THE SCANIA REPORT 2017

Annual and Sustainability Report

SCANIA

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

Global driving forces are reshaping the world and defining the future of transport.

08-09

We are clearly framing what 'driving the shift towards a sustainable transport system' means for our customers and for Scania.

10-11

12-15

Scania takes a leading role in reshaping the ecosystem of transport and logistics, supported by our strong culture and key competitive advantages.

By providing our customers with 'here and now solutions', we take them into the future of sustainable transport – in cities, industries or long-haulage logistics.

16-23

24-27

Through working in innovative partnerships, we accelerate change.

The engagement of our highly skilled employees fuels this change journey.

28-29

SUSTAINABLE DEVELOPMENT GOALS

30-31

Scania delivers solutions that contribute to the United Nation's Sustainable Development Goals.

2017 HIGHLIGHTS

Scania looks back on another year of strong performance and on major milestones. From the continued launch of the new truck generation to entering new partnerships — our commitment to contributing to a sustainable future in the ecosystem of transport and logistics remains in focus.

Scania adds a 13-litre Euro 6 gas engine designed for long distance transport to its extensive range of sustainable transport solutions, offering CO_2 reductions of between 15 and 90 percent.

Trials of battery electric buses are initiated and the development is ongoing. At Busworld in Kortrijk, Belgium, Scania presented its battery electric Citywide Low Floor bus that will go on sale in 2018.

The bus range for alternative fuels is strengthened with the addition of Scania Interlink Low Decker and Scania Citywide Low Entry Suburban, used for suburban and intercity operations. They are both now available for the full range of alternative fuels as well as in hybrid mode.

The new generation XT truck range, tailor-made for the construction industry, is launched. Its operational uptime is five percent higher than before, with 5,000 more service-life hours, thus reducing operating costs over the product's lifecycle and increasing residual value for the owner.

In order to triple production capacity and achieve a 50 percent reduction in energy consumption compared to the technology and methods used in the current foundry, Scania invests in a new energy-efficient foundry in Södertälje, Sweden.

Scania joins the Global Industry Partnership on Soot-Free Clean Bus Fleets with a commitment to, by 2018, provide modern soot-free buses to 20 major cities in Africa, Asia, Latin America and Australia.

The largest industrial solar roof in the Netherlands is installed at Scania's production unit in Zwolle, constituting the latest significant step in the transition to using exclusively renewable energy in production.

Fleet Care with Uptime Guarantee is launched. Scania ensures that timely maintenance and repairs are carried out on weekday evenings, nights and weekends, to enable truck and bus operators to fully focus on providing their services.

Representatives from over 80 of Scania's main suppliers meet to train and discuss sustainability challenges in the supply chain, when Scania arranges its Sustainability Supplier Day.

Scania welcomes Sweden-Germany partnership on mobility and electrical roads. A key focus of the cooperation will be the development of electrified road technology, work that has already been started by Scania in cooperation with its German counterpart Siemens.

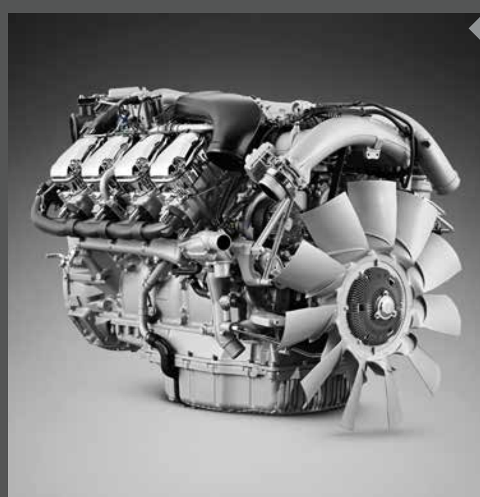
Scania One is introduced – a digital marketplace that enables fleet owners and drivers to access connected services to help them optimise their transport operations.

The prestigious Green Truck Award 2017 is awarded to Scania's new generation R 450 Highline truck, based on its superior fuel performance.

Following the introduction of trucks for long-haulage and construction, Scania focuses on future-oriented low-carbon transport solutions for urban use. With the introduction of the lighter trucks powered by the new 7-litre engine, Scania offers urban transporters a new level of transport efficiency with fuel savings of up to 10 percent.

Scania takes the lead in a full-scale autonomous truck platoon that will traffic public roads while transporting containers between port terminals. The full potential of platooning is realised when trucks from different manufacturers communicate, why Scania also joins forces with others to take strides towards a broad implementation of platooning technology.

Scania sets new target to reduce CO_2 emissions from all operations globally by 50 percent until 2025, with 2015 as a baseline.



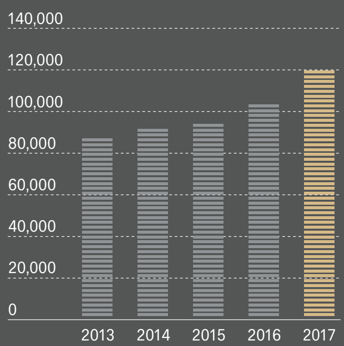
Scania is introducing a new generation of Euro 6 V8 engines that represents a new standard in fuel consumption. The engines can reduce fuel consumption by 7 to 10 percent for customers with vehicles that have higher combined truck and trailer weights, higher average speeds, or both.

2017 IN NUMBERS

Net sales

119,713

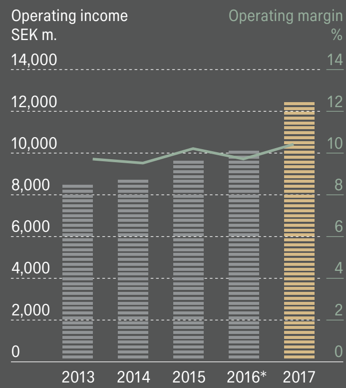
SEK m.



Total vehicle deliveries and service sales reached all-time high levels and Scania's net sales rose to a record level in 2017.

Operating income

12,434



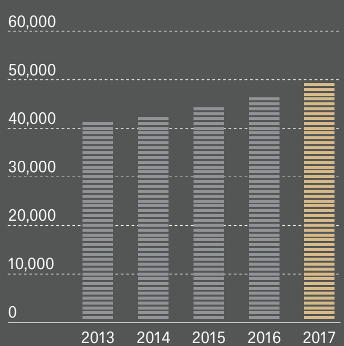
Scania's operational performance was strong during the year despite going through the biggest industrial changeover in the company's history. The operating margin increased to 10.4 percent in 2017.

* Operating income 2016 excluding items affecting comparability.

Number of employees

49,263

No.

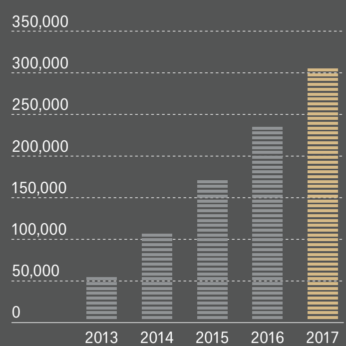


At the end of 2017 the number of employees had increased by 3,020 people compared to the end of 2016.

Connected Scania vehicles

302,755

Units (accumulated)



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 2017

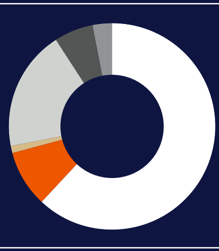
Scania is a world-leading provider of transport solutions, including trucks and buses for heavy transport applications combined with an extensive product-related service offering. Scania offers vehicle financing, insurance and rental services to enable our customers to focus on their core business. Scania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

With around 49,300 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. Under this umbrella the brands Scania, MAN and Volkswagen Caminhões e Ônibus work closely together with the aim to turn Volkswagen Truck & Bus and its brands into a Global Champion.

Global net sales

Trucks	62%
Buses and coaches	9%
Engines	1%
Service-related products	19%
Used vehicles	6%
Other	3%



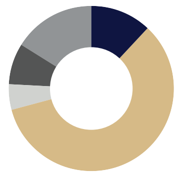
Our solutions

Sales and deliveries 2017

Trucks

Scania supports transport companies across the world by delivering heavy trucks for each customer's need. We offer tailor-made solutions for 36 different applications including long-haulage, urban applications and construction.

Latin America	12%
Europe	59%
Africa and Oceania	5%
Eurasia	8%
Asia	16%



82,472 UNITS

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.

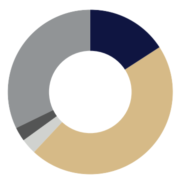
Latin America	28%
Europe	24%
Africa and Oceania	10%
Eurasia	4%
Asia	34%

8,305 UNITS

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 power gensets.

Latin America	16%
Europe	46%
Africa and Oceania	3%
Eurasia	3%
Asia	32%

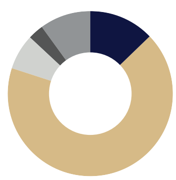


8,521 UNITS

Services

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

Latin America	13%
Europe	67%
Africa and Oceania	7%
Eurasia	3%
Asia	10%



SEK 23,727 M.

CREATING VALUE FOR OUR CUSTOMERS

A holistic view with customer profitability in focus

For Scania it is evident that sustainability and profitability go together, here and now and increasingly so in the future. Our business model is about understanding and improving the revenue and cost aspects of our customers' applications or industries. This allows us to tailor solutions, based on our three-pillar approach to sustainable transport. The solutions include vehicles and services, optimised for our customers' operations to improve fuel efficiency and maximise the vehicles' time in operation.
It requires a close dialogue with our customers, built on trust and often long-term relationships.

This partnership-driven approach does not end with the customer. We must understand our customers' needs (transport companies) but also their customers' demands (buyers of transport services). Combining this with our established flow thinking, Scania tailors solutions that eliminate waste and improve efficiencies in the entire transport flow. We are also part of an ecosystem where we cooperate with stakeholders such as fuel producers, governments and city planners, to accelerate change towards a sustainable transport system.

Delivering on our business model defines our brand and ensures that Scania can keep making a profit. The success of our own business is directly linked to the quality we deliver to our customers and how well their businesses perform. Driving customer profitability through sustainable transport solutions and pursuing responsible business are complementary, long-term perspectives to continuing to be a profitable company.

Creating greater value for all stakeholders

Transport is the lifeblood of our societies. It allows people access to jobs, markets and goods, social interaction and education, thus contributing to economic growth. This value creation is the essential aim of our business.

Customers

Scania is well known for its quality products and services. Sustainable transport solutions also include driver training and coaching, that are aimed at better fuel economy and reducing the impact on the environment, thus creating value for our customers here and now and making their businesses resilient for the future.

Scania driver training educated drivers, 2017
48,434

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. Focus on continuous improvements and progress creates engagement. Employees are included and can make an impact on the work environment, methods and individual development, a foundation for people to thrive and contribute.

Total global healthy attendance, 2017
96.2 %

Suppliers

By providing business opportunities and shared technology to meet the highest environmental and social standards, Scania creates value for our suppliers and society.
We strongly believe that suppliers will deliver higher quality and productivity in return.

Cost of goods, 2017
SEK 58,640 M.

Owners and lenders

Scania continues to deliver growth with profitability and generates positive cash flow for our owners and lenders.

ROCE, 2017
24.5 %

Society

Scania's major contribution is through the efficient flow of goods and people. Our tailored solutions drive efficiency, sustainability and profitability in the value chain. Our employment, employee training and R&D investment strengthen local communities, develop our workforce and bring low-carbon transport solutions that reduce environmental impact.

Sales of alternative fuels and hybrid vehicles, 2017
5,131

Scania's core value 'Customer First' is the point of departure for our own profitability. Our success is built on our ability to provide our customers with profitable and sustainable transport solutions that contribute to the success of their businesses. Scania's business model, our principles, working methods and approach to sustainable transport will continue to be the platform for how we create value for our stakeholders, now and in the future.

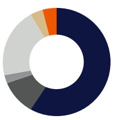
Business model components

+ Customer revenue

- Uptime
- Flexibility
- Load carrying capacity

– Customer cost*

* European long-haulage



- Tyres
- Drivers
- Fuel
- Vehicle
- Repair and maintenance
- Administration

= Customer operating income

Scania's high quality, optimised vehicles and services, supported by vehicle data gathered from connected vehicles, ensure maximum time in operation and thereby boost customer revenue. On the customer cost side, Scania influences factors like fuel, repair and maintenance costs, the residual value of the vehicle and the cost and availability of financing.

+ Scania revenue

- Vehicles and engines
- Repair and maintenance
- Financing and insurance
- Used vehicles

– Scania cost

- Production of vehicles, engines and services
- Research and development
- Selling and administration
- Financing

= Scania operating income

Our sustainable transport solutions rest on three pillars

Energy efficiency

Offering the most efficient technology for our products combined with services is core for Scania. We focus on three aspects to provide customers with energy-efficient products and solutions: powertrain performance, vehicle optimisation and fuel consumption.

Alternative fuels and electrification

Alternative fuels and electrification are solutions that can be applied separately or combined. Scania provides the largest variety of engines for alternative fuels on the market. We also focus our efforts on electrification technologies for both vehicles and infrastructure.

Smart and safe transport

Connectivity is a key enabler, allowing more efficient logistical flows and greater filling rates. Safety aspects can also be significantly enhanced by digitalisation and automation, when applied in driver assistance technologies for instance.

IT'S TIME TO ACT ON SUSTAINABLE TRANSPORT

The world is moving ever closer to that inevitable point in time when sustainable transport solutions become the only viable option and a "new normal." In 2017 Scania intensified its efforts to drive the shift towards a sustainable transport system.

Henrik Henriksson, President and CEO, Scania

In the past year, the ecosystem of transport and logistics has been moving in the right direction when it comes to acknowledging sustainability challenges. Demand for sustainable transport solutions is increasing, not only from our customers, but also from their customers — the buyers of transport services. Urban authorities are already prompting a switch to transport that uses biogas, battery-electric or other fossil-free energy sources. We welcome this development and are already working in partnership with our customers to understand what their customers need to fulfil increasingly tough sustainability targets. We work across boundaries with cities, operators and their customers too, taking the whole transport system into consideration in a systematic way.

The world can't wait for a 'one size fits all' solution; the conditions and issues vary so much from place to place that there is no silver bullet. On the contrary, fossil-free, sustainable options should not be seen in competition with each other — all of them are better for our climate than the fossil fuels we have now. We urge authorities and institutions to enable and simplify the use of them all. We have solutions here and now!

We base our approach to sustainable transport on the three pillars of **Energy efficiency, Alternative fuels and electrification** and **Smart and safe transport**. The potential when combining these three pillars is huge. Increasingly energy-efficient combustion engines will continue to play a role in the transport system of the future, running on fossil-free fuels or combined with an electric powertrain. Vehicle electrification is developing quickly and with its environmental, social and cost benefits, it will play a fundamental role going forward. We are working full speed ahead on electrification with industry partners to solve infrastructure and battery capability issues for the technology to fulfil business requirements of heavy bus and truck customers. When optimising these transport and mobility flows in a smart way, using digitalisation and automation, we continue to reduce waste in the transport system.

Our aim is that wherever in the world you go to buy a Scania solution, you should be offered an alternative to a fossil-fuel vehicle. We are committed to making sustainable solutions our standard offer and fossil-fuelled the alternative.

A record year for Scania

2017 was a year of growth in our industry, and a record year for Scania. We have seen steady growth in nearly all regions throughout the world, with Europe continuing to perform strongly, a sturdy recovery in Russia and positive signs from Brazil. But perhaps the most encouraging area for us in the past year has been Asia. There we are starting to see that the Scania business model, focusing on total operating economy and vehicle uptime, is starting to resonate with customers, and we are increasing our vehicles volumes.

"To achieve records during a great upheaval is testament to the enduring strength of our flexible production system and the amazing dedication of the Scania family — our 49,300 employees worldwide."

We have achieved record delivery volumes and maintained a strong profitability at the same time as introducing our new generation of trucks, the biggest industrial changeover in the company's history. To achieve records during a great upheaval is testament to the enduring strength of our flexible production system and the amazing dedication of the Scania family — our 49,300 employees worldwide.

While still in the midst of launching the new truck generation, the feedback from our customers on the quality and performance has been tremendously positive and we celebrate this success. With the XT construction and urban truck ranges this year, we have now presented all products in the new truck generation family. Our new XT range provides the construction industry with a robust, safe and energy-efficient production tool that delivers an increase in operational uptime of 5 percent. The urban truck range offers safe, clean and cost-effective city solutions, at a time when cities in Europe, Asia and Latin America urgently tackle serious issues of congestion, air quality and road safety.

"I think businesses that are not part of developing solutions to the sustainability challenges of our time will struggle to survive."

Sales of gas, ethanol, biodiesel and hybrid electric-powered vehicles grew last year too, and we made a real breakthrough with the launch of a 13-litre Euro 6 gas engine for the long-haulage sector. This is a statement of intent and hugely important to accelerating the shift.

2017 was a good year for Scania's buses and coaches and we strengthened our bus range for alternative fuels with the hybrid Interlink Low Decker and the battery electric Scania Citywide. The Soot-Free Buses initiative that Scania signed up to in 2017 will improve the lives of urban inhabitants worldwide with the usage of cleaner engines and renewable fuels — one of many examples of how it is necessary to work together across boundaries in the ecosystem to make a bigger impact.

Service sales too reached record levels and we continue to improve our range of services that enhance customer profitability, realising more and more of the immense potential of the big data we have obtained from our fleet of over 300, 000 connected vehicles. An increasing number of our customers are choosing Scania solutions for their finance and insurance and Financial Services reached record earnings this year.

Redefining Scania

If 2017 has shown that the move to sustainable transport is gathering pace and the market is responding, we still need to do much more to offset the impact of greenhouse gas emissions because even as the technology advances, so does global warming.

I think businesses that are not part of developing solutions to the sustainability challenges of our time will struggle to survive. For us the question is not whether a future of sustainable transport will come, but when. It is towards this future that we are working in close cooperation with our customers and customers' customers.

Partnership is crucial in accelerating change. Besides the synergies that lies in sharing certain research and development within Volkswagen Truck & Bus, Scania is collaborating with a range of players within the ecosystem of transport and logistics, creating clusters of teams with key players, such as fuel and technology suppliers. Partnership equals leadership in the shift towards a sustainable transport system.

We are more determined than ever to fulfil our vision of driving the shift towards a clean, safe and reliable transport system. To make this shift happen, we are challenging ourselves, our customers, their customers, policy-makers and academia. We are developing our people by respecting and integrating the diversity that makes us who we are. We keep improving our profitability, reinvesting our resources on the people, services and solutions that improve our customers' profitability, today and tomorrow.

I believe the true meaning of corporate responsibility is to see the world through a 360 degree perspective and take on that added layer of responsibility of a global citizen and a leader. We have decided to take the lead in the shift towards a sustainable future of transport and logistics and we stand by it. It's time to act, and we urge others to join us.

Henrik Henriksson
President and CEO, Scania

A FAST-CHANGING WORLD

The world is faced with a series of complex and interrelated driving forces that are reshaping society and that will define the future of transport.

Tangible evidence of a shift is becoming ever more real – from the Paris climate accord to various measures taken by governments and cities, we see increasing proof of radical changes affecting the transport industry. These developments are proof that we are accelerating towards a tipping point, when demand for sustainable solutions will shift from "nice to have" to "need to have."

Global drivers

Sustainability

The development of modern industrial societies has brought environmental problems that damages the earth's ecosystem. With the adoption of the United Nation's Sustainable Development Goals (SDGs) the world has embarked on a journey towards sustainability where all countries and all sectors are expected to contribute.

Urbanisation

We are 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. Accelerating urbanisation is putting huge strain on cities worldwide: traffic congestion, environmental challenges and safety issues are facts of life. The huge growth in cities is driving innovation in both logistics and public transport, as cities tackle congestion, pollution and road safety by turning to partnerships to provide new transport solutions.

Digitalisation

New technology facilitates the emergence of interconnected products, value chains and business models. The rapid adoption of technology is a disruptive force that spreads and quickens innovation, promising economic progress for millions in emerging economies at a previously unimaginable speed.

Industry trends

These drivers are creating interconnected risks and opportunities that will have profound impacts on market dynamics, sectors and businesses across industries. They are reshaping the transport industry and are already giving rise to major areas of innovation and disruption within the sectors of automation, connectivity and electrification.

Automation

Automation, for example autonomous vehicles and platooning (convoys of automated or semi-automated trucks), could have a revolutionary impact on the transport system of the future, improving energy efficiency, safety aspects and resolving congestion issues.

Connectivity

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

Electrification

There is growing global awareness of electrification and its environmental benefits, including the zero carbon footprint, quieter vehicles and zero particle emissions. Today, the impetus comes mainly from urban areas, but as electrified solutions become financially viable, the same trend will take hold in long-haul transport.

For the future of the planet we need to address the threats and seize the opportunities accompanying these trends. Scania is committed to delivering on the United Nation's Agenda 2030, a shared agenda that requires collaboration across governments, business and wider civil society.

Read more about the relation between transport and the United Nation's Sustainable Development Goals and how Scania is contributing to the achievement of them on pages 30-31 and on our web: **www.scania.com**

India's goal is that every new vehicle sold in the country should be powered by electricity by 2030.

Paris, Madrid, Athens and Mexico City are examples of cities that plan restrictions on diesel vehicles in inner city regions by 2025.

The Swedish climate policy framework is clear. Emissions from transport will be reduced by 70 per cent by 2030 (compared with 2010) and Sweden will have no net emissions of greenhouse gases into the atmosphere by 2045.

GLOBAL DRIVERS

SUSTAINABILITY
URBANISATION
DIGITALISATION

ECOSYSTEM OF TRANSPORT AND LOGISTICS

AUTOMATION
CONNECTIVITY
ELECTRIFICATION

INDUSTRY TRENDS

Under the terms of the Paris climate accord, 195 countries have agreed to respond to the global climate change threat by limiting a global temperature rise this century to well below 2 degrees Celsius above what it was in pre-industrial times.

An increasing number of transport buyers including IKEA, Coca-Cola, McDonald's, DHL and many more, integrate transport and logistics when setting their ambitious targets to reduce greenhouse gases.

Sources:
United Nations' World Urbanization Prospects (WUP), UN Framework Convention on Climate Change (UNFCCC), The Government of Sweden, Indian CSR 2030 Vision for electric vehicles, C40, company websites and sustainability reports.

TOWARDS A SUSTAINABLE TRANSPORT SYSTEM

The world urgently needs to break the correlation between increasing demand for transport, and increasing carbon emissions, noise, congestion and accidents. Therefore we are researching, developing and promoting sustainable solutions for cleaner and safer transport of people and goods.

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.

We are approaching a tipping point, where the convergence of new technology and business models will result in a state where sustainable transport solutions will take off and become the "new normal" and the current unsustainable solutions will be phased out. The future of transport will be decarbonised, clean, electrified, automatised and digitalised.

To some this state may seem like a vision of a distant future, and there is no doubt that this future is approaching at different speeds depending on where you are in the world and what industry you operate in. For Scania, this change is happening now, through our technology road maps, research and development plans, and through partnerships. Coalitions of organisations, cities, nations and businesses will lead the way and we are already working closely with them to take a leading role in this new ecosystem. The world is being profoundly affected by climate change, urbanisation and digitalisation, and we cannot and will not wait for someone else to take action.

Accelerating change

For Scania we approach the sustainable transport challenge using our flow thinking. Just as we apply flow thinking to help take out waste from our production and logistics systems, the same approach goes for pursuing our long-term aim. It is really about influencing the flow by seeking to find the shortest distance and time to our desired state, accelerated by strategic partnership and innovation.

On this fascinating journey we are bringing with us the building blocks that made us a successful company; our corporate culture, our modular system, but also our access to a huge population of connected vehicle data.

We are also bringing with us innovations, products and services that are already proving the viability of sustainable transport, such as our wide range of engines running on renewable fuels and our new generation truck range as well as a comprehensive palette of productivity-enhancing services.

But perhaps most importantly of all, we take with us our close customer relationships, and the trust our customers continuously give us to support them in reaching their business goals, today and tomorrow. By being at the leading edge of this change journey Scania is better positioned to help our customers maintain and improve their profitability in a fast changing world.

At Scania, we believe that there is no single solution that will take us to 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. With our three-pillar approach, we are constantly refining our ability to prepare customers for the future, while remaining agile to succeed as the shift occurs.

A sustainable blend

One company that Scania is helping to make the shift to sustainable transport is coffee roaster Löfbergs, a family-run business in Karlstad, Sweden, that produces more than ten million cups of coffee a day. In 2016 the company's warehouse moved to the outskirts of the city while the roastery remained in the city centre, meaning over a dozen journeys a day in and out of town, morning, noon and night. Löfbergs' goal of being Europe's most sustainable coffee roaster saw them turn to Scania. The company bought a Scania P 320 truck fitted with hybrid driveline, which can drive on electric power for nearly two kilometres on just a ten-minute battery charge, cutting fuel costs by 18 percent and reducing carbon dioxide emissions by as much as 92 percent; good for business and good for the environment. When the truck reaches the city limits, the driver pushes a button and the vehicle switches from the fuel HVO to electric battery power for a clean and completely silent journey to the city centre roaster, meaning Karlstad's residents are not disturbed. Löfbergs' example of cost-efficient, sustainable journeys shows there is potential for big synergies by blending electrification with alternative fuels.

PAVING THE WAY FOR LEADERSHIP

As technology, politics and business models all undergo rapid change, Scania needs to stay strong in our core business to continue to be profitable and deliver value to our customers and society. And we need to make structural changes, invest in new technology and new business ideas. This will enable us to be the leader in the shift towards a sustainable transport system.

What exactly the future holds is anyone's guess but we do know the shift towards a sustainable transport system is inevitable and that Scania intends to play a leading role. It means that our business model will evolve in the next decade. Scania is developing its flexibility now to adapt to an uncertain future. Being successful tomorrow rests on making the right investments and choosing the right priorities today and in the years ahead.

Strategic priorities

To achieve our goal of leading the way to a viable future transport system we have key priorities, against which we assess our progress at regular intervals:

Leading in customer satisfaction

Our business model is about putting the customer first. Optimised solutions, high-quality vehicles and services maximise vehicle usage and customer profit. Our sustainability focus starts with our customers and translates into tomorrow's products and services. For more on how we ensure great quality for our customers, see page 24.

Having top employees

We need the right employees with the right skills to support the business transformation. Read more on how we focus on business-driven competence supply and employee skill capture on page 28.

Expanding our sales volume

Scania aims to expand its truck, bus and engine sales volumes year-on-year, and boost the proportion of services sales to overall sales. Our growth strategy rests on five pillars: Increasing sales of services per vehicle; growing with the market; increasing market share; entering new markets; and reaching new customer segments. Read more on our market progress on page 40.

Excellent profitability

Maintaining outstanding profitability is in Scania's DNA. It gives us the platform we need to keep innovating and take a leadership role in the transport industry. The details of our strong financial performance start on page 53.

Accelerating our progress

We recognise we are part of an ecosystem within transport and logistics where global driving forces are impacting our industry profoundly. The opportunities that arise will further accelerate our progress of leadership in the shift towards a sustainable transport system.

As well as being a profitable business, we need to be ready for what is next. To adapt to new technologies, new customer demands, and fast-developing global drivers, Scania has to be lean and flexible. This means identifying activities that drive value, removing costs that aren't contributing to business goals and reinvesting in strategic growth initiatives that improve our competitiveness.

Our strong focus on continuous improvements is needed more than ever, but we also need to make structural changes. We need to focus on being excellent at what we are good at — our core, while leaving behind methods and projects that aren't suited to being the transport solutions provider of the future. We are addressing costs and revenue aspects in every area of the company to free up resources to invest in creating new capabilities for the future.

Initiatives with the aim to create future capabilities include Lean Optimised Transport Systems (LOTS), Scania Growth Capital and Scania Sustainable City Solutions. For Scania, the common denominators in assessing future strategic business opportunities are partnerships and innovative thinking.

But new initiatives only work when our core business is thriving. Therefore we must continue to ensure a strong profitability, resting on our flexible modular system and global production system, our many connected vehicles, our robust sales and services network and our strong company culture. They are what form the basis of the company and gives us the ability to quickly scale up new disrupting technologies and business models.

THE SCANIA WAY

Being at the forefront of the transport industry for more than a century, Scania has developed key competitive advantages that will help us deal with future challenges. With a corporate culture that stands solid on our core values, flow thinking firmly rooted in our way of working and with employees continuously challenging and improving the order of things, Scania is well equipped to drive the transformation of the transport system.

The way we work

Our core values form the basis for all we do at Scania. They have been firmly anchored and integrated in Scania's operations for generations. Our core values reflect and embody our thinking, our way of carrying out work and how we relate to each other and to others we meet outside the company – customers, suppliers, partners and society at large.

