THE SCANIA REPORT 2019

Annual and Sustainability Report

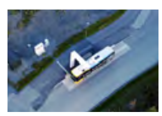










SCANIA

2019 HIGHLIGHTS

2019 was a year of benchmarks for Scania that saw record performance and a strengthened commitment to sustainability. Highlights include launching the new bus generation, committing to science-based carbon reduction targets, and presenting concept vehicles that bring the smart, sustainable transport system of the future a step closer.

New Citywide bus range unveiled

In October, Scania launched the next generation of its Citywide buses for urban and suburban operations. Leading with the Scania Citywide battery electric bus, the new range offers lower fuel and energy consumption, higher passenger capacity, better drivability and more comfort for passengers and drivers alike.

15%

Scania's new Citywide bus range has reduced fuel consumption by up to 15%, compared to the earlier generation.

Silent overnight deliveries piloted in Stockholm

In February, a pilot study to test silent overnight deliveries was launched, using hybrid trucks from Scania operated by HAVI at six McDonald's restaurants in Stockholm, Sweden. The trucks can drive silently in electric mode for up to 10 km in urban areas. By operating on empty streets at night, the trucks improve delivery efficiency while alleviating traffic congestion and reducing emissions.

1.5°C

Scania commits to science-based climate targets

Scania has committed to setting a science-based carbon emission reduction target. The pledge makes Scania one of the first heavy vehicle manufacturers to have committed to setting a climate target aligned with limiting the increase in global temperature to 1.5°C above pre-industrial levels.

Green awards for Scania trucks

For the third year running Scania won the Green Truck award. In 2019 the Scania R 450 was rewarded as the most fuel-efficient and commercial vehicle in its class. Meanwhile Scania's new truck generation was voted Truck of the Year 2020 Latin America by a jury of commercial vehicle specialist journalists and editors, in recognition of the truck's outstanding fuel economy and environmental footprint.

AXL: a new cableless concept for mining vehicles

The Scania AXL is a fully autonomous, cableless concept truck designed for mines and construction sites. Presented by Scania in September, the heavy duty truck is designed around Scania's modular system, and is steered and monitored by an intelligent control environment.

The NXT step in urban transport

In June, Scania unveiled the Scania NXT: a battery-powered, self-driving urban concept vehicle that can change shape to fulfil different functions at different times of day. The Scania NXT can transform from a commuter bus in mornings and evenings, to a goods delivery vehicle by day and a refuse collection vehicle by night.

Tools down for Climate Day

On 20 September, in the run up to the UN Climate Change Summit in New York, Scania held a company-wide Climate Day. Operations across Scania's sites around the world stopped for one hour, giving the company's 51,000 employees time to focus on how to mitigate climate change. The initiative underlined Scania's commitment to addressing the climate challenge, and delivering on the Paris Agreement.

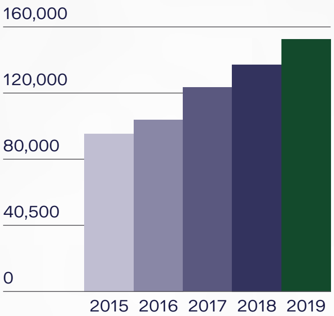
2019 IN NUMBERS

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

Net sales

152,419

SEK m.

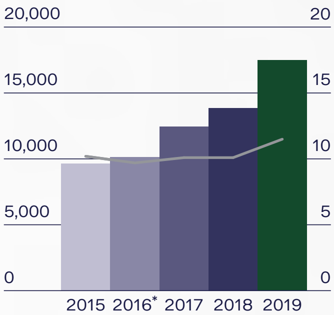


Total product deliveries and service sales reached all-time high levels and Scania's net sales rose to a record level in 2019.

Operating income

17,488

Operating Income SEK m. — Operating Margin %



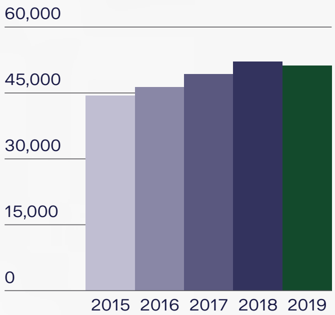
Scania's operating income was strong during the year. The operating margin amounted to 11.5 percent in 2019.

* Operating income 2016 excluding items affecting comparability (a provision of SEK 3.8 bn related to the European Commission's competition investigation)

Number of employees

51,278

No.

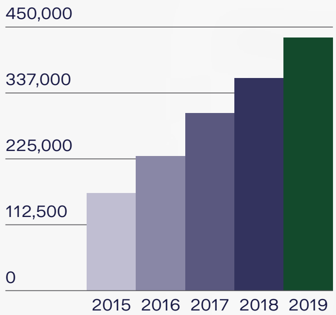


At the end of 2019 the number of employees had decreased by 872 people compared to 2018.

Connected Scania vehicles

432,440

Units (accumulated)



The number of connected vehicles is steadily increasing, enabling Scania to further optimise customer solutions and improve our service offering.

As the world of transport changes, we're putting the right strategy in place to drive the shift and take on the future. Pages 8–13

Scania is helping its customers take action today to make their businesses both profitable and sustainable. Pages 14–21

Through partnerships and investments, we're developing the ideas and technologies that will shape tomorrow's transport system. Pages 26–29

UN GLOBAL COMPACT
COMMUNICATION ON PROGRESS

This is our **Communication on Progress** in implementing the principles of the **United Nations Global Compact** and supporting broader UN goals.

We welcome feedback on its contents.

We're driving the shift to a sustainable transport system, supported by our strong culture and competitive advantages. Pages 2–7

Our holistic approach is accelerating sustainable change across the whole transport ecosystem. Pages 22–25

Our continuing success is based on our employees. As our business model evolves, we're ensuring they have the skills to succeed. Pages 30–31

We lead by example, aiming for the highest social and environmental standards in everything we do. Pages 32–35

CONTENTS

SCANIA AT A GLANCE 2019

- Regional product centres
- Production units
- Research and development
- Sales and services

Global net sales

Trucks	64%
Buses	8%
Engines	1%
Service-related products	19%
Used vehicles	5%
Other	3%

With 51,000 employees in about 100 countries, our sales and service network is strategically placed where our customers need us, no matter where they operate. Research and development activities are mainly concentrated in Sweden, with branches in Brazil and India. Production takes place in Europe, Latin America and Asia with facilities for global interchange of both components and complete vehicles. In addition there are regional product centres in Africa, Asia and Eurasia.

Scania is part of TRATON GROUP. Under this umbrella the brands Scania, MAN and Volkswagen Caminhões e Ônibus work closely together with the aim to turn TRATON GROUP and its brands into a Global Champion.

