 MWh/vehicle.



Amount of waste material⁴

The quantity of waste generated per vehicle produced has been reduced by 5,3 percent compared with 2012.



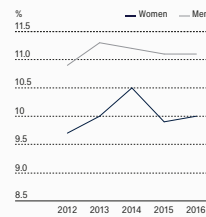
Fossil free electricity purchased and internally generated⁵

In 2016 Scania continued to purchase fossil free electricity. More than 79 percent now comes from fossil free sources.

Diversity and inclusion

At Scania, we strive to have a diverse organisation in terms of gender, age, background and experience. An inclusive culture, giving everyone the same opportunities, is essential to our success.

76% Diversity and inclusion index⁷
2016 was the first year to report on this KPI.



Gender equal opportunities⁸

In 2016 the difference between men and women was around 1 percent.

Anti-corruption

Scania has zero tolerance for corruption and adheres to high ethical standards wherever we operate in the world. The e-learning “Doing things right” has been set up to train our employees and give them support to act according to the Scania standards.

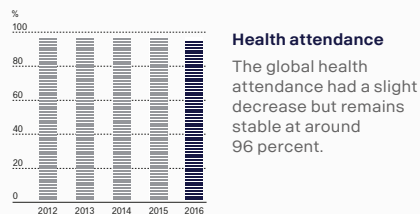
41.6%

Anti-corruption training

Since the start in the end of 2015, 16,786 participants have taken the course which amounts to 41.6 percent of our workforce.

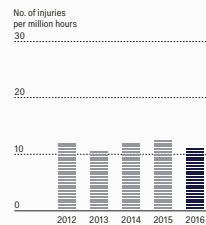
Health and safety

To ensure that Scania employees are safe and healthy we work hard on improving safety levels and the work environment at the work place.



Health attendance

The global health attendance had a slight decrease but remains stable at around 96 percent.



Occupational accidents with sick leave

Occupational accidents continued to decrease during 2016.

Human and labour rights

Pursuing high standards in the area of human and labour rights is central at Scania, as is good relations and co-operation with our employee representatives. We continuously work to ensure our employees' right to form collective bargaining agreements.

66%

Collective bargaining agreement

66 percent of our employees globally is covered by collective bargaining agreements.

GRI INDEX

The Global Reporting Initiative (GRI) is an independent, network-based organisation that has developed the world's most widely used sustainability reporting framework. Its voluntary framework sets out principles and indicators for measuring and reporting economic, environmental and social performance.

Scania's aim is to provide our stakeholders with regular and relevant information about our sustainability efforts. We are committed to transparent sustainability reporting. The Scania report, Annual and sustainability report 2016 has been prepared in accordance with the GRI G4 guidelines. By containing Standard Disclosures we aim to fulfil the "In accordance – Core" criteria. Use the index below to find out where to find information related to the applicable GRI indicators.

On Scania's sustainability web pages a more comprehensive GRI index is published, including references to Scania's material areas and UN Global Compact principles.

IR: The Scania Report 2016, Annual and sustainability report 2016.

General standard disclosures

Indicators	Disclosure Requirements	Location of Disclosure
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Strategy and analysis

G4-1	Statement from the most senior decision-maker of the organisation.	IR 6-7
G4-2	Description of key impacts, risks, and opportunities.	IR 8-9, 10-11, 43-47

Organizational profile

G4-3	Name of the organisation.	Scania AB
G4-4	Primary brands, products and services.	IR 2-3, 18-19
G4-5	Location of the organisation's headquarters.	Södertälje, Sweden
G4-6	Countries where the organisation operates.	IR 2-3, 112-114
G4-7	Nature of ownership and legal form.	IR 38-39
G4-8	Markets served.	IR 2-3, 78
G4-9	Scale of the organisation.	IR 126-127
G4-10	Total number of employees.	IR 1, 98-99
G4-11	Percentage of total employees covered by collective bargaining agreements.	IR 129
G4-12	Describe the organisation's supply chain.	IR 26-29 www.scania.com/group/en/gri-index
G4-13	Significant changes regarding the organisation's size, structure, ownership or supply chain.	IR 42-43
G4-14	Explanation of precautionary principle addressed by the organisation.	www.scania.com/group/en/gri-index
G4-15	Subscription to externally developed economic, environmental and social charters or principles.	IR 1,6, 24-25, 26, 28
G4-16	Memberships in advocacy organisations.	www.scania.com/group/en/gri-index

