MARKET TRENDS 2016

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

Vehicles and services

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

The truck market in Europe

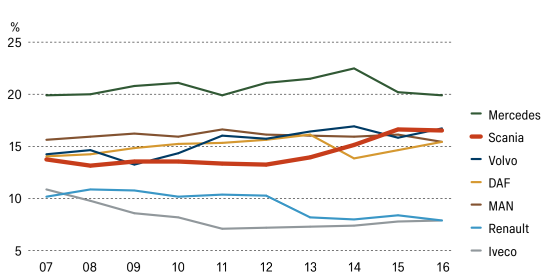
The economic growth in Europe continued during 2016. The total market for heavy trucks in 25 of the European Union member countries (all EU countries except Greece, Bulgaria,and Malta) plus Norway and Switzerland increased by 12.4 percent to about 300,200 (267,100) units during full year 2016. The replacement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

Continued high market share

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

Market share

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



16.5%

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

49,469

Number of registered Scania trucks in Europe 2016

SEK 21,611 m.

Service revenue 2016

Uncertainty remains in Latin America

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

Varying demand in other markets

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

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

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

The bus and coach market

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

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

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

Mixed picture in engines

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

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

Record high revenue in the service business

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

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

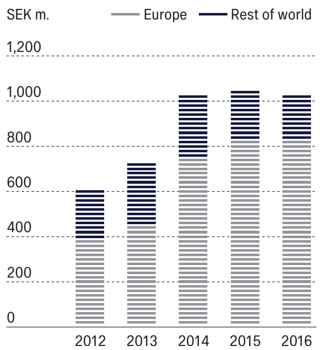
Demand for services is more stable than vehicles due to the necessity of repair and maintenance, and Scania's expanding service offering is having a significant growth effect.

Financial services

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

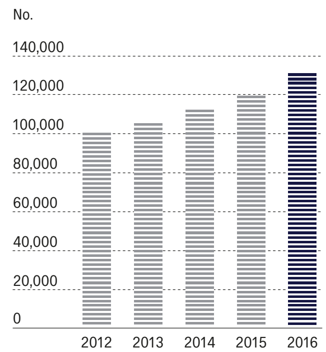
Operating income Financial Services

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



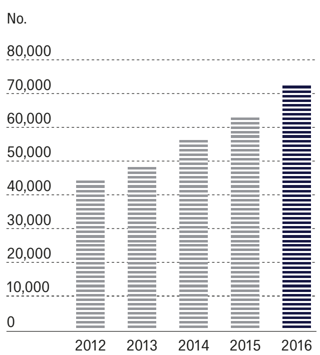
Finance contracts

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

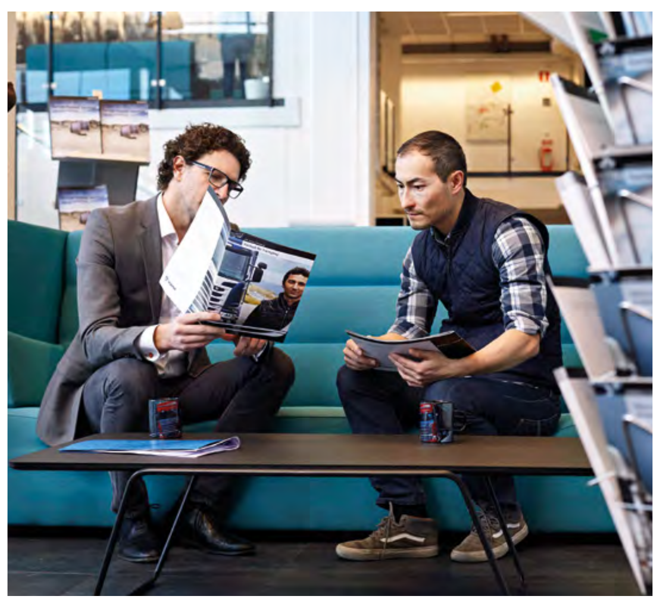


Insurance contracts

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



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



Our employees

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

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

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

Production and environment

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

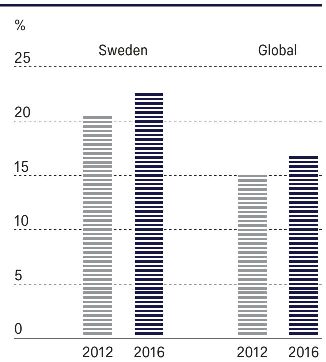
Scania has expanded its technical capacity to 120,000 vehicles from 100,000. The work on ensuring flexibility to meet short-term fluctuations in demand is continuing as Scania expands its capacity. During 2016, Scania produced 83,940 vehicles (79,350).

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

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

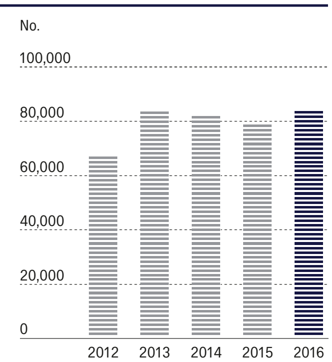
Share of female managers

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



Vehicles produced

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

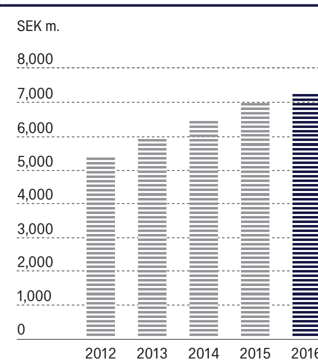


Research and development

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

R&D Investments

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



RISK AND RISK MANAGEMENT

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

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

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

Strategic risks

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

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

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

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

Operational risks

Market risks

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

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

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

Risks in the sales and services network

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

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

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

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

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

Regulatory risks in the Financial Services operations

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

Production risks

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

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

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

Yearly reports are submitted to Scania Top Management.