The core values guide our actions, support us in creating value for the company's stakeholders and ultimately, in the aim to be a leader in the shift towards a sustainable transport system.

Based on the core values and the main principles, the management system (our common way of working) together with the thinking model (our common way of thinking) form the basis of our corporate culture – "The Scania Way."

Our core values

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 customers' 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.

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.

TAILOR-MADE FOR APPLICATIONS

Scania's unique modular system is one of our most important success factors. Developed over several decades, it is integral to our flexible approach in addressing customers' needs and lies at the heart of our business model.

The modular system enables Scania to provide individual specifications and thus offer our customers an extremely wide product range. Combined with our ability to tailor services, this ingenious toolbox enables Scania to offer solutions optimised for a vast number of different transport needs.

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. For example, only one size of windshield is used in all cabs. In service operations, it 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 carrying capacity. The customer has an offering that meets their needs for cost efficiency in a way that also meets the specific sustainability demands that come from their business, their customers or where they operate. This strategic approach 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 suited to its specific purpose; new, high-quality technologies are brought to market quickly and efficiently.

Scania's modular product system applies 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.

Application-focused products and solutions

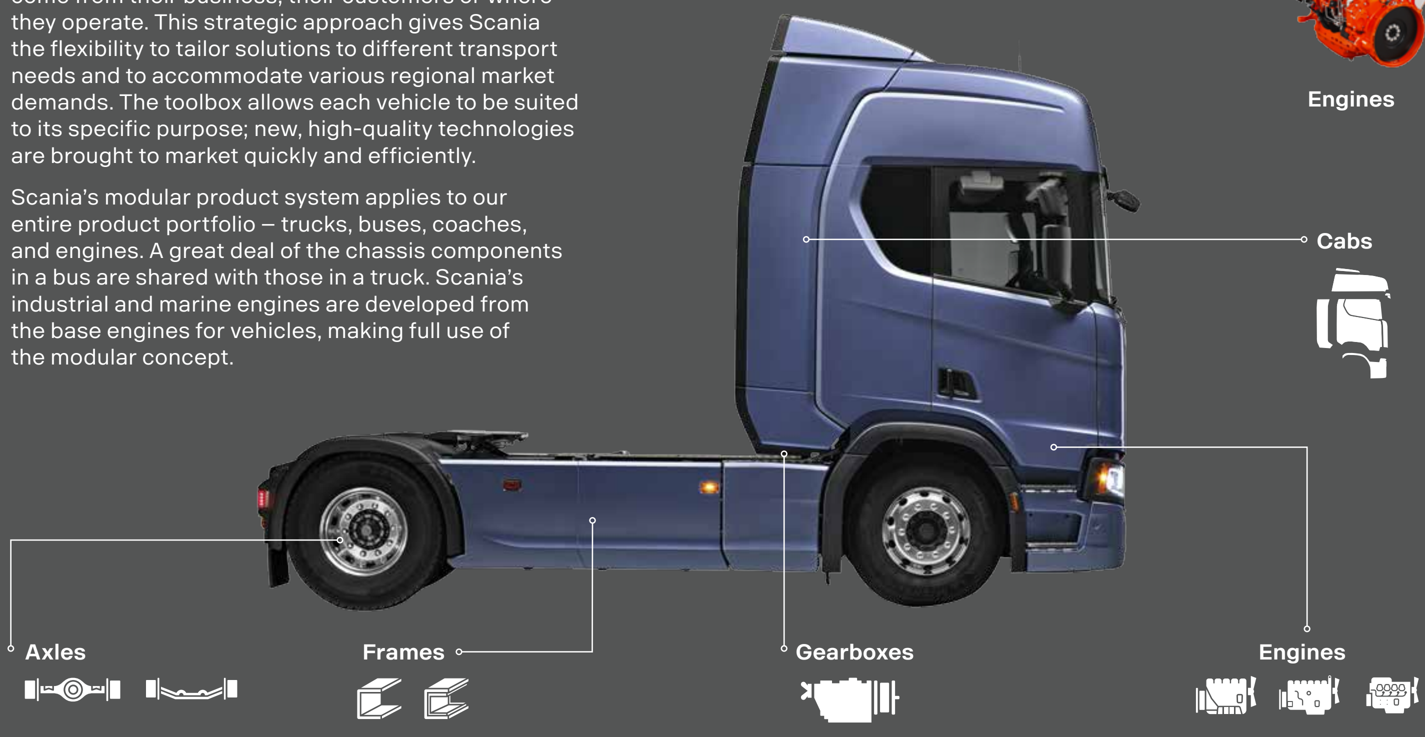
Scania offers specific solutions for a wide range of different applications, allowing us to meet the demands of various industries, from mining, forestry and bus systems, to retail distribution and waste handling. By using real-time data from our connected vehicles, the possibilities to provide optimised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

Scania takes an 'outside in' perspective to our development of new solutions. We look at our customers' needs but also those of their customers, analysing where their logistical chains are wasteful and can be improved from the all-important sustainability and cost-efficiency standpoints.

Trucks

Buses

Engines



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

Building on these insights, Scania has launched a new online tool – Scania Configurator. Using this tool customers can explore the boundless opportunities for tailoring the truck to precisely match their desired specification. Customers also get specification recommendations for a number of applications.

The three principles of Scania's modular system

1. **Standardised interfaces** – make it possible to install new components, that improve product performance, without the need to change the surrounding components and structure.
2. **Same need, identical solution** – using the same components for different applications, for example using the shortest truck cab variant to maximise cargo capacity for light distribution service, as well as for a heavy tipper truck operating in a mine.
3. **Well-balanced performance steps** – making it possible to match the specific customer needs, with differences in cab sizes, engine output, frame strengths and number of axles.

The digital transformation journey

The rapid pace of digitalisation and the development of processing power, quantum computing, cloud adaptation, artificial intelligence and connectivity is forcing entire industries to rethink their business models.

Scania is no exception, and through our early exploration of connectivity, we saw the potential of digitalisation, to be a major force for increasing our customers' efficiency and profitability and to help enable the shift towards a sustainable transport system. With a growing need for transport, more efficient logistical flows and improved vehicle filling rates, connectivity has the potential to change the industry for the better.

Scania's first connected truck was introduced as far back as 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 in the first selected countries. Investing early in connected products means Scania now has a critical mass of data to help us transform our customer offering. Real-time data has accelerated our product development, sales tools and intelligent services, such as tailored maintenance.

Today, Scania has more than 300,000 connected vehicles. This number is rapidly increasing as the communicator is now standard in vehicles delivered to 55 of our markets.

As digitalisation advances, Scania is positioning its trucks, buses and engine installations in 'ecosystems' of integrated mobility.

Integral in all our operations

Connectivity and digitalisation are not only integral to all of Scania's customer-facing activities; they are also crucial for business development throughout the organisation. Digitalisation and advanced analytics are used to improve contractual processes, invoicing, employee learning, people management, R&D product design modelling and production planning. Scania's digital journey, today focuses on how automation, advanced analytics and artificial intelligence can transform our company and be the logical platform for driving the shift towards a sustainable transport system.

SECURING OUR CUSTOMERS' FUTURE

Scania's customers do not have to wait to adapt their businesses to a sustainable transport system — the solutions are already here. Scania offers a broad range of platforms and services now, to support our customers businesses today and tomorrow.

A three-pillar approach

Our approach to sustainable transport rests on three pillars that, individually or combined, accelerate the shift – **Energy efficiency**, **Alternative fuels and electrification**, and **Smart and safe transport**. To succeed in minimising the adverse effects of today's transport systems (greenhouse gases, local emissions, congestion and road accidents) parallel efforts across all three pillars are needed. The whole value chain needs to be made more efficient and measures need to be taken in all areas, including renewable energy, making vehicles more efficient, and making transport movements more efficient. At Scania, we apply the three pillars in different ways, depending on our customers' individual needs rather than pushing a particular technical solution. The maturity of logistics and infrastructure across the world also plays a key role. For example in some cities there is good access to biogas from waste for use in buses, while another one might produce electricity from its biogas – making electric vehicles a possible solution.

No matter where our customers are on the journey to sustainable transport, regardless of which type of driving is involved or what the local conditions are, there is an alternative solution from Scania to order, here and now. We know that sustainability has to go hand-in-hand with profitability and the good news is that additional cost from some measures taken can be offset by others that reduce waste and increase efficiency.

Energy efficiency

Scania was the first manufacturer to deliver Euro 6 engines – the highest current emissions class – in Europe. This involved powertrains that make a major reduction in harmful emissions.

Scania's new product range also makes a significant contribution to lowering CO_2 emissions. The new truck generation has our most energy-efficient engine range to date. Customers' total operating economy is improved by a fuel consumption that is on average 5 percent lower than before, due to improved powertrains and better aerodynamics. Some 13,000 trucks of Scania's new truck generation were sold in 2017. This equals savings in global CO_2 emissions of well above 30,000 tonnes. Scania's new truck range is well prepared for a fossil-free future with a platform that will take our customers into the future without significant adaptation needed.

For the new truck range Scania also developed application-focused products that are more efficient and thus perform better with lower environmental impact.

A significant component of making more efficient use of energy not only involves improving vehicles and adding features to reduce fuel consumption. Providing driver support through driver training and regular follow-up, as featured in our offering Ecolution by Scania, results in an average of 10 percent fuel consumption and CO_2 reduction.

Cities

Alternative fuels and electrification

Cities worldwide are taking initiatives to combat climate change, turning to legislation to address issues of poor air quality, noise pollution and traffic jams. Smart, safe and clean transport is becoming crucial to a better quality of life. For Scania, alternative fuels means business as usual. Scania has pioneered the use of alternative fuels for more than 30 years, with the broadest range of alternative fuel-enabled vehicles on the market, ranging from ethanol trucks and buses to vehicles using liquefied or compressed biogas. All our Euro 5 and 6 engines can run on HVO, meaning that

Industries

Logistics

all Scania trucks and buses in Europe from 2010 and onwards can run on renewable fuel. In addition, nearly all our vehicles can run on biodiesel-FAME. In 2017 Scania launched its new 13-litre gas engine for the new truck generation, a long-haulage high horsepower solution that is also well suited for urban environments, as gas engines are generally quieter than diesel equivalents.

Electrification is a fast-developing technology and Scania has hybrid buses and trucks, as well as battery-powered electric buses. Scania is developing several applications for electrified vehicles, including continuous charging along electric roads, fuel cell trucks and wirelessly charged buses.

Smart and safe transport

Digitalisation opens the way to sustainable and safe transport of both goods and people, for example in the coordination and control of transport movements. Concrete examples, such as connected and autonomous vehicles, are and will be crucial for increasing efficiency in transport and value chains. Using real-time data from over 300,000 connected vehicles, Scania has developed services to lower fuel consumption and maximise vehicle uptime such as Scania Maintenance with Flexible Plans – contracts customised for each truck based on real-time user data. The result is fewer and usually shorter stops, less waste from unnecessary oil changes and up to two days' fewer standstill per vehicle annually. More uptime also boosts profitability.

Bringing customers with us on our journey

For our customers today, environmental and social impacts are prompting their customers and consumers to demand more responsible business, adding to the constant pressures of just-in-time deliveries and tight profit margins. By continuing to offer relevant sustainable transport solutions, Scania can provide our customers with the right tools to meet their customers' needs.

SUSTAINABLE TRANSPORT PIONEERS

Nowhere is the journey towards sustainable transport systems more rapid than in cities. The social and economic impact of fast urbanisation puts a huge strain on transportation, making new ideas and technologies imperative for better living. Scania works as a partner with many cities, providing public transport and urban solutions that are viable, flexible and cost-effective.

The intense effects that poorly planned urban transportation have — air and noise pollution, wasted energy resources, insufficient road safety and traffic congestion — harm their inhabitants' health and constrain our economies. It is not just expanding city centres that is the problem but also a rapid suburbanisation, meaning longer commuter trips.

Political momentum

In the effort to make the world's transport systems fit for the future, cities are pioneers. They are fora for new public policy, designed to improve people's quality of life. They are living laboratories for introducing new types of cleaner, smarter and safer transport.

Multiple examples of city leadership and public policy approach to sustainability appear from cities such as Paris, Hamburg and Madrid, which are all planning restrictions on diesel vehicles. Municipal authorities are also responsive and generally have more room to manoeuvre than national governments because regulations are easier to enact on a limited, local scale.

Sustainable solutions for cities

Having long recognised the importance of public transport, Scania has been investing heavily in what is now the broadest range of buses and coaches that run on alternative fuels for city and suburban applications, with the options of HVO, biodiesel-FAME, natural gas, biogas, ethanol, and hybrid drivetrains.

We work in partnership with city planners to provide full-scale Bus Rapid Transit systems that can transport 50,000 passengers per hour. It means a lot of private transport can be substituted by bus systems with high capacity and efficiency, a cost efficient way to significantly reduce pollution, CO_2 emissions and traffic gridlock.

Goods traffic and waste management are other areas where Scania contributes with transport solutions. Scania's hybrid electric distribution trucks reduce carbon emissions, fuel consumption and noise, making them suitable for night-time and early morning deliveries, when there is less traffic and fewer people around. Scania's new gas engine is also well suited for use in areas sensitive to noise and emissions such as cities and suburbs.

Both city bus operators and retail distributors can also opt for Scania Fleet Care services, including Uptime Guarantee, which means Scania will guarantee that the vehicles keep running.

Engines in excavators, wheel loaders, ships for passenger or freight are often overlooked when tackling local pollution problems. Replacing old non-road machinery and engines can be very efficient for cutting emissions and improve air quality and public health in urban areas.

We are dedicated to playing a leading role in providing urban transport solutions that are accessible, efficient and attractive — the kind of sustainable solutions we have available now. Politicians, city planners, customers, customers' customers and suppliers need to work together and Scania stands ready to play its part.

Cleaner buses for 20 cities worldwide

Older buses emit black carbon soot, a significant component of outdoor air pollution, which has been linked to a series of adverse health effects, including premature mortality. Recent scientific research also indicates that black carbon has a key role in climate change.

Of all buses sold in the world today, less than one-fifth have soot-free engines; but Scania today manufactures and sells soot-free buses that effectively produce up to 99 percent less black carbon emissions than older diesel engine technology.

Scania has joined the Global Industry Partnership on Soot-Free Clean Bus Fleets, an initiative led by C40 cities and International Council on Clean Transportation (ICCT), committing to provide modern soot-free buses to 20 major cities in Africa, Asia, Latin America and Australia, by 2018. The cities commit to providing fuel for engines that meet the Euro 6 or US 2010 emission standards, including diesel fuel with less than 10 ppm sulphur and other low-carbon alternative fuels, such as biodiesel-FAME, gas and ethanol. Scania can provide buses for all these technologies.

Source: United Nation's Environment Programme

BRT system helps save historic city

For years, the UNESCO World Heritage city of Cartagena de Indias in Colombia was afflicted by overwhelming traffic and environmental problems. Travelling across town could take hours, while emissions and air pollution added to the climate challenges this 16th century coastal city faces.

The local authority acted, making Scania the exclusive provider for two truck lines in its 'Transcaribe' Bus Rapid Transit transport network, the most modern system of mass transportation in Latin America, with large feeder and articulated buses that use alternative fuel. From December 2015, Scania began providing 147 Euro 6 gas buses to the city along with its Scania Fleet Management system, vehicle financing and driver training.

Some months later, Cartagena is fast turning into a new, cleaner and more sustainable place, and the city has become an international reference point among other cities facing overwhelming traffic and environmental problems.

"Transcaribe and the gas buses from Scania are already proving popular with Cartagena's citizens as a safe and reliable way for them to get around town. We have seen great improvements in quality of life."

Humberto Ripoll Durango
Director, Transcaribe transport network

Nottingham Green

In summer 2017, the English city of Nottingham took a delivery of 53 double-decker gas-powered Scania buses, the largest such fleet in the world. The city aims to have 120 of these buses in service by 2020, as the local authority takes bold steps to tackle the twin challenges of congestion and pollution that affect the 1.5 million inhabitants in the wider urban area.

Nottingham City Transport, the local authority-owned bus company, has been pioneering the use of alternative fuels in urban bus operations, the latest incarnation of which is dedicated gas power.

"We are expecting significant annual savings in three key environmental areas: carbon dioxide emissions, nitrogen oxides emissions and particulate matter reduction."

Mark Fowles
Managing Director, Nottingham City Transport

Hybrid trucks enable earlier deliveries

Due to the noise generated in loading and unloading, several European cities prohibit deliveries in densely populated areas before 7 a.m., among them the Danish capital Copenhagen.

However, Nordic bakery giant Lantmännen Schulstad and Norway-based food retailer Rema 1000 are taking advantage of Scania's hybrid electric distribution truck to make deliveries to downtown Copenhagen during the restricted period before the shops open.

An early morning start means quicker deliveries since the trucks can unload ahead of the morning rush hour. Night-time deliveries also help lower stress levels among drivers, as it means they can avoid tight delivery schedules in heavy traffic.

LEAN SOLUTIONS FOR INDUSTRY VALUE CHAINS

No matter whether it is a forest, a mine, a factory, a port or a construction site, the transport process is central to industries' value chains. By re-thinking their transport set up, industries can realise efficiencies with significant benefits in regards to revenue, cost, efficiency and environmental impact. Scania's vehicles, services and flow thinking help our customers eliminate waste.

While industries focus on output, the importance of a smooth flow of materials is often overlooked. If the transport process is disrupted, so is the production process. Late deliveries cause delays along the whole chain, meaning longer production times and higher operating costs, reducing profitability, not to mention the adverse environmental impact such delays has. But Scania has developed products and services to minimise such disruptions.

Scania's approach

The core of Scania's approach to flows in industries is seeing the vehicles we make as part of the production value chain itself. Together with our customers, we analyse the logistic flows of their specific industry, from raw material to finished product. Hidden waste and inefficiency is identified and we suggest actions to improve those processes and devise a complete solution for the overall logistical flow. This is the approach of Scania-owned company LOTS. Having worked with the Swedish forestry industry, LOTS is now also expanding into Asia and Latin America and into more industries. Another example is Scania Site Optimisation, a framework of tools which takes a holistic view of mining transport operations to find and target bottlenecks in those flows using information relayed from communication units in each vehicle.

Anticipating customers' needs

With the new truck generation Scania has changed the way we are selling our products; an even deeper understanding of our customers' businesses helps us tailor solutions better than ever. Scania products are designed for different customer applications, with the total operating economy in mind.

An example of this is Scania's new XT range for the construction segment that was designed for the entire range of cab and engine specifications. The range also includes a new heavy tipper designed for construction and mining. With more robust components, the payload capacity is 40 tonnes, one-quarter more compared to the current range. Its operational uptime is five percent higher than before, with 5,000 more service-life hours, thus reducing operation costs over the product's life cycle and increasing residual value for the owner.

For transporters, being part of a larger process means it's crucial to avoid disruptions, and our broad specifications are complemented by services to ensure the highest uptime, reliability and profitability. Using the data Scania collects from over 300,000 connected trucks, this palette of services includes targeted repair and maintenance contracts, finance and insurance, the Scania Fleet Management system (including Trailer Control) and application-based Driver Training and Coaching that can be adapted to focus on the specific challenges facing drivers in their industries.

As well as allowing Scania to create ever-smarter services, connectivity will also enable the use of smart and safe autonomous or semi-autonomous technology in closed areas such as mines or container terminals. And with truck platooning, autonomous technology is even making its presence felt on public roads.

The importance of uptime

Among those testing Scania's new construction truck range were drivers from Paul Smart Transport, a UK-based construction haulage firm dealing with the industry's rapid changes. Owner Paul Smart has the '2+2' on all new Scania trucks, which means a two-year warranty and two years' service plan, including the yearly UK Ministry of Transport test, enabling him to plan all maintenance ahead at a fixed cost. And the value of uptime cannot be overstated.

"With its reliability, fuel economy and the support we get from the dealerships, we get a very low vehicle downtime."

Paul Smart
Whose 35-strong fleet of trucks is now 100 percent Scania

Driver training for every application

Scania's hugely successful Driver Training and Driver Coaching programmes have been expanded from their initial long-haulage focus to take in other applications, such as construction sites and urban transport. The training content can be individually adapted with modules to suit the transport operation and the individual driver, with anticipation, aerodynamics, fuel consumption, braking, safety, tyres, comfort, health and load impact all factored into the equation. In 2017 around 48,500 drivers were trained with the aim of immediately increasing fuel efficiency, road safety and sustainability, while significantly reducing downtime and operating costs.

"It enables long-term driver training programmes that ensure a consistent and sustainable performance boost."

Johan Björkegren
Scania's Product and Concept Manager for Driver Services

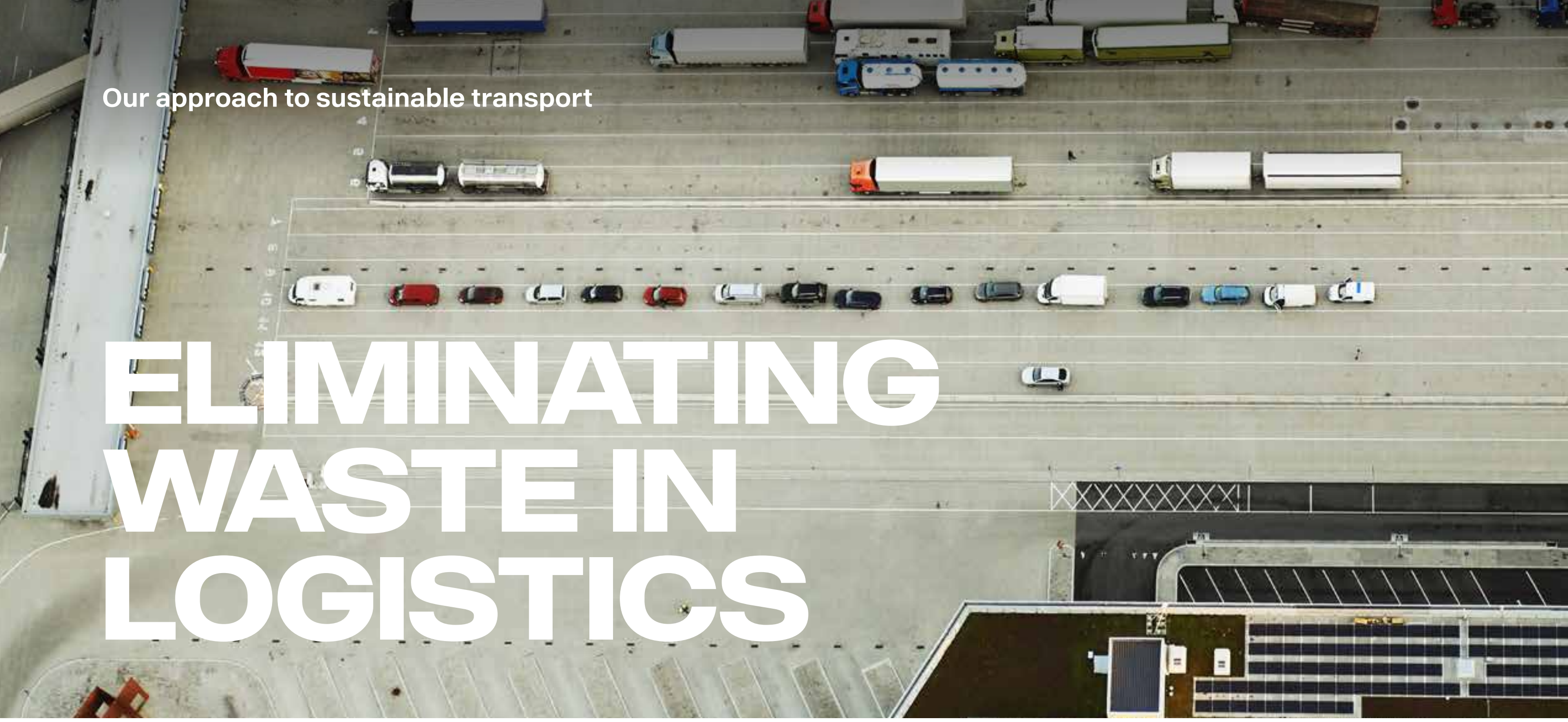
Our approach to sustainable transport

Hybrid power on Lake Lucerne

The shift towards sustainable solutions is happening in marine transport too. In early 2017, SGV, Switzerland's largest shipping company, introduced the MS Diamond to its Lake Lucerne passenger service. The Diamond's powertrain is based on a 13-litre, six-cylinder 405 kW Scania diesel engine, that is supported by an electric motor. With 20 percent less fuel consumption the hybrid powertrain solution is a sound business choice for SGV, who expect the vessel to operate between 2,000 and 3,000 hours a year. In 2018, SGV will add another hybrid power boat to its fleet, this time with a Scania 16-litre V8.

"We see this technology as the way forward for the future."

Michel Scheurer
Production Director at SGV



ELIMINATING WASTE IN LOGISTICS

Today's global growth and economic development increases the demand for road transport. Environmental and social impacts are prompting customers and consumers to demand more responsible business, adding to the constant pressures of just-in-time delivery schedules and tight profit margins.

Competition in road transport has always been intense, but new technology and new entrants to the market will tighten margins even further for those who are not adapting to changing circumstances. In the age of e-commerce, transport service buyers and their end-customers expect fast deliveries and if operators want to compete they must respond. More and more embrace digitalisation to respond faster to customer shipment demands for purchase tracking and definite delivery times.

But hauliers can't afford to ignore the wider environmental, social and economic effects of road transport, either, to protect their margins and maintain a competitive edge. To survive and thrive, transport operators need to be lean, responsible and consumer-focused; that's where Scania comes in.

Eliminating waste, creating value

As the haulage industry has changed so has Scania, evolving from being only a heavy vehicle manufacturer to being part of the ecosystem of transport and logistics.

With our holistic overview of the industry and knowledge of logistical flows, Scania truly understands our customers' business. We analyse issues such as fuel consumption, driver performance, fleet management, supply chain waste and harmful emissions. Then we develop the solutions that hauliers need to be sustainable and profitable.

For those buying Scania's new truck generation, it starts with the hardware: an average fuel consumption saving of more than 5 percent, while our trucks address the emissions question by running on a range of alternative fuels. But driver performance is also crucial. Scania offers driver training and coaching, with techniques that increase fuel efficiency, road safety and sustainability while significantly reducing downtime and operating costs. Reducing downtime is also the integral aim of Scania Maintenance with Flexible Plans, where vehicles are maintained based on actual usage.

Using connectivity, Scania has developed vehicle software systems for drivers and fleet owners, including Scania One, a digital marketplace for accessing, buying and administering Scania's connected services from a single platform. Trailer Control gives transport operators the possibility to integrate crucial information on position and in-trailer temperature with tracking opportunities through the Scania Fleet Management system. And connectivity can help address one of the biggest challenges to the haulage industry today: the average truck fill rate in Europe is just between 50-60 percent, which means needless extra journeys that affect the environment and customers' bottom lines.

Turku premieres liquid biogas truck

Finland's third-biggest city Turku is operating a liquid biogas (LBG) truck for its waste management. As one of the participants in the EU initiative Civitas, Turku has joined a network of cities dedicated to cleaner and better transport in Europe.

One of the Civitas projects is presently examining the benefits of increased utilisation of biogas. In Turku, Finnish gas provider Gasum operates a Scania G 340 tractor unit, powered by liquid biogas, to establish the advantages of using biogas in heavy transport.

Turku has set the target of becoming fossil-free by 2040.

"We have committed ourselves to promoting low-emission transport."

Aleksi Randell
Mayor, Turku

Forming industry partnerships

Scania's reach extends to logistics expertise for the benefit of our customers and their customers. For the next five years, HAVI Logistics, a global lead logistics provider for the food industry, is using Scania trucks and solutions in transport operations to and from McDonald's restaurants in several European countries. In this partnership HAVI will switch about 70 percent of its total truck fleet in those countries to Scania new truck generation that run on alternative fuels, such as gas and hybrid models. The new fleet composition aims to reduce CO_2 emissions at a cost neutral level using different truck technologies depending on their operations, fuel pricing and availability for different regions. CO_2 emissions will be continuously monitored in real time, bringing existing fleet connectivity to the next level.

While delivering to the restaurants, special equipment on the trucks is used to collect waste for recycling, to further reduce the CO_2 impact. Carbon neutrality is not just a pipe dream.

In Scania's experience, the common denominator for successful cases like this is a widened scope and partnership with all involved parties: the transport buyers, the transporters, Scania and the fuel and infrastructure suppliers.

Longer combinations and CNG to combat carbon emissions

Škoda has deployed four Scania compressed natural gas (CNG)-powered trucks at their main plant in Mladá Boleslav in the Czech Republic. The car manufacturer has also announced that it will operate longer 25-metre tractor-trailer combinations to reduce carbon emissions. The Czech authorities have permitted selected companies to operate longer trucks on certain routes.