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

Trucks

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

Sales and deliveries

America*	16%
Europe	64%
Africa and Oceania	5%
Eurasia	6%
Asia	9%

91,680 UNITS

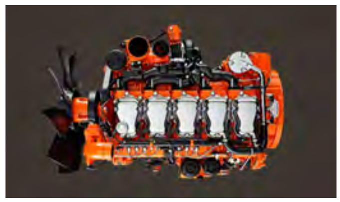
Buses and coaches

Scania offers a complete range of city buses and coaches for public transport operators and coach companies. Our offer also includes tailored solutions to help solve today's urban mobility challenges.

Sales and deliveries

America*	44%
Europe	27%
Africa and Oceania	14%
Eurasia	1%
Asia	14%

7,777 UNITS



Engines

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

Sales and deliveries

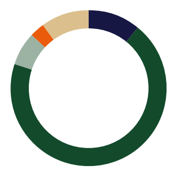
America	28%
Europe	41%
Africa and Oceania	3%
Eurasia	2%
Asia	26%

10,152 UNITS

Services

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

Sales



America	11%
Europe	69%
Africa and Oceania	7%
Eurasia	3%
Asia	10%

SEK 28,972 M.

* Mainly refers to Latin America.

Financial services

Scania Financial Services provides flexible financing and insurance solutions tailored to give our customers predictable costs and manageable risks over the entire life cycle of their vehicles.

Products financed

New trucks	68%
New buses	2%
Used vehicles	13%
Other	17%

52,747 UNITS

HOW SCANIA CREATES VALUE

By providing profitable and sustainable transport solutions, Scania creates lasting value for all our stakeholders: from our customers and employees, to our suppliers, owners, lenders and to society as a whole.

Our business model

Scania's business model is about improving our customers' profitability based on our deep understanding of their needs.

We take a holistic view of our customers' transport flows, taking into account both the needs of our customers (transport companies) as well as the demands of their customers (buyers of transport services).

By doing so, we can tailor solutions to eliminate waste and inefficiency throughout the entire flow, based on our three-pillar approach to sustainable transport, see page 14. Through this we increase customer revenue while driving down customer costs.

The solutions we provide include vehicles and services, optimised for our customers' operations to improve fuel efficiency and maximise the vehicles' time in operation. Providing tailored solutions in this way requires a close dialogue with our customers, built on trust and often based on long-term relationships.

At Scania, we see value for our customers and value for our business as integrally linked. We are only successful when our customers are successful. Our ability to deliver for our customers defines our brand and ensures that Scania can keep making a profit.

Creating value for all stakeholders

Transport is the lifeblood of our society. Better transport means better access to jobs, education, markets and goods. It enables social interaction and contributes to economic growth. This value creation is the essential aim of our business.

Read more about how we create value at www.scania.com/value-creation

The Scania Way

Our success as a business is underpinned by our culture, values and principles. Developed over more than a century at the forefront of our industry, these elements are deeply ingrained in our business and guide everything we do. We call it The Scania Way.

Scania's business model components

+ Customer sales revenue

- Customer cost

= Customer operating income

+ Scania sales revenue

- Scania cost

= Scania operating income

Increasing customer revenue Scania's high-quality, optimised vehicles and services, supported by vehicle data gathered from connected vehicles, ensure maximum time in operation and thereby boost customer revenue.

Reducing customer costs Scania influences factors like fuel, repair and maintenance costs, the residual value of the vehicle and the cost and availability of financing.

Our culture is based on six core values. These values give us competitive advantages that ideally position us to drive the transformation of the transport system.

Our six core values:

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

Read more about the Scania Way at www.scania.com/the-scania-way

An extensive service network

Tailored services are integral to Scania's offering. A largely captive service network allows for direct contact with our customers and an insight into their needs in their specific market and business. With our dealers and workshops strategically located along transport routes and near logistics centres, we ensure our customers obtain the help they need. Quick access to parts, speedy repairs, driver training and tailor-made maintenance plans are among the services Scania offers to enhance the vehicles' performance and the customers' profitability.

Today, Scania has more than 430,000 connected vehicles, and that number is rapidly increasing. The connected fleet provides a platform for expanding the service offering and increasing its degree of customisation. The critical mass of data allows us to develop sales tools and intelligent services that lower fuel consumption, maximise uptime and improve overall efficiency. As the shift to sustainable transport continues and new transport technologies emerge, our data-driven service network will play an ever more important role in creating value for our customers.

Our modular system

The modular system allows us to offer an extremely wide portfolio of products using relatively few components and parts. This enables us to achieve economies of scale and maximise resource efficiency, creating a lean and flexible production system that allows us to rapidly introduce new technological solutions, bring them to market and scale them up quickly.

The modular system applies to our entire portfolio of transport solutions and engines. As well as vehicles and hardware, we also apply our modular approach to the development of services and software. Modularisation also gives us the platform we need to develop the transport solutions of the future. Because electrified or autonomous buses or trucks have many of the same basic components, used for the same need, for the same applications as today's vehicles, they can be built and adapted using the same modular approach.

Scania's modular system is integral to our flexible approach, enabling us to tailor our solutions to suit individual customer needs, and accommodate the demands of different markets.

The principles of Scania's modular system

Standardised interfaces – we can install new components that improve product performance without the need to change the surrounding components and structure.

Same need, identical solution – we can use the same components for different applications. For example, the shortest truck cab variant can be used to maximise cargo capacity for light distribution service, as well as for a heavy tipper truck operating in a mine.

Well-balanced performance steps – we can match specific customer needs with differences in cab sizes, engine output, frame strengths and number of axles.

CEO STATEMENT:

BUILDING ON THE PAST. PREPARING FOR THE FUTURE.

Reducing the impact that the ecosystem of transport and logistics has on climate change cannot wait. Scania increased efforts further to drive the shift towards sustainable transport in 2019, whilst also continuing to grow and delivering record high volumes.

"Sustainability is the opportunity for both growth and innovation!"

Our planet and its climate will not wait. Science dictates that we as a society must half CO_2 emissions every decade to meet the global target as defined in the Paris agreement. Scania is an engineering company, so listening to science is second nature to us. The heavy duty transport industry is a major contributor to worldwide CO_2 emissions, and as a consequence it holds an important key to meeting the Paris climate target. As a large player in this industry, we at Scania have taken a clear stance and decided that we want to take a leading role in driving the shift towards a sustainable transport system.

