

# SCANIA'S OPERATIONS IN 2013

Although the global economy improved somewhat during 2013, it was an uneven and hesitant road to recovery and uncertainty remains going into 2014. Global GDP growth was in low gear during 2013. Countries with more developed economies grew again but faced fiscal problems and unemployment, while emerging markets faced challenges of lower growth rates and tighter financial conditions. US economic policy issues continued to restrain global growth and many emerging economies lost momentum as a consequence.

A somewhat improved situation in industrial production and construction had a positive impact on transport activity during 2013.

## VEHICLES AND SERVICES

Scania's vehicle deliveries rose by 19 percent during 2013 compared to 2012. Truck deliveries rose by 21 percent to a total of 73,611 units and bus and coach deliveries increased by 8 percent to 6,853 units. Engine deliveries decreased by 4 percent to 6,783 units and service sales increased by 6 percent in local currencies.

### Pre-buys ahead of the Euro 6 transition in Europe

European demand was supported by customers investing in Euro 5 trucks before 31 December 2013, when the transition to Euro 6 occurred. Most EU countries allowed production of Euro 5 trucks to continue until year-end only and allowed registrations after that date, subject to a restriction on volume. This meant that order bookings in the fourth quarter were corrected downwards from the high levels in the third quarter,

while deliveries were still at a high level. Some European countries introduced incentives to encourage purchases of Euro 6 trucks ahead of the transition. In the Netherlands for instance, support was provided for Euro 6 truck investments and in Switzerland Euro 6 trucks were granted discounts in the road toll system.

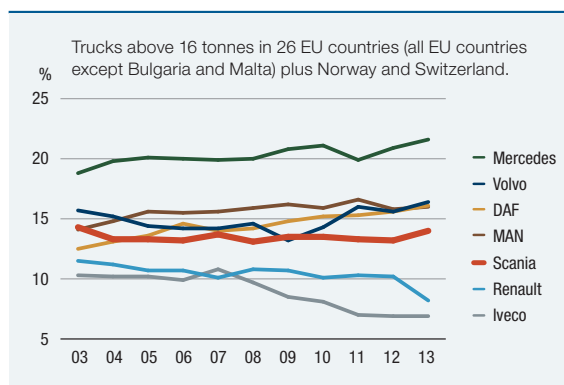
Owing to high European truck deliveries during 2005–2008, followed by a lower level in recent years, the average age of the truck population has increased, which provided some support to demand in Europe.

The total market for heavy trucks in 26 of the European Union member countries (all EU countries except Bulgaria and Malta) plus Norway and Switzerland increased by 8 percent to about 238,200 units during 2013. Scania truck registrations amounted to some 33,100 units, equivalent to a market share of about 13.9 (13.2) percent.

### Latin American truck subsidies continued into 2013

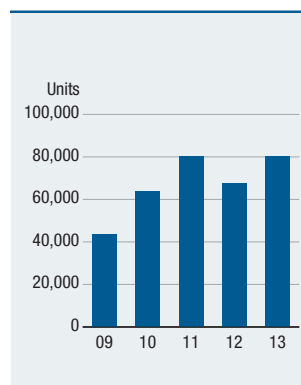
GDP growth in Brazil remained at around 2 percent in 2013. Several measures have been introduced to increase economic activity. The Brazilian state development bank BNDES provided very favourable subsidised financing in the second half of 2012, which generated a high level of deliveries going into 2013. Subsidies were available during the first three quarters of 2013, which was also reflected in Scania's order bookings during this period. The fourth quarter of 2013 was partly dominated by uncertainty regarding the subsidised financing. This caused uncertainty among customers, but in late December the Brazilian government announced that subsidised financing

Market shares

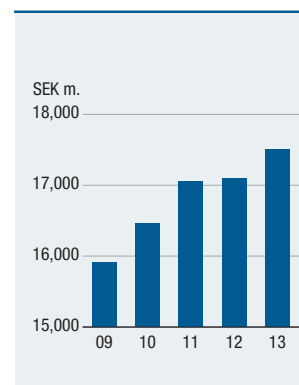


Scania's main competitors are other Western manufacturers. In the truck segment, Scania competes with DAF, Iveco, MAN, Mercedes, Renault and Volvo.

Vehicle deliveries



Service revenue





would continue into 2014. In Argentina subsidised financing programmes for truck investments were available throughout 2013, continuing into 2014. Scania truck registrations in Brazil amounted to some 19,700 units, equivalent to a market share of about 19.0 (12.7) percent.

### Opportunities in emerging markets

Growth continued in major emerging Asian economies during 2013, but demand for vehicles of western standard is relatively low in several of these markets. Since Scania is still building its presence in emerging Asian markets, the impact from economic fluctuations is normally limited. However as logistics systems become more efficient in emerging markets, there is often a shift towards higher standards of vehicle reliability. This will lead to greater demand for the vehicles and services that Scania sells. Therefore it is strategically important for Scania to have an existing foothold in the market as logistics systems improve. Scania has opened its first manufacturing facility in India, near Bengaluru.

In Eurasia, deliveries decreased somewhat during 2013. This was also the case in Russia, the dominant market in the region. There is still good potential for western brands in Russia and Scania managed to increase its market share to 8.2 (6.7) percent.

Deliveries to Africa and Oceania increased somewhat during the year, mainly due to higher sales in southern Africa.

### The bus and coach market

Underlying demand of buses and coaches during 2013 was still weak as budgetary problems continued to challenge governments in Europe. Since investments in buses and coaches, especially city buses, are often publicly financed this factor ad-

versely affected demand. However, compared to the low levels of 2012, Scania's deliveries increased somewhat in most regions during 2013. In Germany, Scania secured two major orders.

Scania entered the Indian bus and coach market with a new range of buses and coaches for intercity and tourist services. During the year Scania broadened its range of Euro 6 engines.

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

### The market for industrial and marine engines

Demand increased during 2013 and order bookings rose by 10 percent, supported by customers investing in industrial engines before year-end when the new Stage IV/Tier 4 Final emission standards went into effect. Deliveries of engines decreased by 4 percent to 6,783 units.

In its engine operations, Scania competes with Caterpillar, Cummins, Deutz, Fiat Powertrain Technologies, MAN, MTU and Volvo Penta in the industrial segment.

### Growing service demand

Service demand increased in most markets, both in Europe and elsewhere. In recent years, Scania has increased its vehicle deliveries in many emerging markets and has also expanded its service capacity and offering in these markets. This has had a positive impact on service demand. Service revenue rose by 2 percent to SEK 17,510 m. In local currencies the upturn was 6 percent.

Demand for services and repairs is more stable over economic cycles than demand for new vehicles, since a haulier can choose to defer new investments but cannot avoid repairs and maintenance to the same extent.

## FINANCIAL SERVICES

The customer financing portfolio increased by SEK 3.8 billion to SEK 48.9 billion during the year. Scania financed 27,395 vehicles during 2013 (25,778). Because of changes in market mix, the share of financed new vehicles decreased from 38 percent to 33 percent. Operating income increased to SEK 719 m. A larger portfolio and higher interest margins contributed to this increase, as did slightly lower bad debt expenses.

Most Financial Services customers are based in European markets. The financing portfolio is well-diversified in terms of geography and types of customers as well as their size, economic sector and vehicle applications. Scania lowers its risk by applying a conservative credit policy and a refinancing profile that matches borrowing with lending.

Close collaboration between Financial Services and Scania's sales organisation is one important reason behind the expansion of Scania's financing portfolio. This collaboration allows both operations to utilise each other's knowledge about customers and their businesses. Experience shows that brand loyalty is higher among customers that have financing, insurance and maintenance contracts with Scania.

During 2013 Scania has further expanded its Financial Services operations into new markets. Operations have been

set up in Taiwan and Hong Kong. At the end of 2013 Financial Services had a presence in 52 markets.

Access to credit is important for demand, since customers normally finance their vehicle investment either through the manufacturer or via banks and other financial institutions. Scania's strategy of building long-term relationships with its customers leads to business opportunities during times of economic uncertainty, when banks adopt a more restrictive attitude towards vehicle financing. A good knowledge of customers' industries and vehicle resale values enables Scania to make better assessments than banks, opening the way to higher financing volume.

During the downturn in 2009–2010 Scania was able to provide financing to many customers, which has created strong brand loyalty. This loyalty, combined with continued lower interest by banks in financing transport related investments, explains the level of market penetration of Financial Services.

An increasing number of customers are also seeing the benefits of Scania Insurance. Around one third of the vehicles financed by Scania also have the company's casualty and collision (casco) insurance. Since 2012 Scania also actively promotes insurance cover for vehicles that are not financed through Scania. The aim is to give access to genuine claims management services and improved vehicle uptime to all Scania customers. Increased brand loyalty and workshop sales are the aim of this undertaking.

## Highlights, 2013



**31 JANUARY**

Scania to start bus and coach sales in India.



**21 MARCH**

Scania Streamline is launched.