The longer truck and trailer combinations will be used on selected routes for transporting goods to and from suppliers. These trucks can load 50 percent more than conventional combinations. Škoda thereby reduces the number of weekly trips along the 292 km route between Mladá Boleslav and Rokycany from 53 to 35, which equates to 250,000 fewer kilometres per year.

"As part of our overall social responsibility, we are focusing on developing environmentally-friendly logistics solutions. The CNG-powered trucks are a further contribution to being a sustainable company."

Michael Oeljeklaus
Škoda Board Member for Production and Logistics

INNOVATION AND PARTNERSHIP

Scania's approach to innovation is based on harnessing the power of talented people within our organisation and establishing strategic partnerships with academia, industry, customers, governments and cities. For Scania, innovation and partnerships take many forms, but always have the same goal – to develop valuable solutions to our customers and society at large.

Scania's R&D innovations are aimed at helping transport businesses achieve profitability in a way that is sustainable for society. When developing and applying new technologies, our customers' needs are our point of departure.

The past 12 months were another intense period for Scania's 3,800 R&D employees, with two successive launches of the new truck generation, new trials of autonomous and electrification technologies, plus further advances in connectivity, alternative fuels, buses, engines and optimised transport solutions. In 2017 Scania invested SEK 7.5 billion in R&D, a significant expenditure that reflected the continued launch of the new truck generation as well as increased investment in new technologies such as electrification, connectivity and autonomous vehicles.

Key focus areas in R&D

There is no single solution that will enable us to make the shift to a sustainable transport system, so Scania is embracing a broad portfolio of different solutions in various combinations. Nonetheless, we see the need to focus our priorities and investments on the following key areas:

Connectivity

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. Through driver performance data we develop a better understanding of each driver's driving style, identifying where we can help them lower fuel consumption, while services like Scania Maintenance with Flexible Plans mean vehicles only come in for service when the operating data indicate that maintenance is needed. The usage of connectivity opens up for huge new business opportunities and plays an important role when fed into our R&D processes.

Autonomous transport solutions

The work with automation includes the development of self-driving vehicles that interpret high-level commands from control towers, truck platooning, virtual co-driver technologies and smart sensors that can help buses or trucks negotiate heavy traffic. At Scania we emphasise not just the vehicles themselves, but the autonomous system as a whole, where all parts work together in an autonomous logistics chain to enable an efficient transport flow.

Electrification

Scania's ongoing development and demonstrations of hybrid and full electric vehicles, electric highways and battery electric buses shows that this technology is poised to become commercial reality, bringing with it the potential for much cleaner transport.

Combustion engine technology

Scania develops engines that enable hauliers and bus companies to reduce CO_2 emissions, lower fuel consumption and improve after-treatment. In the ongoing shift towards a fossil-free society, even more energy-efficient combustion engines as well as combustion engines that operate on biofuels and gas will be needed, in particular for trucks and buses in long distance transport.

Group synergies

The scale of the challenge of coming up with low-carbon transport solutions and the breadth of possible solutions is enormous. By sharing knowledge, experience and production, there is great potential for increased cost efficiency.

As part of Volkswagen Truck & Bus, Scania, MAN and Volkswagen Caminhões e Ônibus pursue intensive cooperation. An important step here is the lead engineering concept, which sets out clear principles for joint development activities within the Group. In 2017, Volkswagen Truck & Bus named Scania the lead in developing an electric powertrain for all the Group's future distribution trucks and city buses. Scania is also leading the Group's work on the 13-litre engine, after-treatment system, silencer, new gearbox and engine control system.

Group synergies can feed into Scania's R&D process, boosting innovation and increasing energy and cost efficiency, resulting in solutions that create value for our customers. It also means a significantly reduced time to market.

Solutions for safer driving

The World Health Organisation estimates that 1.25 million people die in traffic accidents worldwide every year. The UN's Sustainable Development Goals want to halve that figure by 2030, and Sweden's Vision Zero initiative aims for zero fatalities or serious injuries involving road traffic.

Scania is addressing the safety aspect of sustainability through various safety systems in our vehicles and services with features that help improve driver safety and accident prevention, including automatic emergency brake systems, lane departure warning systems, electronic stability programmes, alcolocks, driver training, assistance and more. With our new truck generation we became the first truck company in the world to introduce rollover side-curtain airbags, which protect those in the cab if the truck rolls over, significantly reducing the risk of death or injury.

But it is not just the safety of the drivers and passengers we are concerned with but also the safety of those surrounding our vehicles. Scania has long worked with security systems like cameras to adapt vehicles to different environments where people, cars and heavy trucks and buses must share the same space. The new trucks' P and L-series cabs can be fitted with Scania City Safe Window, a window set low in the driver's door that helps detect pedestrians and cyclists. It's an imaginative and highly practical solution to one of the most stressful situations for drivers in urban environments.

Digitalisation opens the way for the smart and safe transport of both goods and people. It has the potential to make transport more efficient, to limit speed, decrease greenhouse gas emissions, improve outdoor air, reduce noise and improve traffic safety. When applied in geofencing for instance, it works by providing a virtual border for a real-world geographical area, to be used to reduce a vehicle's speed or even stopping it altogether within a defined area, limiting a vehicle's access to specified roads, zones or terminals, or programming a hybrid truck to switch over to silent electric mode when entering a city centre. Another use of remote technology could be to shut down a vehicle that is behaving in a suspicious way, such as during a robbery, or if should someone hijack a truck with the intent to harm.

Years of thorough research, design and testing lie behind Scania's products and services to make them exceptionally safe in real-life conditions. Research includes trying to understand the ways a driver acts when they are behind the wheel. Our involvement in the pan-European research project ADAS & ME entails testing drivers of autonomous trucks to understand how they might rest, as well as enhancing emotion detection algorithms for positive, angry, scared and neutral states of mind. Scania is using the data from the project to develop existing algorithms for detecting when a driver becomes sleepy.

Source: World Health Organisation (the estimate refers year 2015), United Nations Sustainable Development Goals and The Vision Zero Initiative.

In the world's first electric road project, two electrically-powered Scania trucks drive a route in open highway traffic, using conductive technology developed by Siemens.

The many shapes of innovative partnerships

Partnerships go hand-in-hand with innovation in Scania's aim to drive the shift towards a sustainable transport system. It is key to Scania remaining agile and enables us to have an influence on the future. We are staying as close as possible to the evolving ecosystem of sustainable transport by working with a range of different organisations.

By working with public and private sector partners in an integrated way Scania believes that we can help find the shortest distance and time to a sustainable transport system. While this aim of our collaborations is ultimately the same, the point of departure varies. We think of the different modes of collaboration as Rethinking transport, Targeted shifts, Breakthrough innovations and Industry partnerships and we cross-fertilise our learning between them.

Rethinking transport

Working with others helps us create a more effective framework for sustainable transport – by working in multi-stakeholder groups on sustainable urban planning and infrastructure development. Examples include:

- 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 with a system approach to new infrastructure, vehicle concepts, business models and policies.
- In the project Activity Based City, Scania, construction group Skanska, consultancy firm WSP and rail operator MTR drive city development in a socially, economically and environmentally sustainable way, where people are at the centre and where digitalisation plays an important part.

Targeted shifts

Enabling advances in a specific part of the transport and mobility system. Examples include:

- In the world's first electric road project, two electrically-powered Scania trucks are running for the second year near the Swedish city of Gävle. It is the first time trucks drive a route in open highway traffic, using conductive technology. Scania and Siemens plan a similar project in Germany and a new innovation partnership between Sweden and Germany has been established to focus on innovation and cooperation for a sustainable future.
- Our work with Ericsson on using 5G communications networks in transport is another example of partnerships aimed at accelerating necessary paradigm shifts.

Scania starts its first field test of battery electric buses in a 14-kilometre major bus line, in collaboration with public authorities, energy supplier Jämtkraft and bus operator Nettbus.

The haulier Ahola will use Scania trucks in real-traffic conditions to test semi-autonomous platooning formations with three or more connected trucks.

Breakthrough innovations

Partnership and cooperation around specific technical or business model innovations, including:

- Together with Asko, Norway's largest food wholesaler, Scania will start testing trucks with an electric powertrain in which the electrical energy is converted from hydrogen gas in fuel cells on board the vehicles. The hydrogen gas will be produced locally, using solar cells.
- Scania starts its first field tests of battery electric buses in Östersund, Sweden. Two new charging stations are planned to supply the six buses of the 14-kilometre major bus line. With 10-minute charging, buses can run every 15 minutes for a total of 100 journeys each day. Trials are carried out in collaboration with public authorities, energy supplier Jämtkraft and bus operator Nettbuss.
- Scania and Finnish haulier Ahola are cooperating on semi-autonomous truck platooning and other new transport technologies relating to driver assistance. Ahola will use Scania trucks on Finnish highways in real-traffic conditions to test semi-autonomous platooning formations with three or more connected trucks: a driver in the first truck and the following vehicles autonomously driven. The agreement is another important step towards making a semi-autonomous platooning solution a regular commercial reality.

Industry partnerships

Developing holistic solutions where innovations are tuned and optimised in chorus in real world. Examples include:

- In 2017 Scania and global logistics provider HAVI started collaborating on sustainable transport and logistics solutions. Using Scania's new generation trucks and solutions in transport operations to and from McDonald's restaurants in several European countries, with a projected reduction of CO_2 emissions that ranges from 15 to 40 percent for every kilometre driven.
- In 2017 Scania joined the Global Industry Partnership, with a commitment to provide modern soot-free buses to 20 major cities in Africa, Asia, Latin America and Australia. The initiative is led by the International Council on Clean Transportation, ICCT, and UN Environment in cooperation with the C40 Cities Climate Leadership Group and the Centro Mario Molina, Chile.
- Through the initiative Etha, Scania is cooperating with ethanol supplier Lantmännen Agroetanol to provide dairy company Arla with a climate-smart distribution system that reduces carbon dioxide emissions by about 11.5 tonnes per truck per year.
- Scania and Northvolt will partner up to develop and commercialise battery cell technology for heavy commercial vehicles. Vehicle electrification is rapidly advancing and offers a favourable path towards more sustainable transport solutions. For heavy trucks and buses, continued development of both charging infrastructure and battery cell technology is crucially needed for a widespread market breakthrough in commercially viable electrification. Battery cells must be more sustainable, more robust and offered at more a competitive cost than presently available. As technology leaders in both fields, the two companies will establish expert teams that work side by side together at Northvolt's planned development facilities. Production of battery cells is energy intensive and Sweden offers a solid supply of cost-effective green energy. The country is therefore well suited for large scale sustainable battery production.

A TOP EMPLOYER WITH TOP EMPLOYEES

Scania's continuing success is based on our employees. Acknowledging that change starts from within, we are focusing on the skills, engagement and well-being of our employees.

The disruptive trends influencing today's transport industry mean we are constantly having to learn new technologies and re-think what we know. To meet future requirements and to secure efficient and effective business development we need to be both agile and flexible to handle the shift, as it also includes a shift in competences.

A business-driven focus

Scania needs a diverse and inclusive approach to succeed in keeping and attracting the top talent needed on this change journey. In close dialogue with our employee representatives, we cherish the power of our talented people as we establish strategic partnerships, organisational structures and decision-making models in support of Scania's business strategy.

The right people and skills

Scania is focused on becoming a top employer with top employees – people with the right skills needed in the shift towards sustainable transport. We need to understand the competencies required today, in 2025, and beyond. We do that by breaking down business goals into roles and skills and assess where we need new competencies, re-train our current employees, or enter strategic partnerships with leading academia, to cultivate such skills.

We also realise we have a huge pool of potentially underutilised talent in our company. At Scania we have developed a strategy for capturing the diverse skills and perspectives of our employees. We call it Skill Capture and it is our way of ensuring a diverse workforce and an inclusive corporate culture. Scania needs to reflect our markets to be able to relate to customer needs. It requires a broader representation of nationalities, gender, religion, physical conditions and a wider cognitive diversity among our co-workers.

Skill Capture began in 2015 with management seminars to establish ways of working to allow our employees to perform at their full potential in an environment where all feel appreciated and respected. The seminars have resulted in actions on how to spread best practice and necessary improvement activities. In 2018 we will start the next step by involving our entire work force through dialogue in all teams – gathering the skills of around 49,300 employees to further develop Scania's ability to be diverse and inclusive.

Safe, healthy and engaged

A safe and healthy workplace, with a work-life balance is a corporate priority. Our Safety, Health and Environment (SHE) standard takes its cue from our core value Respect for the individual. Scania's healthy attendance level of 96.2 percent reflects the importance placed on well-being. We recognise that when our employees feel included and secure they share their knowledge and engage to the full potential.

Our high internal employee turnover of 5.3 percent, proves the commitment to developing our employees and their willingness to take opportunities afforded by global mobility. More than 378 employees from 30 different countries work on international assignments in 48 different countries. Being part of Volkswagen Truck & Bus opens up possibilities of more employee rotation and mobility, enabling us to broaden the base from which to find the right competencies.

Tailor-made training

Scania Academy provides tailor-made programmes for our employees and employees in the dealership network with digital and physical classrooms. We also work closely with the education sector to secure innovative talent, through initiatives such as the Scania Engineer Program, the Scania Global Champion Trainee Program and our Industrial Doctorate Program.

Each year, Scania uses an Employee Satisfaction Barometer and the results pleasingly confirm that Scania is seen as an attractive employer with an open climate.

Digital mobility service to make Scania staff commute easier

In 2018, Scania Sustainable City Solutions launches a mobility service, a new digital-based application that streamlines staff journeys to and from work as well as journeys within the Scania site at head office in Södertälje.

The service addresses one of the key issues of the modern workforce – effective mobility to and from the place of work. Traffic jams and lack of parking spaces are just two issues that prolong employees' commute, impacting productivity time and contributing to CO_2 emissions.

The service tackles this by shifting people away from using personally-owned modes of transportation towards mobility services that combine transport services from public and private transport providers, through a unified gateway or app that creates and manages the trip for the user.

"We see a trend where big companies create their own transport systems because the existing ones just aren't good enough. This is a business opportunity for Scania."

Johan Palmqvist
Head of Business Development at Scania Sustainable City Solutions

By introducing an integrated app, the aim is to link public transport and also the transport between buildings at the Södertälje site.

"In the project at Scania we're using an app to link together Scania's own commuter buses that run between Stockholm and Södertälje, the minibuses that traffic the Scania area, the in-house taxis, electric bikes and hopefully also public transport to make it easy for employees to get to and from work and also move around the company more efficiently," says Camilla Lood, Head of Product Management at Scania Sustainable City Solutions.

The cab factory of the future

Scania has taken a major step into the future with its new cab factory in Oskarshamn, where the focus is on automation, excellent working conditions, and developing employees' skills to equip them for our journey towards a sustainable transport system.

Truck cabs have been produced in Oskarshamn, Sweden, since 1946. Today, Scania's cab factory is the world's most modern cab factory; 285 light grey robots swing, sway and dance around the 35,000 square metre production area in what looks like a giant, futuristic ballet performance.

"One of the biggest positive changes is the working environment. Thanks to the robots we have got rid of many heavier, less ergonomically sound operations."

Johan Persson
Workshop Manager, Scania's cab factory

The changes made by Scania in Oskarshamn are part of the company-wide adaptation of the skills base. The aim is to ensure Scania has the right people and skills to provide the sustainable transport solutions of the future.

Scania's core value respect for the individual meant it took a methodical approach to the changes, including a tailor-made programme that consisted of both theory and practical re-training for employees on the traditional assembly line.

"We made sure that all employees were aware of what the changes involved, to ensure they felt mentally prepared for what was coming."

Now, four years after the training started, Persson says the whole transition process has been very successful.

"Many employees have taken the chance to develop themselves, which has made them grow as people and boosted their engagement."

One of the first to sign up for the training programme was Joakim Allard, previously working with spot welding and nowadays engaged in robot maintenance at the new cab factory.

"I have improved my skills, which feels very good. I also want to stress the 'future spirit' we feel here. It is really exciting to work in this modern environment," he says.

As Scania still produces models from previous truck programmes to certain markets, the old body shop at Oskarshamn is still in full operation. But the plan is for the employees to successively switch over to the new production processes as smoothly as possible.

"Here we work with a clear and defined development plan for each person," says Persson. "That way all employees can influence their career development."

DELIVERING ON THE SDGs
THROUGH SUSTAINABLE TRANSPORT

The world has united around 17 sustainable development goals, for all people and all sectors of society. Scania's main contribution to the achievement of these goals is to translate them into sustainable business solutions.

At Scania we view the UN's Agenda 2030 as a shared agenda requiring collaboration across government, business and the wider civil society. We strongly support the 17 goals and believe they have the potential to deliver transformative change for both societies and business.

Advances in transport will play an integral role in achieving many of the 17 SDGs. An effective transport system is the foundation of a competitive and resilient economy, while the efficient flow of goods and people can be a critical enabler of development outcomes, contributing to food security, education, poverty reduction, inclusive growth and more.

At the same time, transport in its current form is associated with more negative impacts, such as CO_2 emissions, air pollution, traffic congestion and road accidents. Establishing a more sustainable transport system will be critical in combating climate change and its associated impacts, as well as the future sustainability of cities and other human settlements.

Scania is committed to the role it can play as a partner in delivering Agenda 2030. In assessing our opportunity for impact and growth we have identified a clear overlap between our strategy and goals 8, 9, 11, 13 and 17.

Make cities inclusive, safe, resilient and sustainable

Well-planned and well-designed transport systems link regions and people and ensure access to services and goods. Accessible and affordable public transport and logistics boost development and opportunities.

The gridlocked traffic situation in Jakarta, with its population of 10 million, is often considered one of the worst in the world. Convincing more commuters to switch to buses is crucial and is the authorities' stated aim. Since 2004, the city has been gradually expanding its Bus Rapid Transit system, Transjakarta, so that it now encompasses 12 traffic corridors that carry approximately 350,000 passengers each day. In 2015, Scania started the delivery of the first of more than 100 Euro 6 gas buses to Jakarta. The Scania buses operate in the prestigious downtown No 1 bus system corridor and have become very popular with passengers for their comfort.

Build resilient infrastructure, promote sustainable industrialisation and foster innovation

Innovation in clean and sustainable technology today accounts for the lion's share of the transport industry's R&D investments. Transport, as a major industry, can speed up the uptake of innovations such as Intelligent Transport Systems (ITS) and clean tech.

In the world's first electric road project, two electrically-powered Scania trucks are running for a second year near the Swedish city of Gävle. In this project trucks drive the route in open highway traffic for the first time, using conductive technology developed by Siemens. The facts are impressive: the electric road is twice as efficient as internal combustion engines. Energy consumption is cut in half, and local air pollution is significantly reduced.

An important milestone in 2017 was when German chancellor Angela Merkel met Swedish Prime Minister Stefan Löfven to launch a new partnership between Sweden and Germany, focusing on innovation and cooperation for a sustainable future. Scania is also currently working with Siemens on a similar electric highway project in Germany to build an overhead contact line for electrified freight transport on a ten-kilometre stretch of highway.

Take urgent action to combat climate change and its impacts

Climate change is one of the greatest threats to our planet. Changing the way we use energy is a crucial factor in delivering on goal 13.

Scania is working intensively to minimise greenhouse gas emissions from the full lifecycle of our products and our operations. We have a long-term vision for our operations to be carbon neutral. To be able to deliver the goals of the Paris agreement, the world will have to halve its emissions every decade. On this basis, in 2017 Scania set a new target of reducing CO_2 emissions by 50 percent in all of our operations between 2015 and 2025. We will achieve this in three ways: firstly, through elimination of waste by optimised production processes; secondly, activities specifically aimed at improving our energy efficiency; and thirdly, converting to using renewable sources. A crucial milestone on this journey is the target that all purchased electricity will be fossil-free by 2020.

Revitalise the global partnership for sustainable development

Multi-stakeholder partnerships to share knowledge, expertise, technology and resources are key to delivering on the SDGs globally.

In 2017 Scania joined a Global Industry Partnership, with a commitment to provide modern soot-free buses to 20 major cities in Africa, Asia, Latin America and Australia. The initiative is led by the International Council on Clean Transportation, ICCT, and UN Environment in cooperation with the C40 Cities Climate Leadership Group and the Centro Mario Molina, Chile.

Promote inclusive and sustainable economic growth, employment and decent work for all

The transport industry is an enabler for productivity, job creation and economic growth globally. However, the promotion of decent work along the transport value chain remains a challenge.

Being present all over the world, Scania participates in driving improvements in the area of responsible business. To further strengthen our contributions to good employment opportunities and decent work, Scania is intensifying the partnership and dialogue with our employee representatives in the world.

As a big transport buyer we also need to act responsibly and secure that the journeys in our value chain are performed according to social and ethical acceptable forms. Scania's logistic department is committed to high ethical principles and has developed tough social requirements for our transport flows.

We are also committed to supporting the Global Deal in which the partnership also includes governments and organisations in the area.

SUSTAINABLE EVERY STEP OF THE WAY

For Scania, our core values and abiding commitment to continuous improvement are central to how we operate. We strive to make our business responsible and sustainable by continuously applying the highest social, environmental and ethical standards in every part of our operations and along our value chain.

As a transport solutions provider with around 49,300 employees worldwide and customers in more than 100 countries, Scania impacts society directly and indirectly. To stay successful it is crucial to conduct our business in a responsible manner. That means aiming for sustainability at every step, from our supply chain to our production system, through to the sales process, our customer relationships and the end-of-life phase of the product. Scania has identified six business responsibility areas; read more on page 35.

Our core values, our leadership principles, our lean-inspired management philosophy of continuous improvement and the modular system all guide our operations. Scania is a signatory of the United Nation's Global Compact, now also complemented by Agenda 2030 and its sustainability goals.

Ultimately, pursuing high standards in our operations and in our value chain will strengthen our ability to deliver on our aim of playing a leading role in shifting the transport industry to a more sustainable model. We also gain the knowledge and capabilities that can help us develop our products and services to continue making our customers successful.

R&D

With SEK 7.5 billion invested in research and development, Scania creates value for our customers by meeting their demands for higher uptime and greater efficiency, and creates value for society by supporting a safe and efficient transport system. Taking responsibility for the full value chain also means knowing the impact of the materials that our products are made of. In 2017, Scania has increased its efforts to map and understand the environmental and social impacts of the materials in our products to be able to make informed decisions and minimise the negative impact, focusing on minerals and metals.

Logistics

The scale of Scania´s global logistics processes is huge. Inbound material flows spread all over the world, collecting 25,000 pallets a day from more than 1,000 suppliers in Europe, Asia and Latin America. On the delivery side, our outbound flows move a huge number of trucks, buses, engines, spare parts and components to Scania customers, in more than 100 countries, daily. Read more on Scania's logistics operations on page 34.

Sourcing

In an increasingly transparent marketplace, Scania's suppliers must meet the same standards we demand of ourselves. With over 1,000 direct and 10,000 indirect suppliers, robust and comprehensive management of sustainability risks is a challenge, but essential. For Scania, sustainability performance influences sourcing decisions alongside technology, quality, delivery and cost. Our Sustainability in the Supply Chain standard sets the environmental, ethical and social demands. With this as a starting point we work with those suppliers in our global supply chain who maintain fair conditions, and in return we benefit from higher supplier quality and productivity, while minimising the negative impact during the lifecycle of our products. A proactive approach to relationships with suppliers and collaboration in sector-wide initiatives are tools that drive positive development across the whole value chain and minimise risks of environmental and human rights issues.

Educating for better sustainability performance

For Scania education and training in sustainability is a high priority. However we are not only educating internally, focus is also put on educating and helping our suppliers to increasingly integrate sustainability into their operations. Every year Scania provides supplier training in several countries. In December 2017 Scania arranged its first Sustainability Supplier Day where more than 140 people from 80 of Scania's main suppliers came to Sweden to learn and discuss sustainability in the supply chain. The participants were encouraged to share their challenges and cooperate with both Scania and other participants on possible solutions.

Production

With around 400 vehicles produced per day and about 18,000 people working in our production facilities worldwide, clear and robust processes are a necessity for achieving our ambitious targets related to environmental and social aspects. With a strong focus on continuous improvements, our Scania production system helps to eliminate waste, improve resource efficiency and optimise production flow, reducing our environmental impact. Our focus on safety, health and environment (SHE) helps us keep track and gives clear guidance to those working in our production facilities.

Solar-powered production in Zwolle

In summer 2017 Scania began installing the largest industrial solar roof in the Netherlands at its production site in Zwolle, the latest step towards using exclusively renewable energy in its production. The roof, which has 22,000 solar panels, will have a total energy capacity of six megawatts. It is just one of several initiatives, including wind power, that Scania has taken on the journey to reach carbon neutrality in production.

In use

The main environmental impact from the lifecycle of Scania's products comes from their use, both local and global emissions. From our new product range with a fuel consumption that is on average 5 percent lower than before, through our broad range of efficiency and productivity-enhancing services Scania support our customers to perform better with lower environmental impact.

End of life

Scania aims to continuously reduce non-recyclable components and provide guidelines for end-of-life treatment and dismantling, working in partnership with others, to minimise the impact of our products' lifecycle. Made mainly out of high recovery value materials like cast iron and steel, our trucks are 95 percent commercially recyclable. Scania is promoting the circular economy with the initiative Service Exchange, which collects roughly 4,200 tonnes of faulty or worn parts from the Scania network that are then remanufactured and sold again.

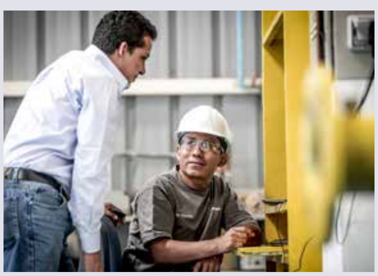
Production → Sales → In use → Service → End of life

Sales

With a global sales presence and more than 350 sales per day, our sales staff work with customers to ensure that the vehicles are optimised for their specific transport assignment and to address their environmental and social impact. This sense of responsibility in sales is reflected in our principles and extends throughout the sales network. During 2017 Scania have sharpened our sales tools to further support our customers in pursuing their sustainability targets.

Service

By continuously improving our global sales and services operations and working hand-in-hand with customers, we improve our ability to identify efficiencies and deliver high value-added services.



Sustainable solutions globally

In 2017 Scania continued its dedication to become a leader in sustainable transport. In 2018 we are increasing the speed of change, formalising efforts and building networks to utilise the full potential of skills in the company. Centrally and in 20 focus markets, dedicated resources have been appointed to facilitate for Scania to drive the shift through partnerships on our markets.

The benchmark in sustainable logistics

Scania aims to be the benchmark in sustainable logistics and set the standard on how to act as a transport buyer. By ensuring social and legal standards and continuously improving the flows in every part of our supply chain, we eliminate waste, become more energy-efficient and reduce CO_2 emissions, while improving quality, reducing lead times and controlling costs.

For Scania, logistics is only increasing in significance as the company changes from being purely a heavy vehicle manufacturer to also being a supplier of components to other brands within Volkswagen Truck & Bus, and to being part of the ecosystem of transport and logistics. Our daily logistics flows are enormous, and there is broad scope for identifying and cutting waste and emissions from these processes by taking a holistic approach, where we see logistics as part of the overall value chain.

Scania is responding to the great transformation in logistics brought about by digitalisation, connectivity and the demand for sustainability. We are increasingly working in multi-modal flows with trains, ships and trucks, using alternative fuels and connected networks, resulting in increased process efficiency and minimised CO_2 emissions.

Decisions within Scania's logistics operations are based on achieving the best balance between CO_2 emissions, quality and cost. When designing transport solutions Scania values CO_2 reduction as much as we value decreased cost or improved lead times and efficiency.

Strategically, Scania Logistics is taking a holistic approach, where partnerships between purchasing, production and logistics are key. The cooperation with logistics partners such as carriers and service providers is also an important part of the strategy.

By cooperating with our partners we can control and improve physical and information flows over the whole supply chain from order to delivery, in the most efficient way.