This has far-reaching implications and we know that it is not an easy journey we have ahead of us. However our commitment is firm and in 2019 we manifested this by signing the United Nations Business Ambition for 1.5 Pledge. In doing so we are stepping up and committing Scania to setting science-based targets aligned with limiting global temperature rise to 1.5°C above pre-industrial levels.

More than 95 percent of Scania's environmental impact happens when our products are in use. As we are now committing to setting these science-based targets, they cover not only the emissions related to our own operations, but also the emissions from our trucks and buses when they are on the roads, used by our customers. Committing to a Scania-target that includes the footprint the vehicles generates, after they leave our factories, is a bold move but also absolutely necessary. We welcome the challenge, feel confident in our ambition and will work close with our customers to fulfil the target.

At Scania, we have long been working to make sure that our customers have the most fuel efficient engines in the industry. It has always made perfect business sense for both us and our customers; it is good for both profitability and sustainability. Energy efficiency continues to be crucially important in our endeavour to minimise the impact from our products and we also continue to increase our efforts to make sure that renewable biofuel options are more broadly available. Biofuels are a key enabler to transforming the transport industry and we are sitting on this golden opportunity we could switch to, using technology available in basically all heavy commercial vehicles globally. Not tomorrow. Not in a few years. Today!

Therefore, we need to increase the production of biofuels and have a fact-based discussion about the potential. Too much time has already been wasted, this needs to happen now.

Another key transformational force in transport is different electrified solutions. Scania is working with a broad palette of solutions including both hybrids and fully electric vehicles. We are also looking in to different kinds of charging solutions such as plug-in charging, charging through hydrogen-powered fuel cells or through pantographs either standing still or whilst moving on electrified roads. We will continue to invest in electrification and whilst charging infrastructure is still largely lacking and the customer's investment in electric vehicles on the heavy commercial side is still difficult for most customers to make without financial backing, we are clearly seeing an increased appetite for electrified solutions.

In 2019, at Busworld we launched our first series produced battery electric vehicle – the Citywide battery electric bus. In keeping with our modular approach, we will continue to develop our electric bus range with more variants.

Strong year but tougher times ahead

2019 was a year of records. We have never sold more vehicles, and our turnover and profit were higher than ever. We reached our highest market share in Europe ever.

We finalised the roll-out of our new truck generation in Latin America in 2019, marking the end of a 10-year global project. We can conclude that it has been a great success and our customers are very pleased with the performance of the truck.

In 2019, signals came of a slowdown in demand in some of our key markets, and we are entering 2020 facing headwinds after several years of a generally hot market. Our business is cyclic and our global production system, is tailored to be flexible enough to continually adapt to changes in the demand situation. In addition, we are also adapting overall cost levels to the shift in market. We do this by working together across the organisation and leaning safely against on our core values and established way of working; we call it The Scania Way.

Rising to future challenges

As we are entering a new decade we know that it will contain some of the most radical and exciting changes that our industry has seen since the internal combustion engine replaced the horse and the steam engine one hundred years ago.

True to the Scania philosophy we continue to invest in new technologies that lay ahead of us, whilst we at the same time, are investing in measures that improve our customers' profitability here and now.

In preparation for the larger technology shift, we have also continued with significant investments in autonomous vehicles, connectivity and electrification. We are already reaping the benefits from those investments and have solid offerings, customer collaborations or pilots in all areas.

With an increased share of components for electrified and autonomous vehicles, Scania's modular system will play an equally important role in the future as it has in our past where it has been a true success factor. Modularisation is about ensuring a flexibility to tailor a solution to meet any customer's request, but it is also about ensuring efficiency and economies of scale across our portfolio.

In June 2019, we celebrated TRATON GROUP's IPO in both Stockholm and Frankfurt. By being part of the TRATON GROUP we are equipped with extra competence and muscle force to invest, and this adds competitive advantages, not just for Scania and our customers, but also the Group as a whole.

The commitment and the family

I hope that more players in the corporate world will wake up to the fact that working with sustainability is not only about doing the right thing, and having a deeper purpose for both individuals and an organisation, it also makes perfect business sense. Sustainability is the greatest opportunity for both growth and innovation! Those who don't understand that will be missing out.

At Scania, sustainability is not something added on top of what we already do. We have always focused on lean work models, efficiency and elimination of waste and as such sustainability is built into the organisation and operations naturally.

September 20, 2019 was a special day. It was Scania Climate Day. We stopped operations at Scania's head office, in our global production system and in sites across the world for one hour. Our 51,000 employees participated in training sessions for climate science and the impact our own industry has on climate change. I was moved by the passion I witnessed from people in every part our organisation. Climate Day served as a confirmation that sustainability is ingrained in who we are as people, and as a company. It also showed that our purpose – to drive the shift towards sustainable transport – has really taken root.

Scania's success in 2019 would not have been possible without the hard work and commitment of more than 51,000 people who make up our Scania family. Diversity is one of our strengths and the incredible talent we have within our company is what we build on for the future, and we are ensuring that our people are equipped with the skills they will need going forward. At the same time, our purpose is drawing exceptional new talent to Scania from across the world.

Our purpose also resonates extremely well with other stakeholders, like our partners and suppliers, and customers, who I count as part of the family. This is very important because we need all of them on our journey ahead, to work together to drive the shift towards sustainable transport.

Henrik Henriksson
President and CEO, Scania

THE FORCES SHAPING THE FUTURE OF TRANSPORT

Forces such as climate change, urban population growth and digital disruption are radically transforming our industry.

Transport is facing the biggest shift our industry has seen since the advent of the combustion engine. Addressing the risks and seizing the opportunities that this change will bring will require bold thinking, new business models, and collaboration. The urgency could not be greater – and the time to act is now.

Global drivers

Sustainability

The escalating climate crisis and other man-made impacts are threatening the planet's ecosystems and human civilisation. To achieve the goal of the Paris Agreement and limit the increase in global temperature to a maximum of 2°C and ideally no more than 1.5°C above pre-industrial levels, radical action is required from governments and business sectors across the world. As sustainability becomes crucial to business survival, customers in the transport industry are increasingly demanding sustainable transport solutions that are not reliant on fossil fuels.

Urbanisation

We are seeing the largest wave of urban growth in history. According to the UN, cities will be home to over 70 percent of the world's population by 2050. As cities grow bigger and more crowded, the strain on urban infrastructure increases, along with the risk of air pollution and other social and environmental impacts. The challenge calls for smart transport solutions that keep people and goods moving, and ensure the cities of the future are clean, safe, inclusive and liveable.