JANUARY

FEBRUARY

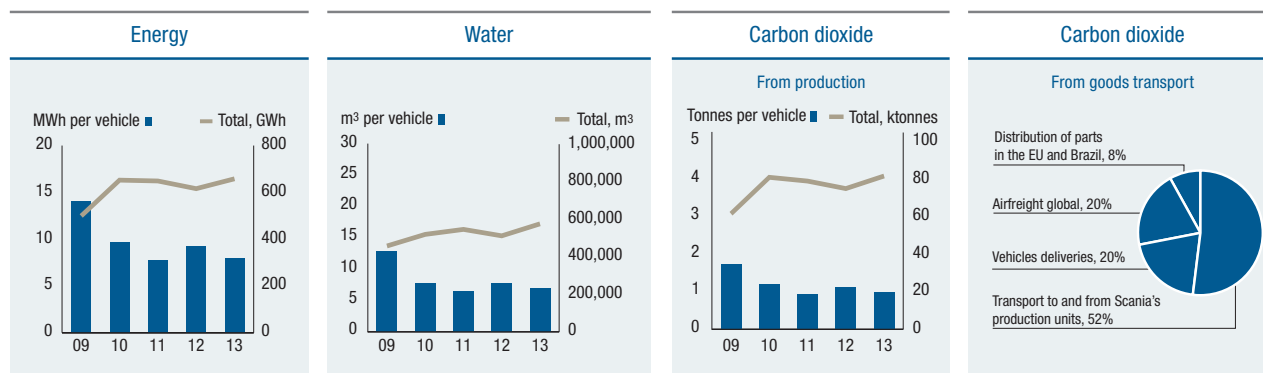
MARCH

**4 FEBRUARY**

Scania to deliver 709 buses in Russia.

**11 MARCH**

Scania and Siemens to collaborate on electrically powered vehicles.



## PRODUCTION

The volatile demand put Scania's flexibility to the test during the year. Several adjustments were made to the daily production rate to meet sharp swings in demand, which impacted production costs negatively. Due to increasing demand in the second and third quarter, Scania boosted the daily production rate at its European production units, running production levels close to its capacity ceiling in the fourth quarter. The production rate in Latin America remained at a high level throughout most of 2013 but temporary uncertainty regarding subsidised financing in Brazil meant that production in the fourth quarter was stopped for one week longer than planned.

The need for flexibility was met, among other measures, by using a greater share of employees from staffing companies and

by adjusting working hours within the framework of time banks. Scania has initiated the expansion of annual technical capacity to 120,000 vehicles from 100,000 today. As its technical capacity is expanded, Scania is undertaking efforts to ensure flexibility.

During 2013, Scania produced 82,854 vehicles (66,930).

## ENVIRONMENT

Scania continuously strengthens the environmental performance of its production units. The Scania Production System (SPS) is central to the task of reducing the use of energy, water and chemicals. Scania has increased focus on the environmental impact of its own shipments, both inbound components and other items from suppliers and outbound parts and vehicles. There is a significant potential for improvements in this area.



**27 MAY**

Scania to deliver 360 city buses to Malaysia.

**7 JUNE**

Scania engineer honoured by Porsche.

APRIL

MAY

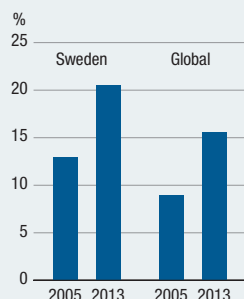
JUNE



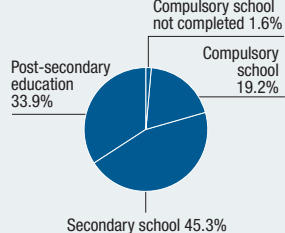
**20 JUNE**

Scania delivers world's first Euro 6 gas powered truck.

Share of female managers



Educational level



## EMPLOYEES

Ensuring that all employees, regardless of their form of employment, feel committed to and interested in their work is an important task for managers at all levels of the organisation. Regardless of what work they do, or where they are in the world.

Scania employees should be able to feel job satisfaction and a sense of well-being. When job openings occur, employees of staffing companies are the first to be offered permanent

employment. Production employees who have a different employer than Scania receive the same training opportunities as Scania's own employees.

## RESEARCH AND DEVELOPMENT

The aim of Scania's research and development organisation is to develop solutions to improve productivity and profitability in customer operations. Low fuel consumption, high uptime and low service cost combined with high quality and good performance provide the basis. Scania invests extensive resources in research and development which is concentrated at the Scania Technical Centre in Södertälje, Sweden, where some 3,400 employees work, most of them qualified engineers. Investments in research and development have steadily increased over the past five years in order to strengthen the product portfolio to meet customer demand and stricter legislation. During 2013, research and development expenses amounted to SEK 5,024 m. (4,681), which corresponded to 6 percent of net sales.

Thanks to world-leading R&D capabilities based on the Scania modular system, a number of new products and services were launched during 2013.

### Introducing second generation Euro 6 engines

The Euro 6 emission standard went into effect in the European Union at the end of 2013. In 2011, Scania was one of the first suppliers in the market to introduce engines meeting this



**24 OCTOBER**

Scania now offers a complete Euro 6 range.

**2 OCTOBER**

Scania Eco-roll utilises gravity to save fuel.

JULY

AUGUST

SEPTEMBER

OCTOBER

standard, which drastically reduces emission levels. Early in 2012, Scania started deliveries to customers, which means that Scania's Euro 6 engines already have a lot of mileage in customer operations, providing extensive evidence of their fuel efficiency and reliability.

With the launch of Scania Streamline, Scania also expanded its engine range, adding second generation Euro 6 engines, which have lower fuel consumption than the Euro 5 predecessors. Overall, Scania has a strong position ahead of the transition to Euro 6 and this was one reason behind the increase in market shares during 2013. All 15 performance steps were available in January 2014.

### Scania Streamline

In March 2013 Scania unveiled Scania Streamline, a new long-haulage truck concept featuring refined technology and new solutions that, combined with second generation Euro 6 engines, enable customers to reduce fuel consumption by up to

8 percent. The trucks have an aerodynamic design and feature a new version of the Scania Opticruise automated gearchanging system.

### New features and services increasing efficiency

A number of new features and services, all focusing on improving customers' total operating economy and safety, were introduced during the second half of 2013. Scania Eco-roll saves up to 2 percent fuel by automatically assessing the most fuel-efficient options in hilly conditions. Advanced Emergency Braking (AEB) can help to deploy emergency braking, while Lane Departure Warning (LDW) alerts drivers if a truck makes an unintentional sideward movement. New rational functions in Scania Fleet Management give drivers access to more effective tools to operate their vehicles efficiently, sustainably and cost-effectively. The Scania Communicator is now standard in all Scania trucks across most markets, making Scania Fleet Management more accessible.



**25 NOVEMBER**

Australia wins Scania Top Team 2013.



**27 NOVEMBER**

Scania secures Australia's first Euro 6 bus fleet order.

**11 NOVEMBER**

Scania opens advanced climate test facility at its Technical Centre in Sweden.

**9 DECEMBER**

Scania and Bär Cargolift in global service cooperation.



NOVEMBER

DECEMBER



**18 NOVEMBER**

Scania to deliver 156 city buses to Berlin.

**11 DECEMBER**

Scania leads European research project on vehicle platooning.



# SCANIA SHARE DATA

The stock market year began strongly in 2013 and markets continued to rise during the first quarter. Some volatility followed in the second quarter, after which the stock market recovered in the third and fourth, ending the year some 20 percent higher than at the start. Although worries of a sluggish recovery in the euro zone, US economic policy issues and slow growth momentum in some emerging markets continued 2013, overall stock market performance showed its best upsurge since 2009.

After a weak stock market year in 2011, two consecutive years of strong growth have followed. The stock market largely ignored macroeconomic and political worries and rose on expectations of a brighter economy ahead, combined with low interest rates. Some sectors performed better than others, especially the financial sector. Industrials underperformed the stock market as a whole, and the performance of truck shares was adversely affected among other things by worries about future demand due to pre-buys of Euro 5 trucks ahead of the transition to Euro 6 legislation.

While the NASDAQ OMX Stockholm Stock exchange rose by 23.2 percent Scania's Series B shares fell by 6.3 percent. The Scania B share provided a total return of -3.0 percent (36.8), compared to the exchange's broad SIXRX index, which provided a return of 28.0 percent (16.5). In the past five years, Scania's B share has provided an annual return averaging 18.6 percent. The corresponding SIXRX figure is 22.0 percent.

## Share trading volume

Scania B share trading volume averaged about 1,283,000 shares per day in 2013 (1,473,000). Including the largest alternative marketplaces, volume averaged 2,011,000 shares

(2,371,000). The turnover rate was 80 (93) percent, compared to 64 (69) percent for the NASDAQ OMX Nordic exchanges as a whole.

## Dividend and financial targets

The proposed dividend of SEK 4.00 per share for 2013 is equivalent to 52 percent of net income for the year. In the past five years, an average of 53 percent of net income has been distributed to the shareholders.

Scania's leadership philosophy is to take advantage of knowledge and experience gained from the company's continuous improvement work. This means placing greater emphasis on methods than on traditional earnings targets. These principles, first applied at production units, have been disseminated and applied to various parts of the company. Scania thus does not set financial targets for the Group in the traditional sense. The capital needs of the Group are continuously evaluated and adapted to the investments required to safeguard Scania's growth.