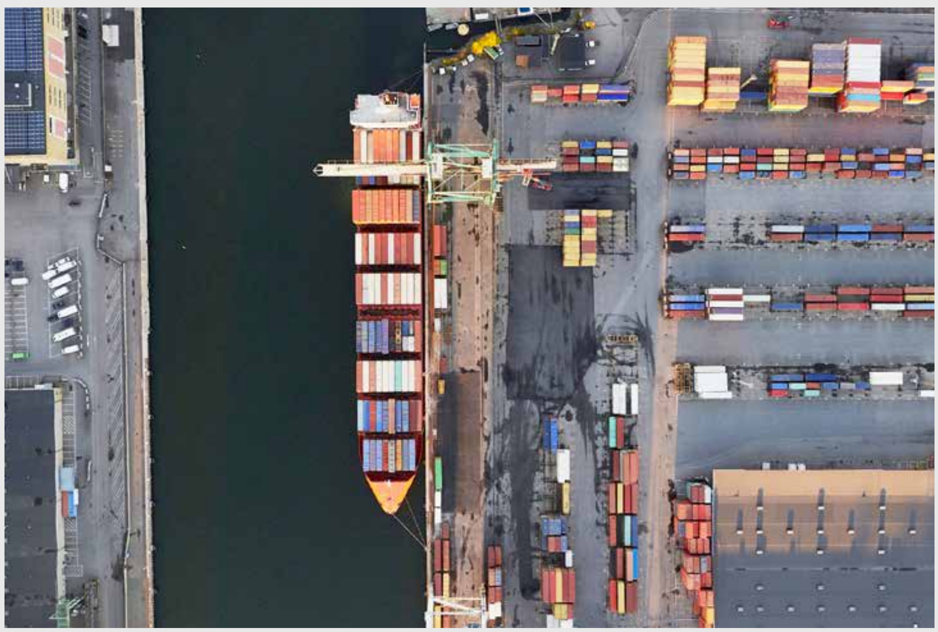
Balancing emissions and cost

Scania has set a new more comprehensive target to reduce emissions from our land transport logistics flow in Europe and Latin America by 50 percent by 2025 through finding the right balance between emissions and costs. To do so, sustainability plays an important role when designing our network. This model was applied when redesigning the flows in Benelux and Germany. Scania combined different transport solutions, using gas-powered trucks, trains and sea transport to collect parts from our suppliers and take them to our production units. This reduced CO_2 emissions by 20 percent and costs by 8 percent, proving that sustainable transport flows are efficient from a cost perspective too.

Cut emissions by

50.0 %

Scania's 2025 target for our land transport logistics flow in Europe and Latin America



Doing things right

Guided by our core values, Scania closely reviews our strategic direction so as to reduce our environmental footprint and ensure adherence to ethical principles. Scania promotes clarity and simplicity in governance for sustainability and ethics. Every manager must ensure that our sustainability agenda is understood and acted upon in their respective unit. Complementing our three pillars for sustainable transport, Scania has identified six responsible business areas. The areas are followed up with related KPIs and targets on page 129**.**

Resource and energy-efficient operations

Reducing our environmental impact is a key component of Scania's sustainability work. Scania uses resources as efficiently as possible in our operations. We are certified according to ISO 14001 and continuously improve the environmental performance of our products, processes and services. Business demands and other requirements form the basis for improvement, where fulfilment of legislation is fundamental. Scania's environmental work is proactive, based on a lifecycle perspective and the principle of precaution.

Diversity and inclusion

Scania is committed to diversity and inclusion, and aims to have a diverse workforce in terms of gender, age, background, ideas and experience. Diversity and Inclusion at Scania is about continuously developing our corporate culture and thereby capturing the diversity of skills, know-how and perspectives of our most valuable asset – our employees. The right mix of competences will be a prerequisite for Scania to continue taking the lead in sustainable transport. Scania has a global diversity plan which is broken down into local action plans to make sure that this remains a focus throughout the organisation.

Health and safety

One of Scania's six core values is 'respect for the individual', meaning the individual stands at the centre in everything we do. Our greatest asset is our employees. Ensuring a safe and healthy workforce is our top priority. Scania strives to achieve a sustainable psychosocial workplace and a balanced work environment. The Scania Safety, Health and Environment (SHE) standard provides the guidelines, structure and follow-up for how we address workplace issues such as safety equipment, the handling of chemicals, mental and social well-being, crisis support and road safety.

Human and labour rights

Our responsibilities entail ensuring the observance of human and labour rights in all relationships and situations involving Scania. We identify where risks are greatest and work along our value chain to minimise them. We encourage our partners to constantly improve their performance in this area. We insist that our suppliers meet the highest standards and act in full accordance with our policies and guidelines concerning social responsibility, labour standards and human rights. Scania is cooperating on sustainable procurement practices through the DRIVE initiative, a partnership between the world's largest automakers. We have also published a slavery and human trafficking statement that applies to our global operation and have endorsed The Global Deal declaration, which promotes social dialogue, effective industrial relations and decent working conditions around the world.

Business ethics

Scania has zero tolerance for corruption, bribery and all types of harassment, 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. Scania works with a range of strategies to ensure integration into all parts of the operation. To support and engage employees around potential ethical dilemmas, Scania provides a tailor-made e-learning around a range of possible business scenarios, described in the employee guide, 'Doing things right'. By the end of 2017 Scania had implemented a new code of conduct which encompasses a broad array of ethical issues. In 2018 the organisation will be given training on the code.

Community engagement

Wherever we operate in the world, our engagement in the community is a great contribution but also a task that carries great responsibility with it. We need to focus our efforts on where we have the right skills and capabilities so that we can make a long-term commitment. A global sponsoring and community engagement framework was developed in 2017 to further support our business on what, how and where we provide sponsoring and support on a local basis.

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 Committee
- 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 December 2017 are Volkswagen Truck & Bus GmbH and its subsidiary MAN SE. Volkswagen Truck & Bus GmbH holds 86.65 percent of the shares in Scania AB and MAN SE holds 13.35 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 2017, 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 has composed of seven elected Board members and no deputy members. On 31 December 2017, they were:

Helmut Aurenz[1]
Matthias Gründler
Henrik Henriksson
Markus S Piëch
Stephanie Porsche-Schröder
Andreas Renschler
Peter Wallenberg Jr

1 Helmut Aurenz resigned from the Board on his own request on 8 February 2018.

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 2017:

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 Audit Committee

The Board appoints the members of the Audit Committee from among its own members. 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 Audit Committee is identical and common to Scania AB and 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 Executive Board meet each week. When necessary, considering amongst others market developments, the strategies are summarised from a global perspective and updated at such meetings.

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 working 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 frequently updated 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 2017 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, risk management and governance of Scania, prepares a report at least twice a year, which is reported directly to the Audit Committee. Group Internal Audit functionally reports to the CEO.

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 approved by the Board.

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

HOW SCANIA PERFORMED IN 2017

16.2 %
Scania's market share in Europe based on truck registrations 2017

49,198
Number of registered Scania trucks in Europe 2017

SEK 23,727 M.
Service revenue in 2017

There was an upswing in global economic growth in 2017. Scania enjoyed record net sales and volumes, with rising demand for our trucks, buses and coaches, services and engines, driven by a positive development in most regions. Scania's earnings remained strong as the impact from higher vehicle and service volumes offset the higher production costs for running double product ranges.

Vehicles and services

In 2017 Scania delivered 90,777 trucks and buses, an increase of 12 percent from 2016. The total number of trucks delivered accounted for 82,472, compared with 73,093 in 2016, a 13 percent increase and the company's highest-ever figure to date. The number of buses and coaches delivered was 8,305, up by 1 percent from the 8,253 in 2016. Demand for Scania's services remains good and with higher volumes in all regions, the service revenue increased by 10 percent to SEK 23.7 billion. In local currency the revenue increase was 8 percent. In the Engines business area, the total number of deliveries for 2017 rose by 9 percent to 8,521 units (7,800).

The European truck market

The total market for heavy trucks in 25 European Union member countries (all except Greece, Bulgaria and Malta), plus Norway, Switzerland, Iceland and Bosnia and Herzegovina increased by 1 percent to 304,424 (301,085) units in 2017. A stable freight growth resulting in a replacement need, as well as attractive financing levels, are all acting in support of maintaining the high volumes in Europe.

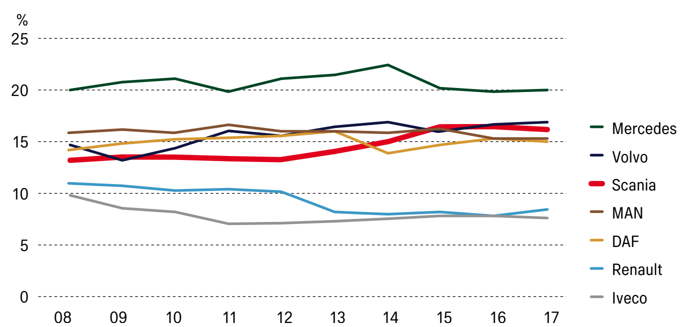
Sustaining a high market share in Europe

Following the launch in Europe of the long-haulage range in 2016, Scania complemented the new truck generation with the XT construction and urban-focused truck ranges during 2017. The result of many years of development, these comprehensive truck ranges respectively offer a myriad of applications for work in the construction industry, and urban segments such as refuse collection, goods delivery and firefighting.

Scania's truck deliveries in Europe decreased somewhat compared to last year, but remain on a high level. Decreases in Great Britain, Italy, Slovakia and Bulgaria were partly offset by increases in Belgium and Estonia. Scania truck registrations in Europe for 2017 amounted to 49,198 (49,771), giving Scania a strong market share of 16.2 (16.5). The company's enduring strength in Europe is due to customers' continuing appreciation for the performance of the PGR range of trucks, but also that of the new truck generation, as the proportion of our sales represented by the new truck generation is increasing.

Market share

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



Scania's prominent position in the European market was recognised by several industry accolades in 2017. Italian magazine Vado e Torno gave Scania's new truck its Sustainable Truck of the Year Award 2017 for the long-haulage and distribution segments at the EcoMondo transport fair. The company won the Green Truck Award 2017 from German publication Verkehrsrundschau and Russia's ComTrans Fair made the Scaniatruck its Best Commercial Vehicle of 2017. Scania Fleet Management and Scania Cruise Control with Active prediction were both recognised too, winning the German Telematics Prize 2018 and the European Transport Award for Sustainability 2018, respectively. The new truck also took part in three major European press tests for trucks' fuel consumption, and on each occasion scored the lowest consumption figure.

Positive signs in Brazil

In 2017, after several years of tough economic conditions, Brazil has started to show some positive signs from low levels. The increase in demand is largely driven by Brazil's agricultural business sector. Scania's truck registrations in Brazil amounted to some 5,754 units (4,245), equivalent to a market share of about 17.8 (14.3) percent. In general, other markets in Latin America such as Argentina, Chile and Peru have held up rather well for some time.

Strengthening demand in other truck markets

There is also a positive trend in Eurasia, where deliveries increased to 6,748 (3,233) due to Russia's strong recovery. We are seeing strong demand in Asia, led by China and Iran where the European truck segment is growing in line with the development of the logistics systems. In Asia deliveries increased to 13,175 (9,287). In the Africa and Oceania region, deliveries were essentially flat at 4,412, compared to 4,449 in 2016.

Buses and coaches market remains strong

Deliveries of Scania's buses and coaches increased in Asia and Eurasia, related to Iran and Russia. While deliveries decreased somewhat in Europe, Latin America and Africa and Oceania, total deliveries remained on good levels.

In Europe Scania's market share for buses and coaches amounted to 6.8 percent, compared to 7.1 percent share in 2016.

In 2017, Scania Buses and Coaches launched the hybrid Scania Interlink Low Decker at Busworld in Belgium, a coach that can run on electric power or alternative fuel, adding to the company's wide range of sustainable public transport options. At the same event, Scania also premiered the battery electric Scania Citywide Low Floor bus to go on sale in 2018. We also made an agreement to work with Yousuf Dewan Truck and Bus Company to sell Scania buses in Pakistan for the first time, and continued to develop our cooperation in China with Higer. In 2016 Scania and Higer inaugurated a new, state-of-the-art bus and coach factory in Suzhou, China. The new factory exclusively builds Scania Touring and Scania-Higer dual-branded high-end buses and coaches.

A better year for Engines

It was a good year for Scania Engines in 2017, with record deliveries mainly related to increases in South Korea, United Kingdom, and Germany, partly offset by decreases in Brazil. All segments grew; industrial, marine and power generation.

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

Services growing steadily

Service revenue amounted to SEK 23,727 m. (21,611) in 2017, an increase of 10 percent. In local currencies, revenue increased by 8 percent. In Europe, Services revenue rose by 7 percent to SEK 16.1 bn. (15.0) compared with 2016. In Latin America, revenue increased by 14 percent to SEK 3.0 bn. (2.7) and revenue in Eurasia rose to SEK 686 m. (540). Revenue in Asia was 16 percent higher than the previous year at SEK 2.3 bn. (2.0). In Africa and Oceania, service revenue reached SEK 1.6 bn. (1.4).

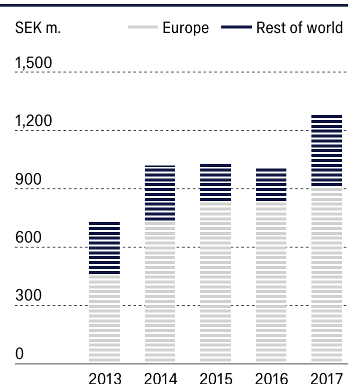
Demand for services is more stable than vehicles due to the necessity of repair and maintenance, but Services is also helped by Scania's access to the data extracted from more than 300,000 connected vehicles. This allows us to keep developing the range of predictive maintenance and sustainable service solutions for our customers, focusing on enhancing our customer's profitability.

Financial services

At the end of 2017, the size of Scania's customer finance portfolio amounted to SEK 77 bn. which was SEK 9.1 bn. higher than the end of 2016. In local currencies, the portfolio increased by SEK 8.9 bn., equivalent to 13 percent. The penetration rate was 46,1 (43,0) percent in 2017 in those markets where Scania has its own financing operations. Operating income in Financial Services for 2017 increased to SEK 1,274 m. (1,015), compared to the previous year. A larger portfolio and currency effects had a positive impact on earnings, while lower margins and increased operating costs had a negative impact. Bad debt expenses were 0.14 (0.25) percent in relation to portfolio.

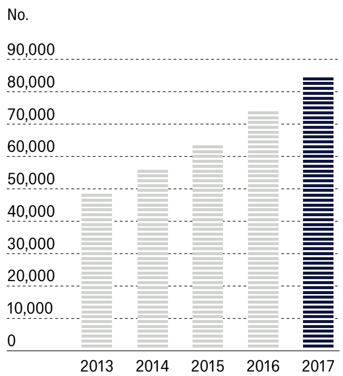
Operating income Financial Services

Operating income in Financial Services for 2017 increased to SEK 1,274 m. (1,015). A larger portfolio and currency effects had a positive impact on earnings, while lower margins and increased operating costs had a negative impact.



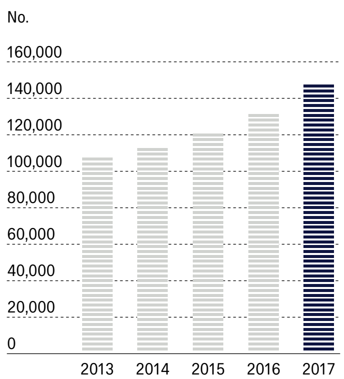
Insurance contracts

There was an increasing demand for Scania's insurance solutions during 2017. Efficient claims management and fast repairs in Scania's service network is the core of the offer.



Finance contracts

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



Most of Scania's portfolio consists of customers in European markets. The financing portfolio is well diversified in terms of customer geography and type, 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.

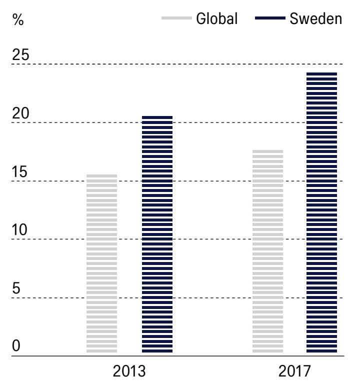
Our employees

Ensuring that all employees, regardless of their job and location, feel valued and dedicated, have job satisfaction and have well-being at work is an important task for managers at all levels of the organisation. Scania's systematic efforts to monitor job satisfaction also include a single common survey – the Employee Satisfaction Barometer – that includes 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 of 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, amounting to 96.2 percent 2017, while increasing production capacity. The working principles, developed over many years at Scania's production units, have been adapted and implemented in the other parts of the company. The number of employees at Scania in 2017 increased to 49,263, compared with 46,243 at the end of 2016.

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

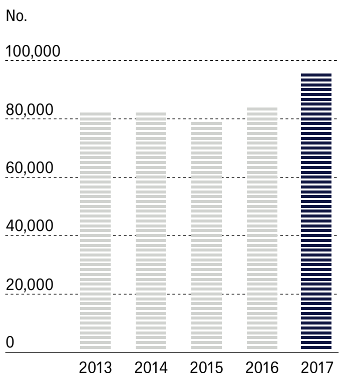
The past year has seen Scania running production at full capacity to fulfil worldwide demand, at the same time as rolling out the new trucks' complete product range. Our global production system allows us to spread capacity between our production sites around the globe. Scania's technical capacity is 120,000 vehicles, and the work on ensuring flexibility to meet short-term fluctuations in demand is continuing. Scania's production units are continuously working to improve their environmental performance. The Scania Production System (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.

In late 2017, Scania committed to investing SEK 1.5 billion in a new foundry in Södertälje, Sweden, in order to triple production capacity and achieve a 50 percent reduction in energy consumption compared to the technology and methods used in the current foundry. The foundry will be operated using electricity produced from renewable energy sources and the energy usage per tonne produced in the new foundry is expected to be 50 percent lower than in the existing facility. It is one of Scania's largest single investments in an entirely new industrial plant.

Following Södertälje in Sweden, the production facility in Angers in France has changed over to producing Scania's new truck generation and so has part of Scania's production in Zwolle in the Netherlands.

Vehicles produced

During 2017, Scania produced 95,781 vehicles (83,940).

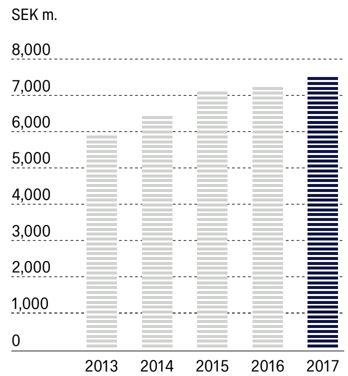


Research and Development

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 3,800 people are employed. In 2017, investments in research and development amounted to SEK 7.5 billion (7.2), which corresponded to 6.3 percent of net sales.

R&D Investments

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



Report of the Directors

SUSTAINABILITY REPORT STATEMENT

In accordance with the Swedish Annual Accounts Act 6 Chapter 11§, Scania AB has chosen to draw up the sustainability report as a report separated from the annual report. The extent of the sustainability report can be found on page 132 of this document.

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. A central support function Governance, Risk and Compliance is in place to support both executive board and line mangers in reducing compliance and business risks by providing knowledge in terms of policies, guidelines, trainings and advice and by setting up respective structures and processes.

The team also ensures that international standards, best practices and requirements are fulfilled considering Scania specific risk environment and culture.

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. In addition to this Scania in a structured way continuously investigates new areas that may be of interest connected to the future development of the ECO system of transport and logistics.

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 lifecycle 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 repurchase 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 repurchase obligations 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 continuously checks that suppliers meet the company's requirements regarding Technology (T), Quality (Q), Delivery (D), Cost (C) and Sustainability (S). 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.

With a more global supply chain, the sustainability risks along the chain are growing. Scania uses external risk indices for keeping track of risks in specific regions. To meet the different risk profiles measures are taken to support and follow up on – for example – human rights performance in some regions, by performing audits and trainings.

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 sustainability performance of our suppliers and 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 Analysis as well as the Business Continuity Planning process. Natural hazards are important part of dealing with risks in existing business as well as in deciding new locations for business and suppliers.

People and Competence

The technology shift will also require a shift in competence and Scania must act proactively and identify future need before they occur.

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

- Not enough of the right expertise
- Lack of business critical 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.

The opportunities for professional development and career paths within the company, along with individual development plans, attracts new employees and will reduce the risk of losing expertise due to external employee turnover.

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

In closely alignment with business operation Scania's Corporate HR department continue to develop the area of People Management to secure business-driven competence supply.

By collating and analysing key employee figures for health 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 associated with adverse 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 sustainability, the Scania Way 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. During 2017 Scania implemented a new code of conduct, that is aligned with VW AG, reflecting Scania's responsibility as a member of society, a business partner and employer.

Scania's requirements are the same no matter where in the world we operate. Our responsibilities entail ensuring the observance of human and labour rights also extending through our value chain. 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 as it is contributing to more unpredictable and more extreme weather conditions, 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.

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, the Board of Directors, Sinotruk (Hongkong) Limited, and the Board of Directors, Navistar Int. Corp. Chairman of the Commercial Vehicles Board Group of the VDA.
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[1]

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.

1 Helmut Aurenz resigned from the Board on his own request on 8 February 2018.

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, the Board of Directors, Sinotruk (Hongkong) Limited and the Board of Directors, Navistar Int. Corp.
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.

Stephanie Porsche-Schröder

Member of the Board of Directors since 2017. Member, Audit Committee.

Born: 1978.
Education: Diplom Designer.
Other directorships: Member of the Board of MAN Truck & Bus AG and Italdesign-Giugiaro S.p.A.
Relevant work experience: Designer at Bosch Siemens Haushaltsgeräte GmbH, Munich.

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 15.2 percent to SEK 119,713 m. (103,927). Currency rate effects had a positive impact on sales of 2 percent.

New vehicle sales revenue increased by 12.1 percent. Sales were positively influenced by an increased share of vehicles from Scania's new truck generation and a positive currency effect, partly offset by a less favorable market mix. Engine sales revenue increased with 11.1 percent. Service revenue i-ncreased by 9.8 percent and amounted to SEK 23,727 m. (21,611). Higher volume of workshop hours and parts had a positive impact as well as positive currency rate effects.

Interest and lease income in the Financial Services segment increased by 2.5 percent due to higher financing volume, higher interest rates and currency rate effects had a positive impact.

Net sales by product, SEK m.	2017	2016
Trucks	75,226	65,615
Buses	10,480	10,867
Engines	1,830	1,647
Services	23,727	21,611
Used vehicles	7,077	6,452
Miscellaneous	3,940	2,753
Delivery sales value	**122,280**	**108,945**
Adjustment for lease income [1]	–2,567	–5,018
Total Vehicles and Services	119,713	103,927
Financial Services	6,943	6,734
Elimination [2]	–3,291	–3,558
Scania Group total	**123,365**	**107,103**

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 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 2017 Scania delivered 82,472 (73,093) trucks, an increase of 12.8 percent. Bus deliveries increased by 1 percent to 8,305 (8,253) units. Engine deliveries increased by 9.2 percent to 8,521 (7,800) units.

Vehicles delivered	2017	2016
Vehicles and Services		
Trucks	82,472	73,093
Buses	8,305	8,253
Total new vehicles	**90,777**	**81,346**
Used vehicles	18,346	17,868
Engines	8,521	7,800

Financial Services		
Number financed (new during the year)	2017	2016
Trucks	31,387	27,073
Buses	962	752
Total new vehicles	**32,349**	**27,825**
Used vehicles	5,703	6,098
New financing, SEK m.	41,499	35,249
Portfolio, SEK m.	**77,028**	**67,935**

Earnings

Scania's operating income amounted to SEK 12,434 m. (6,324) during 2017. Operating margin amounted to 10.4 (6.1) percent. Operating income 2016 was affected by the provision of SEK 3,800 m. regarding the EU investigation.

Operating income in Vehicles and Services totalled SEK 11,160 m. (5,309) during 2017. Operating income 2016 was affected by the provision of SEK 3,800 m. regarding the EU investigation. Higher vehicle deliveries and higher service volume, together with positive currency rate effects, had a positive impact on earnings.

Scania's research and development expenditure amounted to SEK 7,499 m. (7,199). After adjusting for SEK 1,367 m. (1,682) in capitalised expenditure and SEK 455 m. (387) in depreciation of previously capitalised expenditure, recognised expenses increased to SEK 6,587 m. (5,904).

Compared to the full year 2016, the total currency rate effect was positive and amounted to SEK 425 m.

Operating income in Financial Services increased to SEK 1,274 m. (1,015). This was equivalent to 1.8 (1.6) percent of the average portfolio during the year. The increased earnings were mainly due to a larger portfolio and positive currency rate effects partly offset by lower margins. Bad debt expenses decreased during the year.

At year-end 2017, the size of the customer finance portfolio amounted to SEK 77 billion, which represented an increase of SEK 9,1 billion since the end of 2016. In local currencies, the portfolio increased by SEK 8,9 billion, equivalent to 13 percent.

Operating income per segment, SEK m.	2017	2016
Vehicles and Services		
Operating income	11,160	5,309
Operating margin, %	9.3	5.2
Financial Services		
Operating income	1,274	1,015
Operating margin, % [1]	1.8	1.6
Operating income, Scania Group	12,434	6,324
Operating margin, %	10.4	6.1
Income before taxes	12,082	5,963
Taxes	–3,377	–2,720
Net income	**8,705**	**3,243**

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 –352 m. (–361) including net income from associated companies and joint ventures amounting to SEK 44 m. (60). Net interest items amounted to SEK –373 m. (–405). Net interest items were affected by lower borrowing costs, partially offset by higher volume of borrowings. Other financial income and expenses amounted to SEK –23 m. (–16). These included SEK 21m. (–88) in valuation effects related to financial instruments where hedge accounting was not applied.

Income before taxes amounted to SEK 12,082 m. (5,963). The Scania Group's tax expense for 2017 was equivalent to 28.0 (45.6) percent of income before taxes.

Net income for the year totalled SEK 8,705 m. (3,243), corresponding to a net margin of 7.3 (3.1) percent. Net income 2016 was affected by the provision of SEK 3,800 m.

Cash flow

Cash flow in Vehicles and Services amounted to SEK 5,701 m. (3,427). Tied-up working capital increased by SEK 328 m.

Net investments amounted to SEK 6,626 m. (7,864), including SEK 1,367 m. (1,682) in capitalisation of development expenses. At the end of 2017, the net cash position in Vehicles and Services amounted to SEK 17,058 m. (10,954).

Cash flow in Financial Services amounted to SEK –7,215 m. (–7,784), due to a growing customer finance portfolio.

Financial position

Financial ratios related to the balance sheet	2017	2016
Equity/assets (E/A) ratio, %	28.1	26.0
E/A ratio, Vehicles and Services, %	38.2	36.3
E/A ratio, Financial Services, %	9.0	9.0
Return on capital employed, Vehicles and Services, % [2]	24.5	14.0
Net debt/equity ratio, Vehicles and Services [3]	–0.40	–0.31

2 Calculation is based on average capital employed for the 13 most recent months.
3 Net cash (–) Net debt (+).

During 2017, the equity of the Scania Group increased by SEK 7,607 m. and totalled SEK 49,919 m. (42,312) at year-end. Net income added SEK 8,705 m. (3,243) . Equity decreased by SEK –824 m. (1,932) because of exchange rate differences that arose when translating net assets outside Sweden. In addition, equity decreased by SEK –337 m. (–936) because of actuarial gains/losses on pension liabilities.

Taxes attributable to items reported under "Other comprehensive income" totalled SEK 63 m. (249). The non-controlling interest decreased during the year with -5 comprising of SEK -2 m. due to currency rate effects and share of the result for the period with SEK –3 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 2017, 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 2017, 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 2017, 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 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 16,502m. (15,200). Exposure decreased by SEK 17 m. During 2017, the volume of new contracts with repurchase obligations, was about 11,100 (11,900), excluding short-term rental contracts.