Digitalisation

We are living through the fourth industrial revolution – an era of radical and disruptive technological change, in which digital trends such as the Internet of Things, robotics, virtual reality and artificial intelligence are transforming the way we live and work. Digitalisation is altering business models within the transport sector, as products, production processes and supply chains become more interconnected and emerging technologies drive innovation and create new risks and opportunities along the value chain.

The future of transport

These global drivers are reshaping societies and therefore the future of transport. Change is approaching at different speeds from a geography and technology perspective of course, but pace is accelerating. We're starting to see a shift away from the driver-centric, mainly fossil-fuelled transport system we know today, towards a system that better serves the needs of people and societies that is autonomous, connected and electrified.

Autonomous

Automation will have a revolutionary impact on transport, improving efficiency and safety and relieving congestion issues. Autonomous trucks will profoundly change heavy goods transport in the future, transforming logistical flows and enabling goods to travel for longer distances without stopping. Autonomous public transport will encourage both large and

Connected

The digitalisation trend is bringing huge growth in vehicle connectivity, with vehicles continuously producing and sharing data. Connectivity can be a key enabler for autonomous transport, allowing vehicles to communicate with each other and the road infrastructure around them, thereby making transport smarter and more efficient.

Electrified

Electrification will be an important corner-stone in the sustainable, decarbonised transport system of the future. Electric vehicles operate cleanly and quietly, with zero particle and NOx emissions and a reduced carbon footprint (when the electricity is provided from fossil-free energy sources). Battery technology is improving rapidly, allowing vehicles to operate for longer distances between charges, and reducing charging time.

Renewable fuels

The scale of the climate challenge means that the world can't afford to wait for the electrified transport system of the future to be viable – we need to implement existing means to radically curb emissions from transport today. Fortunately, effective solutions exist here and now, in the form of renewable fuels. Combined with energy-efficient combustion powertrains, biofuels smaller vehicles to interact to create a more individualised transport. This shift is already taking place. Many logistical centres and mines around the world are already becoming partly or entirely autonomous. We are likely to begin seeing autonomous vehicles in regular use on public roads in Europe in the near future, after the US and China.

90%

Research shows that connected and autonomous technologies could reduce road accidents by up to 90 percent.

66%

In China, autonomous vehicles could account for 66 percent of passenger-kilometres travelled by 2040.

Sources: Strategic Transport Research and Innovation Agenda Roadmap (STRIA), Connected and automated transport. McKinsey & Company, How China will help fuel the revolution in autonomous vehicles.

Connectivity also brings significant benefits for transport logistics, with real-time data enabling users and manufacturers to track how vehicles are being used and how they are performing with far greater precision. This allows maintenance and re-fuelling times to be optimised, maximising uptime, reducing fuel consumption and improving overall efficiency.

70%

Globally, it's predicted that around 70 percent of light duty vehicles and trucks will be connected to the Internet by 2023.

50-60%

Using connectivity technologies to track and plan for goods could reduce goods vehicle fuel consumption and emissions by 50-60 percent.

Sources: Statista, Share of new light-duty vehicles and trucks sold that are connected to the Internet worldwide and in the United States in 2023. Strategic Transport Research and Innovation Agenda Roadmap (STRIA), Connected and automated transport.

Trials of electrified highways, with hybrid vehicles powered by overhead lines, are underway in several countries.

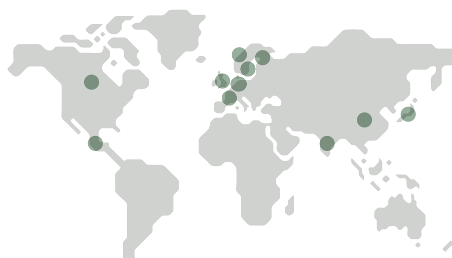
A fully electrified transport system will depend on electric infrastructure – such as smart charging solutions – being much more widely available than they are today. The transport industry needs to take an active role in developing this infrastructure, working in partnership with infrastructure providers, electricity producers and society.

75%

By 2030, it's predicted that 75 percent of buses sold in Europe will use electric power.

30%

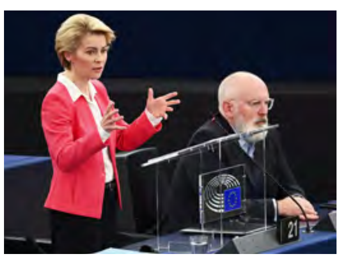
United Kingdom, Canada, China, Finland, France, India, Japan, Mexico, the Netherlands, Norway and Sweden have all committed to ensuring that at least 30 percent of new vehicles sold will be electrified vehicles by 2030.



Sources: KPMG, 2019 Autonomous Vehicles Readiness Index. McKinsey & Company, Route 2030 – The fast track to the future of the commercial vehicle industry.

such as sustainable biogas and biodiesel can reduce fuel consumption while achieving CO_2 savings of up to 90 percent, compared with fossil diesels.

Rapidly scaling up the use of these here and now solutions is key to achieving the carbon reductions we need to see in the short term, while also demonstrating the cost effectiveness of sustainable solutions to transport providers.



Source: European Commission.

When presenting the European Green Deal in December 2019, the European Commission stated that the EU should ramp up the production and deployment of sustainable alternative transport fuels.

The Commission also announced that the environmental and energy state aid guidelines will be revised to reflect the policy objectives of the Green Deal, supporting a transition to climate neutrality and facilitating the phasing out of fossil fuels. These revisions are also an opportunity to address market barriers to the deployment of clean products.

EVOLVING OUR STRATEGY TO TAKE ON THE FUTURE

We have a solid platform in place for taking on the future. Now we're evolving our strategy to prepare for the changes ahead, and take us into the next phase in our journey.

A new approach for a new environment

Scania's business landscape is changing. Emerging technologies, new competitors and business models, and global trends such as digitalisation have transformed what was once a relatively stable environment into a highly disruptive one. To prepare for the uncertainty ahead, we need to evolve our strategy for a rapidly changing world.

Towards 2020: a focus on growth

Our strategy up until now has been focused on growth, including increasing sales per vehicle, increasing Scania's market share and entering new customer segments and new markets. Our strategic priorities, against which we assess our progress at regular intervals, have been to lead in customer satisfaction, have top employees, expand our sales volume and have excellent profitability. We are well on the way to delivering on our targets for 2020.

2025 and beyond: driving the shift

To be ready for the challenges of the next few years, we need to build on the strengths of our current strategy and keep our Excellence in Core (being good at what we already do) while at the same time sharpening our focus on the areas and decisions we need to take to win over the next five years. Our strategic priorities towards 2020 against which we assess our progress will remain, with the addition of corporate targets directly linked to how we succeed in driving the shift.