## Shareholder structure, 30 December 2013

Owner	Capital %	Votes %	
Volkswagen AG <sup>1</sup>	45.66	70.94	
MAN SE	13.35	17.37	
Clearstream Banking	4.35	1.02	
Swedbank Robur Fonder	2.26	0.41	
Scania Resultatbonusstiftelse <sup>2</sup>	0.63	0.39	
Alecta Pensionsförsäkring	2.04	0.37	
Skandia Liv	0.75	0.34	
AMF Försäkring och Fonder	0.68	0.26	
Handelsbanken Fonder	0.80	0.23	
Nordea Investment Funds	0.75	0.14	
<b>Total</b>	<b>71.25</b>	<b>91.47</b>	

<sup>1</sup> On 9 November 2011, Volkswagen AG completed its acquisition of the majority shareholding in MAN SE. As a result, MAN's shareholding in Scania shall be included in Volkswagen's ownership in Scania. Furthermore, shares equivalent to voting rights of 0.87 percent and an equity interest of 3.63 percent that are held in trust by a credit institution shall also be attributed to Volkswagen.

<sup>2</sup> Via Scania Resultatbonusstiftelse, the company's performance-based bonus foundation, employees own Scania shares that amounted to the equivalent 0.63 percent of share capital on 30 December 2013. The foundation may own a maximum of 10 percent of the share capital of Scania.



### About Scania shares

Scania has been quoted on the NASDAQ OMX Stockholm exchange since 1 April 1996. Its share capital is divided into 400 million Series A shares and 400 million Series B shares, where each A share carries one vote and each B carries one tenth of a vote. Otherwise there are no differences between these types of shares. The nominal value per share is SEK 2.50.

Some of Scania CV AB's long-term loan agreements, guaranteed by Scania AB, contain certain conditions stipulating the right of a lender to request repayment in advance and/or terminate the agreement following a change in the control of company. In the view of Scania CV AB it has been necessary to accept those conditions in order to receive financing on otherwise acceptable terms.

Further information about Scania shares is available on [www.scania.com](http://www.scania.com), Investor Relations. Questions may be e-mailed to [ir@scania.com](mailto:ir@scania.com).

### PER SHARE DATA

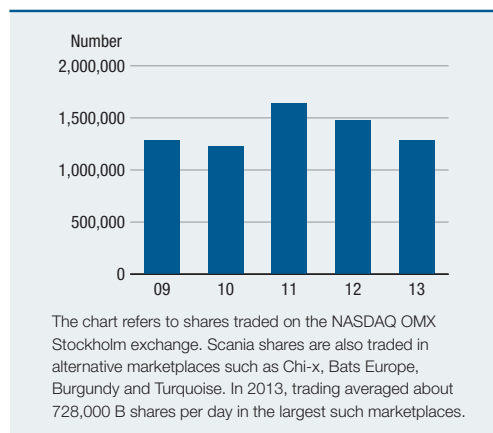
SEK (unless otherwise stated)	2013	2012	2011	2010	2009
Year-end market price, B share	<b>125.90</b>	134.30	102.00	154.70	92.30
Highest market price, B share	<b>150.00</b>	142.20	164.80	160.00	103.00
Lowest market price, B share	<b>119.70</b>	101.5	89.35	88.40	57.75
Change in market price, %, B share	<b>-6.25</b>	31.7	-34.1	67.6	18.7
Total return, %, B share	<b>-3.00</b>	36.8	-32.0	69.1	22.0
Market capitalisation, SEK m	<b>99,160</b>	106,720	80,180	122,440	73,640
Earnings	<b>7.75</b>	8.31	11.78	11.38	1.41
Price/earnings ratio, B share	<b>16</b>	16	9	14	65
Dividend*	<b>4.00</b>	4.75	5.00	5.00	1.00
Redemption	—	—	—	—	—
Dividend yield, %**	<b>3.2</b>	3.5	4.9	3.2	1.1
Dividend payout ratio, %	<b>51.7</b>	57.2	42.4	43.9	70.9
Equity	<b>46.3</b>	43.7	43.1	37.5	29.1
Cash flow, Vehicles and Services	<b>4.04</b>	3.78	8.71	14.85	6.89
Number of shareholders***	<b>107,186</b>	108,918	116,243	121,038	119,973

\* For 2013: Proposed by the Board of Directors.

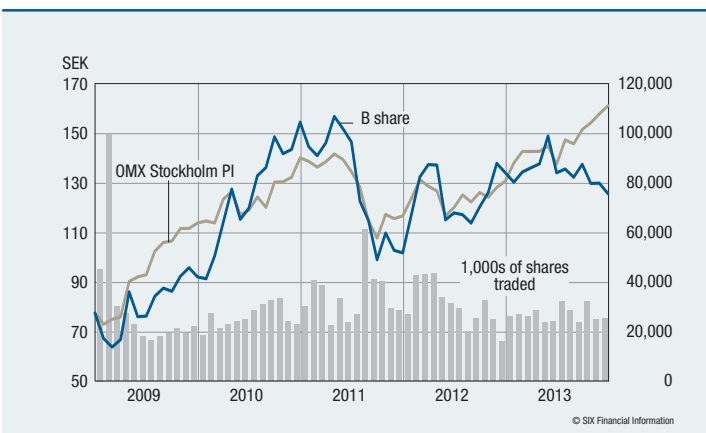
\*\* Dividend divided by the market price of a B share at year end.

\*\*\* On 30 December 2013.

### Average daily trading, B shares



### Share price performance





# RISKS AND RISK MANAGEMENT

Risks are a natural element of business operations and entrepreneurship. Part of the day-to-day work of Scania is to manage risks, to prevent risks from harming the company and to limit the damage that may arise. Various risks may have an adverse impact on Scania with direct effects on business operations and on the company's reputation.

Scania is one of the leading companies in the heavy vehicle industry. This leads to high expectations from all stakeholders, especially customers, about Scania as a company and its products and services. It is important to monitor and minimise events and behaviour that might adversely affect the company's brand and reputation.

Scania's strong corporate culture is based on established values, principles, and methods and is the foundation of the company's risk management work. Scania's Board of Directors is responsible to the shareholders for the company'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 carries the main 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 is well documented. Rapid dissemination of appropriate information is safeguarded via the company's management structures and processes. Management systems are continuously being improved, among other ways through regular reviews, performed both internally and by third parties. For a more detailed description of Scania's management structure, see "The management of the company" section in the Corporate Governance Report on page 49.

### Business development risks

Risks associated with business development and long-term planning are managed primarily through Scania's cross-functional (interdepartmental) meeting structure for decision making of a strategic and tactical nature, as well as Scania's established yearly process for strategic planning. Such planning is discussed and challenged throughout the company, based on external and internal deliberations. 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 continuously.

Risks of overlooking threats and opportunities, of sub-optimising operations in the company, and of making the wrong decisions are thereby minimised, while the risk of uncertainty and lack of clarity concerning the company's strategy and business development is managed in a systematic way.

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

## OPERATIONAL RISKS

### Market risks

The demand for heavy trucks, buses and engines is affected by economic cycles and is thus subject to fluctuations. With regard to truck sales, in historical terms it is also possible to discern a cyclical pattern. In addition, truck sales undergo more temporary fluctuations around their long-term growth trend. Demand for service products is less affected by fluctuations in the economic cycle than demand for vehicles.

Countries and regions may suffer economic or political problems that adversely affect the demand for heavy vehicles. Fluctuations in world financial markets have a large or small impact on real economic cycles and thus on the demand for Scania's products. Since commercial vehicles are a capital investment, demand is not only affected by need but also by the availability and cost of capital. Markets may temporarily stall, and local currencies may depreciate.

Well-diversified sales in more than 100 countries limit the effect of a downturn in any given market. In individual markets, substantial changes may occur in the business environment, such as the introduction or raising of customs duties and taxes, introduction or cessation of stimulus measures as well as changed requirements for vehicle specifications. Impositions of sanctions against certain countries may reduce the potential for marketing Scania's products. In addition, shortcomings in national legal systems may substantially impair Scania's ability to carry out operations and sales. Scania monitors all its markets continuously in order to spot warning signals early and to be able to take action and implement changes in its marketing strategy.

### Risks in the sales and services network

Repair and maintenance contracts comprise one important element of the sales and services business and help to generate good capacity utilisation at workshops and greater customer loyalty. These contracts are often connected to predetermined prices. Thus both price and handling risks arise.

One advanced form of business obligation is an uptime guarantee for a vehicle, in which the customer pays for the distance or time it is used. Scania works actively to improve the expertise and ability of its sales and services network in understanding customers' businesses as well as in managing the risks of these obligations.

As a result of repurchase guarantees and trade-ins, the sales and services organisation handles a large volume of used trucks and buses. Prices and sales figures may vary over economic cycles. Due to Scania's high degree of integration into its sales and services network, the company has extensive knowledge in handling these variations.

Sales and services units assume a credit risk in relation to their customers, mainly for workshop services performed and parts sold. However, the customer base is widely dispersed and each invoice is limited. Each individual credit is thus of limited size.

Independent dealers may suffer problems that may have an adverse effect on Scania's operations. This may include shortcomings in management and investment capacity or problems related to generational shifts in family businesses. If the problems are not merely transitory, Scania may replace dealers or take over the business. Scania continuously maintains close contact with its dealers in order to spot warning signs at an early stage and to be able to take action. In major markets, dealerships are generally owned by Scania.