Service contracts

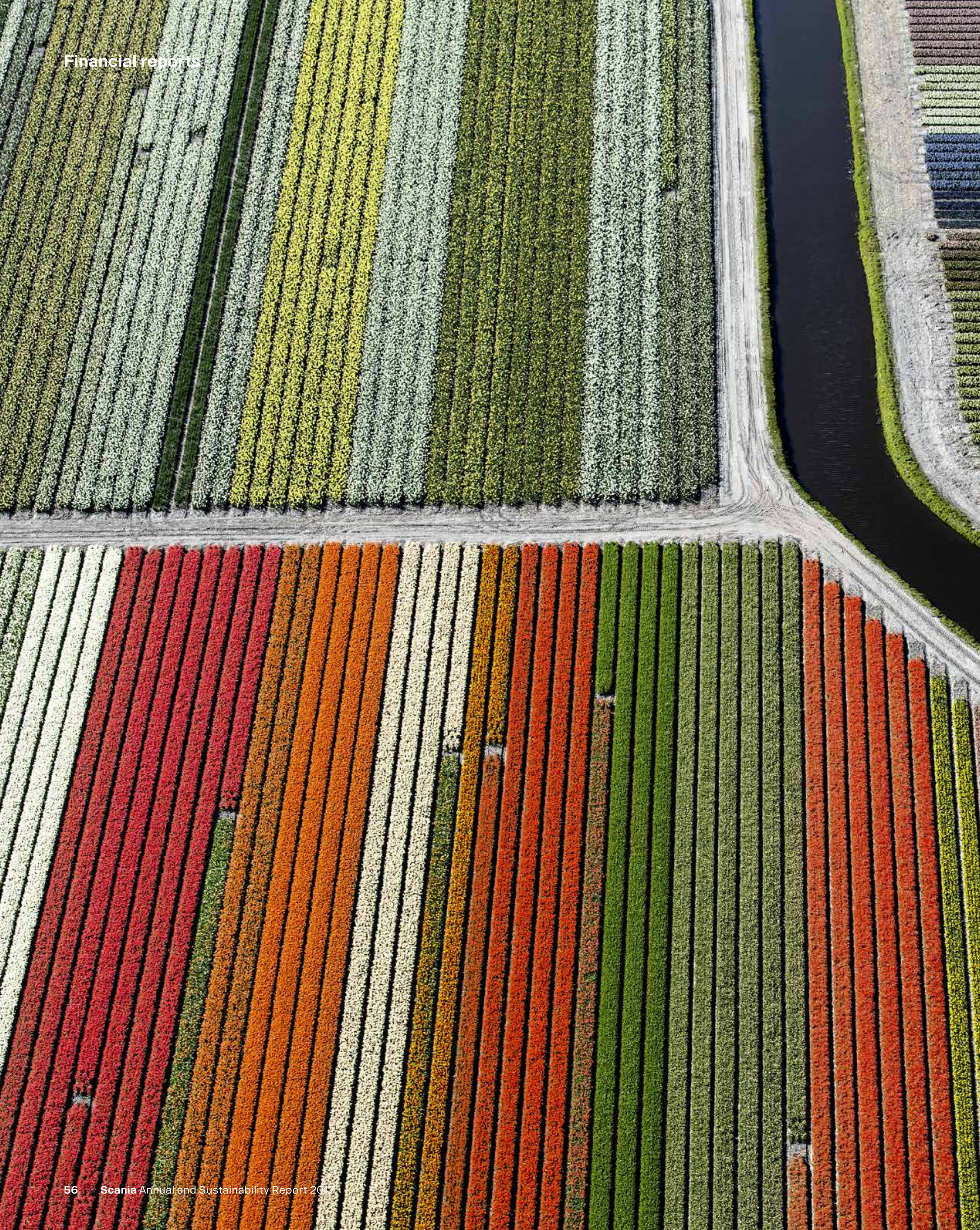
A large proportion of Scania's sales of parts and workshop hours occurs through repair and service contracts. Selling a service contract involves a commitment by Scania to provide servicing to customers during the contractual period in exchange for a predetermined fee. The cost of the contract is allocated 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 2017 by 32,500 and totalled 208,000 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 2017 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	2017	2016
Vehicles and Services			
Net sales	3	119,713	103,927
Cost of goods sold	4	–90,238	–77,688
Gross income		**29,475**	**26,239**
Research and development expenses[1]	4	–6,587	–5,904
Selling expenses	4	–9,934	–9,736
Administrative expenses	4	–1,794	–1,490
Items affecting comparability	2, 16	–	–3,800
Operating income, Vehicles and Services		**11,160**	**5,309**
Financial Services	5		
Interest and lease income		6,731	6,564
Insurance commission		212	170
Interest and depreciation expenses		–4,487	–4,521
Interest surplus and Insurance commission		**2,456**	**2,213**
Other income		169	116
Other expenses		–250	–233
Gross income		**2,375**	**2,096**
Selling and administrative expenses	4	–996	–925
Bad debt expenses, realised and anticipated		–105	–156
Operating income, Financial Services		**1,274**	**1,015**
Operating income		**12,434**	**6,324**
Interest income		583	629
Interest expenses		–956	–1,034
Share of income from assoc. companies and join ventures	11	44	60
Other financial income		171	292
Other financial expenses		–194	–308
Total financial items	6	**–352**	**–361**
Income before taxes		**12,082**	**5,963**
Taxes	7	–3,377	–2,720
Net income		**8,705**	**3,243**

1 Total research and development expenditures during the year amounted to SEK 7,499 m. (7,199).

January – December, SEK m.	Note	2017	2016
Other comprehensive income	14		
Items that may be reclassified to net income			
Translation differences		–824	1,932
Taxes		–1	42
		–825	1,974
Items that will not be reclassified to net income			
Remeasurements of defined-benefit plans	15	–337	–936
Taxes		64	207
		–273	–729
Total other comprehensive income		**–1,098**	**1,245**
Total comprehensive income for the year		**7,607**	**4,488**
Net income attributable to:			
– Scania shareholders		8,708	3,256
– Non-controlling interest		–3	–13
Total comprehensive income attributable to:			
– Scania shareholders		7,612	4,502
– Non-controlling interest		–5	–14
Operating income includes depreciation of [2]	8	–3,967	–3,595

2 Depreciation on operating leases is not included.

Financial reports

Consolidated balance sheets

31 December, SEK m.	Note	2017	2016
Assets			
Non-current assets			
Intangible assets	9	9,421	8,438
Tangible assets	10	29,711	29,078
Lease assets	10	26,547	25,532
Holdings in associated companies and joint ventures	11	587	605
Long-term interest-bearing receivables	28	37,218	30,985
Other long-term receivables [1]	13, 28	1,488	1,292
Deferred tax assets	7	3,901	3,832
Tax receivables		376	519
Total non-current assets		**109,249**	**100,281**
Current assets			
Inventories	12	21,589	19,119
Current receivables			
Tax receivables		555	369
Interest-bearing receivables	28	23,452	20,481
Non-interest-bearing trade receivables	28	9,024	8,446
Other current receivables [1]	13, 28	5,721	5,541
Total current receivables		38,752	34,837
Current investments	28	1,245	1,122
Cash and cash equivalents	28		
Current investments comprising cash and cash equivalents		3,083	3,352
Cash and bank balances		3,421	4,282
Total cash and cash equivalents		6,504	7,634
Total current assets		68,090	62,712
Total assets		**177,339**	**162,993**
1 Including fair value of derivatives for hedging of borrowings:			
– Other non-current receivables, derivatives with positive value		239	374
– Other current receivables, derivatives with positive value		377	291
– Other non-current liabilities, derivatives with negative value		474	778
– Other current liabilities, derivatives with negative value		781	420
– Net amount		–639	–533

31 December, SEK m.	Note	2017	2016
Equity and liabilities			
Equity			
Share capital		2,000	2,000
Other contributed capital		1,120	1,120
Reserves		–2,767	–1,944
Retained earnings		49,551	41,116
Equity attributable to Scania shareholders		49,904	42,292
Non-controlling interest		15	20
Total equity	14	**49,919**	**42,312**
Non-current liabilities			
Non-current interest-bearing liabilities	28	39,869	27,298
Provisions for pensions	15	9,346	8,627
Other non-current provisions	16	6,498	6,439
Accrued expenses and deferred income	17	12,186	11,409
Deferred tax liabilities	7	2,862	2,369
Other non-current liabilities [1]	28	744	916
Total non-current liabilities		**71,505**	**57,058**
Current liabilities			
Current interest-bearing liabilities	28	18,822	30,713
Current provisions	16	3,523	3,221
Accrued expenses and deferred income	17	12,729	10,987
Advance payments from customers		1,199	990
Trade payables	28	14,016	12,740
Tax liabilities		1,132	1,388
Other current liabilities [1]	28	4,494	3,584
Total current liabilities		55,915	63,623
Total equity and liabilities		**177,339**	**162,993**
Net debt, excluding provisions for pensions, SEK m.		51,581	49,788
Net debt/equity ratio		1,03	1,18
Equity/assets ratio, %		28.1	26.0
Capital employed, SEK m.		118,595	109,483

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 (SEK m.):

2017	Share capital	Other contributed capital	Currency translation reserve	Retained earnings	Total, Scania shareholders	Non-controlling interest	Total equity
Equity, 1 January	2,000	1,120	–1,944	41,116	42,292	20	42,312
Exchange differences on translation			–822	–	–822	–2	–824
Remeasurements of defined-benefit plans			–	–337	–337	–	–337
Tax attributable to items recognised in other comprehensive income			–1	64	63	–	63
Total other comprehensive income			**–823**	**–273**	**–1,096**	**–2**	**–1,098**
Net income for the year			**–**	**8,708**	**8,708**	**–3**	**8,705**
Equity, 31 December	**2,000**	**1,120**	**–2,767**	**49,551**	**49,904**	**15**	**49,919**

2016	Share capital	Other contributed capital	Currency translation reserve	Retained earnings	Total, Scania shareholders	Non-controlling interest	Total equity
Equity, 1 January	2,000	1,120	–3,943	38,613	37,790	47	37,837
Adjustment tax previous year	0	0	24	–24	–	–	–
Adjusted Equity, 1 January	2,000	1,120	–3,919	38,589	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
Total other comprehensive income			**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**	**–1,944**	**41,116**	**42,292**	**20**	**42,312**

Consolidated cash flow statements

January – December, SEK m.	Note	2017	2016
Operating activities			
Income before tax	21 a	12,082	5,963
Items not affecting cash flow	21 b	4,256	8,030
Taxes paid		–3,343	–2,721
Cash flow from operating activities before change in working capital		**12,995**	**11,272**
Change in working capital			
Inventories		–2,926	–1,245
Receivables		–1,535	–2,487
Provisions for pensions		322	309
Trade payables		1,207	1,421
Other liabilities and provisions		3,260	2,880
Total change in working capital		**328**	**878**
Cash flow from operating activities		**13,323**	**12,150**
Investing activities			
Net investments through acquisitions/divestments of businesses	21 c	–32	0
Net investments in non-current assets, Vehicles and Services	21 d	–6,594	–7,864
Net investments in credit portfolio etc., Financial Services	21 d	–8,211	–8,643
Cash flow from investing activities		**–14,837**	**–16,507**
Cash flow before financing activities		**–1,514**	**–4,357**
Financing activities			
Change in debt from financing activities	21 e	705	–925
Cash flow from financing activities		**705**	**–925**
Cash flow for the year		**–809**	**–5,282**
Cash and cash equivalents, 1 January		7,634	12,295
Exchange rate differences in cash and cash equivalents		–321	621
Cash and cash equivalents, 31 December	21 f	**6,504**	**7,634**

Cash flow statement, Vehicles and Services	2017	2016
Cash flow from operating activities before change in working capital	11,999	10,413
Change in working capital etc.	328	878
Cash flow from operating activities	12,327	11,291
Cash flow from investing activities	–6,626	–7,864
Cash flow before financing activities	5,701	3,427

Notes to the consolidated financial statements

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 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 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

Revised and amended IFRS standards that have been applied by the Group from 2017 had none or no material impact on the Group financial statements.

As from January 2017 some reclassifications have been made regarding presentation in the income statement. In Vehicles and Services, the presentation of Share of income in associated companies and joint ventures has been reclassified from presentation in operating income to presentation in financial items. In Financial Services, the result from sale of vehicles returned from customer and insurance commission previously presented as other income and expenses have been reclassified and presented in interest and lease income and separately as insurance commission, respectively. The reclassifications have been made retrospectively, which means that comparative figures have been restated. The reclassifications only have minor effects on key financial ratios.

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 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. 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 items relating to operations are classified as current assets and current liabilities, respectively, if these are expected to be realised/settled within 12 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, which mean that important risks remain with Scania, are recognised 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 of lease payments 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.

Notes to the consolidated financial statements, continued

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 annually or more often if there are an indication of impairment.

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 expenditure, useful life is estimated 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 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 might be 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.

Notes to the consolidated financial statements, continued

NOTE 1 Accounting principles, continued

Provisions

Provisions are recognised if an obligation, legal or constructive, exists as a consequence of events that have occurred. 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 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 Pensioenfonds Metaal en Techniek and Bedrijfstakpensioenfonds 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 Försäkringsbolaget 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 period to which it relate.

Notes to the consolidated financial statements, continued

NOTE 1 Accounting principles, continued

Changes in accounting principles during the next years

New standards, amended standards and interpretations that enter into force on 1 January 2018 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 has from 1 January 2018 replaced IAS 39, "Financial Instruments: Recognition and Measurement." IFRS 9 contains different rules for classification and measurement of financial assets and liabilities, impairment of financial instruments and hedge accounting compared to IAS 39. Scania's financial assets have been classified into the Amortized Cost category. For Scania the impact of the new standard refers to the impairment model and the requirement to consider expected credit losses when calculating loss allowances. Expected credit losses are calculated either through a general approach or a 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 did not have any transition effect in respect of hedge accounting.

Scania has chosen to apply IFRS 9 retrospectively without adjusting comparative figures. The impact of the transition 1 January 2018 refers to the impairment model and amounts to SEK 150 m. net after tax recognised in equity.

IFRS 15 "Revenue from Contracts with Customers" is applied from 1 January 2018 and has replaced IAS 18 Revenue and related interpretations.

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.

The transition to IFRS 15 has been done based on the modified approach meaning that the comparative figures are not adjusted.

Scania´s previously applied accounting principles regarding revenue, as described in the Annual report, was in line with the requirements in IFRS 15 and therefore Scania has no effect in equity on transition to IFRS.

IFRS 16, "Leases" – As from 1 January 2019 IFRS 16 "Leases" 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. The Group has started to analyse the impact of IFRS 16 but cannot yet quantify the effect of the new standard.

Other changes in standards and interpretations that enter into force on 1 January 2018 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.

New accounting principles from 2018

As from next financial year beginning 1 January 2018 new accounting principles for revenue from contract with customers and Financial instruments apply. Below are a description of these accounting principles, which will be part of next year´s disclosure of the full set of accounting principles.

Financial instruments

Financial assets and financial liabilities are recognised when a group entity becomes a party to the contractual provisions of the instrument.

Financial assets and financial liabilities are initially measured at fair value. Transaction costs that are directly attributable to the acquisition or issue of financial assets and financial liabilities (other than financial assets and financial liabilities at fair value through profit or loss) are added to or deducted from the fair value of the financial assets or financial liabilities, as appropriate, on initial recognition. Transaction costs directly attributable to the acquisition of financial assets or financial liabilities at fair value through profit or loss are recognised immediately in profit or loss.

The Group derecognises a financial asset only when the contractual rights to the cash flows from the asset expire, or when it transfers the financial asset and substantially all the risks and rewards of ownership of the asset to another party.

If the Group neither transfers nor retains substantially all the risks and rewards of ownership and continues to control the transferred asset, the Group recognises its retained interest in the asset and an associated liability for amounts it may have to pay.

If the Group retains substantially all the risks and rewards of ownership of a transferred financial asset, the Group continues to recognise the financial asset and also recognises a collateralized borrowing for the proceeds received. On derecognition of a financial asset measured at amortised cost, the difference between the asset's carrying amount and the sum of the consideration received and receivable is recognised in profit or loss.

The Group derecognises financial liabilities when, and only when, the Group's obligations are discharged, cancelled or they expire. The difference between the carrying amount of the financial liability derecognised and the consideration paid and payable, including any non-cash assets transferred or liabilities assumed, is recognised in profit or loss.

Financial assets

All regular way purchases or sales of financial assets are recognised and derecognised on a trade date basis.

All recognised financial assets are subsequently measured in their entirety at either amortised cost or fair value, depending on the classification of the financial assets.

Amortised cost: Financial asset that is held within a business model whose objective is to hold financial assets in order to collect contractual cash flows and the contractual terms of the financial asset give rise to cash flows on specific dates that are solely payments of principal and interest on the principal amount outstanding.

Fair Value Through Profit and Loss (FVTPL): By default, all other financial assets are subsequently measured at FVTPL.

The Group's financial assets consists of trade receivables, financial lease receivables, lending and are classified and measured at amortised cost.

The Group's investments in equity instruments are classified as at FVTPL. Such investments are measured at fair value at the end of each reporting period, with any fair value gains or losses recognised in profit or loss. The net gain or loss includes any dividends or interest earned and are presented in the "other gains and losses" line item.

Amortised cost and effective interest method

The effective interest method is a method of calculating the amortised cost of a financial asset or financial liability and of allocating interest income and expenses over the relevant period.

For financial instruments the effective interest rate is the rate that exactly discounts estimated future cash flows (including all fees and points paid or received that form an integral part of the effective interest rate, transaction costs and other premiums or discounts) excluding expected credit losses, through the expected life of the financial instrument to the gross carrying amount of the financial instrument on initial recognition.

Interest income is recognised using the effective interest method for debt instruments measured subsequently at amortised cost. For financial instruments interest income is calculated by applying the effective interest rate to the gross carrying amount of a financial asset, except for financial assets that have subsequently become credit-impaired (see impairment section). For financial assets that have subsequently become credit-impaired, interest income is recognised by applying the effective interest rate to the amortised cost of the net financial asset. If, in subsequent reporting periods, the credit risk on the credit-impaired financial instrument improves so that the financial asset is no longer credit-impaired, interest income is recognised by applying the effective interest rate to the gross carrying amount of the financial asset.

For purchased or originated credit-impaired financial assets, the Group recognises interest income by applying the credit-adjusted effective interest rate to the amortised cost of the financial asset from initial recognition. The calculation does not revert to the gross basis even if the credit risk of the financial asset subsequently improves so that the financial asset is no longer credit-impaired.

Notes to the consolidated financial statements, continued

NOTE 1 Accounting principles, continued

Interest income is recognised in profit or loss.

Impairment of financial assets

The Group recognises a loss allowance for expected credit losses (ECL) on investments in debt instruments that are measured at amortised cost, lease receivables, as well as on loan commitments, operating leases and financial guarantee contracts. The amount of expected credit losses is updated at each reporting date to reflect changes in credit risk since initial recognition of the respective financial instrument.

The Group always recognises lifetime ECL for trade receivables, estimated using a provision matrix based on the Group's historical credit loss experience, adjusted for factors that are specific to the debtors, general economic conditions and an assessment of both the current as well as the forecast direction of conditions at the reporting date, including time value of money where appropriate.

For all other financial instruments, the Group recognises lifetime ECL when there has been a significant increase in credit risk since initial recognition. If, on the other hand, the credit risk on the financial instrument has not increased significantly since initial recognition, the Group measures the loss allowance for that financial instrument at an amount equal to 12 month ECL. The assessment of whether lifetime ECL should be recognised is based on significant increases in the likelihood or risk of a default occurring since initial recognition.

A financial asset is credit-impaired when one or more events have occurred that have a detrimental impact on the estimated future cash flow, such as a default.

The measurement of expected credit losses is a function of the probability of default, loss given default and the exposure of at default.

For financial assets, the expected credit loss is estimated as the difference between all contractual cash flows that are due to the Group in accordance with the contract and all the cash flows that the Group expects to receive, discounted at the original effective interest rate. For a lease receivable, the cash flows used for determining the expected credit losses is consistent with the cash flows used in measuring the lease receivable in accordance with IAS 17 "Leases."

For undrawn loan commitments, the expected credit loss is the present value of the difference between the contractual cash flows that are due to the Group if the holder of the loan commitment draws down the loan, and the cash flows that the Group expects to receive if the loan is drawn down.

Financial liabilities and equity instruments

Classification as debt or equity

Debt and equity instruments issued by a group entity are classified as either financial liabilities or as equity in accordance with the substance of the contractual arrangements and the definitions of a financial liability and an equity instrument.

Equity instruments

An equity instrument is any contract that evidences a residual interest in the assets of an entity after deducting all of its liabilities. Equity instruments issued by a group entity are recognised at the proceeds received, net of direct issue costs.

Financial liabilities

All financial liabilities in the Group are subsequently measured at amortised cost using the effective interest method.

Derivative financial instruments

The Group enters into a variety of derivative financial instruments to manage its exposure to interest rate and foreign exchange rate risks, including foreign exchange forward contracts and interest rate swaps.

Derivatives are initially recognised at fair value at the date the derivative contracts are entered into and are subsequently remeasured to their fair value at the end of each reporting period. The resulting gain or loss is recognised in profit or loss immediately. The Group does not apply hedge accounting.

Revenue recognition

The Group recognises revenue from the following main sources:

- Sale of new vehicles and engines as well as used vehicles
- Sale of services

Revenue is recognised when control of a product or service is transferred to a customer and is measured based on the consideration specified in a contract with a customer taken into account any variable considerations.

Variable considerations, such as volume-based rebates, are estimated and included in the transaction price. However, it is only included with an amount that, with a high probability, will not be reversed with a significant amount.

In a transaction including both the sale of a product and a service the transaction price are allocated between the product and the service component based on the stand alone selling price. If there are any discounts in such transaction the discount are allocated in full to the price of the product.

Sale of goods
The Group sells new trucks, buses and engines as well as used vehicles.

In a transaction where the Group delivers a vehicle with a repurchase obligation control are not transferred to the customer and no revenue are recognised on delivery, instead such transaction are recognised as an operating lease. A transaction when the customer has an option that gives the customer the right to require that the Group to repurchase the vehicle no revenue is recognised since such transaction is recognised as a lease.

In transactions where the Group does not have any repurchase obligations revenue is recognised when control is transferred to the customer. That is normally when the vehicles have been delivered to the customer, the customer has approved the vehicle and the Group has received payment or invoiced with short term credit time. Product warranty refers to that products sold comply with agreed-upon specifications are accounted for in accordance with IAS 37 "Provision, contingent liabilities and contingent assets."

Contract cost in the form of commissions for the sale of a vehicle will be recognised as incurred since the revenue from the sale of a vehicle are recognised at a point in time.

Rendering of service
Revenue from service and repairs, including spare parts used, is recognised over time when the service is performed. The transaction price allocated to service and repair contracts is recognised as a contract liability at the time of the initial sales transaction and is allocated over the life of the contracts as expenses for the fulfilment of the contract arises.

Contract costs in form of commissions for the sale of a service contract is recognised as expenses when incurred.

Critical judgements in applying accounting policies

Financial Instruments

Increase in credit risk
Irrespective of the outcome of the assessment whether there have been a significant increase in credit risk, the Group presumes that the credit risk on a financial asset has increased significantly since initial recognition when contractual payments are more than 30 days past due, unless the Group has reasonable and supportable information that demonstrates otherwise.

The Group regularly monitors the effectiveness of the criteria used to identify whether there has been a significant increase in credit risk and revises them as appropriate to ensure that the criteria are capable of identifying significant increase in credit risk before the amount becomes past due.

Credit-impaired
Evidence that a financial asset is credit-impaired includes observable data about for example events of (i) significant financial difficulty of the borrower, (ii) a breach of contract, such as a default and (iii) it is becoming probable that the borrower will enter bankruptcy.

For internal credit risk management purposes historical experience has indicated an event of default when receivables meet either of the following criteria;

- there is a breach of financial covenants by the counterparty
- information developed internally or obtained from external sources indicates that the debtor is unlikely to pay in full'

Irrespective of the above analysis, the Group considers that default has occurred when a financial asset is more than 90 days past due unless the Group has reasonable and supportable information to demonstrate that a more lagging default criterion is more appropriate.

Write-off policy
The Group writes off a financial asset when there is information that the counterparty is in default and the security for the receivable is repossessed. Financial assets written off may still be subject to enforcement activities under the Group's recovery procedures, taking into account legal advice where appropriate. Any recoveries made are recognised in profit or loss.

Revenue recognition
The following are the critical judgements in applying accounting policies that the directors have made in the process of applying IFRS 15 "Revenue from Contracts with Customers" and that might have the most significant effect on the amounts recognised in the consolidated financial statements.

Multiple element transactions
In a transaction with a sale of a vehicle and a sale of a service Scania accounts for those as separate performance obligations since the vehicle and the service components are distinct from each other in the contract and the customer can benefit from the two on its own.

In those transactions the total transaction price are allocated to those distinct components. A service contract is never sold separately but only together, or nearby, the sale of a vehicle.

When allocating the price to the different performance obligations Scania is using stand-alone selling prices. Any discounts are allocated to the vehicle.

Notes to the consolidated financial statements, continued

NOTE 1 Accounting principles, continued

Repurchase obligations

In transactions when customers have the option to require Scania to repurchase the sold vehicle it is Scania's view that such transaction should be accounted for as a lease. Based on the contract and the relationship with the customer history shown that the customer has an economic incentive to exercise such option and hence it is almost always exercised.

Contract costs

Contract costs in form of commission for the sale of a service contract is not significant and therefore recognised as expenses when incurred.

Contract cost in form of commissions for the sale of a vehicle will be recognised as incurred since the revenue from the sale of a vehicle are recognised at a point in time.

Contract costs that relates to sales of vehicles with repurchase obligations are considered not to be in the scope of IFRS 15. Contract costs relating to such transaction is accounted for in accordance of IFRS 17 "Leases."

Warranty costs

Product warranty that refers to that products sold comply with agreed-upon specifications cannot be purchased separately, covers all vehicles sold and are therefore accounted for in accordance with IAS 37 "Provision, contingent liabilities and contingent assets."

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 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 2017, repurchase obligations amounted to SEK 16,502 m. (15,200).

Credit risks

In its Financial Services operations, Scania has an exposure in the form of contractual payments. At the end of 2017, these amounted to SEK 77,028 m. (67,935). 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 2017, the reserve for doubtful receivables in Financial Services operations amounted to SEK 954 m. (973). 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 value in use 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 2017, Scania's goodwill amounted to SEK 1,341 m. (1,357). The impairment tests that were carried out showed that there are reassuring 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 7,525 m. (6,618) on 31 December 2017.

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 (2.75). 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 1,747 m. (1,683) on 31 December 2017.

Notes to the consolidated financial statements, continued

NOTE 2 Key judgements and estimates, continued

Legal and tax risks

On 31 December 2017, provisions for legal and tax risks amounted to SEK 948 m. (1,017). 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 subject of an investigation by the European Commission (EC) in 2011 into allegedly inappropriate cooperation with other European truck manufacturers. A Statement of Objections was served on Scania by the EC in November 2014. In light of such statement and other developments in the investigation and in accordance with relevant accounting principles, Scania made a provision with an amount of SEK 3,800 m. in June closing 2016. Scania always cooperated fully with the EC, while all through the investigation contesting the EC's view that Scania would have participated in a pan-European cartel during 1997-2011 on pricing and delayed introductions of emissions related technology. Scania were served a final decision by the EC in October 2017, holding Scania liable for such scope of a cartel in the amount of around SEK 8.4 bn. (EUR 881 m.) in fines. Scania have appealed against this decision in its entirety, and has in January 2018 provided a guarantee as security for the fines pending the outcome of such appeal. 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	
January – December	2017	2016	2017	2016	2017	2016	2017	2016
Revenue from external customers[1]	119,713	103,927	6,943	6,734	–3,291	–3,558	123,365	107,103
Expenses[1]	–108,553	–94,818	–5,669	–5,719	3,291	3,558	–110,931	–96,979
Items affecting comparability[2]		–3,800					0	–3,800
Operating income	**11,160**	**5,309**	**1,274**	**1,015**	**0**	**0**	**12,434**	**6,324**
Interest income	583	629	–	–	–	–	583	629
Interest expenses	–956	–1,034	–	–	–	–	–996	–1,034
Share of income in associated companies and joint ventures	44	60	0	0	–	0	44	60
Other financial income and expenses[3]	–23	–16		–	–	–	–23	–16
Income before tax	**10,808**	**4,948**	**1,274**	**1,015**	**–**	**–**	**12,082**	**5,963**
Taxes[3]	–3,084	–2,355	–293	–365	–	–	–3,377	–2,720
Net income for the year	**7,724**	**2,593**	**981**	**650**	**–**	**–**	**8,705**	**3,243**
Depreciation/amortisation included in operating income[4]	–3,941	–3,572	–26	–23	–	–	–3,967	–3,595

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	
	2017	2016	2017	2016	2017	2016
Cash flow from operating activities before change in working capital	11,999	10,413	996	859	12,995	11,272
Change in working capital etc.	328	878	–	–	328	878
Cash flow from operating activities	**12,327**	**11,291**	**996**	**859**	**13,323**	**12,150**
Cash flow from investing activities	–6,626	–7,864	–8,211	–8,643	–14,837	–16,507
Cash flow before financing activities	**5,701**	**3,427**	**–7,215**	**–7,784**	**–1,514**	**–4,357**

Notes to the consolidated financial statements, continued

NOTE 3 Operating segments, continued

Balance sheet	Vehicles and Services		Financial Services		Eliminations		Scania Group	
31 December	2017	2016	2017	2016	2017	2016	2017	2016
Assets								
Intangible assets	9,391	8,404	30	34	–	–	9,421	8,438
Tangible assets	29,601	28,967	110	111	–	–	29,711	29,078
Lease assets [6]	12,294	11,218	16,665	16,715	–2,412	–2,401	26,547	25,532
Holdings in associated companies and joint ventures	587	605	0	0	–	–	587	605
Interest-bearing receivables, non-current [7]	64	60	37,154	30,925	–	–	37,218	30,985
Other receivables, non-current	5,211	5,074	554	569	–	–	5,765	5,643
Inventories	21,589	19,119	0	0	–	–	21,589	19,119
Interest-bearing receivables, current [7]	243	186	23,209	20,295	–	–	23,452	20,481
Other receivables, current [8]	14,926	13,650	1,691	1,498	–1,317	–792	15,300	14,356
Current investments, cash and cash equivalents	17,697	11,487	1,100	1,442	–11,048	–4,173	7,749	8,756
Total assets	**111,603**	**98,770**	**80,513**	**71,589**	**–14,777**	**–7,366**	**177,339**	**162,993**
Equity and liabilities								
Equity	42,658	35,859	7,261	6,453	–	–	49,919	42,312
Interest-bearing liabilities [9]	0	0	69,739	62,184	–11,048	–4,173	58,691	58,011
Provisions for pensions	9,275	8,555	71	72	–	–	9,346	8,627
Other non-current provisions	6,496	6,436	2	3	–	–	6,498	6,439
Other liabilities, non-current	14,995	13,960	797	734	–	–	15,792	14,694
Current provisions	3,459	3,148	64	73	–	–	3,523	3,221
Other liabilities, current [8]	34,720	30,812	2,579	2,070	–3,729	–3,193	33,570	29,689
Total equity and liabilities	**111,603**	**98,770**	**80,513**	**71,589**	**–14,777**	**–7,366**	**177,339**	**162,993**
Gross investment for the period in								
– Intangible assets	1,567	1,855	8	10	–	0	1,576	1,865
– Tangible assets	4,188	5,674	18	33	–	0	4,206	5,707
– Lease assets [6]	5,584	5,789	7,636	8,904	–	–1,002	12,219	13,691

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.