To succeed with our ambition to drive the shift towards a sustainable transport system, we will continue to, and increase focus on the following:

- investing in the autonomous, connected and electrified transport technologies of tomorrow, while also increasing the uptake of low carbon solutions that are available today, such as renewable fuels.
- harnessing the power of connectivity and data to drive better productivity and efficiency in our operations.
- addressing some of the world's most urgent environmental and social challenges by building a smarter, cleaner and decarbonised transport system, in line with the aims of the Paris Agreement and the UN's sustainable development goals, while adhering to the highest standards in our own operations. Setting science-based climate targets is central to this overall commitment.

Science-based targets

Driving the shift depends in large part on decarbonisation. Transport accounts for nearly a quarter of global carbon emissions – so if we are to achieve a sustainable transport system in line with the aims of the Paris Agreement, the sector must be fossil-free by 2050. Decarbonisation is therefore central to our purpose and strategy.

To scale up our action on climate change, Scania has pledged to setting science-based climate targets, committing us to reducing emissions at the scale and pace science dictates is necessary to limit global warming to 1.5°C above pre-industrial levels. This commitment represents a radical leap forward in our carbon-reduction ambitions, as the targets cover not only emissions from our direct operations, but also from our vehicles while they are in use (which accounts for the bulk of our overall carbon footprint). Scania's science-based climate targets will be fully aligned with our corporate targets.

Scania is one of the world's first heavy vehicle manufacturer to sign up to the most ambitious science-based targets, and one of only 87 companies around the world to have done so in time for the Climate Action Summit in September 2019.


SCANIA
ZKZ 879

HOW SCANIA IS DRIVING THE SHIFT

By working with other stakeholders across our ecosystem, we can promote the adoption of today's sustainable solutions, while developing the technology and enabling conditions that will support the transport system of tomorrow.

Driving the shift is our purpose. But it's not something we can do on our own. It is dependent on working with partners across our entire ecosystem, from our customers to technology specialists, government decision-makers and others. For Scania, this partnership approach is the key to developing a truly sustainable transport system.

We lead in technological development, harnessing emerging technologies and shortening their time to market. At the same time, we drive customer adoption of sustainable solutions that are available here and now. Finally we will partner with key stakeholders to pilot, refine and scale the shared solutions needed to support the transport system of the future.

Technology push

Scania is leading in technological development. By utilising our modular approach and working with technology partners, we're able to innovate rapidly, bringing tomorrow's autonomous, electrified and connected transport solutions into today. Our pilots for electrified highways and autonomous mining transports, as well as our concept vehicles, are crucial building blocks. They enable us to explore possibilities, develop our capabilities and demonstrate the potential of new technologies to our customers and partners.

Customer pull

Many customers are setting ambitious targets to reduce their environmental footprint, increasingly integrating transport and logistics and approach Scania for solutions. With the right solutions in place, our transport customers can be both sustainable and profitable. However some customers are sceptical about the new and worry over higher total operating costs, which can be barriers to switching to sustainable solutions. Using our deep understanding of our customers' requirements, we can demystify the process. Based on our three-pillar approach we tailor solutions for our customers that are good for their bottom line, as well as raising awareness of what will be possible tomorrow.

Ecosystems partnerships

Lack of infrastructure, cost and financing challenges, uncertainty over when to implement solutions and legislative restrictions are just some of the challenges to achieving the sustainable transport system of the future. Partnership is an essential way to understand and overcome these challenges. As a leader on sustainable transport, we can work together with transporters, transport buyers, cities, technology manufacturers and decision-makers to share knowledge and build strategic partnerships across our ecosystem. In this way we can create the conditions necessary for sustainable solutions to scale rapidly.

Three ways of driving the shift

Technology push

Bringing tomorrow's breakthroughs into today

We're working with leading edge partners to harness new and emerging technologies and shorten time to market.

Read more on pages 26-29

Ecosystems partnerships

Evolving the ecosystem of transport and logistics

We're partnering across the wider ecosystem to create the enabling conditions required to scale sustainable transport.

Read more on pages 22-25

Customer pull

Driving the adoption of sustainable solutions

We're raising awareness and promoting the uptake of tailored here-and-now sustainable solutions, based on our three-pillar approach.

Read more on pages 14-21

SECURING OUR CUSTOMERS' FUTURE THROUGH HERE AND NOW SOLUTIONS

By driving the adoption of sustainable solutions that are available here and now, Scania is future-proofing our customers' operations while enhancing their profitability.

To keep in line with the level of decarbonisation necessary to avoid the worst impacts of global warming, commercial transport must become fossil-free no later than 2050. This goal is achievable, but it is a significant challenge that will require immediate and rapid changes across the sector. To prepare for the shift ahead, players across the ecosystem of transport and logistics must begin future-proofing their businesses today.

The zero carbon transport system of the future will rely increasingly on new technologies such as different forms of electrification. Due to current limitations in technology and infrastructure, it will take time for these solutions to become viable and available at large scale – particularly for the long-haul heavy goods transport sector, where battery size and performance continues to be a challenge. However, there are many steps that businesses can take today to begin adapting their operations to prepare for the future. By adopting solutions that are available here and now, business can not only make their operations more efficient and profitable, but also reduce their carbon footprint.

A three-pillar approach

Scania's approach to sustainable transport rests on three pillars that aim to optimise the transport system on different levels: energy efficiency ("optimising the vehicle and driving"), renewable fuels and electrification ("optimising the energy"), and smart and safe transport ("optimising the transport system"). Individually or together, and when combined with our unique flow thinking, these three pillars can help make our transport systems cleaner, safer and more efficient.

This seamless integration between vehicle technology and optimised transport flows is the basis of our solutions. In doing so, we are able to deliver enhanced profitability while driving the shift towards a more viable transport system.

While the pillars are designed to solve our customers' sustainability challenges in the short term, they also help future-proof their operations. Connectivity will be one of the key enablers of autonomous transport for example, our focus on energy efficient powertrains is equally valid for fully electric powertrains. In this way the solutions we provide today are laying the foundations for the autonomous, connected and electrified transport systems of tomorrow.

Solutions for every situation

Scania's here and now solutions differ in functionality and optimisation depending on the flow – in and between cities, in industries or in long-distance logistics. No matter the situation, our vehicle and service offering can be tailored to meet the specific demands of our customers.

Renewable fuels and electrification: pathways to sustainability

Renewable biofuels play an important role in our three pillared approach to sustainable transport for a very good reason. Until other solutions such as electrification become available at a large scale, biofuels are the best, and in some cases the only option currently available for substantially reducing carbon emissions in the near term. These fuels are also a vital stepping stone in our transition to an entirely fossil-free transport future, which was also a conclusion of the Pathways Study.