### Production risks

Scania has an integrated component manufacturing network with two geographic bases, Sweden and Brazil/Argentina. This concentration entails some risk, which is nevertheless offset by the fact that the company's uniform global production system enables it to source components from either area. According to the Scania Continuity Planning Principles, Scania must continuously maintain its preparedness at such a level that the company's ability to maintain delivery assurance to its customers is not adversely affected.

Scania has a shared risk management model, the Business Interruption Study, with corporate-level responsibility for coordination and support to line management. This model is continuously being refined and also takes into account the effects of suppliers on Scania's delivery precision. The Business Interruption Study identifies, quantifies and manages potential interruption risks. This also includes evaluating alternatives, methods and lead times for resuming normal operations.

Based on the results of this work, Scania regularly develops continuity plans adapted to each operating unit, which are part of every manager's responsibilities. Training and drills occur with

affected employees and service providers at Scania's production units.

Follow-up occurs by means of monitoring systems, reporting and response procedures. Yearly reports are submitted to Production and Logistics management.

Scania's Blue Rating Fire Safety system is a standardised method for carrying out risk inspections, with a focus on physical risks and for being able to present Scania's risks in the reinsurance market. Yearly risk inspections are conducted at all production units and numerous Scania-owned distributors/workshops.

Scania Blue Rating – Safety, Health and Environment is a method Scania uses to evaluate and develop the safety, health and environmental work at its industrial units. See also under Sustainability risks.

### Supplier risks

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

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

In order to minimise the impact of production interruptions or financial problems among suppliers, Scania's ambition is to work with more than one supplier for critical items.

Scania continuously safeguards the quality and delivery precision of purchased items. It carries out day-to-day monitoring, then prioritises and classifies deviations. In case of repeated deviations, an escalation model is used in order to create greater focus and quickly restore a normal situation. Through Scania's Business Interruption Study risk management model, supplier-dependent risks that may adversely affect the continuity of Scania's production are identified and managed. Yearly reports are submitted to Purchasing management.

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

### Natural disaster risk

It is hard to predict the occurrence of natural disasters as well as their frequency and scale. For Scania's own operations 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 continuity planning process.

### Human resource and talent recruitment

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

- Insufficient supply of the right expertise
- Inadequate expertise
- Recruitment errors

Scania has structured, well-established working methods for close cooperation with a number of universities and institutes of technology in order to create and recruit cutting-edge expertise as one element of securing good basic technical expertise for the future. Scania has had its own upper secondary school since 1941. Since 2012, the school has developed and broadened further, together with a new partner, and with the ambition of offering high-quality technical upper secondary school education aimed at vocational or university preparation.

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

Human resource and talent development occurs with the help of a coordinated methodology. In this way, Scania achieves quality assurance and continuous improvement in its human resource activities.

Trends are continuously monitored, for example by using key figures for healthy attendance, employee turnover, age structure and professional job satisfaction as well as by using development dialogues. Targeted actions are implemented as needed.

### Information risks

For Scania, it is crucial to handle information in a way that enables operations to share and process information in an efficient and reliable way, both within the company and in collaboration with customers, suppliers and other business partners. The main risks which may affect information management are that:

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

Scania has a unit for global IS/IT management and coordination, which is responsible for introduction and follow-up of Scania's information security policy. As part of their normal responsibilities, managers monitor the risks and security level in their respective area of responsibility and ensure that all employees are aware of their responsibilities. Follow-up occurs by means of both internal monitoring and monitoring performed by third parties.

### Sustainability risks

The term "sustainability risks" refers to risks of undesirable consequences related to the environment, health and safety, human rights and business ethics in Scania's business operations. Risk identification and continuity planning are part of every manager's responsibilities and include planning adapted to each operating unit.

Training and drills occur with all affected employees and service providers at Scania's production units. Follow-up occurs by means of monitoring systems, reporting and response procedures.

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

As needed, supplementary investigations and required actions have been undertaken. This work takes place in close cooperation with local or regional authorities.

During 2013, no accidents occurred that caused significant environmental impact or led to major clean-up expenses. All production units have permits that comply with national legislation. In addition to legal requirements and the conditions included in these permits, operations may also be subject to local requirements and rules. In connection with increased production, Scania applies for new permits covering the affected operations. For certain Scania operations, however, recurrent 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.

Climate change constitutes a global risk and Scania works continually to reduce the impact of its products and other operations.

### Research and development risks

Research and product development occur in close contact with the production network and the sales and services organisation to effectively safeguard high quality.

### New legislation

The ability to meet coming emission standards in various markets is of great importance for Scania's future. In particular, this relates to the Euro 6 standards which apply within the EU starting in 2014.

Other very important future regulations are legal requirements for reduced passing noise, security-related systems such as the Automatic Emergency Braking System and the Lane Departure Warning System (AEBS/LDWS) and carbon dioxide legislation for heavy vehicles.

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

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.

## 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 numerous 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 numerous 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, page 78.

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

Administration of contracts, essential rights and legal risks occurs in the normal course of operations in accordance with the instructions described in Scania's Corporate Governance Report (see pages 49–54). 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 large number of tax cases, as a consequence of the company's operating activities. These cases mainly relate to the areas of transfer pricing and indirect taxes. For further information see Note 2, page 78. 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. Financial risks are managed in accordance with the Financial Policy adopted by Scania's Board of Directors. See also the "Group Financial review" on page 60 and Note 30 on page 111.

# ARTICLES OF ASSOCIATION

Adopted at the Annual General Meeting on 5 May 2011

**§ 1** The registered name of the company is Scania Aktiebolag. The company is a public company (publ).

**§ 2** The aim of the company's operations is to carry on, directly or through subsidiaries or associated companies, development, manufacturing and trading in motor vehicles and industrial and marine engines; to own and manage real and movable property; to carry on financing business (although not activities that require a permit according to the Banking and Financing Business act); as well as other operations compatible with the above.

**§ 3** The company's registered office shall be in the Municipality of Södertälje.

**§ 4** The company's share capital shall be a minimum of one billion six hundred million kronor (SEK 1,600,000,000) and a maximum of six billion four hundred million kronor (SEK 6,400,000,000).

**§ 5** The total number of shares in the company shall be a minimum of six hundred and forty million (640,000,000) and a maximum of two billion five hundred and sixty million (2,560,000,000).

The shares may be issued in two series, Series A and Series B. A maximum of 2,560,000,000 Series A shares and a maximum of 2,560,000,000 Series B shares may be issued, subject to the limitation that the total number of Series A and Series B shares may not exceed 2,560,000,000 shares. In a vote at a General Meeting of shareholders, each Series A share carries one vote and each Series B share carries one tenth of a vote.

If the company decides to issue new shares of both Series A and Series B and the shares are not to be paid by consideration in kind, existing holders of Series A shares and Series B shares shall have the preferential right to subscribe for new shares of the same type in proportion to the number of existing shares of each type held by such existing shareholder ("primary preferential right"). Shares not subscribed for by shareholders with a primary preferential right shall be offered to all shareholders for subscription ("subsidiary preferential right"). If the total number of shares to be offered is not sufficient to cover the subscriptions made through the exercise of subsidiary preferential rights, such shares shall be distributed among the subscribers in relation to the number of existing shares they already hold and, where this is not possible, through the drawing of lots.

If the company decides to issue new shares of only Series A or Series B, for which consideration in kind is not paid, all shareholders, regardless of whether such shareholders currently hold shares of Series A or Series B, shall have the preferential right to subscribe for new shares in proportion to the number of shares held by them prior to such issuance.

The above shall not in any way limit the ability of the company to make decisions regarding cash issues or issues where consideration is paid by offsetting against a debt, which diverge from the shareholders' preferential rights.

In the case of an increase in equity through a bonus issue, new shares of each type shall be issued in proportion to the number of shares of the same type already existing. Existing shares of a particular type will thereby carry the right to new shares of the same type. The aforesaid shall not in any way limit the ability of the company to, through a bonus issue, following the necessary changes in the Articles of Association, issue shares of a new type.

What has been stipulated above regarding shareholders' preferential rights to new shares shall apply correspondingly to the new issue of warrants and convertible debentures.

**§ 6** In addition to those Board members who are appointed according to law by a party other than the Annual General Meeting, the Board of Directors shall comprise a minimum of three and a maximum of ten members with a maximum of two deputies. These members and deputies shall be elected at each Annual General Meeting for the period up to the end of the next Annual General Meeting.

**§ 7** The company signatory (or signatories) are the person(s) appointed for this purpose by the Board of Directors.

**§ 8** Two Auditors and two Deputy Auditors or a registered auditing company shall be appointed at the Annual General Meeting, for the period up to the end of the Annual General Meeting held during the fourth financial year after the election of Auditors, to carry out the company's audit. If the same Auditor or auditing company is to be reappointed after the term has come to an end, the General Meeting may decide that the appointment shall be valid up to the close of the Annual General Meeting held during the third financial year after the election of the Auditor.

The Board of Directors is authorised to appoint one or several special auditors, or a registered auditing firm, to review such statements or plans which have been prepared by the Board of Directors in accordance with the Swedish Companies Act in connection with such new issue of shares, warrants or convertibles which contain provisions on payment in kind or that subscription shall be made with a right of setoff or with other conditions, a sale of the company's own shares against non-cash consideration, a reduction of the share capital or the statutory reserve, a merger or a demerger of a limited liability company.