Products and services Vehicles and Services	2017	2016
Trucks	75,226	65,615
Buses	10,480	10,867
Engines	1,830	1,647
Service	23,727	21,611
Used vehicles	7,077	6,452
Other products	3,940	2,753
Total delivery value	**122,280**	**108,945**
Adjustment for lease income [1]	–2,567	–5,018
Net sales, Vehicles and Services	**119,713**	**103,927**
Financial Services	6,943	6,734
Eliminations [2]	–3,291	–3,558
Revenue from external customers	**123,365**	**107,103**

1 Refers mainly to new trucks, SEK –1,812 m. (–4,083) and new buses, SEK –464 m. (–589). 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 repurchase obligation. Significant risks remain, therefore recognition is based on an operating lease contract. This means that recognition of revenue and earnings is allocated over 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

	Europe		Eurasia		Asia		America [3]		Africa & Oceania		Total	
MSEK	2017	2016	2017	2016	2017	2016	2017	2016	2017	2016	2017	2016
Vehicles and Services												
Net sales, January – December [1]	74,330	68,174	6,631	3,291	16,552	13,194	13,588	10,713	8,612	8,555	119,713	103,927
Assets, 31 December [2, 4]	89,866	78,512	965	604	2,801	2,357	16,116	15,553	1,855	1,744	111,603	98,770
Gross investments [2]	4,392	6,154	45	46	114	70	1,154	1,233	50	26	5,755	7,529
Non-current assets [4, 6]	47,474	45,336	529	463	1,245	1,200	6,975	6,448	925	881	57,148	54,328
Financial Services												
Revenue, January – December [1, 7]	5,220	5,442	450	281	165	141	692	545	416	355	6,943	6,734
Assets, 31 December [2]	61,847	55,715	3,586	2,203	2,808	2,342	8,344	8,065	3,928	3,264	80,513	71,589
New financing customers	39,475	35,724	3,166	1,466	1,452	1,310	3,810	2,602	2,623	1,959	50,526	43,061
Non-current assets	43,768	39,350	1,739	983	1,874	1,588	4,674	4,344	2,458	2,089	54,513	48,354

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 6,579 (6,496).
5 Of which Sweden 24,873 (25,482).
6 Of which Sweden 217 (176).
7 Of which Sweden 4,062 (3,462).

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.

Notes to the consolidated financial statements, continued

NOTE 4 Operating expenses

Vehicles and Services	2017	2016
Cost of goods sold		
Cost of goods	58,640	49,599
Staff	17,823	15,824
Depreciation/amortisation [1]	2,872	2,552
Other	10,903	9,713
Total	**90,238**	**77,688**

1 Of which an impairment loss of SEK 4 m. (59).

Research and development expenses		
Staff	2,559	2,237
Depreciation/amortisation	746	718
Other [1]	3,282	2,949
Total	**6,587**	**5,904**

1 Of which an impairment loss of SEK 0 m. (2).

Selling expenses		
Staff	5,668	5,282
Depreciation/amortisation [1]	310	293
Other	3,956	4,161
Total	**9,934**	**9,736**

1 Of which an impairment loss of SEK 0m. (9).

Administrative expenses		
Staff	1,048	780
Depreciation/amortisation	13	9
Other	733	701
Total	**1,794**	**1,490**

Financial Services	2017	2016
Selling and administrative expenses		
Staff	677	625
Depreciation/amortisation	26	23
Other	293	277
Total	**996**	**925**

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.

	2017	2016
Interest income	2,924	2,329
Lease income	3,807	4,235
Depreciation	–3,291	–3,558
Interest expenses	–1,196	–963
Insurance commission	212	170
Net interest income and insurance commission	2,456	2,213
Other income and expenses	–81	–117
Gross income	**2,375**	**2,096**
Selling and administrative expenses	–996	–925
Bad debt expenses [1]	–105	–156
Operating income	**1,274**	**1,015**

1 These expenses were equivalent to 0.14 (0.25) percent of the average credit portfolio.

Lease assets (operating leases)	2017	2016
1 January	16,715	13,889
New contracts	7,636	8,904
Depreciation	–3,291	–3,558
Terminated contracts	–4,739	–2,701
Change in value adjustments	3	–5
Exchange rate differences	341	186
Carrying amount, 31 December [2]	**16,665**	**16,715**

2 The consolidated balance sheet also includes elimination of deferred profit of SEK 2,412 m. (2,401).

Financial receivables (hire purchase contracts and financial leases)	2017	2016
1 January	51,220	42,597
New receivables	33,863	26,345
Loan principal payments/terminated contracts	–24,751	–20,541
Divestment of business	–	–46
Change in value adjustments	–44	–78
Exchange rate differences	75	2,943
Carrying amount, 31 December	**60,363**	**51,220**
Total receivables and lease assets [3]	**77,028**	**67,935**

3 The number of contracts in the portfolio on 31 December totalled about 146,000 (132,000).

Net investments in financial leases	2017	2016
Receivables related to future minimum lease payments	39,214	31,769
Less:		
Reserve for bad debts	–629	–628
Imputed interest	–2,817	–2,308
Net investment [4]	**35,768**	**28,833**

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

Future minimum lease payments [5]	Operating leases	Financial leases
2018	3,247	13,938
2019	2,318	10,812
2020	1,371	7,564
2021	585	4,306
2022	231	2,041
2023 and later	67	553
Total	**7,819**	**39,214**

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

	2017	2016
Interest income		
Bank balances and financial investments	325	361
Derivatives [1]	258	268
Total interest income	583	629
Interest expenses		
Borrowings	–668	–589
Derivatives [1]	–686	–759
Total borrowings and derivatives	–1,354	–1,348
Less interest expenses recognised in Financial Services [2]	660	568
Pension liability	–262	–254
Total interest expenses	–956	–1,035
Total net interest	**–373**	**–405**
Net income from associated companies and joint ventures	44	60
Other financial income [3]	171	292
Other financial expenses [3]	–194	–308
Total other financial income and expenses	–23	–16
Net financial items	**–352**	**–361**

1 Refers to interest on derivatives that is used to match interest on borrowings and lending as well as the interest component in derivatives that is used to convert borrowing currencies to lending currencies.
2 Recognised in the operating income of Financial Services.
3 Refers to SEK 21 m. (88) 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 4,993 m. (7,288) and unrealised/realised losses of SEK 4,997 m. (7,298) attributable to foreign exchange derivatives and bank-related costs.

Notes to the consolidated financial statements, continued

NOTE 7 Taxes

Tax expense/income for the year	2017	2016
Current tax [1]	–2,979	–2,725
Deferred tax	–398	5
Total	**–3,377**	**–2,720**
1 Of which, taxes paid	–3,343	–2,721

Deferred tax is attributable to the following:	2017	2016
Tax related to temporary differences	–162	292
Tax due to changes in tax rates and tax rules [2]	24	14
Tax income due to tax value of loss carry-forwards recognised during the year	25	32
Tax expense due to utilisation/revaluation of previously recognised tax value of tax loss carry-forwards	–167	–208
Tax related to change in provision to tax allocation reserve	–100	–186
Other deferred tax liabilities/assets	–18	61
Total	**–398**	**5**

2 The effect of changes in tax rates mainly refers to France (during 2017) and Germany, Norway and Chile (during 2016).

	2017		2016	
Reconciliation of effective tax	Amount	%	Amount	%
Income before tax	12,082	–	5,963	–
Tax calculated using Swedish tax rate	–2,658	22	–1,312	22
Tax effect and percentage influence:				
Difference between Swedish and foreign tax rates	–401	3	–164	3
Tax-exempt income	154	–1	152	–3
Non-deductible expenses	–166	1	–1,012	17
Utilisation of tax value of loss carry-forwards not previously recognised	19	0	2	0
Not recognised tax loss carry-forward	–127	1	–128	2
Derecognised deferred tax assets not utilised	–152	1	–188	3
Adjustment for taxes pertaining to previous years	–91	1	–92	2
Changed tax rates	30	0	22	0
Other	15	0	0	0
Tax recognised	**–3,377**	**28**	**–2,720**	**46**

Deferred tax assets and liabilities are attributable to the following:	2017	2016
Deferred tax assets		
Provisions	1,148	1,096
Provisions for pensions	1,696	1,571
Non-current assets	2,140	1,998
Inventories	817	819
Unutilised tax loss carry-forwards [3]	104	254
Other liabilities	2,683	2,430
Other	4	1
Offset within tax jurisdictions	–4,691	–4,337
Total deferred tax assets	**3,901**	**3,832**
Deferred tax liabilities		
Provisions	195	202
Non-current assets	6,875	6,136
Other liabilities	98	74
Tax allocation reserve [4]	385	287
Other	0	7
Offset within tax jurisdictions	–4,691	–4,337
Total deferred tax liabilities	**2,862**	**2,369**
Deferred tax assets (–)/ tax liabilities (+), net amount	**–1,039**	**–1,463**

3 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 414 m. (166) were not assigned a value.

4 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.

Reconciliation of deferred tax assets (–) / liabilities (+), net amount	2017	2016
Carrying value on 1 January	–1,463	–1,098
Deferred taxes recognised in the year's income	398	–5
Exchange rate differences	90	–153
Acquired/divested businesses	0	0
Recognised in "Other comprehensive income," changes attributable to:		
– remeasurements of defined-benefit plans	–64	–207
Deferred tax assets (–)/ tax liabilities (+), net amount	**–1,039**	**–1,463**

NOTE 8 Depreciation/amortisation

Vehicles and Services	2017	2016
Intangible non-current assets		
Research and development expenses	482	413
Selling expenses	91	67
Total	**573**	**480**
Tangible non-current assets		
Costs of goods sold [1]	2,872	2,552
Research and development expenses	264	305
Selling expenses	219	226
Administrative expenses	13	9
Total	**3,368**	**3,092**
Total depreciation/amortisation, Vehicles and Services [2]	**3,941**	**3,572**

1 Of which, a value decrease of SEK 364 m. (374) related to short-term rentals in Vehicles and Services. In addition, there was a value decrease of SEK 2,133 m. (1,484) in capitalised repurchasing obligations.

2 Of which SEK 4 m. (70) is an impairment loss.

Financial Services	2017	2016
Operating leases (payments of principal)	3,291	3,558
Other non-current assets [1]	26	23
Total depreciation/amortisation, Financial Services	**3,317**	**3,581**

In the Group accounts, depreciation/amortisation was adjusted downwards by SEK 990 m. (833) 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 4,799 m. (4,583).

1 Of which SEK 10 m. (8) are intangible assets.

Financial reports

Notes to the consolidated financial statements, continued

NOTE 9 Intangible assets

2017	Goodwill	Development	Other intangibles[1]	Total
Accumulated cost				
1 January	1,382	10,490	1,180	13,052
Acquisitions/divestment of subsidiaries	11	–	12	23
Additions	–	1,367	209	1,576
Divestments and disposals	–3	–	–99	–102
Reclassifications	–	–	13	13
Exchange rate differences	–21	–6	–18	–45
Total	**1,369**	**11,851**	**1,297**	**14,517**
Accumulated amortisation and impairment losses				
1 January	25	3,872	717	4,614
Amortisation for the year				
– Vehicles and Services	–	454	116	570
– Financial Services	–	–	9	9
Impairment loss of the year	3	0	–	3
Divestments and disposals	0	–	–90	–90
Exchange rate differences	0	0	–10	–10
Total	**28**	**4,326**	**742**	**5,096**
Carrying amount, 31 December	**1,341**	**7,525**	**555**	**9,421**
– of which capitalised expenditures for projects that have been placed in service		6,286		
– of which capitalised expenditures for projects under development		1,239		

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		1		
Interest rate for determination of borrowing expenditures included in cost		0.39%		

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		

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		3		
Interest rate for determination of borrowing expenditures included in cost		0.48%		

Scania tests the value of goodwill and other intangible assets that have not started to be amortized at least annually. 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.

Notes to the consolidated financial statements, continued

NOTE 10 Tangible assets

2017	Buildings and land	Machinery and equipment	Construction in progress and advance payments	Lease assets[1]	Total
Accumulated cost					
1 January	21,410	36,390	5,545	32,229	95,574
Acquisitions/divestments of subsidiaries[2]	0	8	0	–	8
Additions	147	1,406	2,645	12,219	16,417
Divestments and disposals[3]	–51	–800	–21	–8,633	–9,505
Reclassifications	443	2,948	–3,446	–2,964	–3,019
Exchange rate differences	–54	–539	–196	721	–68
Total	**21,895**	**39,413**	**4,527**	**33,572**	**99,407**
Accumulated depreciation and impairment losses[4]					
1 January	8,860	25,407	–	6,697	40,964
Acquisitions/divestments of subsidiaries	0	0	–	–	0
Depreciation for the year					
– Vehicles and Services	473	2,529	–	2,498	5,500
– Financial Services	2	15	–	3,291	3,308
– Elimination	–	–	–	–990	–990
Impairment loss for the year	1	0	–	21	22
Divestments and disposals	–44	–732	–	–3,713	–4,489
Reclassifications	–1	7	–	–960	–954
Exchange rate differences	–11	–382	–	181	–212
Total	**9,280**	**26,844**		**7,025**	**43,149**
Carrying amount, 31 December	**12,615**	**12,569**	**4,527**	**26,547**	**56,258**
– of which “Buildings”	9,424				
– of which “Land”	3,191				
– of which Financial Services	59	51	0	16,665	16,775

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 8 m.
3 An amount of SEK 0 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.

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 losses[4]					
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.

Notes to the consolidated financial statements, continued

NOTE 11 Holdings in associated companies and joint ventures

	2017	2016
Carrying amount, 1 January	580	496
Acquisitions, capital contributions, divestments and impairment losses during the year[1]	–	4
Exchange rate differences	–44	38
Share in income for the year	44	60
Dividend	–51	–18
Carrying amount, 31 December	**529**	**580**
Contingent liabilities	–	–

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

			Value of Scania's share in consolidated financial statements	
Associated companies / Corporate ID number / Country of registration	Ownership, %	Carrying amount in Parent Company financial statements	2017	2016
BITS DATA i Södertälje AB, 556121-2613, Sweden	33	2	5	5
Laxå Specialvehicles AB, 556548-4705, Sweden	47.5	25	47	50
ScaValencia S.A., A46332995, Spain	26	15	25	24
N.W.S S.R.L, IT1541500227, Italy	46.5	4	1	3
Holdings in associated companies		46	78	82
Share of:				
– Net income			11	17
– Total comprehensive income			11	17

			Value of Scania's share in consolidated financial statements	
Joint ventures / Corporate ID number / Country of registration	Ownership, %	Carrying amount in Parent Company financial statements	2017	2016
Cummins-Scania XPI Manufacturing LLC, 20-3394999, USA	50	454	440	489
Oppland Tungbilservice A/S, 982 787 602, Norway	50	1	6	5
Tynset Diesel A/S, 982 787 580, Norway	50	1	5	4
Holdings in joint ventures		456	451	498
Share of:				
– Net income			33	43
– Total comprehensive income			33	43
Holdings in associated companies and joint ventures			**529**	**580**
Other shares and participations	–	–	58	25
Total	**–**	**–**	**587**	**605**

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

Summarised income statement	2017	2016
Net sales	2,667	2,062
Operating income [1]	108	120
Interest income/expenses and Other financial expenses	–20	–2
Taxes	–26	–35
Net income for the year	**62**	**83**
Other comprehensive income for the year	**–**	**–**
Total comprehensive income for the year	**62**	**83**
Scania Group's share (50%)	31	42

1 Depreciation amounting to SEK 127 m. (114) is included in Operating income.

Summarised balance sheet	2017	2016
Non-current assets	588	686
Current investments and cash and cash equivalents	240	314
Other current assets	720	485
Total assets	**1,548**	**1,485**
Equity	880	979
Other current liabilities	668	506
Total equity and liabilities	**1,548**	**1,485**
Scania Group's share of equity (50%)	440	490
Carrying amount	**440**	**490**

Scania has received dividends from Cummins-Scania XPI Manufacturing LLC amounting to SEK 36 m. (0). 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 12 Inventories

	2017	2016
Raw materials, components and supplies	2,643	2,478
Work in progress	1,580	1,508
Finished goods [1]	17,366	15,133
Total	**21,589**	**19,119**
1 Of which, used vehicles	2,183	2,139
Value adjustment reserve, 31 December	–875	–1,016

NOTE 13 Other receivables

	2017	2016
Prepaid expenses and accrued income	455	519
Derivatives with positive market value	239	374
Advance payments	28	24
Pension asset	109	10
Other receivables	657	365
Total other non-current receivables	**1,488**	**1,292**
Prepaid expenses and accrued income	1,212	1,346
Derivatives with positive market value	377	329
Value-added tax	2,659	2,243
Advance payments	213	239
Other receivables	1,260	1,384
Total other current receivables	**5,721**	**5,541**
Total other receivables	**7,209**	**6,833**

Notes to the consolidated financial statements, continued

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 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 negative exchange rate difference of SEK -824 m. (1,932) arose as a result of the Swedish krona's appreciation against currencies important to Scania. The exchange rate differences were mainly due to the krona's appreciation 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."

For the Annual General Meeting in 2018 the Board decided on a dividend proposal of SEK 4,353 m. in total, which represents 50 percent of the net income SEK 8,705 m. 2017. Retained earnings amounting to SEK 2,529 m. will 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 (24,5) of the shares and voting power in the company. In 2017, income attributable to non-controlling interests amounted to SEK –3 m. (–13) and accumulated non-controlling interests in the company amounted to SEK 15 m. (20) as of 31 December 2017.

Reconciliation of change in number of shares outstanding	2017	2016
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 2017, the Group's equity totalled SEK 49,919 m. (42,312). 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 a Standard & Poor's Investment Grade Stand Alone Rating.

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 2017, 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 Standard & Poor's. At the end of 2017 Scania's Credit Rating according to Standard and Poor's was:

- long-term borrowing: BBB+
- outlook: Stable
- 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 1,106 m. (980) during 2017. 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 are related to defined-benefit plans, both funded and unfunded plans, is SEK 252 m. for 2018.

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 early retirement 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.

Notes to the consolidated financial statements, continued

NOTE 15 Provisions for pensions and similar commitments, continued

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 2017, Alecta's surplus, in the form of a collective consolidation level (assets in relation to the insurance obligation), amounted to 154 percent (149). 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 135 m. (114).

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 104 m. (97). The consolidation level of PMT was 102 percent (97) and for PME 102 percent (96).

Information regarding the largest plans during 2017	Sweden	Switzerland	Brazil	Great Britain
Present value of defined-benefit obligations	8,015	942	541	953
Fair value of plan assets	–	–1,051	–72	–779
Net assets not fully valued due to curtailment rule	–	–	5	–
Recognised as pension liability/(asset) in the balance sheet, SEK m.	**8,015**	**–109**	**474**	**174**
Breakdown into categories				
Present value of defined-benefit obligations for persons in active employment, SEK m.	5,452	498	–151	–
Persons in active employment, number	9,595	363	2,739	–
Present value of defined-benefit obligations for paid-up policy holders, SEK m.	1,204	–	–	743
Paid-up policy holders, number	2,529	–	–	393
Present value of defined-benefit obligations for retired employees, SEK m.	1,359	444	692	210
Retired employees, number	2,499	106	1,089	214
Assumptions/conditions				
Discount rate, %	2.8	0.6	10.3	2.4
Average life expectancy, women/men, years	88	88	83	88
Average duration of obligations, years	21.0	17.1	6.9	22,0
Sensitivity analysis concerning change in present value of obligations, SEK m.				
0.5% increase in discount rate	–807	–60	–18	–89
0.5% decrease in discount rate	927	69	18	101
1 year increase in life expectancy	313	9	18	37

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	8,4	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

	Expenses for pensions and similar commitments	
Expenses for pensions and other defined-benefit payments recognised in the income statement	2017	2016
Current service expenses	–357	–359
Net Interest income/expenses	–262	–254
Past service expenses	–23	–8
Net gains (+) and losses (–) due to curtailments and settlements	19	0
Total expense for defined-benefit payments recognised in the income statement	**–623**	**–621**

Pension expenses and other defined-benefit payments are found in the income statement under the headings “Research and development expenses,” SEK 133 m. (134), “Cost of goods sold,” SEK 131 m. (113), “Selling expenses,” SEK 82 m. (105) 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.

Notes to the consolidated financial statements, continued

NOTE 15 Provisions for pensions and similar commitments, continued

	Expenses related to pensions and similar commitments	
Expenses for pensions and other defined-benefit payments recognised in "Other comprehensive income"	**2017**	**2016**
Experience-based adjustments in net liabilities	–408	–194
Effects of changes in demographic assumptions	–85	–111
Effects of changes in financial assumptions	–4	–734
Actual return on plan assets excluding amount included in interest income	150	94
Changes in present value of asset ceiling not included in interest expense	10	9
Total expense/revenue for defined-benefit payments recognised in "Other comprehensive income"	**–337**	**–936**

	Pension commitments	
Recognised as provision for pensions in the balance sheet	**2017**	**2016**
Present value of defined-benefit obligations, wholly or partly funded	2,989	3,099
Present value of defined-benefit obligations, unfunded	8,526	7,646
Present value of defined-benefit obligations	11,515	10,745
Fair value of plan assets	–2,283	–2,142
Net assets not fully valued due to curtailment rule	5	14
Recognised in the balance sheet	**9,237**	**8,617**
Of which, pension liabilities recognised under the heading "Provisions for pensions"	9,346	8,627
Of which, pension assets recognised under the heading "Other long-term receivables"	–109	–10

	Liabilities related to pensions and similar commitments	
Present value of defined-benefit obligations changed during the year as follows:	**2017**	**2016**
Present value of defined-benefit obligations, 1 January	10,745	9,207
Present value of reclassified obligations, 1 January	4	0
Current service expenses	357	359
Interest expenses	298	299
Payments made by pension plan participants	13	13
Experience-based actuarial gains and losses	408	194
Adjustment effects from changes in demographic assumptions	85	111
Adjustment effects from changes in financial assumptions	4	734
Exchange rate differences	–105	147
Disbursements of pension payments	-298	–327
Past service expenses	23	8
Present value of defined-benefit obligations in acquired/divested companies	–	–
Settlements	0	0
Gains and losses due to net settlements for the year	–19	–
Present value of defined-benefit obligations, 31 December	**11,515**	**10,745**

Fair value of plan assets changed as follows during the year:	Plan assets related to pensions and similar commitments 2017	2016
Fair value of plan assets, 1 January	2,142	1,992
Fair value of plan assets related to reclassified obligations, 1 January	–	0
Interest income on plan assets	38	47
Actual return on plan assets excluding amount included in interest income	150	94
Effects of changes in financial assumptions	0	0
Exchange rate differences	–62	16
Payments to pension plan	99	115
Payments made by pension plan participants	16	16
Disbursements of pension payments	–100	–138
Settlements	0	0
Fair value of plan assets, 31 December	**2,283**	**2,142**

Present value of asset ceiling	Asset ceiling 2017	2016
Present value of asset ceiling, 1 January	14	17
Interest expenses	2	2
Changes in present value of asset ceiling not included in interest expense	–10	–9
Exchange rate differences	–1	4
Present value of asset ceiling, 31 December	**5**	**14**

	2017		2016	
Allocation of fair value in plan assets	Quoted price in an active market	Unquoted price	Quoted price in an active market	Unquoted price
Cash and cash equivalents	6	51	5	35
Equity instruments issued by others	6	–	6	–
Debt instruments issued by Scania	–	3	–	3
Debt instruments issued by others	114	–	111	–
Properties leased to Scania companies	–	36	–	39
Investment properties	24	–	20	–
Equity mutual funds	917	–	823	–
Fixed income mutual funds	649	–	624	–
Real estate funds	327	–	341	–
Other investment funds	19	20	20	21
Other plan assets	52	59	36	58
Total	**2,114**	**169**	**1.986**	**156**

Notes to the consolidated financial statements, continued

NOTE 16 Other provisions

2017	Product obligations	EU investigation[2]	Legal and tax risks	Other provisions[1]	Total
1 January	1,683	3,800	1,017	3,160	9,660
Provisions during the year	1,438	–	126	1,442	3,006
Provisions used during the year	–999	–	–91	–1,047	–2,137
Provisions reversed during the year	–368	–	–104	–25	–497
Exchange rate differences	–7	–	–	–4	–11
31 December	**1,747**	**3,800**	**948**	**3,526**	**10,021**
– of which, current provisions	1,329	–	225	1,969	3,523
– of which, non-current provisions	418	3,800	723	1,557	6,498

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

1 "Other provisions" include provisions for potential losses on service agreements. Total number of contracts increased during 2017 by 32,500 contracts (25,500) and amounted to 208,000 contracts (175,500) at year-end.

2 "EU investigation" consists of provision recognised in June 2016 for the investigation conducted by the European Commission concerning inappropriate cooperation.

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

	2017	2016
Accrued employee-related expenses	5,426	4,729
Deferred income related to service and repair contracts	5,723	4,920
Deferred income related to repurchase obligations[1]	10,582	9,831
Other accrued expenses and deferred income	3,184	2,916
Total	**24,915**	**22,396**
– of which, current	12,729	10,987
– of which, non-current	12,186	11,409
Of the above total, the following was attributable to Financial Services operations	486	453

1 Of the above deferred income related to vehicles sold with repurchase obligations, SEK 1,648 m. (1,471) is expected to be recognised as revenue within 12 months. SEK 866 m. (651) is expected to be recognised as revenue after more than five years.

NOTE 18 Assets pledged and contingent liabilities

Assets pledged	2017	2016
Financial receivables [2]	111	174
Other	0	0
Total [1]	**111**	**174**
[1] Of which, assets pledged for:		
– Borrowings	111	174
– Liabilities of others	0	0

2 Refers mainly to pledged leases in Financial Services, SEK 111 m. (146).

Contingent liabilities	2017	2016
Contingent liability related to FPG credit insurance	78	66
Loan guarantees	0	2
Other guarantees	278	382
Total	**356**	**450**

In addition to the above contingent liabilities, the Group has issued vehicle repurchase guarantees worth SEK 54 m. (22) 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

	2017		2016	
Operating leases	Future minimum lease payments	Of which, related to premises	Future minimum lease payments	Of which, related to premises
Within one year	604	282	622	261
Between one year and five years	1,449	758	1,095	539
Later than five years	418	384	419	370
Total	**2,471**	**1,424**	**2,136**	**1,170**

Expensed minimum lease payments amounted to SEK 694 m. (655), of which SEK 282 m. (285) related to costs for leases on premises.