Identified material aspects and boundaries

G4-17	Entities included in the organisation's consolidated financial statement.	IR 112-114
G4-18	Process for defining report content and aspect boundaries.	IR 12 www.scania.com/group/en/gri-index
G4-19	Material aspects identified in the process for defining report content.	IR 12 www.scania.com/group/en/gri-index
G4-20	Aspect Boundary within the organisation.	Not relevant
G4-21	Aspect Boundary outside the organisation.	Not relevant
G4-22	Effect of any restatements of information provided in previous reports, and the reasons for such restatements.	Not relevant
G4-23	Significant changes from previous reporting periods in the Scope and Aspect Boundaries.	Not relevant

Stakeholder engagement

G4-24	Stakeholder groups engaged by the organisation.	IR 15 www.scania.com/group/en/gri-index
G4-25	Basis for identification and selection of stakeholders with whom to engage.	IR 15 www.scania.com/group/en/gri-index
G4-26	Approaches to stakeholder engagement.	IR 15 www.scania.com/group/en/gri-index
G4-27	Key topics and concerns that have been raised through stakeholder engagement.	IR 8-9, 10-11, 12 www.scania.com/group/en/gri-index

Report profile

G4-28	Reporting period for information provided.	1/1- 31/12 2016
G4-29	Date of most recent previous report.	March 2016
G4-30	Reporting cycle.	Annual reporting cycle
G4-31	Contact point for questions regarding the report.	www.scania.com/group/en/gri-index
G4-32	The "in accordance" option and GRI content index.	In accordance - Core IR 130
G4-33	Policy and current practice with regard to seeking external assurance for the report.	Report of the Directors is audited

Governance

G4-34	Governance structure of the organisation.	IR 38-41
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Ethics and integrity

G4-56	The organisation's values, principles, standards and norms of behaviour.	IR 4-5, 24-25, 26-29 www.scania.com/group/en/gri-index
G4-57	Mechanisms for seeking advice on ethical and lawful behavior, and matters related to organisational integrity.	www.scania.com/group/en/gri-index
G4-58	Mechanisms for reporting concerns about unethical or unlawful behavior, and matters related to organisational integrity.	www.scania.com/group/en/gri-index

*Category: Economic***Aspect: Economic performance**

G4-DMA	Economic performance.	IR 38-41, 66-73
G4-EC1	Direct economic value generated and distributed.	IR 60-63

Aspect: Indirect economic impacts

G4-DMA	Indirect economic impacts.	IR 13-15
G4-EC7	Development and impact of infrastructure investments and services supported.	IR 15, 22-23, 29 www.scania.com/group/en/gri-index
G4-EC8	Significant indirect economic impacts, including the extent of impacts.	IR 15, 22-23, 29

*Category: Environmental***Aspect: Materials**

G4-DMA	Materials.	IR 15, 27, 28 www.scania.com/group/en/gri-index
G4-EN1	Materials used by weight or volume.	IR 15, 27 www.scania.com/group/en/gri-index
G4-EN2	Percentage of materials used that are recycled input materials.	IR 15 www.scania.com/group/en/gri-index

Aspect: Energy

G4-DMA	Energy.	IR 26-27, 47-50
G4-EN3	Energy consumption within the organisation.	IR 27, 128-129 www.scania.com/group/en/gri-index
G4-EN6	Reduction of energy consumption.	IR 27, 128-129 www.scania.com/group/en/gri-index
G4-EN7	Reductions in energy requirements of products and services.	IR 20-21

Aspect: Water

G4-DMA	Water.	IR 26-27, 47-50
G4-EN8	Total water withdrawal by source.	www.scania.com/group/en/gri-index

Aspect: Emissions

G4-DMA	Emissions.	IR 26-28, 47-50
G4-EN15	Direct greenhouse gas emissions by weight (Scope 1).	IR 27 www.scania.com/group/en/gri-index
G4-EN16	Energy indirect greenhouse gas emissions (Scope 2).	IR 27, 128-129 www.scania.com/group/en/gri-index
G4-EN17	Other indirect greenhouse gas emissions (Scope 3).	IR 27, 128-129 www.scania.com/group/en/gri-index
G4-EN19	Reduction of greenhouse gas (GHG) emissions.	IR 27, 128-129 www.scania.com/group/en/gri-index
G4-EN20	Emissions of ozone-depleting substances (ODS).	www.scania.com/group/en/gri-index
G4-EN21	NOX, SOX, and other significant air emissions.	www.scania.com/group/en/gri-index

Aspect: Effluents and waste

G4-DMA	Effluents and waste.	IR 26-27, 47-50
G4-EN23	Total weight of hazardous and non-hazardous waste.	www.scania.com/group/en/gri-index