**§ 9** The company's financial year shall be the calendar year.

**§ 10** The Annual General Meeting shall be held in the Municipality of Södertälje or the Municipality of Stockholm. The meeting shall be opened by the Chairman of the Board or the person appointed to do so by the Board.

**§ 11** The Annual General Meeting shall be held once a year, by June at the latest.

The following matters shall be dealt with at the Annual General Meeting:

1. Election of a chairman for the meeting;
2. Approval of the voting list;
3. Approval of the agenda;

4. Election of two persons to verify the minutes;
5. Consideration of whether the meeting has been duly convened;
6. Presentation of the annual accounts and Auditors' Report, and the consolidated annual accounts and Auditors' Report;
7. Resolutions concerning
  - a. adoption of the income statement and balance sheet and the consolidated income statement and balance sheet;
  - b. distribution of the profit or loss according to the adopted balance sheet;
  - c. discharge of the members of the Board and the President from liability for the financial year;
8. Determination of the number of Board members and deputy Board members;
9. Determination of remuneration for the Board and Auditors;
10. Election of Board members and deputy Board members;
11. Election of Auditors and Deputy Auditors when applicable;
12. Other matters to be dealt with at the Annual General Meeting pursuant to the Swedish Companies Act or the Articles of Association.

**§ 12** At a General Meeting, each shareholder entitled to vote may vote for the full number of votes held or represented by him.

**§ 13** Notice convening the Annual General Meeting, or an Extraordinary General Meeting where a change in the Articles of Association is on the agenda, shall be issued no earlier than six weeks and no later than four weeks prior to the Meeting. Notice convening other Extraordinary General Meetings shall be issued no earlier than six weeks and no later than three weeks prior to the Meeting.

Notice convening a General Meeting shall be in the form of an announcement in the Swedish official gazette Post- och Inrikes Tidningar and as an announcement on the company's webpage. An advertisement that notice has been given shall be published in the Swedish national circulation newspapers *Dagens Nyheter* and *Svenska Dagbladet*. Shareholders who wish to attend a General Meeting must be included in a print-out of the shareholder list reflecting conditions five weekdays prior to the General Meeting, and must also register with the company no later than 16.00 CET on the date stated in the notice convening the Meeting. Such a day may not be a Sunday, another public holiday, Saturday, Midsummer's Eve, Christmas Eve or New Year's Eve and may not be earlier than five weekdays prior to the Meeting.

Shareholders may bring one or two assistants to a General Meeting, although only if the shareholder has given prior notice thereof to the company as stipulated in the preceding section.

**§ 14** The company's shares shall be registered in a central securities depository register according to the Financial Instruments Accounting Act (1998:1479).

# CORPORATE GOVERNANCE

Scania maintains 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 Swedish legislation, in particular the Swedish Companies Act, the Annual Accounts Act, the rule book for issuers at the NASDAQ OMX Stockholm ("Stockholm Stock Exchange"), and the Swedish Code of Corporate Governance ("the Code").

## Governing documents at Scania

The most important governing documents at Scania are:

- Scania's Articles of Association (reproduced on page 48)
- The Rules of Procedure of the Board of Directors, including the Board's instruction to the President and CEO and guidelines for essential reporting processes at Scania
- The Rules of Procedure of the Audit / Remuneration Committees
- How Scania is Managed
- Corporate Governance Manual
- Scania Financial Manual
- Communications Policy

## Application and deviations

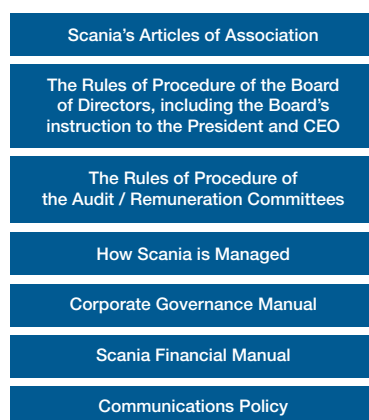
This Corporate Governance Report has been prepared in compliance with the Annual Accounts Act and the Swedish Code of Corporate Governance. Companies applying the Code can deviate from individual rules but shall then provide an explanation reporting the reason for each deviation. Scania followed the Code with one exception in 2013: The Code states that companies applying the Code are to have a Nomination Committee, which is to submit proposals to the Annual General Meeting (AGM) regarding election of the Chairman and other members

of the Board and their remuneration. The Nomination Committee is also to submit proposals to the AGM regarding auditors and their remuneration. At the AGM in 2013, Scania resolved to no longer have any Nomination Committee, in accordance with a proposal from the then Nomination Committee. The proposal was explained as being on account of the company's ownership structure, in which the main owner, directly or indirectly, controls almost 90 percent of the votes in the company. Other listed Swedish companies with a similar ownership structure have resolved not to establish a Nomination Committee.

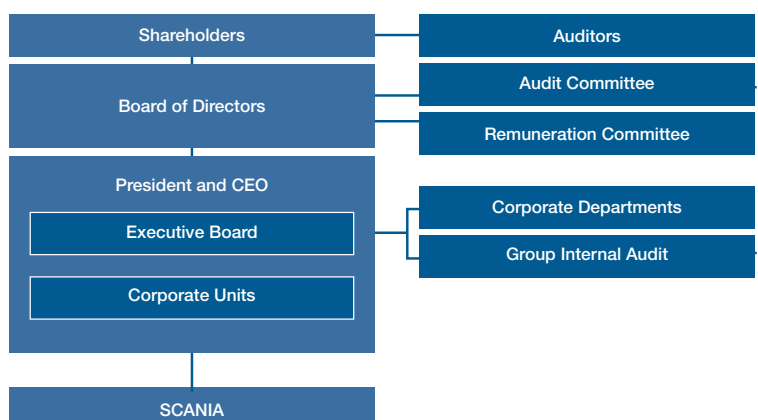
## THE SHAREHOLDERS

At the end of 2013, Scania had about 107,000 shareholders. Volkswagen AG was the largest shareholder, with a directly registered holding of 70.94 percent of voting power and 45.66 percent of shares. In addition, Scania shares equivalent to 0.87 percent of voting power and 3.63 percent of share capital, which are managed by credit institutions, must be counted as part of Volkswagen's holding. Since 2011, MAN SE has been a subsidiary of Volkswagen AG. As a result of this, MAN's holding in Scania shall be included in Volkswagen's ownership in Scania.

## GOVERNING DOCUMENTS



## ORGANISATION





Volkswagen's ownership in Scania totalled the equivalent of 89.18 percent of voting power and 62.64 percent of share capital. After that, the eight largest shareholders were Clearstream Banking, Swedbank Robur funds, Scania Resultatbonusstiftelse, Alecta Pensionsförsäkring, Skandia Liv, AMF Insurance and Funds, Handelsbanken Funds and Nordea Investment Funds.

### The Annual General Meeting

The right of shareholders to make decisions on Scania's affairs is exercised at the Annual General Meeting (AGM). All shareholders in Scania are entitled to have an item dealt with at the AGM. At the AGM, each Series A share represents one vote and each Series B share one tenth of a vote. Scania's share capital is divided into 400 million A shares and 400 million B shares.

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. Notice convening an AGM and an EGM shall occur by publication in the Swedish official gazette Post- och Inrikes Tidningar ([www.bolagsverket.se](http://www.bolagsverket.se)) and on Scania's website. It shall be announced in the Swedish national newspapers *Dagens Nyheter* and *Svenska Dagbladet* that notice has been issued.

In order to have an item dealt with at the AGM, a shareholder must submit it in writing to the Board early enough so that the item can be included in the notice convening the Meeting. In addition, at the AGM, shareholders have the opportunity to ask questions about the company and its results for the year in question.

Normally all members of the Board, the corporate management and the auditors are present in order to answer such questions.

In order to participate in decisions, a shareholder is required to attend the AGM, in person or represented by proxy. The shareholder is also required to be recorded in the shareholder

## SCANIA BOARD MEMBERS ELECTED BY THE ANNUAL GENERAL MEETING

Board member	First elected	Audit Committee	Remuneration Committee	Independent in relation to the company and its management*	Independent in relation to the company's major shareholders*	Attendance out of 12 meetings** in all
Martin Winterkorn, Chairman	2007		Chairman	YES	NO	12
Leif Östling, Vice Chairman	1994			NO	NO	12
Peter Abele	2012	Chairman	Member	YES	YES	12
Helmut Aurenz	2008			YES	YES	12
Francisco J. Garcia Sanz	2007		Member	YES	NO	10
Jochem Heizmann <sup>1</sup>	2010			YES	NO	2
Martin Lundstedt <sup>1</sup>	2013			NO	YES	7
Ferdinand K. Piëch	2012			YES	NO	12
Hans Dieter Pötsch	2007	Member		YES	NO	12
Åsa Thunman	2010	Member		YES	YES	12
Peter Wallenberg Jr	2005			YES	YES	12

<sup>1</sup> Jochem Heizmann resigned from the Board at the 2013 AGM, which elected Martin Lundstedt as a new Board member.

\* The Nomination Committee's assessment before it was dissolved at the AGM 2013 of elected Board members' independence according to the Swedish Code of Corporate Governance.

\*\* During 2013, the Board held twelve meetings: five Board meetings before the 2013 AGM and seven meetings after the 2013 AGM.

list by a certain date before the AGM and to notify the company according to certain procedures.