Future payment obligations on non-cancellable finance leases

	2017			2016		
Finance leases	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	6	1	5	14	1	13
Between one year and five years	14	8	6	14	7	7
Later than five years	0	0	0	3	3	0
Total	**20**	**9**	**11**	**31**	**11**	**20**

Notes to the consolidated financial statements, continued

NOTE 19 Lease obligations, continued

Finance lease assets in balance sheet

Carrying amount	2017	2016
Buildings	28	20
Machinery	15	15
Other	6	6
Total	**49**	**41**

NOTE 20 Government grants and assistance

During 2017, the Scania Group received government grants amounting to SEK 21 m. (25) attributable to operating expenses of SEK 105 m. (98).

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.

	2017	2016
a. Vehicles and Services: Interest and dividends received/paid		
Dividends received from associated companies	51	18
Interest received	522	786
Interest paid	–653	–869
b.1. Vehicles and Services: Items not affecting cash flow		
Depreciation/amortisation	3,941	3,572
Bad debts	54	41
Associated companies	7	–42
Deferred profit recognition, lease assets	66	404
EU investigation	–	3,800
Other	–6	31
Total	**4,062**	**7,806**
b.2. Financial Services: Items not affecting cash flow		
Depreciation/amortisation	26	23
Bad debts	105	156
Other	63	45
Total	**194**	**224**
c. Net investment through acquisitions/divestments of businesses[1]		
Divestments of businesses	–	0
Acquisitions of businesses	–32	0
Total	**–32**	**0**

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

	2017	2016
d.1. Vehicles and Services: Acquisitions of non-current assets		
Investments in non-current assets[2]	–7,880	–9,058
Divestments of non-current assets	1,286	1,194
Total	**–6,594**	**–7,864**

2 Of which, SEK 1,367m. (1,682) in capitalised research and development expenditure.

	2017	2016
d.2. Financial Services: Net investments in credit portfolio etc.		
New financing[3]	–41,526	–35,292
Payments of principal and completed contracts	33,315	26,649
Total	**–8,211**	**–8,643**

3 Refers mainly to financing of customer purchases of Scania vehicles. Includes other tangible and intangible assets.

	2017	2016
e. Change in debt through financing activities		
Net change in current investments	–249	–768
Net change in current borrowings	–17,031	–12,878
Decrease in non-current borrowings	–481	–1,078
Increase in non-current borrowings	18,466	13,799
Total	**705**	**–925**
f. Cash and cash equivalents		
Cash and bank balances	3,421	4,282
Short-term investments comprising cash and cash equivalents	3,083	3,352
Total	**6,504**	**7,634**

Reconciliation of liabilities arising from financing activities

	2016	Cash flow	Non-cash changes		2017
			Foreign exchange movements	Fair value change	
Non-current interest-bearing liabilities	27,298	11,997	574		39,869
Current interest-bearing liabilities	30,527	–12,388	308		18,447
Finance lease liabilities	20	–9			11
Accrued interest	186	176	13		375
	58,032	**–223**	**895**	**0**	**58,703**
Cash and cash equivalents	7,634	–809	–321		6,504
	65,666	**–1,032**	**574**	**0**	**65,207**

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 2016-2017.

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)	2017	2016
Boards of Directors, Presidents and Executive (or Group) Vice Presidents[1]	526	430
– of which bonuses	227	132
Other employees	17,463	15,894
Subtotal	**17,989**	**16,324**
Pension expenses and other mandatory payroll fees	6,208	5,447
– of which pension expenses[2]	1,568	1,364
Total	**24,197**	**21,771**

1 The number of Board members and executive officers was 564 (532).

2 Of the pension expense in the Group, SEK 35 m. (29) was for Boards of Directors and executive officers in the Scania Group. At year-end, the total pension obligation was SEK 119 m. (176) for this category.

	2017		2016	
Average number of employees (excluding personnel on hire)	Total	Women	Total	Women
Sweden	15,652	21%	14,702	21%
Europe (excluding Sweden)	15,129	14%	14,526	14%
Eurasia	740	26%	735	27%
America	6,871	13%	6,347	14%
Asia	2,269	18%	2,353	18%
Africa and Oceania	1,708	18%	1,623	18%
Total	**42,369**	**17%**	**40,286**	**17%**

Notes to the consolidated financial statements, continued

NOTE 23 Wages, salaries and other remuneration and number of employees, continued

Gender distribution	2017	2016
Board members in subsidiaries and the Parent Company	452	424
– of whom, men	417	384
– of whom, women	35	40
Presidents/Managing Directors of subsidiaries and the Parent Company, plus the Group's Executive Board	112	108
– of whom, men	108	104
– of whom, women	4	4

Number of employees, 31 December	2017	2016
Vehicles and Services		
Production and corporate units	24,298	21,736
Research and development	3,908	3,900
Sales and service companies	20,166	19,718
	48,372	45,354
Financial Services	891	889
Total	**49,263**	**46,243**
– of whom, on temporary contracts and on hire	7,140	5,533

NOTE 24 Related party transactions

	Revenue		Expenses		Receivables		Liabilities	
	2017	2016	2017	2016	2017	2016	2017	2016
Volkswagen Group	1,292	248	542	402	2,506	1,538	4,473	7,194
Associated companies and joint ventures								
BITS DATA i Södertälje AB	0	0	13	14	0	0	2	0
Cummins-Scania XPI Manufacturing L.L.C	123	115	843	750	20	14	0	0
Laxå Special Vehicles AB	41	78	141	158	10	17	43	20
ScaValencia S.A.	156	146	88	88	5	8	0	1
Others	7	8	7	6	1	1	1	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 Scania's Board of Directors. 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 Truck & Bus 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 Scania's Board of Directors. 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.

2017, SEK thousand	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
Chairman of the Board	–	–	–	–	0	–	–	0	–
President and CEO	7,300	–	13,359	264	20,923	2,708	374	3,082	2,539
Rest of Executive Board (7 persons)	23,949	–	43,827	1,509	69,285	8,329	3,512	11,841	18,132

1 Other Board members' total fees: Andreas Renschler 0; Helmut Aurenz 500; Peter Wallenberg Jr. 500; Christian Porsche 0; Annika Falkengren 325; Matthias Gründler 0; Markus S. Piëch 0; Stephanie Porsche-Schröder 0; Johan Järvklo 0; Lisa Lorentzon 0.
Annika Falkengren resigned 14 July 2017. Christian Porsche resigned 13 November 2017 and was replaced by Stephanie Porsche-Schröder 28 November 2017.

2016, SEK thousand	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
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 Lorentzon 0.

Notes to the consolidated financial statements, continued

NOTE 25 Compensation to executive officers, continued

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 re-invoiced.

	2017		2016	
Auditing firm	PwC	Other auditors	PwC	Other auditors
Auditing assignments	40	1	36	1
Auditing activities beyond auditing assignments	2	0	1	1
Tax consultancy	3	0	2	1
Other services	2	0	2	0
Total	**47**	**1**	**41**	**3**

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).

– 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 2017, 95 (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 2017, total currency exposure in Scania's operating income amounted to about SEK 46,500 m. (40,600). The largest currencies in this flow were EUR, GBP and BRL. 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	2017	2016
British pound (GBP)	6,000	6,500
Euro (EUR)	4,800	5,500
Russian rouble (RUB)	4,500	1,900
Polish zloty (PLN)	3,600	3,000
United Arab Emirates dirham (AED)	2,900	1,600
US dollar (USD)	2,800	1,000
Norwegian krone (NOK)	2,800	2,800
Korean won (KRW)	2,600	3,000
Australian dollar (AUD)	2,200	1,900
Chinese Yuan remnimbi (CNY)	2,000	900
South African rand (ZAR)	1,900	1,600
Swiss franc (CHF)	1,500	1,300
Brazilian real (BRL)	–3,000	–3,000
Other currencies	10,600	11,400
Total currency exposure in operating income	**45,200**	**39,400**

Currency exposure in operating income, Financial Services	2017	2016
Euro (EUR)	500	500
Other currencies	800	700
Total currency exposure in operating income	**1,300**	**1,200**

Based on revenue and expenses in foreign currencies during 2017, a one percentage point change in the Swedish krona against other currencies, excluding currency hedges, has an impact on operating income of about SEK 465 m. (406) on an annual basis. In Vehicles and Services, compared to 2016, the total negative currency rate effects amounted to about SEK 425 m. (–900).

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 2017, 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 2017, Scania's net assets in foreign currencies amounted to SEK 29,500 m. (26,600). 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 2017 no foreign net assets were hedged (–).

Notes to the consolidated financial statements, continued

NOTE 27 Financial risk management, continued

Net assets, Vehicles and Services	2017	2016
Euro (EUR)	5,600	4,900
Brazilian real (BRL)	5,000	4,700
British pound (GBP)	1,100	1,200
Argentine peso (ARS)	1,100	1,100
Polish zloty (PLN)	800	600
Norwegian krone (NOK)	700	700
Russian ruble (RUB)	600	400
Swiss franc (CHF)	600	500
Chinese Yuan Remnimbi (CNY)	500	200
Danish krone (DKK)	400	400
Australian dollar (AUD)	400	400
Korean won (KRW)	400	600
US dollar (USD)	–100	–100
Other currencies	2,300	2,000
Total net assets in foreign currencies, Vehicles and Services	**19,400**	**17,600**

Net assets, Financial Services	2017	2016
Euro (EUR)	5,600	4,900
Other currencies	4,500	4,100
Total net assets in foreign currencies, Financial Services	**10,100**	**9,000**
Total net assets in foreign currencies, Scania Group	**29,500**	**26,600**

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:

	2017	2016
Operating income	–34	–49
Financial income and expenses	–5	–10
Taxes	0	0
Effect on net income for the year	**–39**	**–59**

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 2017, 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 17,058 m. (10,954) at year-end 2017. The borrowing portfolio amounted to SEK 0 m. (0). Short-term investments and cash and cash equivalents amounted to SEK 17,716 m. (11,487) 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 –639 m. (–533).

Given the same loan liabilities, short-term investments, cash and cash equivalents and interest rate refixing periods as at year-end 2017, a change in market interest rates of 100 basis points (1 percentage point) would change the interest income in Vehicles and Services by about SEK 175 m. (110) on an annual basis.

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 2017:

Interest rate refixing in Financial Services, 31 December 2017	Interest- bearing portfolio [1]	Interest- bearing liabilities [2]
2018	38,617	37,424
2019	16,260	15,332
2020	11,978	11,533
2021	6,607	4,226
2022	2,844	750
2023 and later	722	118
Total	**77,028**	**69,383**

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**

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 2017 a change in market interest rate of 50 basis points (0.5 percent point) would change the interest in Financial Services by about SEK 3.2 m. (7.8) on an annual basis.

Scania's total borrowing portfolio amounted to SEK 58,691 m. (58,011) at year-end 2017.

Borrowings, 31 December 2017	Borrowings incl. currency swap agreements	Borrowings excl. currency swap agreements
EUR	36,476	23,911
BRL	6,393	6,393
GBP	5,377	–
ZAR	3,141	–
CLP	2,050	1,049
KRW	1,737	35
DKK	1,602	–
PEN	1,319	–
NOK	1,274	700
USD	1,271	1,348
THB	836	52
CHF	676	–
MYR	673	–
AUD	305	–
MXN	146	–
HKD	129	–
SEK	–9,521	21,592
Other currencies	4,432	3,236
Total [1]	**58,316**	**58,316**
Accrued interest	375	375
Total	**58,691**	**58,691**

1 Total borrowings excluded SEK 375 m. (186) related to accrued interest.

Notes to the consolidated financial statements, continued

NOTE 27 Financial risk management, continued

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 9,265 m. (8,598), most of which consisted of receivables from independent dealerships and end customers. The total estimated fair value of collateral was SEK 1,763 m. Most of the collateral consisted of repossession rights and bank guarantees. During the year, collateral valued at SEK 5 m. was repossessed.

Timing analysis of portfolio assets past due but not recognised as impairment losses	Past-due payments 2017	Past-due payments 2016
< 30 days	1,159	991
30-90 days	313	228
91-180 days	82	237
> 180 days	112	109
Total	**1,666**	**1,565**

Provisions for bad debts amounted to SEK 292 m. (332), equivalent to 3.1 (3.7) percent of total receivables. The year's bad debt expense amounted to SEK 54 m. (41).

Provisions for bad debts changed as follows:

Provisions for bad debts	2017	2016
Provisions, 1 January	332	313
Provisions for potential losses	41	15
Withdrawals due to actual credit losses	–85	–22
Currency rate effects	2	28
Other	2	–2
Provisions, 31 December	**292**	**332**

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	2017	2016
Exposure	77,982	68,908
– of which, operating leases	16,679	16,731
Credit risk reserve	954	973
Carrying amount	**77,028**	**67,935**
– of which, operating leases	16,665	16,715

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.

Timing analysis of portfolio assets

	2017			2016		
Past due but not recognised as impairment losses	Past-due payments	Total exposure[1]	Estimated fair value of collateral	Past-due payments	Total exposure[1]	Estimated fair value of collateral
< 30 days	86	4,195	4,096	76	3,480	3,535
30–90 days	167	2,316	2,212	114	1,650	1,610
Past due and recognised as impairment losses						
91–180 days	36	294	266	30	234	224
> 180 days	43	160	145	48	221	213
Inactive contracts	138	609	421	101	427	299
Total	**470**	**7,574**	**7,140**	**369**	**6,012**	**5,881**

1 Exposure is defined as maximum potential loss, without regard to the value of any collateral.

The portfolio mainly consists of financing of trucks, buses and trailers for small and medium-sized companies. The credit risk concentration in 2017 was equal to that of 2016.

A description of credit risk exposure can be seen in the table below:

	31 December 2017			31 December 2016		
Concentration of credit risk	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.	34,284	98.1	68.2	32,268	98.4	68.6
Exposure SEK 15-50 m.	545	1.6	17.2	443	1.3	15.7
Exposure > SEK 50 m.	110	0.3	14.6	105	0.3	15.7
Total	**34,939**	**100.0**	**100.0**	**32,816**	**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 2017 as in 2016. The carrying amount of the financial assets, whose terms had been renegotiated, amounted to SEK 2,236 m. (1,561) 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 2017. During the year, 1,360 (1,287) financed vehicles were repossessed. At year-end, the number of repossessed but not yet sold vehicles amounted to 270 (284), with a total carrying amount of SEK 102 m. (107). 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	2017	2016
Provisions, 1 January	973	872
Provisions for potential losses	95	124
Withdrawals due to actual credit losses	–97	–74
Exchange rate differences	–17	51
Provisions, 31 December	**954**	**973**
Provisions as percentage of gross portfolio	1.2	1.4

The year's expenses for actual and potential credit losses amounted to SEK 105 m. (156).

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 –651 m. (–496) at the end of 2017. Estimated gross exposure to counterparty risks related to derivatives trading totalled SEK 616. (703). Estimated gross exposure to cash and cash equivalents and short-term investments amounted to SEK 7,749 m. (8,756). Short-term investments are deposited with various banks.

Scania had short-term investments worth SEK 4,328 m. (4,474), of which SEK 3,083 m. (3,352) consists of investments with a maturity of less than 90 days and SEK 1,245 m. (1,122) consisted of investments with a maturity of 91–365 days. In addition to short-term investments, Scania had bank balances worth SEK 3,421 m. (4,282).

Notes to the consolidated financial statements, continued

NOTE 27 Financial risk management, continued

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 2017, Scania's liquidity reserve, consisting of unutilised credit facilities, cash and cash equivalents and short-term investments, amounted to SEK 38,877 m. (45,144). 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, 2017	Total borrowings	Ceiling
European Medium Term Note Programme	33,872	49,157
Credit facility (EUR, SEK)	–	31,128
Commercial paper, Sweden	500	10,000
Commercial paper, Belgium	4,178	9,831
Bank loans and Other loans	19,766	–
Total [1]	**58,316**	**100,116**

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	–
Total [1]	**57,825**	**103,791**

1 Of the total ceiling, SEK 31,128 m. (36,388) consisted of guaranteed revolving credit facilities.

2 Total borrowings excluded SEK 375 m. (186) 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	2017	2016
2017	–	30,527
2018	18,447	8,610
2019	21,777	8,670
2020	9,650	3,612
2021	5,122	3,980
2022	3,303	2,426
2023 and later	17	–
Total	**58,316**	**57,825** [1]

1 Total borrowings excluded SEK 376 m. (186) related to accrued interest and fair value adjustments on bonds for which hedge accounting was previously applied.

Maturity structure of derivatives attributable to borrowings, 2017	Derivatives with positive value	Derivatives with negative value
2018	6	0
2019	9	–3
2020	25	0
2021	0	–42
2022	0	–5
2023 and later	0	0
Total [1]	**40**	**–50**

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	–	–
Total [1]	**85**	**–23**

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 738 m. (1,275). 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 –651 m. (–495) 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 0 m. (14). The amount that has been offset from each amount totals SEK 0 m. (14).

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 608 m. (660) and SEK 1,253m. (1,190). The amount that was not offset from each amount was SEK 540 m. (598).

Notes to the consolidated financial statements, continued

NOTE 28 Financial instruments, continued

Scania Group, 2017, SEK m.	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
Non-current interest-bearing receivables	–	37,218	–	37,218	37,463
Current interest-bearing receivables	–	23,452	–	23,452	23,267
Non-interest-bearing trade receivables	–	9,024	–	9,024	9,024
Current investments and Cash and cash equivalents	738	7,011	–	7,749	7,750
Other non-current receivables [1]	239	101	–	340	313
Other current receivables [2]	377	1	–	378	378
Total assets	**1,354**	**76,807**	**–**	**78,161**	**78,195**
Non-current interest-bearing liabilities	–	–	39,869	39,869	39,951
Current interest-bearing liabilities	–	–	18,822	18,822	18,733
Trade payables	–	–	14,016	14,016	14,016
Other non-current liabilities [3]	474	–	–	474	474
Other current liabilities [4]	793	–	–	793	793
Total liabilities	**1,267**	**–**	**72,707**	**73,974**	**73,967**

1 Financial instruments included in the balance sheet under "Other long-term receivables," SEK 1,488 m.
2 Financial instruments included in the balance sheet under "Other current receivables," SEK 5,721 m.
3 Financial instruments included in the balance sheet under "Other non-current liabilities," SEK 744 m.
4 Financial instruments included in the balance sheet under "Other current liabilities," SEK 4,494 m.
* Held for trading.

Scania Group, 2016, SEK m.	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
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.

Hedge accounting

During 2017 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.

Net gains/losses	2017	2016
Financial assets and liabilities held for trading, carried at fair value	–129	–840
Loan and trade receivables [1]	196	2,150
Other financial liabilities	–236	–1,194
Total	**–169**	**116**

1 Also includes operating leases.

Notes to the consolidated financial statements, continued

NOTE 28 Financial instruments, continued

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:

	2017	2016
Interest income on financial assets [1]	3,380	2,855
Interest expenses on financial liabilities [2, 3]	–1,851	–1,765
Total	**1,529**	**1,090**

1 SEK 252 m. (270) 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 –681 m. (–760) 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 2017:

DynaMate Industrial Services AB	556528-9286	Södertälje	Sweden	100
Fastighetsaktiebolaget Flygmotorn	556528-9112	Södertälje	Sweden	100
Fastighetsaktiebolaget Hjulnavet	556084-1198	Södertälje	Sweden	100
Fastighetsaktiebolaget Motorblocket	556716-6698	Södertälje	Sweden	100
Fastighetsaktiebolaget Vindbron	556040-0938	Södertälje	Sweden	100
Kai Tak Holding AB	556548-4739	Södertälje	Sweden	100
LOTS Group AB	556593-3057	Södertälje	Sweden	100
MW-Hallen Restaurang AB	556616-7747	Södertälje	Sweden	100
Mälardalens Tekniska Gymnasium AB	556548-4754	Södertälje	Sweden	80.00
Scania Bus Financing AB	556728-9433	Södertälje	Sweden	100
Scania CV AB	556084-0976	Södertälje	Sweden	100
Scania Delivery Center AB	556593-2976	Södertälje	Sweden	100
Scania Growth Capital AB	559090-6524	Södertälje	Sweden	90.10
Scania Industrial Maintenance AB	556070-4818	Södertälje	Sweden	100
Scania IT AB	556084-1206	Södertälje	Sweden	100
Scania Overseas AB	556593-2984	Södertälje	Sweden	100
Scania Real Estate AB	556084-1180	Södertälje	Sweden	100
Scania Real Estate Lund AB	556791-9823	Södertälje	Sweden	100
Scania Real Estate Services AB	556593-3024	Södertälje	Sweden	100
Scania Sales and Services AB	556593-3073	Södertälje	Sweden	100
Scania 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 Treasury AB	556528-9351	Södertälje	Sweden	100
Scania Trucks & Buses AB	556267-1585	Södertälje	Sweden	100
Scania Used Vehicles AB	556548-4713	Södertälje	Sweden	100
Stockholms Industriassistans AB	556662-3459	Södertälje	Sweden	100
Sågverket 6 AB	556528-9062	Södertälje	Sweden	100
Vabis Försäkringsaktiebolag	516401-7856	Södertälje	Sweden	100
Vindbron Arendal AB	556822-2367	Södertälje	Sweden	100
Volkswagen Truck & Bus AB	556528-9104	Södertälje	Sweden	100
Ferruform AB	556528-9120	Luleå	Sweden	100
CNC Factory AB	556387-4659	Värnamo	Sweden	100
TimmerLogistikVäst AB	556636-2959	Åmål	Sweden	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
Motorcam S.A.	33-70791031-9	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 Veículos 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
Suvesa Super Veics Pesados Ltda.	88.301.668/0001-10	Eldorado do Sul	Brazil	99.98
Codema Comercial e Importadora Ltda.	60.849.197/0001-60	Guarulhos	Brazil	99.98
LOTS Latin América Logística de Transportes Ltda.	29.094.173/0001-06	São Bernardo do Campo	Brazil	100
Scania Latin America Ltda.	59.104.901/0001-76	São Bernardo do Campo	Brazil	100
Scania Bulgaria EOOD	BG121796861	Sofia	Bulgaria	100
Scania Real Estate Bulgaria EOOD	BG201589120	Sofia	Bulgaria	100
Scania Chile S.A.	96.538.460-K	Santiago de Chile	Chile	100
Vabis Transportation Services (Guangxi) Ltd	32956526-9	Beihai, Guangxi Province	China	100
Scania Sales (China) Co., Ltd.	110000450001661	Beijing	China	100
Scania Sales and Service (Guangzhou) Co., Ltd.	440101400126397	Guangzhou	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 Finland Oy	2559582-1	Helsinki	Finland	100
Scania Real Estate Holding Oy	2566377-5	Helsinki	Finland	100
Scania Suomi Oy	0202014-4	Helsinki	Finland	100
SOE Busproduction Finland Oy	26121679	Lahti	Finland	100
Scania France S.A.S.	307166934	Angers	France	100
Scania Holding France S.A.S.	403092786	Angers	France	100
Scania IT France S.A.S.	412282626	Angers	France	100
Scania Production Angers S.A.S.	378442982	Angers	France	100
Scania Real Estate France S.A.S.	78961241300011	Angers	France	100
Scania Danmark GmbH	DE 1529518862	Flensburg	Germany	100

Notes to the consolidated financial statements, continued

NOTE 29 Shares and participations in subsidiaries, continued

Company	Corporate ID no.	Registered office	Country	% Ownership
B. + V. Grundstücksverwertungs-GmbH & Co. KG	HRA 3377	Koblenz	Germany	100
B. + V. Grundstücks- Verwaltungs- und Verwertungs-GmbH	HRB 2277	Koblenz	Germany	100
Scania CV Deutschland Holding GmbH	HRB 6077	Koblenz	Germany	100
SCANIA DEUTSCHLAND GmbH	HRB 532	Koblenz	Germany	100
SCANIA Real Estate Deutschland GmbH	HRB 23796	Koblenz	Germany	100
SCANIA Real Estate Deutschland Holding GmbH	HRB 23798	Koblenz	Germany	100
SCANIA Vertrieb und Service GmbH	HRB 20490	Koblenz	Germany	100
Scania West Africa Ltd.	CS450862014	Accra	Ghana	100
Scania Great Britain Ltd.	831017	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.	10415577	Biatorbágy	Hungary	100
Scania Real Estate Hungaria Kft.	13-09-159119	Biatorbágy	Hungary	100
Scania Commercial Vehicles India Pvt. Ltd.	U35999KA2011FTC05698	Bangalore	India	100
SST Sustainable Transport Solutions India Private Ltd	U74999MH2017PTC29098	Nagpur	India	99.99
PT Scania Parts Indonesia	AHU-09655.40.10.2014	Balikpapan	Indonesia	100
Scania Iraq Automotive Trading Company Ltd	000088307-02	Basra	Iraq	100
Qanadeel AL Rafidain Automotive Trading Co. Ltd.	7500	Erbil	Iraq	75.50
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
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.àr.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	879263662	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 Real Estate Polska Sp.z o.o.	435941	Nadarzyn	Poland	100
Scania Production Slupsk S.A.	KRS0000083601	Slupsk	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 Service	1035006456044	Golitsino	Russia	100
OOO Scania-Rus	1025004070079	Golitsino	Russia	100
OOO Scania Peter	1027804908372	St. Petersburg	Russia	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.	1124773	Ljubljana	Slovenia	100
Scania South Africa Pty Ltd.	1995/001275/07	Aeroton	South Africa	100
Scania Korea Group Ltd.	110111-5304681	Seoul	South Korea	100
Scania Hispania Holding S.L.	B82853938	Madrid	Spain	100
Scania Hispania S.A.	A59596734	Madrid	Spain	100
Scania Real Estate Hispania, S.L.U.	B36682003	Pontevedra	Spain	100
Scania Schweiz AG	CH-020.3.926.624-8	Kloten	Switzerland	100
Scania Real Estate Schweiz AG	CH-020.3.035.714-4	Kloten	Switzerland	100
Garage Vetterli AG	CH-020.3.909.930-2	Seuzach	Switzerland	100
Scania Tanzania Ltd.	39320	Dar es Salaam	Tanzania	100
Power Vehicle Co. Ltd.	01055547132895	Bangkok	Thailand	100
Scan Siam Service Co. Ltd.	0105545023525	Bangkok	Thailand	100
Scania Siam Co Ltd.	0105543060121	Bangkok	Thailand	100
Scania Thailand Co Ltd.	0105534098031	Bangkok	Thailand	100
Scania Group (Thailand) Co., Ltd.	0115560001383	Smutprakarn	Thailand	100
Scania Manufacturing (Thailand) Co., Ltd.	0115560001375	Smutprakarn	Thailand	100
Scania Nederland B.V.	27136821	Breda	The Netherlands	100
Scania Real Estate The Netherlands B.V.	50687921	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 Logistics Netherlands B.V.	56552793	Zwolle	The Netherlands	100
Scania Production Zwolle B.V.	05020370	Zwolle	The Netherlands	100
Scania Middle East FZE	150175	Dubai	The United Arab Emirates	100

Company	Corporate ID no.	Registered office	Country	% Ownership
TOV Kyiv-Scan	35706433	Kyiv	Ukraine	100
TOV Scania Ukraine	30107866	Kyiv	Ukraine	100
TOV Scania-Lviv	37497108	Lviv	Ukraine	100
TOV Donbas-Scan-Service	34516735	Makijivka	Ukraine	100
Scania USA Inc.	06-1288161	San Antonio/ TX	United States	100
Scania Holding Inc.	4019619	Wilmington	United States	100
Scanexpo International S.A.	21.490591.0012	Montevideo	Uruguay	100
Scania de Venezuela S.A.	J-30532829-3	Valencia	Venezuela	100
Financial Services				
Scania Credit AB	556062-7373	Södertälje	Sweden	100
Scania Finance Holding AB	556548-4697	Södertälje	Sweden	100
Scania Finans AB	556049-2570	Södertälje	Sweden	100
Scania Projektfinans AB	556593-3008	Södertälje	Sweden	100
Scania Finance Australia Pty Ltd.	609637596	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.	CZ25657496	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 Deutschland GmbH	HRB 3917	Koblenz	Germany	100
Scania Versicherungsvermittlung GmbH	HRB 22831	Koblenz	Germany	100
Scania Finance Great Britain Ltd.	2173954	London	Great Britain	100
Scania Finance Magyarország Zrt.	13-10-040959	Biatorbágy	Hungary	100
Scania Lízing 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	Münsbach	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 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 Commercial Vehicles Renting S.A.	A82853995	Madrid	Spain	100
Scania Finance Hispania EFC S.A.	A82853987	Madrid	Spain	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	2017	2016
Administrative expenses		0	0
Operating income		0	0
Financial income and expenses		0	0
Income after financial items		0	0
Income before taxes		0	0
Taxes		–	–
Net income		**0**	**0**

Statement of other comprehensive income

January – December, SEK m.	2017	2016
Net income	0	0
Other comprehensive income	–	–
Total comprehensive income	**0**	**0**

Balance sheet

31 December, SEK m.	Note	2017	2016
ASSETS			
Financial non-current assets			
Shares in subsidiaries	1	8,435	8,435
Current assets			
Due from subsidiaries	2	1,567	1,567
Total assets		**10,002**	**10,002**
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	0
Total shareholders' equity		**10,002**	**10,002**
Current liabilities			
Interest-bearing liabilities		0	0
Total equity and liabilities		**10,002**	**10,002**

Statement of changes in equity

	Restricted equity			
2017 (SEK m.)	Share capital	Statutory reserve	Unrestricted shareholders' equity	Total
Equity, 1 January	2,000	1,120	6,882	10,002
Total comprehensive income for the year			0	0
Equity, 31 December 2017	**2,000**	**1,120**	**6,882**	**10,002**

	Restricted equity			
2016 (SEK m.)	Share capital	Statutory reserve	Unrestricted shareholders' equity	Total
Equity, 1 January	2,000	1,120	6,882	10,002
Total comprehensive income for the year			0	0
Equity, 31 December 2016	**2,000**	**1,120**	**6,882**	**10,002**

Cash flow statement

January – December, SEK m.	Note	2017	2016
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		**0**	**0**
Cash and cash equivalents, 1 January		**0**	**0**
Cash and cash equivalents, 31 December		**0**	**0**

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

			Carrying amount	
Subsidiary / Corporate ID number / registered office	Ownership, %	Thousands of shares	2017	2016
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

	2017	2016
Current interest-bearing receivable from Scania CV AB	1,567	1,567
Total	**1,567**	**1,567**

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.