The Pathways Study looks at four possible pathways to achieving fossil-free commercial transport by 2050. The study found that increasing the use of biofuels is the pathway that offers the highest carbon reductions in the shortest amount of time. However, electrification will be the most efficient and cost-effective route in the long term.

Read the full study at www.scania.com/pathways

Read more about how our solutions improve sustainability and efficiency in different environments:

Cities
p 16–17

Industries
p 18–19

Logistics
p 20–21

Energy efficiency

Offering the most efficient technology for our products combined with services is core to what we do. We focus on three areas of energy efficiency to "optimise the vehicle and driving": powertrain performance, vehicle optimisation and fuel consumption.

Thanks to improved powertrains and aerodynamics, our new truck generation is our most energy-efficient range to date, reducing our long-distance customers' fuel consumption by an average of six percent compared to the previous generation.

In addition to powertrain and vehicle technology, we further improve our customers' energy efficiency though a range of services designed to push the limits of fuel reduction.

Scania Ecolution offers a complete suite of services to minimise fuel consumption, including CO_2 optimised vehicles, driver training on fuel-efficient driving techniques, and individual driver coaching based on real-time operational data.

Driver Evaluation that is part of Scania's Fleet Management offer provides insight on the drivers' driving style to identify areas of improvement.

Both Driver Evaluation and Scania Ecolution can cut customers' fuel consumption by more than 10 percent, thereby reducing their operating costs as well as their CO_2 emissions and environmental impact.

Renewable fuels and electrification

To "optimise the energy", Scania provides the largest portfolio of engines on the market that can run on alternatives to fossil fuels, ranging from ethanol trucks and buses to vehicles using liquefied or compressed biogas. All of our Euro 5 and 6 engines can run on hydrogenated vegetable oil, HVO, while nearly all our vehicles can run on Fatty Acid Methyl Ester, FAME. We have developed this portfolio for over 25 years, starting with ethanol-fuelled buses in the 1990s.

In the transport sector, biofuels can make an instant contribution to decarbonisation. Increasing the use of renewable fuels is the fastest route to achieving the highest carbon emissions reductions short term.

The limited supply of biogas globally remains a challenge for the transport sector. Until this is resolved natural gas will continue to play an important role in the transport system. Although natural gas is not renewable, the usage of it enables growth of gas vehicles and encourages the adoption of gas solutions. In the meantime we are working with partners to improve the supply infrastructure for biogas, so it can be scaled up rapidly. Blending is also possible, enabling a gradual shift from natural gas to biogas.

Our electrification portfolio includes hybrid buses and trucks, as well as battery-powered electric buses. We are also exploring other solutions such as continuous charging along electric roads, fuel cell trucks and battery-powered electric trucks.

Renewable fuels and electrification can be applied separately or in combination – for example, in hybrid vehicles that can use renewable fuels for long-distance transport and then switch to electric mode in city centres.

Smart and safe transport

Connectivity and data sharing is a key enabler of sustainable transport. The real-time data we gather from over 430,000 connected vehicles equals more than 2.9 billion kilometres per month.

Based on this real time user data Scania has developed services that lower fuel consumption and maximise vehicle uptime, with contracts customised for each truck. The result is fewer, shorter stops, less waste from unnecessary oil changes and up to two days' less standstill time per vehicle a year.

Smart and safe transport is also about "optimising the transport system". Connectivity heralds the efficient and safe transport of both goods and people, through coordination and control of transport movements. Connected and autonomous vehicles are becoming crucial for increasing efficiency and safety in transport and value chains, as well as significantly reducing CO_2 emissions.

CITIES:

AT THE FRONTIER OF SUSTAINABLE TRANSPORT

Urbanisation brings environmental, social and economic challenges that demand urgent solutions. In cities worldwide, Scania is addressing the challenge with cleaner, safer and more efficient urban transport solutions.

The world's cities are growing faster than ever before. According to UN projections, urbanisation combined with the overall growth of the world's population could add another 2.5 billion people to cities by 2050. This shift puts a huge strain on urban transport infrastructure, leading to issues such as poor air quality, noise pollution, traffic congestion, unequal access to transport and increased road safety risks. These problems have a direct impact on the environment and human health, as well as hindering economic and social development.

Increasingly, cities are turning to legislation to address these issues, including introducing emissions-free zones in city centres. This puts our urban areas at the frontier of sustainable transport, driving the adoption of cleaner, smarter urban transport solutions that help make cities better places to live.

Solutions for sustainable urban transport

Scania is a partner to cities worldwide, developing sustainable solutions for public transport and other urban applications. Thanks to many years of investment, we provide the market's widest range of city and suburban vehicles designed to run on fuels other than diesel, including biodiesel-HVO, biodiesel-FAME, natural gas, biogas, ethanol and hybrid drivetrains. Biofuels can reduce carbon emissions by over 90 percent, while our latest Euro 6 gas-powered engines are our cleanest and quietest yet, with health hazardous NOx emissions up to five times lower than the previous generation. These cleaner vehicles are supporting public transport systems in cities around the world, including the bus rapid transit systems of Bogotá and Mexico City.

Scania's city solutions extend to the private goods transport business. Our hybrid distribution trucks, such as the ones being trialled by our logistics partner HAVI in Stockholm, automatically switch to silent electrical mode in city centres, making them ideal for night-time deliveries when there is less traffic on the roads. We also offer services that help maximise efficiency and uptime for urban vehicles. Our Scania Flexible Maintenance service for buses, for example, helps customers avoid unplanned downtime by enabling us to analyse operational data from the buses in real time.

As our urban spaces become more cramped and crowded, its also vital to ensure that the flow of people and goods around cities is optimised. Scania is developing a number of smart, flexible solutions to achieve this, including our NXT urban concept vehicle, see page 27.

SCANIA VOICES

Anna Carmo e Silva
Head of Buses and Coaches

Q What are the biggest challenges for urban people transport today?

A Rapid urbanisation is making the task of moving people around cities much more challenging. The problems we need to solve urgently include congestion and safety, as well as poor air quality, noise pollution and carbon emissions.

Q How is Scania's new bus generation addressing these challenges?

A We still believe there's no single solution for issues such as congestion and sustainability – we need to take a holistic view of the challenges our customers face. However, silent, emissions-free electric buses will definitely play a key role in addressing these challenges in many cities. Of course, to persuade people to switch to public transport, it's also important that these buses offer a great passenger experience.

Our Citywide battery electric bus launch shows that buses can be both sustainable and very attractive for passengers.