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. A shareholder may utilise all votes that correspond to the shareholder's shareholding and that are duly represented at the AGM.

The minutes of the AGM are published on Scania's website. The Articles of Association are amended through decisions by the AGM in compliance with the rules in the Swedish Companies Act.

Information about rules and practices at the annual general meetings of companies listed on the NASDAQ OMX Stockholm (Stockholm Stock Exchange) and other aspects of Swedish corporate governance is available on the Scania website at [www.scania.com/corporate-governance](http://www.scania.com/corporate-governance) and is labelled "Special Features of Swedish Corporate Governance".

## THE BOARD OF DIRECTORS

Scania's Board of Directors 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 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.

On 3 May 2013, Scania's AGM elected ten Board members and no deputy members. They are:

**Martin Winterkorn**

**Leif Östling**

**Peter Abele**

**Helmut Aurenz**

**Francisco J. Garcia Sanz**

**Martin Lundstedt**

**Ferdinand K. Piëch**

**Hans Dieter Pötsch**

**Åsa Thunman**

**Peter Wallenberg Jr**

The AGM elected Martin Winterkorn as Chairman and Leif Östling was elected Vice 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 are:

**Johan Järvklo**

**Håkan Thurfjell**

**Mikael Johansson, deputy member**

**Lisa Lorentzon, deputy member**

A presentation of the Board members can be found on pages 56–57.

## The work of the Board

The statutory Board meeting, which is held directly in conjunction with the AGM, approves Rules of Procedure and a standing agenda for the Board meetings and, as required, rules of procedure for its committees.

According to its Rules of Procedure, the Board shall hold at least six regular meetings each year. Beyond this, the Board meets when there are special needs.

The meetings held in January/February, April/May, July/August and October/November are devoted, among other things, to financial reporting from the company. The meeting held in July/August normally deals with long-term plans and the financial forecast for the following year. At all its regular meetings, the Board deals with matters of a current nature and capital expenditure issues.

During 2013, the Board held 12 meetings.

The committees report their work to the Board on a continuous basis. The Board also regularly discusses various aspects of the company's operations, for example financing, product development and market issues. This occurs at in-depth briefings where affected managers from the company participate.

Board members' attendance at Board meetings can be seen in the table on page 50.

According to the Swedish Companies Act, the President may be elected as a member of the Board. The company's President and CEO Martin Lundstedt, was elected as a member of the Board at the AGM in 2013.

## 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.

### Remuneration to the Board

Compensation to the members of the Board is determined by the AGM and is paid to those members who are not employees of Scania or Volkswagen AG. The remuneration decided by the AGM is reported in Note 28 of the Annual Report, "Compensation to executive officers".

### Evaluation of the work of the Board

A written evaluation is normally performed annually, in which all Board members are given the opportunity to present their opinions about the Board, including the Chairman, and its work. The President and CEO is evaluated on a continuous basis by the Board. Once a year, the Board also carries out an evaluation of the President and CEO in which he does not participate.

### The committees of the Board

The Board currently has two committees: the Audit Committee and the Remuneration Committee. The Board appoints the members of the committees from among its own members.

### The Audit Committee

The current Audit Committee was elected for the first time at the AGM in 2012 and has since then consisted of Peter Abele (Chairman), Hans Dieter Pötsch and Åsa Thunman. During 2013, the Audit Committee met a total of nine times. All members participated in all the meetings except for Åsa Thunman, who was absent from one meeting. 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.

When auditors are to be elected, the Audit Committee presents a proposal. The results of the evaluation of auditors and, in case of the election of auditors, the proposal of the Audit Committee is presented to the Board as a whole. The decision of the Board forms the basis for a proposal to the AGM.

The Audit Committee shall also receive and discuss complaints concerning accounting, internal controls or auditing in the company as well as prepare Board's decisions regarding possible transactions with related parties.

### The Remuneration Committee

The current remuneration committee was elected for the first time at the AGM in 2012 and has since then consisted of Martin Winterkorn (Chairman), Peter Abele and Francisco J. Garcia Sanz. During 2013, the Remuneration Committee met twice. All members participated in both meetings.

The Remuneration Committee discusses issues concerning compensation principles and incentive programmes, as well as preparing proposals for such issues that must be approved by the AGM. In compliance with the principles that the AGM has approved for the Board, the Remuneration Committee also prepares decisions concerning conditions of employment for the company's President and CEO and, as appropriate, its Executive Vice Presidents.

### Auditors

At Scania, the independent auditors are elected by the shareholders at the AGM, for a period of four years. 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.

Scania paid its auditors the fees (including compensation for costs) that are stated in the Annual Report, Note 29, "Fees and other remuneration to auditors", for both audit-related and non-audit-related assignments.

### Cooperation projects, transactions with, and information disclosure to the Volkswagen Group

The Board has approved a policy document for cooperation projects and transactions in order to ensure that all such cooperation and transactions between the company and other companies in the Volkswagen Group including information disclosure are handled according to the arm's length principle between independent parties, that requirements under Swedish company law, Swedish stock market rules including NASDAQ OMX Stockholm's rules are complied with. The policy shall ensure that all shareholders are treated equally and that good corporate governance is otherwise upheld by the company.

The Board's policy document has resulted in a decision-making process, which in brief means that after being prepared, all initiatives relating to cooperation projects or transactions with companies in the Volkswagen Group, where there is a risk of some form of transfer of value from the company, shall be first approved by the Executive Board for subsequent submission to the Board of Directors for a final decision. The Executive Board

only submits proposals for such cooperation projects or transactions, where there is a clear business benefit for the company and all its shareholders. Areas or knowledge that the company defines as strategic or of importance to the company's unique position in its markets are completely excluded from this cooperation. All initiatives are documented in a logbook and in cases where the company has decided not to participate in a cooperation project or a transaction, this is reported to the Board.

The financial information that Volkswagen AG requires for its external reporting is communicated to Volkswagen AG in accordance with NASDAQ OMX Stockholm's rules and Swedish stock market rules.

The company's auditors will examine the company's processes for participation in cooperation projects or transactions with companies in the Volkswagen Group. The auditors will give an oral presentation at the AGM.

## 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. This is also compiled in summary documents (known as "one-pagers"), which are available to employees. The strategic direction serves as the foundation for the Scania Group's business and operating plans.

### The President and CEO

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

### The Executive Board

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

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

### The corporate units

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

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

### Management compensation

Compensation issues for the President and CEO and, as appropriate, Executive Vice Presidents, are decided by the Board after preparation by its Remuneration Committee.

The principles for compensation to executive officers are decided by the AGM, based on a proposal by the Board. The proposal is prepared by the Remuneration Committee. Share-related incentive programmes are decided by the AGM.

Compensation to executive officers, including the President and CEO and the Executive Board, is stated in the Annual Report, Note 28, "Compensation to executive officers".

### Internal control of financial reporting

The description below has been prepared in compliance with the Swedish Code of Corporate Governance and the Annual Accounts Act. The cornerstones of Scania's internal control system consist of the control environment, risk assessment, control activities, information and communication as well as monitoring.

### ***Control environment***

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

### ***Risk assessment and control activities***

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

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

### ***Information and communication***

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

### ***Monitoring***

Scania monitors compliance with the above described governing documents and the effectiveness of the control structure. Monitoring and evaluation are performed by the company's corporate controller departments in industrial operations, all sales and services companies, and finance companies. During the 2013 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.

In preparation for every meeting, the Audit Committee of the Board of Directors receives an internal control report for review. This report is prepared by Group Internal Audit, whose main task is to monitor and review internal control of the company's financial reporting. The independence of the unit is ensured by its reporting to the Audit Committee. Functionally, the unit reports to the Chief Financial Officer of Scania.

The Board receives monthly financial reports, except for January and July. This financial information increases in terms of content in the run-up to each interim report, which is always preceded by a Board meeting where the Board approves the report.

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

Scania's Corporate Governance Report is also available at [www.scania.com/corporate-governance](http://www.scania.com/corporate-governance).

---

---

# BOARD OF DIRECTORS AND EXECUTIVE BOARD

---

---



## BOARD OF DIRECTORS



### Martin Winterkorn

Chairman of the Board of Directors since 2007. Chairman, Remuneration Committee.

Born: 1947.

Education: Prof. Dr. Dr. h. c. mult.  
Shares in Scania: 0.

Other directorships:

Chairman of the Board of Management, Volkswagen AG. Chairman or member of Supervisory Board of several companies within the Volkswagen Group. Chairman of the Board of Management, Porsche Automobil Holding SE. Member of Supervisory Board of FC Bayern München AG.

Relevant work experience:

Chairman and member of the Board of Management, Volkswagen AG, responsible for Group Research and Development. Chairman of the Board of Management, Volkswagen Brand.



### Leif Östling

Vice Chairman since 13 December 2012. Member of the Board of Directors since 1994.

Born: 1945.

Education: MBA and MSc.  
Shares in Scania: 140,000 A shares, 260,100 B shares plus 160,000 B shares via related companies.

Other directorships:

Member of the Board of Management, Volkswagen AG. Member of Supervisory Board of several companies within the Volkswagen Group. Chairman of AB SKF. Vice Chairman of ISS A/S until 6 March 2013. Member of the Supervisory Board of EQT Holdings AB.

Relevant work experience:

Member of the Board of Management, Volkswagen AG, responsible for Group Commercial Vehicles from 1 September 2012. Various management positions at Scania AB since 1972, President and CEO of Scania AB between 1994 and 2012.