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

Product liability

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

Insurable risks

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

Legal risks

Contracts and rights

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

Legal actions

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

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

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

Tax risks

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

Financial risks

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

BOARD OF DIRECTORS

Andreas Renschler
Chairman of the Board of Directors since 2015. Chairman, Remuneration Committee.
Born: 1958.
Education: Degrees in business engineering and business administration.
Other directorships: Member of the Board of Management, Volkswagen AG. Chairman of the Board of Directors, MAN SE, the Board of Directors, MAN Truck & Bus AG and the Board of Directors, MAN Latin America Indústria e Comércio de Veículos Ltda. Member of the Board of Directors, Deutsche Messe AG and the Board of Directors, Sinotruk (Hongkong) Limited.
Relevant work experience: Member of the Board of Management, Volkswagen AG, responsible for Commercial Vehicles. CEO Volkswagen Truck & Bus GmbH. Various management positions at Daimler AG, responsible for Purchasing and Production for Mercedes-Benz Cars and Mercedes-Benz Vans. Member of the Board of Management at Daimler AG, responsible for Daimler Trucks and Daimler Buses. President of Smart GmbH. Head of Executive Management Development at Daimler AG. Various managerial positions at Daimler AG.

Henrik Henriksson
Member of the Board of Directors since 2016.
Born: 1970.
Education: BSc Bachelor of Science in Business Administration.
Relevant work experience: Various managerial positions at Scania since 1999. President and CEO of Scania since 2016.

Helmut Aurenz
Member of the Board of Directors since 2008.
Born: 1937.
Education: Apprenticeship in Horticulture, Entrepreneur.
Other directorships: Member of various boards and advisory bodies, among them the advisory assemblies for Baden-Württembergische Bank and Landesbank Baden-Württemberg. Independent Board member of Audi AG and Automobili Lamborghini Holding Spa. Senator h.c. to the University of Hohenheim. Honorary Consul of the Republic of Estonia for Baden-Württemberg.
Relevant work experience: Started in 1958 a now-sizeable garden and fertiliser products business in the ASB Group in Stuttgart, Germany.

Annika Falkengren
Member of the Board of Directors since 2015. Member, Remuneration Committee and Audit Committee.
Born: 1962.
Education: BSc.
Other directorships: Chairman of the Swedish Bankers' Association. Director of Skandinaviska Enskilda Banken AB and of FAM AB. Member of the Supervisory Board of Volkswagen AG.
Relevant work experience: Various managerial positions at Skandinaviska Enskilda Banken AB. President and CEO of Skandinaviska Enskilda Banken AB.

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

Born: 1965.

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

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

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

Markus S. Piëch
Member of the Board of Directors since 2015.

Born: 1985.

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

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

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

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

Born: 1974.

Education: Dr. Dr.

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

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

Peter Wallenberg Jr
Member of the Board of Directors since 2005.

Born: 1959.

Education: MBA.

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

Relevant work experience: Various positions at Grand Hôtel.

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

Previously deputy member since 2012.

Born: 1982.

Relevant work experience: Various positions at Scania since 2007.

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

Born: 1969.

Relevant work experience: Various positions at Scania since 1987.

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

Previously deputy member since 2006.

Born: 1973.

Relevant work experience: Various positions at Scania.

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

Born: 1963.

Relevant work experience: Various positions at Scania.

Group financial review

Net sales

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

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

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

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

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

2 Elimination refers to rental income from operating leases.

Deliveries

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

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

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

Earnings

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

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

Scania's research and development expenditure amounted to SEK 7.199 m. (7,043). After adjusting for SEK 1,682 m. (1,863) in capitalised expenditure and SEK 387 m. (393) in depreciation of previously capitalised expenditure, recognised expenses increased to SEK 5,904 m. (5,573).

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

Group financial review, continued

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

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

Operating income per segment, SEK m.	2016	2015
Vehicles and Services		
Operating income	5,369	8,601
Operating margin, %	*5,2*	*9.1*
Financial Services		
Operating income	1,015	1,040
Operating margin, % [1]	*1,6*	*1.9*
Operating income, Scania Group	6,384	9,641
Operating margin, %	*6,1*	*10.2*
Income before taxes	5,963	9,109
Taxes	–2,720	–2,356
Net income	**3,243**	**6,753**

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

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

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

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

Cash flow

Cash flow in Vehicles and Services amounted to SEK 3,427 m. (4,376). Tied-up working capital decreased by SEK 878 m. Net investments amounted to SEK 7,864 m. (7,737), including SEK 1,682 m. (1,863) in capitalisation of development expenses. At the end of 2016, the net cash position in Vehicles and Services amounted to SEK 10,954 m. (7,579).

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

Financial position

Financial ratios related to the balance sheet	2016	2015
Equity/assets (E/A) ratio, %	26,0	26.8
E/A ratio, Vehicles and Services, %	36,3	35.2
E/A ratio, Financial Services, %	9,0	9.8
Return on capital employed, Vehicles and Services, % [2]	14,0	19.3
Net debt/equity ratio, Vehicles and Services [3]	–0,31	–0.24

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

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

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

Financial risks

Currency risk

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

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

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

Interest rate risk

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

Credit risk

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

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

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

Borrowing and refinancing risk

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

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

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

Other contractual risks

Residual value exposure

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

Service contracts

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

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

The parent company

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

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