Aspect: Products and services

G4-DMA	Products and services.	IR 13, 18-19, 20-21, 22-23
G4-EN27	Extent of impact mitigation of environmental impacts of products and services.	IR 18-19, 20-21, 128-129

Aspect: Compliance

G4-DMA	Compliance.	IR 28, 38-41, 47-51
G4-EN29	Monetary value of significant fines for non-compliance with environmental laws and regulations.	www.scania.com/group/en/gri-index

Aspect: Transport

G4-DMA	Transport.	IR 26-27
G4-EN30	Significant environmental impacts of transporting products.	IR 27, 128-129 www.scania.com/group/en/gri-index

Category: Social

Sub-category: Labour practices and decent work

Aspect: Employment

G4-DMA	Employment.	IR 24-25, 45
G4-LA1	Number and rates of new employee hires and employee turnover by age group, gender and region.	IR 22-23, 45, 98-99

Aspect: Occupational health and safety

G4-DMA	Occupational health and safety.	IR 24-25
G4-LA5	Percentage of workforce represented in formal joint management-worker health and safety committees.	IR 24-25, 128-129
G4-LA6	Rates of injury, occupational diseases, lost days, and absenteeism, and number of work-related fatalities.	IR 24-25, 128-129

Aspect: Training and education

G4-DMA	Training and education.	IR 24-25, 26-28
G4-LA9	Average hours of training per year per employee by gender, and by employee category.	IR 15, 24-25

Aspect: Diversity and equal opportunity

G4-DMA	Diversity and equal opportunity.	IR 24-25, 45 www.scania.com/group/en/gri-index
G4-LA12	Composition of governance bodies and breakdown of employees per category.	IR 98-99

Aspect: Supplier assessment for labour practices

G4-DMA	Supplier assessment for labor practices.	IR 28, 49 www.scania.com/group/en/gri-index
G4-LA15	Significant actual and potential negative impacts for labor practices in the supply chain and actions taken.	IR 28, 49 www.scania.com/group/en/gri-index

Sub-category: Human rights

Aspect: Investment

G4-DMA	Investment.	IR 22-23, 26-29
G4-HR1	Number of significant investment agreements that include human rights clauses or underwent human rights screening.	Not relevant

Aspect: Supplier human rights assessment

G4-DMA	Supplier human rights assessment.	IR 28, 49 www.scania.com/group/en/gri-index
G4-HR10	Percentage of new suppliers that were screened using human rights criteria.	IR 28 www.scania.com/group/en/gri-index

Sub-category: Society**Aspect: Anti-corruption**

G4-DMA	Anti-corruption.	IR 26-28, 129 www.scania.com/group/en/gri-index
G4-SO3	Number of operations assessed for risks related to corruption and the significant risks identified.	IR 26-28
G4-SO4	Communication and training on anti-corruption policies and procedures.	IR 129 www.scania.com/group/en/gri-index

Sub-category: product responsibility**Aspect: Customer health and safety**

G4-DMA	Customer health and safety.	IR 30-31, 51
G4-PR1	Percentage of significant products and services for which health and safety impacts are assessed for improvement.	IR 20-21, 51

FINANCIAL INFORMATION

Financial information

On Scania's website, www.scania.com/group/en, it is easy to follow the company's performance during the year. The website provides truck registration statistics, key financial ratios and more.

You may subscribe to financial reports and press releases via e-mail and it is also possible to order printed reports in single copies.

www.scania.com/group/en/subscribe-to-financial-reports

www.scania.com/group/en/order-printed-reports

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ABOUT THIS REPORT

This Report summarises the financial year 2016 as well as provides an overview of Scania's business and operations and is prepared in accordance to the Global Reporting Initiative (GRI) guidelines for sustainability reporting. All of Scania's business units, subsidiaries and production units worldwide are included in its scope. With this report, another step is taken towards integrated reporting with financial and non-financial (social and environmental) information being reported in the same one publication.

This is the English language version of Scania's integrated Annual and Sustainability Report. The Swedish language Report is the binding version that shall prevail in case of discrepancies. The Financial Reports encompass pages 60-117, and were prepared in compliance with International Financial Reporting Standards (IFRSs).

The Report of the Directors encompasses pages 42-57 and 118.

The Report of the Directors and accompanying Financial Reports also fulfil the requirements of the Swedish Annual Accounts Act and have been audited by Scania's auditors. Scania Swedish corporate identity number: Scania AB (publ) 556184-8564. Unless otherwise stated, all comparisons in the Annual and Sustainability Report refer to the same period of the preceding year.

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