### Peter Abele

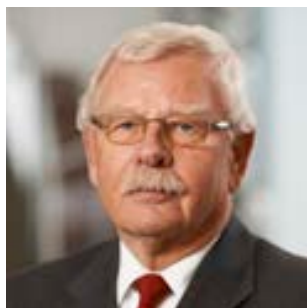
Member of the Board of Directors since 2012. Chairman, Audit Committee. Member, Remuneration Committee.

Born: 1941.

Education: Degree in Engineering (Graduate Engineer and Graduate Industrial Engineer).  
Shares in Scania: 0.

Relevant work experience:

A number of high-level managerial positions since 1974, including in the car manufacturing industry. Member of the Board of Management at Audi AG, responsible for Finance and Information Technology until 2003.



### Helmut Aurenz

Member of the Board of Directors since 2008.

Born: 1937.

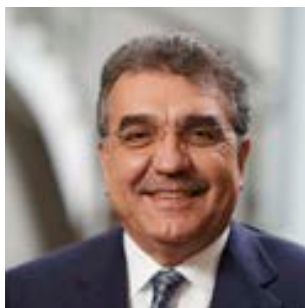
Education: Apprenticeship in Horticulture, Entrepreneur.  
Shares in Scania: 0.

Other directorships:

Member of various boards and advisory bodies, among them the advisory assemblies for Baden-Württembergische Bank, Landeskreditbank Baden-Württemberg and Landesbank Baden-Württemberg. Member of the World Economic Forum in Geneva. Independent Board member of Audi AG and Automobili Lamborghini Holding Spa.

Relevant work experience:

Started in 1958 a now-sizeable garden and fertiliser products business in the ASB Group in Germany.



### Francisco J. Garcia Sanz

Member of the Board of Directors since 2007. Member, Remuneration Committee.

Born: 1957.

Education: Dr. rer. pol. h. c.  
Shares in Scania: 0.

Other directorships:

Member of the Board of Management, Volkswagen AG. Board member of several companies within the Volkswagen Group. Board member of Caxia-Holding S.A. and HOCHTIEF Aktiengesellschaft.

Relevant work experience:

Member of the Board of Management, Volkswagen AG, with global responsibility for Procurement. Various positions at Adam Opel AG, various management positions at GM and Volkswagen AG.



### Martin Lundstedt

Member of the Board of Directors since 2013.

Born: 1967.

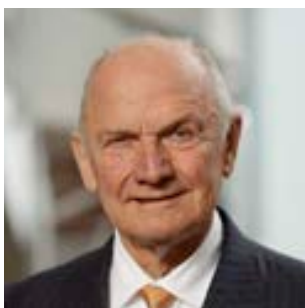
Education: MSc.  
Shares in Scania: 31,530 B-shares

Other directorships:

Chairman of Permobil AB and Partex Marking Systems AB. Board member of Concentric AB and of Laxå Special Vehicles AB.

Relevant work experience:

Various managerial positions at Scania since 1992, President and CEO for Scania since 2012.



### Ferdinand K. Piëch

Member of the Board of Directors since 2012.

Born: 1937.

Education: Degree in Engineering Dipl.-Ing. Shares in Scania: 0.

Other directorships:

Chairman of the Supervisory Board of Volkswagen AG and MAN SE. Member of the Supervisory Board of AUDI AG, Porsche Automobil Holding SE, Porsche AG, Porsche Holding GmbH and Director of Ducati Motor Holding spa. Chairman of the Board of Directors of Scania between 2000 and 2002. Member of the Board of Directors of Scania between 2002 and 2003.

Relevant work experience:

Began his career in 1963 at Dr.-Ing. h. c. Porsche KG. Since then he has held a number of high-level managerial positions in the car manufacturing industry.



### Hans Dieter Pötsch

Member of the Board of Directors since 2007. Member, Audit Committee.

Born: 1951.

Education: MSc. Shares in Scania: 0.

Other directorships:

Member of the Board of Management, Volkswagen AG. Member of the Board of Management, Porsche Automobil Holding SE. Chairman or member of several Supervisory Boards within the Volkswagen Group. Member of the Supervisory Board of Bertelsmann SE & Co. KGaA.

Relevant work experience:

Member of the Board of Management, Volkswagen AG, responsible for Finance and Controlling. Member of the Board of Management, Porsche Automobil Holding SE (Chief Financial Officer). Chairman of the Board of Management, Dürr AG. General Manager for Finance and Administration at Trumpf GmbH & Co. Various positions at BMW.



### Åsa Thunman

Member of the Board of Directors since 2010. Member, Audit Committee.

Born: 1969.

Education: Law degree (LL.M.). Shares in Scania: 0.

Relevant work experience:

Senior Vice President General Counsel of Securitas AB since 2011. General Counsel of Elekta AB and secretary to the Board of Directors and Nomination Committee and the Audit Committee of Elekta AB. President of Elekta Instrument AB and Vice President at the corporate office of Elekta AB.



### Peter Wallenberg Jr

Member of the Board of Directors since 2005.

Born: 1959.

Education: MBA. Shares in Scania: 6,000 B shares.

Other directorships:

Chairman of Foundation Administration Management Sweden AB, the Grand Group AB, the Royal Swedish Automobile Club. Vice Chairman of the Knut and Alice Wallenberg Foundation. Board member of Investor AB, Aleris Holding AB, Atlas Copco AB and Foundation Asset Management Sweden AB.

Relevant work experience:

Various positions at Grand Hôtel.



### Håkan Thurffjell

Representative of the Federation of Salaried Employees in Industry and Services (PTK) at Scania. Member of the Board of Directors since 2008.

Born: 1951.

Shares in Scania: 0.

Relevant work experience:

Various managerial positions at Scania.



### Lisa Lorentzon

Representative of the Federation of Salaried Employees in Industry and Services at Scania (PTK). Deputy member of the Board of Directors since 2012.

Born: 1982.

Shares in Scania: 20 B shares.

Relevant work experience:

Various positions at Scania since 2007, current position Manager Scania IT.



### 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.

Shares in Scania: 0.

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.

Shares in Scania: 0.

Relevant work experience:

Various positions at Scania.

## EXECUTIVE BOARD



**Martin Lundstedt**

President and CEO.

Born: 1967.

Education: MSc.

Joined Scania in 1992.

Shares in Scania: 31,530 B shares.



**Jan Ytterberg**

Member of Executive Board. Executive Vice President, Chief Financial Officer (CFO).

Born: 1961.

Education: BSc.

Joined Scania in 1987.

Shares in Scania: 17,762 B shares.



**Kent Conradson**

Member of Executive Board. Executive Vice President, Head of Human Resources.

Born: 1958.

Education: BSc.

Joined Scania in 1979.

Shares in Scania: 2,360 B shares.



**Andrea Fuder**

Member of Executive Board. Executive Vice President, Head of Purchasing.

Born: 1967.

Education: MBA and MSc.

Joined Scania in 2012.

Shares in Scania: 156 B shares.



**Per Hallberg**

Member of Executive Board. Executive Vice President, Head of Production and Logistics.

Born: 1952.

Education: MSc.

Joined Scania in 1977.

Shares in Scania: 13,867 B shares.



**Henrik Henriksson**

Member of Executive Board. Executive Vice President, Head of Sales and Marketing.

Born: 1970.

Education: BSc.

Joined Scania in 1997.

Shares in Scania: 4,278 B shares.



**Christian Levin**

Member of Executive Board. Executive Vice President, Head of Commercial Operations.

Born: 1967.

Education: MBA and MSc.

Joined Scania in 1994.

Shares in Scania: 1,032 B shares.



**Harald Ludanek**

Member of Executive Board. Executive Vice President, Head of Research and Development.

Born: 1958.

Education: Dr.-Ing.

Joined Scania in 2012.

Shares in Scania: 204 B shares.

# GROUP FINANCIAL REVIEW

## NET SALES

The net sales of the Scania Group, in the Vehicles and Services segment, increased by 9 percent to SEK 86,847 m. (79,603). Currency rate effects had a negative impact on sales of 5 percent.

New vehicle sales revenue increased by 13 percent. Sales were influenced by the increased number of vehicles delivered. Engine sales revenue decreased by 8 percent. Service revenue was stable overall, amounting to SEK 17,510 m. (17,092). Higher volume of workshop hours and parts as well as somewhat higher prices had a positive impact, while currency rate effects had a negative impact.

Interest and lease income in the Financial Services segment decreased by 2 percent, mainly due to lower interest rates and a stronger Swedish krona partly offset by higher financing volume.

Net sales by product, SEK m.	2013	2012
Trucks	57,502	49,580
Buses	6,610	7,196
Engines	1,140	1,245
Services	17,510	17,092
Used vehicles	4,912	4,492
Miscellaneous	2,319	1,892
Delivery sales value	89,993	81,497
Adjustment for lease income <sup>1</sup>	-3,146	-1,894
Total Vehicles and Services	86,847	79,603
Financial Services	4,494	4,576
Elimination <sup>2</sup>	-1,812	-1,728
<b>Scania Group total</b>	<b>89,529</b>	<b>82,451</b>

<sup>1</sup> 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.

<sup>2</sup> Elimination refers to rental income from operating leases.