Q How will autonomous vehicles change public transport in cities?

A Most of the buses we see on our roads today are dimensioned for peak hours and under-used for the rest of the day. In the future, we will likely see the emergence of smaller, autonomous vehicles that can fulfil different functions at different times of day, depending on demand. These vehicles will encourage more ride-sharing, reducing the number of individual journeys made by private cars, and cutting congestion and emissions. The NXT concept vehicle that we unveiled in June 2019 materialises this vision. Exciting times are ahead – and we at Scania are well-prepared for the future.

INTRODUCING OUR NEW BUS GENERATION

Buses are in the vanguard of the shift to fossil-free transport in cities, and Scania's new Citywide BEV bus (Battery Electric Vehicle) is a crucial step forward. With a 300 kW electric motor powered by batteries designed for fast-charging, the bus can carry up to 95 passengers in comfort.

In 2019 we also launched the Scania Flexible Maintenance service for buses. As with our service for trucks, the system ensures that the buses are called on for service only when necessary, based on real-time operating data.

99%

Scania's modern buses reduce soot emissions by 99%, compared with older diesel engine technology. As part of the initiative Soot-Free Clean Bus Fleet, we are committed to providing these buses to 20 major cities in Asia, Africa, Latin America and Australia. The initiative is led by C40 Cities and International Council on Clean Transportation (ICCT).

Hybrid delivery trucks keep Stockholm quiet at night

In Sweden, a trial using plug-in hybrid delivery trucks from Scania is showing that increased mobility doesn't have to come at the cost of noisy streets.

The hybrid trucks are being deployed in silent night-time deliveries to McDonald's restaurants in Stockholm, where night deliveries are normally not permitted due to noise restrictions. By switching from HVO fuel to silent electric mode in city centres, the trucks enable deliveries to be carried out on near-empty streets at night, preserving peace and quiet and reducing carbon emissions.

INDUSTRIES:

SOLUTIONS FOR LEANER, GREENER VALUE CHAINS

For industries, leaner logistics is the key to profitability. By taking a holistic view of our industrial value chains, Scania is helping our customers eliminate waste, reduce costs and improve sustainability.

Transport is central to industries' value chains. To maximise productivity and profitability, materials must flow as smoothly as possible. Any waste or disruption along the chain means higher production times and operating costs, reducing profitability and adversely affecting the environment.

Scania works with a wide range of industries, with customers from agriculture and forestry to construction and mining. Whatever the industry, the key to our approach to industry flows is to step back and take a holistic view. We analyse all aspects of the production journey, from raw material to finished product. By doing so, we can identify any inefficient processes, and then suggest actions to make them leaner and eliminate waste. In this way we can devise a complete solution for the overall logistical flow.

Vehicles as part of the value chain

At Scania, we see our vehicles as part of the production value chain. For example, by positioning raw material correctly, a forester can load timber more quickly and safely onto trucks for transport. Through Scania Driver Training and Coaching, a construction company driver for example can cut on-site idling time to reduce fuel consumption. We believe solutions such as these are vital for maximising productivity and profitability across the value chain.

Smart services that anticipate customer needs

For our industry customers, connectivity makes a vital contribution to maximising logistical efficiency. Thanks to the data we collect from more than 430,000 connected vehicles in real time, we are able to provide a variety of services that enhance uptime, reliability and profitability. These include smart maintenance services that pinpoint exactly when repairs need to take place, and driver training applications that can be adapted to specific industries and applications.

As well as allowing Scania to create ever-smarter services, connectivity enables the use of autonomous technology in closed areas such as mines or container terminals.

Solutions tailored to every need

Although our holistic approach remains the same for all our industry customers, we know that each industry faces its own specific transport challenges. For example, agriculture operations are affected by seasonality, which means that trucks may be under-utilised for part of the year. Mining is a uniquely challenging environment, with ever-increasing stresses around productivity, sustainability and compliance. With our modular system combined with a deep understanding of each of our customers' industries, we're able to offer flexible solutions tailored to individual needs.

Mai Auapinyakul
Business Development Manager, Scania Mining

Q How can Scania help make mining operations more sustainable and profitable?

A We work in close partnership with our customers to develop a deep understanding of their operations and processes. This holistic view enables us to optimise their productivity and reduce their operating costs. We do this by recommending the right vehicles and services and work continuously to improve the efficiency of the fleet even after the vehicles are delivered. By eliminating idling and optimising the way the fleet is used, we boost customer profitability by reducing fuel consumption and thus, carbon footprint.

Q Mining is not an industry that's associated with sustainability. Is this changing?

A Mining is an industry with a large social and environmental impact. With electrification on the horizon, mining has a crucial role to play in supplying the materials to expand the grid, produce batteries and solar panels etc. This will put even more pressure on us in making the industry more sustainable in all aspects. One part is that the industry must become more innovative and sustainable around, for example CO_2. Autonomous technologies will be a game changer here.

Q How will automation change the mining industry?

A Removing drivers means that mining businesses could replace the big, heavy machines traditionally used for in-pit material transport with many smaller, potentially electrified vehicles. This brings huge advantages in terms of fuel consumption and CO_2 footprint and safety. Automation will also make the transport flow more efficient and predictable. People's roles will also change, as drivers become operators and technicians software developers.

A FLYING START FOR SUSTAINABLE AIRPORTS

Despite their relatively low mileage, the service and support vehicles used in airports can have a significant impact on an airport's operating costs and carbon footprint. Many of Scania's sustainable solutions are well suited for airport applications. For example, our electric/HVO hybrid trucks would make a perfect match for airport catering vehicles, which travel limited distances and can find time for charging between journeys. Meanwhile our new V8 engine, which meets Euro 6 and Stage V emissions standards, is ideal for airport fire and rescue vehicles.

LOTS Group optimises sugar cane transport in Brazil

LOTS Group, an independent company within Scania handles the transport of 1.5 million tons of sugar cane on behalf of Cocal, a leading Brazilian producer of sugar, ethanol and bioenergy. LOTS operate its own dedicated fleet of Scania G 540s 6×4 trucks and thanks to the partnership, Cocal is set to reduce its sugar cane transport costs by 15 percent.

Scania's wholly-owned subsidiary, LOTS Group, Lean Optimised Transport Systems, offers customised solutions for each customer's need and involves optimising flows throughout industry value chains.

LOGISTICS:

PROFITABLE LONG-DISTANCE SOLUTIONS

Long distance hauliers face tight margins and urgent deadlines – and in an era of e-commerce and just-in-time delivery supply chains, the pressure is even more intense. With Scania's heavy vehicle solutions, our customers can balance profitability with sustainability.