Notes to the Parent Company financial statements, continued

NOTE 4 Cash flow statement

Interest received was SEK 0 m. (0).

NOTE 5 Contingent liabilities

	2017	2016
Loan guarantees on behalf of borrowings in Scania CV AB	45,974	44,269
Total	**45,974**	**44,269**

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 15 (30) 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 2017 amounted to SEK 0 m. (0) to Volkswagen Truck & Bus GmbH and SEK 0 m. (0) to MAN SE.

Proposed distribution of earnings

The Board of Directors decided on a dividend proposal of SEK 4,353 m. which represents 50 percent of the net income SEK 8,705 m. for 2017.

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	4,353
To be carried forward	2,529
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	2,529
Total	**5,649**

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 14 March 2018. 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 25 April 2018.

Södertälje, 14 March 2018

Andreas Renschler
Chairman of the Board

Matthias Gründler
Board member

Markus S. Piëch
Board member

Stephanie Porsche-Schröder
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 2018

PricewaterhouseCoopers AB

Bo Karlsson
Authorised Public Accountant

Björn Irle
Authorised Public Accountant

Auditor's 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 2017. The annual accounts and consolidated accounts of the company are included on pages 40-119 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 2017 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 2017 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 manly 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. 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.

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. A provision of SEK 3,8 billion has been recognized for the risk for future penalties. In September 2017, the Commission finally passed a decision holding Scaniagroup liable for the alleged breaches of the competition law. The fines imposed total approx. 880m EUR. Scania does not agree to the decision and in December 2017 Scania has appealed the decision. Further, Scania has, after the closing date, provided a cash collateral bank guarantee for the period before relevant court has come to a conclusion.

The investigation itself is complex and the valuation of the commitment is highly affected by management's judgment and estimates of final decisions.

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 asses 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 connection with the provision we have reassessed the accuracy in the assumptions used in the valuation of the provision.

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. As stated in note 2, it is not yet possible to quantify any related private enforcement claims raised towards Scaniagroup.

Revenue recognition for vehicles delivered with residual value commitment and allocation or 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.

Auditor's report, continued

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 1-39 and 124-133. 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.

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 Revisorsinspektionen's website: www.revisorsinspektionen.se/revisornsansvar. 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 2017 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 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 Revisorsinspektionen's website: www.revisorsinspektionen.se/revisornsansvar. This description is part of the auditor´s report.

Göteborg 20 March 2018

PricewaterhouseCoopers AB

Bo Karlsson Authorized public accountant Partner in charge	Björn Irle Authorized public accountant

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 measures used by Scania that are not defined under IFRS, unless otherwise stated.

	2017	2016	2015	2014	2013	2012	2011	2010	2009	2008
Scania Group										
Operating margin, % [3]	10.4	6.1	10.2	9.5	9.7	10.4	14.1	16.3	4.0	14.1
– excl. items affecting comparability [2, 3]	10.4	9.7	10.2	9.5	9.7	10.4	14.1	16.3	4.0	14.1
Equity/assets ratio, %	28.1	26.0	26.8	31.4	31.2	30.6	31.1	30.2	23.7	19.9
Net debt, excl. provisions for pensions, SEK m. [1]	51,581	49,788	42,183	35,780	34,696	31,591	28,213	24,606	39,767	50,112
Net debt/equity ratio [1]	1.03	1.18	1.11	0.86	0.93	0.90	0.82	0.82	1.71	2.28
Vehicles and Services										
Operating margin, % [3]	9.3	5.2	9.1	8.4	8.9	9.7	13.5	16.1	4.3	13.6
– excl. items affecting comparability [2, 3]	9.3	8.8	9.1	8.4	8.9	9.7	13.5	16.1	4.3	13.6
Capital turnover rate, times	2.45	2.31	1.99	2.18	2.15	2.02	2.47	2.35	1.77	3.01
– excl. items affecting comparability [2]	2.28	2.21	1.99	2.18	2.15	2.02	2.47	2.35	1.77	3.01
Return on capital employed, % [3]	24.5	14.0	19.3	19.9	20.9	21.4	35.9	39.1	9.2	42.8
– excl. items affecting comparability [2, 3]	22.7	21.4	19.3	19.9	20.9	21.4	35.9	39.1	9.2	42.8
Return on operating capital, % [3]	32.5	15.6	25.6	24.5	26.0	27.1	44.3	48.7	9.0	47.1
– excl. items affecting comparability [2, 3]	29.3	25.2	25.6	24.5	26.0	27.1	44.3	48.7	9.0	47.1
Net debt, excl. provisions for pensions, SEK m. [1]	–17,058	–10,954	–7,579	–12,139	–8,019	–8,026	–8,834	–6,575	4,038	8,364
Net debt/equity ratio [1]	–0.40	–0.31	–0.24	–0.35	–0.25	–0.27	–0.29	–0.25	0.21	0.49
Financial Services										
Operating margin, %	1.8	1.6	1.9	1.9	1.5	1.4	1.3	0.5	–0.4	1.0
Equity/assets ratio, %	9.0	9.0	9.8	11.5	10.4	10.3	10.3	11.1	10.4	9.6

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.
3 2016 years figures has been reclassified regarding reclassification of share of income in associated companies and joint ventures made in 2017.

Scania Group

Net debt, excluding provision for pensions	2017	2016
ASSETS		
Current investments	1,245	1,122
Cash and cash equivalents	6,504	7,634
Derivatives, non-current	239	374
Derivatives, current	377	291
	8,365	**9,421**
LIABILITIES		
Interest-bearing liabilities, non-current	39,869	27,298
Interest-bearing liabilities, current	18,822	30,713
Derivatives, non-current	474	778
Derivatives, current	781	420
	59,946	**59,209**
Net debt	**51,581**	**49,788**

Vehicles and Services

Net debt, excluding provision for pensions	2017	2016
ASSETS		
Current investments	12,266	5,294
Cash and cash equivalents	5,431	6,193
Derivatives, non-current	239	374
Derivatives, current	377	291
	18,313	12,152
LIABILITIES		
Interest-bearing liabilities, non-current	0	0
Derivatives, non-current	474	778
Derivatives, current	781	420
	1,255	1,198
Net debt	**–17,058**	**–10,954**

Capital Employed [2]	2017	2016
Total assets	105,691	92,659
– Other non-current provisions + current provisions [2]	6,004	5,311
– Other liabilities	47,451	40,671
– Net derivatives	–359	–263
Capital Employed	**52,595**	**46,940**

Operating Capital [2]	2017	2016
Total assets	105,691	92,659
Cash and Cash equivalents	14,447	10,794
Operating liabilities		
– Other non-current provisions + current provisions [2]	6,004	5,311
– Other liabilities	47,451	40,671
– Net derivatives	–359	–263
Operating Capital [2]	**38,148**	**36,146**

Return on Capital Employed [2]	2017	2016
Operating income [2]	11,160	9,109
Financial income	754	921
Capital employed [2]	52,595	46,940
Return on Capital Employed [2]	**22.7**	**21.4**

Capital turnover	2017	2016
Net sales	119,713	103,927
Capital employed [2]	52,595	46,940
Capital turnover	**2.28**	**2.21**

Return on operating capital [2]	2017	2016
Operating income [2]	11,160	9,109
Operating capital [2]	38,148	36,146
Return on operating capital [2]	**29.3**	**25.2**

Financial Services

Operating margin	2017	2016
Operating income	1,274	1,015
Average portfolio	72,482	62,211
Operating margin	**1.8%**	**1.6%**

Equity/asset ratio %	2017	2016
Equity	7,261	6,453
Assets	80,513	71,589
Equity/asset ratio %	**9.0%**	**9.0%**

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, current investments 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, Yemen.

America: Argentina, Barbados, Bolivia, Brazil, Chile, Colombia, Costa Rica, Cuba, the Dominican Republic, Ecuador, El Salvador, Guatemala, Honduras, Nicaragua, Mexico, Netherlands Antilles, Panama, Paraguay, Peru, Trinidad, the United States, Uruguay, Venezuela.

Africa and Oceania: Algeria, Angola, Australia, Botswana, Egypt, Ethiopia, Ghana, Kenya, Liberia, Morocco, Mozambique, Namibia, New Caledonia, New Zealand, Nigeria, Rwanda, Senegal, South Africa, Sudan, Tanzania, Tunisia, Uganda, Zambia.

Multi-year statistical review

SEK m. unless otherwise stated	2017	2016	2015	2014	2013	2012	2011	2010	2009	2008
Delivery value by market area										
Europe	76,853	73,363	65,100	53,211	46,712	43,490	47,747	41,533	37,988	60,360
Eurasia	6,631	3,291	2,623	5,319	6,047	5,966	6,084	2,413	1,449	5,267
America [1]	13,665	10, 746	11,799	17,648	23,552	18,391	20,912	21,725	11,812	12,822
Asia	16,545	13, 187	13,044	12,155	7,758	7,853	10,182	9,035	6,097	6,665
Africa and Oceania	8,587	8,358	7,991	6,952	5,925	5,796	5,360	5,403	5,243	4,364
Adjustment for lease income [2]	–2,567	–5,018	–5,660	–3,234	–3,146	–1,894	–2,599	–1,941	–515	–501
Total	**119,713**	**103,927**	**94,897**	**92,051**	**86,847**	**79,603**	**87,686**	**78,168**	**62,074**	**88,977**
Operating income										
Vehicles and Services	11,160	5,309	8,601	7,705	7,736	7,694	11,881	12,575	2,648	12,098
– adjusted for items affecting comparability [5]	11,160	9,109	8,601	7,705	7,736	7,694	11,881	12,575	2,648	12,098
Financial Services	1,274	1,015	1,040	1,016	719	606	517	171	–175	414
Total	**12,434**	**6,324**	**9,641**	**8,721**	**8,455**	**8,300**	**12,398**	**12,746**	**2,473**	**12,512**
Operating margin, %										
Vehicles and Services	9.3	5.2	9.1	8.4	8.9	9.7	13.5	16.1	4.3	13.6
– adjusted for items affecting comparability [5]	9.3	8.8	9.1	8.4	8.9	9.7	13.5	16.1	4.3	13.6
Total [3]	**10.4**	**6.1**	**10.2**	**9.5**	**9.7**	**10.4**	**14.1**	**16.3**	**4.0**	**14.1**
Net financial items	–352	–361	–532	–399	–47	–19	214	–213	–871	–534
Net income	8,705	3,243	6,753	6,009	6,194	6,640	9,422	9,103	1,129	8,890
– adjusted for items affecting comparability [5]	8,705	7,043	6,753	6,009	6,194	6,640	9,422	9,103	1,129	8,890
Specification of research and development expenses										
Expenditures	–7,499	–7,199	–7,043	–6,401	–5,854	–5,312	–4,658	–3,688	–3,234	–3,955
Capitalisation	1,367	1,682	1,863	1,454	1,123	860	387	351	282	202
Amortisation	–455	–387	–393	–357	–293	–229	–169	–168	–264	–475
Research and development expenses	**–6,587**	**–5,904**	**–5,573**	**–5,304**	**–5,024**	**–4,681**	**–4,440**	**–3,505**	**–3,216**	**–4,228**
Net investments through acquisitions/divestments of businesses	32	0	125	154	26	–25	–44	56	118	–61
Net investments in non-current assets	6,626	7,864	7,612	5,561	5,294	4,480	3,776	2,753	3,031	5,447
Portfolio, Financial Services operations	77,026	67,935	56,486	55,556	48,863	45,038	42,235	36,137	40,404	47,220
Cash flow, Vehicles and Services	5,701	3,427	4,376	4,690	3,231	3,025	6,970	11,880	5,512	1,774
Inventory turnover rate, times [4]	5.4	5.4	5.3	5.4	5.8	5.4	6.1	6.4	4.5	6.5

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. recoqnised in 2016 relating to the EU investigation, see Note 2.

Multi-year statistical review, continued

	2017	2016	2015	2014	2013	2012	2011	2010	2009	2008
Number of vehicles produced										
Trucks	87,454	75,452	72,382	75,287	75,957	60,647	75,349	60,963	29,573	72,656
Buses	8,327	8,488	6,964	6,921	6,897	6,283	8,708	6,700	6,236	7,709
Total	**95,781**	**83,940**	**79,346**	**82,208**	**82,854**	**66,930**	**84,057**	**67,663**	**35,809**	**80,365**
Number of trucks delivered by market area										
Europe	48,436	49,102	43,082	34,008	32,625	27,720	31,443	23,315	18,824	41,184
Eurasia	6,748	3,233	2,583	5,964	6,260	6,798	7,445	2,369	1,084	5,455
America	9,701	7,022	8,118	16,150	23,756	15,391	17,632	18,056	9,566	10,775
Asia	13,175	9,287	11,514	12,889	7,400	8,089	12,485	10,179	4,843	6,721
Africa and Oceania	4,412	4,449	4,465	4,004	3,570	3,053	3,115	2,918	2,490	2,381
Total	**82,472**	**73,093**	**69,762**	**73,015**	**73,611**	**61,051**	**72,120**	**56,837**	**36,807**	**66,516**
Number of buses and coaches delivered by market area										
Europe	2,009	2,094	1,917	1,361	1,000	1,312	1,916	1,760	1,954	2,412
Eurasia	365	62	94	105	850	198	84	82	130	194
America [6]	2,302	2,350	2,123	2,542	2,778	2,738	3,272	2,104	1,421	2,009
Asia	2,821	2,568	1,806	1,620	1,388	1,304	2,065	2,120	1,876	1,721
Africa and Oceania	808	1,179	859	1,139	837	798	651	809	1,255	941
Total	**8,305**	**8,253**	**6,799**	**6,767**	**6,853**	**6,350**	**7,988**	**6,875**	**6,636**	**7,277**
Total number of vehicles delivered	**90,782**	**81,346**	**76,561**	**79,782**	**80,464**	**67,401**	**80,108**	**63,712**	**43,443**	**73,793**
Number of industrial and marine engines delivered by market area										
Europe	3,938	3,272	2,664	2,823	2,719	3,664	3,450	2,634	1,834	3,019
America	1,368	1,727	3,180	3,176	2,925	2,582	2,809	3,281	1,775	2,798
Other markets	3,215	2,801	2,641	2,288	1,139	817	701	611	626	854
Total	**8,521**	**7,800**	**8,485**	**8,287**	**6,783**	**7,063**	**6,960**	**6,526**	**4,235**	**6,671**
Total market for heavy trucks and buses, units										
Europe (EU28) [7]										
Trucks	303,909	302,527	265,769	223,187	237,325	221,188	241,200	178,100	161,100	316,000
Buses	29,728	29,141	27,928	24,815	22,962	21,813	25,200	25,400	26,500	28,700
Number of employees December 31 [8]										
Production and corporate units	24,296	21,736	20,453	19,304	19,069	17,663	17,489	17,006	14,672	16,264
Research and development	3,893	3,900	3,801	3,671	3,596	3,509	3,327	2,930	2,642	2,922
Sales and service companies	20,183	19,718	19,331	18,395	17,549	16,734	16,038	14,987	14,475	15,079
Total Vehicles and Services	**48,372**	**45,354**	**43,585**	**41,370**	**40,214**	**37,906**	**36,854**	**34,923**	**31,789**	**34,265**
Financial Services companies	**891**	**889**	**824**	**759**	**739**	**691**	**642**	**591**	**541**	**512**
Total	**49,263**	**46,243**	**44,409**	**42,129**	**40,953**	**38,597**	**37,496**	**35,514**	**32,330**	**34,777**

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.

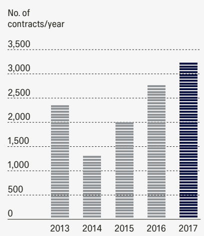
SUSTAINABILITY KPIs

To be able to continuously improve, Scania measure and follow up on our performance. To facilitate tracking 17 sustainability KPI's have been developed, all aligned with our sustainability focus areas.

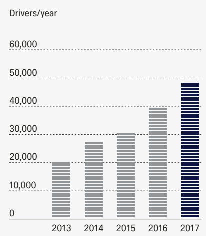
Sustainable transport

Energy efficiency

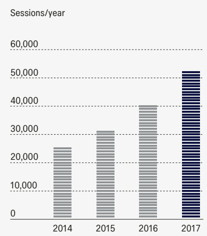
Energy efficiency is at the core of our business. Fuel consumption is the number one factor for buying a truck or a bus today. Hence, we work relentlessly on improving the efficiency of our vehicles, the sales of our Ecolution by Scania programme, the number of drivers that participate in our coaching and trainings and the amount of repair and maintenance contracts sold with flexible plans.



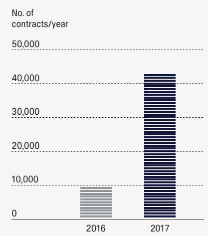
Ecolution by Scania
During 2017 Scania increased the number of sold contracts with Ecolution by Scania with 18 percent compared to 2016, and saved our customers on average 10 percent in fuel and CO_2 emissions.



Driver training
The number of trained drivers increased by more than 20 percent during 2017.



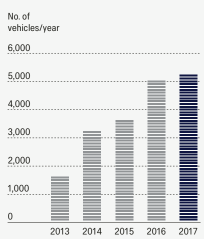
Driver coaching
The number of coaching sessions increased by around 30 percent during 2017.



Scania Maintenance with Flexible Plans
Scania Maintenance with Flexible Plans has grown to become a global success during 2017 with a growth of 370 percent.

Alternative fuels and electrification

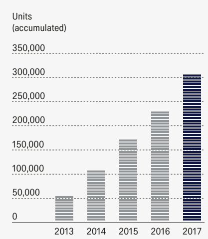
In order to phase out the use of fossil fuels, alternative fuels can play a much bigger role than we see today, and we don't need to wait. The technology is already here Scania has produced solutions for commercial biofuels for more than 20 years, and we are proud to provide the largest variety of vehicles for alternative fuels on the market.



Sales of alternative fuels and electrification[1]
Scania continued to increase the number of vehicles sold with alternative fuels and hybrids during 2017. 5,131 vehicles were sold which amounts to 5.5 percent of total vehicle sales.

Smart and safe transport

Smart and safe transport is dependent on digitalisation 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.



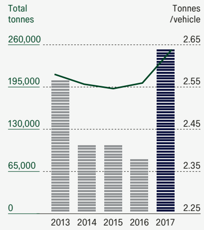
Connectivity
There has been a strong growth in deliveries of connected vehicles. By the end of 2017 the total number amounts to 302,755.

1 Sales of products with gas, ethanol (ED95), biodiesel-FAME preparation, hybrids and estimation for HVO for Bus and Trucks.

Responsible business

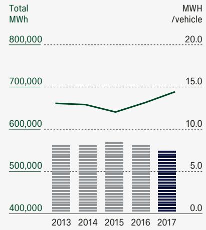
Resource and energy-efficient operations

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 CO_2 emissions, energy, amount of waste, and the purchase of fossil-free electricity.



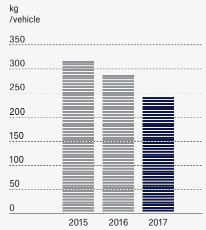
CO_2 emission from our own transport[2]
The emission level per produced vehicle went up during 2017 due to the high volume increase and the increased demand on production which resulted in more air transport.

Target
50 %
Next year this KPI will be replaced to match with our target: 50 percent reduction in CO_2 emissions from land transport between 2016 and 2025. Emissions from non-land transport will be reported separately.



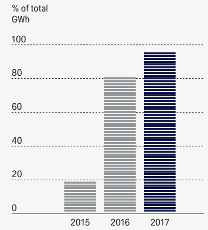
Energy consumption from our industrial facilities[3]
Energy consumption has decreased per produced vehicle due to higher volumes and active work to reduce waste. Amounts to 7,2 MWh per vehicle.

Target
33 %
less energy per produced vehicle in industrial operations between 2010 and 2020.



Waste material that is not recycled[4]
The quantity of waste sent for energy recovery and waste sent for disposal reduced by 24 percent 2015-2017 thanks to structured work on eliminating waste.

Target
25 %
reduction of waste, in our industrial operations, that is not recycled by 2015-2020.

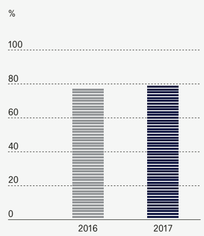


Fossil-free electricity purchased and internally generated[5]
In 2017 Scania continued to purchase fossil-free electricity. More than 95 percent in our industrial operations now comes from fossil-free sources.

Target
100 %
of our operations run on fossil-free electricity by 2020 where the necessary prerequisites are in place[5].

Diversity and inclusions

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.



Target
>85 %
on the related questions in the Employee Satisfaction Barometer.

Diversity and inclusion index[7]
The work that has been done in for example the Skill Capture programme has resulted in an increase on the index from 76 percent 2016 to 78 percent 2017.

Target
EQUAL
opportunities to become managers for men and women.

Gender equal opportunities[6]
In 2017 the difference between men and women was reduced compared to 2016 and is now well below 1 percent.

2 Total emissions of CO_2 equivalents in tonnes from Scania's own transport/produced number of units. Included in transport are transport of production material to our factories, transport of vehicles to our customers and transport of spare parts to our workshops.

3 This section covers the use of various energy sources in all Scania premises, including leased or rented within production and logistics excluding regional production centres, including fuel consumed for engine testing.

4 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 sent for disposal / Produced units). 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.

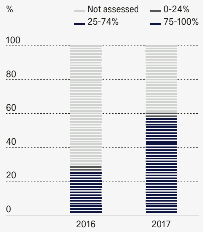
5 Fossil-free electricity purchased and internally generated. Share of GWh for Scania CV's industrial operations in Scania Europe and Scania Latin America, without commercial operations, and without India. Target concerns markets where there is a deregulated electricity market and availability of non-fossil alternatives in the grid.

6 Percentage of female managers in relation to percentage of female employees compared to the same number for men.

7 Perception of Scania's diversity & inclusion climate from Scania Employee Satisfaction Barometer survey: The KPI is a weighed result of three questions from Scania's annual survey concerning the employee's perception of the diversity and inclusion climate at their workplace. The result is covering Sweden, Great Britain and Brazil.

Human and labour rights

Pursuing high standards in the area of human and labour rights is central at Scania, as is good relations and cooperation with our employee representatives. We continuously work to ensure our employees' right to form collective bargaining agreements and to improve the performance in our supply chain.

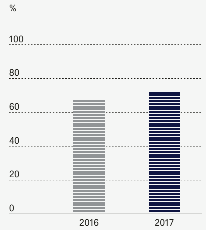


Target

100 %

of our suppliers are in the highest score category.

Sustainability risk assessed suppliers[8]
During 2017 Scania managed to increase the number of suppliers in the highest score category significantly while decreasing the number of suppliers that is not assessed. Suppliers are assessed in the areas of: social sustainability, business conduct and compliance, environmental sustainability, supplier management and conflict minerals.



Target

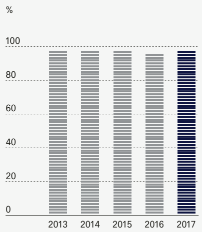
100 %

Our vision is that 100% of our employees should have the possibility to form collective bargaining agreements or in other way engage in constructive dialogue, by themselves or through representatives.

Collective bargaining agreement
The number of employees covered by central or collective bargaining agreements rose during 2017 up to 71 percent.

Health and safety

To ensure that Scania employees are safe and healthy, we work hard on improving safety levels and the work environment in the work place.

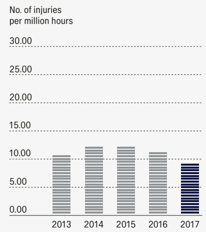


Target

97 %

healthy attendance.

Healthy attendance
The global health attendance is recovering from 2016's small dip and is up at 96.2 percent.



Target

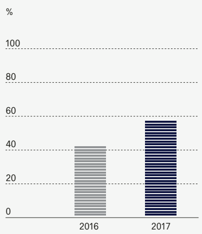
5

accidents per million worked hours.

Occupational accidents with sick leave
Occupational accidents continued to decrease during 2017.

Anti-corruption

Scania has zero tolerance for corruption and adheres to high ethical standards wherever we operate in the world. The tailor-made e-learning "Doing things right" has been set up to train our employees in potential business dilemmas and give them support to act according to the Scania standards.



Target

100 %

of our employees have taken the ethics e-learning.

Anti corruption training
Since the start in 2015, 24,822 participants have taken the course which amounts to 56 percent of our workforce.

8 Risk assessment of direct material suppliers globally from Self assessment questionnaire (SAQ). Scania SAQ score: 75-100%, 25-74%, 0-24% and not assessed.

SUSTAINABILITY REPORT INDEX

Sustainability is an integrated part of Scania's work. We are committed to transparent sustainability reporting. Our aim is to provide our stakeholders with regular and relevant information about our sustainability efforts.

GRI

The Global Reporting Initiative (GRI) is a voluntary framework that sets out principles and indicators for measuring and reporting economic, environmental and social performance. This report has been prepared in accordance with the GRI Standards: Core option. A comprehensive GRI index is published on Scania's sustainability web page.

www.scania.com/group/en/gri-index-general-standard-disclosures

Materiality assessment

Scania's materiality analysis is part of the company's commitment to continuous improvement. Understanding our stakeholder's view on our industry and us as a company 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 a description of our materiality analysis see:

www.scania.com/group/en/mapping-what-matters

Sustainability report in accordance with the Swedish Annual Accounts Act

All of Scania's business units, subsidiaries and production units worldwide are included in the report.

See below for an index on where to find the different compulsory parts for the sustainability report in accordance with the Annual Accounts Act.

Sustainability is an integrated part of Scania's work. Read more on how we integrate it into our business model, how we work with risks and how we measure our progress in the different areas through KPI's:

Scania's business model	4-5
Sustainability risks	47-48
Sustainability KPI's	129-131

Read more on our way of working, also covering management and policies, in the different following areas:

Environment	16-17, 32-35,
Employees	28-29, 32-35
Social responsibility	4, 16-17, 30-31, 35
Human rights	30-31, 32-35
Anti-corruption	32-35

The auditor's report on the statutory sustainability report

To the general meeting of the shareholders of Scania AB (publ), corporate identity number 556184-8564.

Assignment and responsibilities

The Board of Directors is responsible that the statutory sustainability report on page 132 has been prepared in accordance with the Annual Accounts Act.

The focus and scope of the review

Our examination of the statutory sustainability report has been conducted in accordance with FAR's auditing standard RevR 12, the auditor's report on the statutory sustainability report. This means that our examination of the statutory sustainability report is different and substantially less in scope than an audit conducted in accordance with International Standards on Auditing and generally accepted auditing standards in Sweden. We believe that the examination has provided us with sufficient basis for our opinions.

Opinion

A statutory sustainability report has been prepared.

Göteborg 20 March 2018
PricewaterhouseCoopers AB

Bo Karlsson
Authorized public accountant
Partner in charge

Björn Irle
Authorized public accountant

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 2017 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.

This report is combining financial and non-financial (social and environmental) information and is inspired by the International Framework for Integrated Reporting (IR).

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 58-118, and were prepared in compliance with International Financial Reporting Standards (IFRSs). The Report of the Directors encompasses pages 40-55 and 119.

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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