## DELIVERIES

During 2013 Scania delivered 73,611 (61,051) trucks, an increase of 21 percent. Bus deliveries increased by 8 percent to 6,853 (6,350) units. Engine deliveries decreased by 4 percent to 6,783 (7,063) units.

Vehicles delivered	2013	2012
<b>Vehicles and Services</b>		
Trucks	73,611	61,051
Buses	6,853	6,350
Total new vehicles	80,464	67,401
Used vehicles	15,555	13,756
Engines	6,783	7,063

## Financial Services

Number financed (new during the year)	2013	2012
Trucks	21,110	19,533
Buses	569	914
Total new vehicles	21,679	20,447
Used vehicles	5,716	5,331
New financing, SEK m.	23,615	23,992
Portfolio, SEK m.	48,863	45,037

## EARNINGS

**Scania's operating income** amounted to SEK 8,455 m. (8,300) during 2013. Operating margin amounted to 9.7 (10.4) percent.

**Operating income in Vehicles and Services** totalled SEK 7,736 m. (7,694) during 2013. Higher vehicle deliveries and higher service volume were offset by negative currency rate effects and a competitive pricing environment.

Scania's research and development expenditures amounted to SEK 5,854 m. (5,312). After adjusting for SEK 1,123 m. (860) in capitalised expenditures and SEK 293 m. (229) in depreciation of previously capitalised expenditures, recognised expenses increased to SEK 5,024 m. (4,681).

Compared to the full year 2012, the total currency rate effect was negative and amounted to SEK 1,735 m.

**Operating income in Financial Services** rose to SEK 719 m. (606). This was equivalent to 1.5 (1.4) percent of the average portfolio during the year. The improved earnings were mainly due to a larger portfolio and higher margins. Bad debt expenses decreased somewhat during the year.

At year-end 2013, the size of the customer finance portfolio amounted to SEK 48.9 billion, which represented an increase of SEK 3.8 billion since the end of 2012. In local currencies, the portfolio increased by SEK 4.2 billion, equivalent to 9.2 percent.

Operating income per segment, SEK m.	2013	2012
<b>Vehicles and Services</b>		
Operating income	7,736	7,694
Operating margin, %	8.9	9.7
<b>Financial Services</b>		
Operating income	719	606
Operating margin, % <sup>1</sup>	1.5	1.4
Operating income, Scania Group	8,455	8,300
Operating margin, %	9.7	10.4
Income before tax	8,408	8,281
Taxes	-2,214	-1,641
<b>Net income</b>	<b>6,194</b>	<b>6,640</b>
Earnings per share, SEK	7.75	8.31
Return on equity, %	17.5	19.2

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

# GROUP FINANCIAL REVIEW, CONTINUED

**Scania's net financial items** amounted to SEK –47 m. (–19). Net interest items amounted to SEK –63 m. (133). Net interest items were negatively affected by a lower interest margin and a lower average net cash position in Vehicles and Services compared to the previous year. Other financial income and expenses amounted to SEK 16 m. (–152). These included SEK 72 m. (–90) in valuation effects related to financial instruments where hedge accounting was not applied.

**Income before taxes** amounted to SEK 8,408 m. (8,281). The Scania Group's tax expense for 2013 was equivalent to 26.3 (19.8) percent of income before taxes. The tax rate was negatively affected primarily by the reduction in Swedish corporation tax in the fourth quarter of 2012.

**Net income** for the year totalled SEK 6,194 m. (6,640), corresponding to a net margin of 7.1 (8.3) percent. Earnings per share amounted to SEK 7.75 (8.31).

## CASH FLOW

**Cash flow in Vehicles and Services** amounted to SEK 3,231 m. (3,025). Tied-up working capital decreased by SEK 102 m., despite a negative impact from a redemption of about SEK 800 m. related to the PRI Swedish pension system debt.

Net investments amounted to SEK 5,320 m. (4,455), including SEK 1,123 m. (860) in capitalisation of development expenses. At the end of 2013, the net cash position in Vehicles and Services amounted to SEK 8,843 m. (SEK 9,361 m.).

**Cash flow in Financial Services** amounted to SEK –3,336 m. (–4,089), due to a growing customer finance portfolio.

## NET DEBT

Net debt, SEK m.	2013	2012
Cash and cash equivalents and current investments	–9,609	–12,047
Current borrowings	14,483	16,305
Non-current borrowings	29,350	26,146
Net market value of derivatives for hedging of borrowings	–352	–148
<b>Total <sup>1</sup></b>	<b>33,872</b>	<b>30,256</b>
of which, attributable to Vehicles and Services <sup>1</sup>	–8,843	–9,361
of which, attributable to Financial Services <sup>1</sup>	42,715	39,617

<sup>1</sup> Net cash (–)/Net debt (+).

Cash flow for the year in Vehicles and Services of SEK 3,231 m., after subtracting the dividend and taking into account currency rate effects, meant that the net cash position decreased by SEK 518 m. to SEK 8,843 m.

## FINANCIAL POSITION

Financial ratios related to the balance sheet	2013	2012
Equity/assets (E/A) ratio, %	31.4	30.9
E/A ratio, Vehicles and Services, %	45.8	44.1
E/A ratio, Financial Services, %	10.4	10.3
Equity per share, SEK	46.3	43.7
Return on capital employed, Vehicles and Services, % <sup>2</sup>	21.6	22.5
Net debt/equity ratio, Vehicles and Services <sup>3</sup>	–0.28	–0.31

<sup>2</sup> Calculation is based on average capital employed for the five most recent quarters.

<sup>3</sup> Net cash (–) Net debt (+).

During 2013, the equity of the Scania Group increased by SEK 2,108 m. and totalled SEK 37,112 m. (35,004) at year-end. Net income added SEK 6,194 m. (6,640), while the dividend to shareholders decreased equity by SEK 3,800 m. (4,000). Equity decreased by SEK 907 m. (1,178) because of exchange rate differences that arose when translating net assets outside Sweden. In addition, equity increased by SEK 803 m. (–1,238) because of cash flow hedgings and actuarial gains on pension liabilities. Taxes attributable to items reported under "Other comprehensive income" totalled SEK 182 m. (199). The non-controlling interest was unchanged during the year (69).

The regular dividend for the 2013 financial year proposed by the Board of Directors is SEK 4.00 (4.75) per share.

## NUMBER OF EMPLOYEES

The number of employees in the **Scania Group** at year-end 2013 was 40,953, compared to 38,597 at the end of 2012.

In **Vehicles and Services**, the number of employees at the end of December was 40,214 (37,906).

In **Financial Services**, the number of employees at year-end 2013 was 739 (691).

## FINANCIAL RISKS

### Currency risk

Currency transaction exposure in operating income during 2013 totalled about SEK 31 (28) billion. The largest currency flows were in euros, Brazilian reais, British pounds and US dollars. Based on 2013 revenue and expenses in foreign currencies, a one percentage point change in the Swedish krona against other currencies would affect operating income by about SEK 306 m. (281) on an annual basis.

According to Scania's 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. During 2013, no future currency flows were hedged.

At the end of 2013, Scania's net assets in foreign currencies amounted to SEK 21,350 m. (19,900). The net foreign assets of subsidiaries are normally not hedged. However, to the extent a foreign subsidiary has significant net monetary assets in local currency, they may be hedged. At the end of 2013, no foreign net assets were hedged.



### Interest rate risk

Scania's policy concerning interest rate risks in Vehicles and Services is that the interest rate refixing period on its net debt should normally be 6 months, but divergences may be allowed within the 0–24 month range. 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 dealers as well as end customers.

Provisions for credit losses amounted to SEK 383 m. (462), equivalent to 5.1 (6.6) percent of total receivables. The year's bad debt expenses amounted to SEK 56 m. (56).

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. In Financial Services, the year's expenses for actual and potential credit losses totalled SEK 280 m. (290), equivalent to 0.60 (0.66) percent of the average portfolio. The year's actual credit losses amounted to SEK 238 m. (249).

At year-end, the total reserve for bad debt expenses in Financial Services amounted to SEK 805 m. (763), equivalent to 1.6 (1.7) percent of the portfolio at the close of 2013.

The year-end credit portfolio amounted to SEK 48,863 m. (45,037), allocated among about 27,000 customers, of which 98.7 percent were customers with lower credit exposure per customer than SEK 15 m.

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. In addition, Scania secures a certain portion of its borrowing needs via five committed credit facilities: three in the international borrowing market and two in the Swedish market.

At year-end 2013, borrowings amounted to SEK 43.8 (42.4) billion. In addition to utilised borrowing, Scania had unutilised committed credit facilities equivalent to SEK 28.1 (27.2) billion.

For more information about management of financial risks, see also Note 30.

## OTHER CONTRACTUAL RISKS

### Residual value exposure

Scania delivers some of its vehicles with guaranteed residual value or with repurchase obligations, where Scania thus has residual value exposure. There is also residual value exposure for short-term rental vehicles with an estimated residual value. The amount for residual value exposure at year-end was SEK 9,873 m. (8,605). Exposure rose by SEK 1,268 m., mainly due to an increased number of newly contracted obligations in Europe and somewhat due to the stronger euro. During 2013, the volume of new contracts was about 8,700 (7,800).

### 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 2013 by 12,000 and totalled 129,300 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 2013 totalled SEK 7,000 m. (4,000).

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.