Many of today's hauliers have to respond not only to demands for timely deliveries, but also to expectations that these deliveries will be as sustainable as possible. Both trends are increasing the need for solutions where profitability and sustainability go hand-in-hand. With our holistic understanding of the industry and knowledge of logistical flows, Scania provides our haulage customers with solutions that are tailor-made to meet these twin requirements.

These solutions include the market's widest range of trucks running on fuels such as liquid and compressed gas, either natural or biogas. Saving on fuel consumption is a win-win for our customers, as it reduces both costs and environmental impacts. Our new truck generation has outstanding total operating economy, with an average fuel consumption saving of up to six-seven percent on our previous vehicles, already an industry benchmark.

These solutions are important stepping stones to the electrified, emissions-free heavy commercial vehicle industry of tomorrow. Scania is also making significant investments in this area to prepare our customers for the future. These include developing and commercialising battery cell technologies for heavy vehicles.

Improving efficiency with connectivity

Staying on the road is fundamental when time is what makes business tick, and connectivity has transformed long-distance transport, with new time-efficient services and functions. We have introduced services such as Scania Flexible Maintenance, enabling vehicle servicing based on real-time operational data and actual usage, with maintenance only when needed. Since launching the service in 2016, Scania has now signed more than 100,000 Flexible Maintenance contracts.

Scania's connectivity tools can also help address one of the biggest challenges for the haulage industry: payload optimisation. The average truck fill rate in Europe is around 60 percent, meaning wasteful extra journeys for the environment and customers' bottom lines.

Driver behaviour is vital for operating economy, road safety and environmental impact. Scania offers driver services and personal coaching as well as services such as Scania Fleet Management, all aimed at providing insights into driving styles, productivity and economy.

SCANIA VOICES

Jonas Nordh
Director of Sustainable Transport

Q What electrification solutions are Scania developing for the heavy commercial vehicles?

A We're working on a number of solutions in parallel. These include battery electric vehicle (BEV) technology, electric roads that enable trucks to be charged through overhead power lines, and hydrogen fuel cells.

Q What are the main challenges in electrification?

A Each solution comes with its own challenges. For example, electric roads require a major investment in infrastructure and lead times are usually long when decisions from governments and authorities are required. With hydrogen, there are issues to do with low energy efficiency and ensuring the hydrogen is made from renewable sources. The BEV technology is depending on a quick development of the infrastructure with smart charging solutions widely available. The size of the battery pack in relation to loading capacity is another issue and so on. Through our investments and partnerships with companies like Northvolt and Asko and working in the Pathways Coalition with E.ON, Siemens and HM, we're working out how to overcome these challenges.

Q What solutions are available for the long-haul market in the meantime?

A Gas is one option. Biogas is the preferred choice compared to natural gas as it has much better CO_2 benefits. Natural gas and biogas require the same infrastructure, and with natural gas in plentiful supply right now we can build up infrastructure around natural gas in the short term. It will make the switchover to biogas easier when this fuel is more readily available. Our engines run on a wide range of other renewable fuels too, of course, including biodiesel and ethanol.

SANPELLEGRINO CUTS EMISSIONS AND NOISE

With the delivery of Scania R 410 liquified gas trucks, all of Gruppo Sanpellegrino's shuttle transports from its mineral water bottling plant at San Pellegrino Terme to its logistics centre at Madone are now operated on gas fuel. In addition to annual carbon savings of 500 tonnes, the gas engines are significantly quieter compared with diesel engines. The company schedules transports at night to avoid traffic congestion on route to Madone, so noise reduction was a major consideration.

€10M

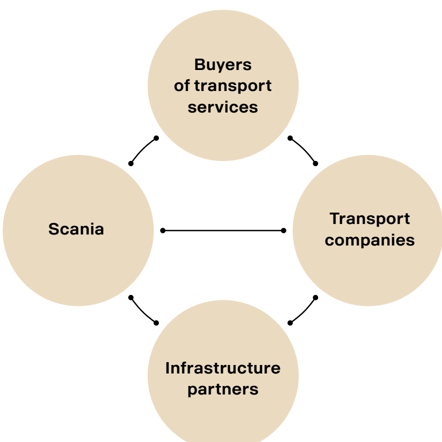
Scania has invested €10m in sustainable battery start-up Northvolt.

ASKO puts hydrogen fuel cell trucks on the road in Norway

There is no one-size-fits-all-universal solution within electrification of heavy commercial vehicles. One of the technology tracks Scania has explored with its customer ASKO is fuel cell electric trucks powered by hydrogen gas. Early tests show that the technology works well in colder climate. The Norwegian wholesaler has put four Scania electric trucks powered by hydrogen gas into real operation, in a pilot that is first of its kind. The first phase of the project also includes the opening of a hydrogen gas station in Trondheim.

WORKING WITH PARTNERS TO DECARBONISE TRANSPORT

Decarbonising the heavy transport sector is not something that can be done by a single actor. To help achieve this goal, Scania is working with partners across the transport industry and beyond.



To scale up renewable fuel and electrification infrastructure, we work in a holistic way, taking the whole transport system into account. This holistic approach includes Scania, transport companies, buyers of transport services and infrastructure partners.

Transport infrastructure partnerships

Decarbonising the transport sector in the short term requires the use of renewable fuels and electrification to rapidly increase. Vehicles alone provide only half of the solution – the shift can only happen with the right infrastructure in place. To scale up the infrastructure for renewable fuels and electrification, Scania is working with partners across the whole transport system, from fuel producers and infrastructure providers to city authorities and governments.

By working with these ecosystem partners, together with our customers and customers' customers, we can push the transport business to increase the use of much-needed alternatives to diesel. By doing so we can create a world where fossil-free transport is no longer considered as the "alternative," but the normal way of doing things.

Working with infrastructure providers

Scania has partnered with a broad range of infrastructure stakeholders to help create the conditions necessary for our customers to decarbonise their fleets. These include oil and gas companies that include renewable fuels in their portfolios, manufacturers of synthetic fuels, and power generation companies. By working with these partners, we are helping to expand the distribution network for renewable fuels, and increase access to sources of renewable energy for transport.

Working with customers to increase biofuel availability

Scania has entered into several strategic partnerships with customers that have an existing or potential access to biofuels through their operations, in order to increase the local availability of biofuels. One example is our partnership with recycling giant SUEZ, through which we are exploring ways to produce biogas using recycled waste from their processes. Other examples include French transport operator Citram Aquitaine, which is running Scania buses fuelled by bioethanol derived from local wine production.

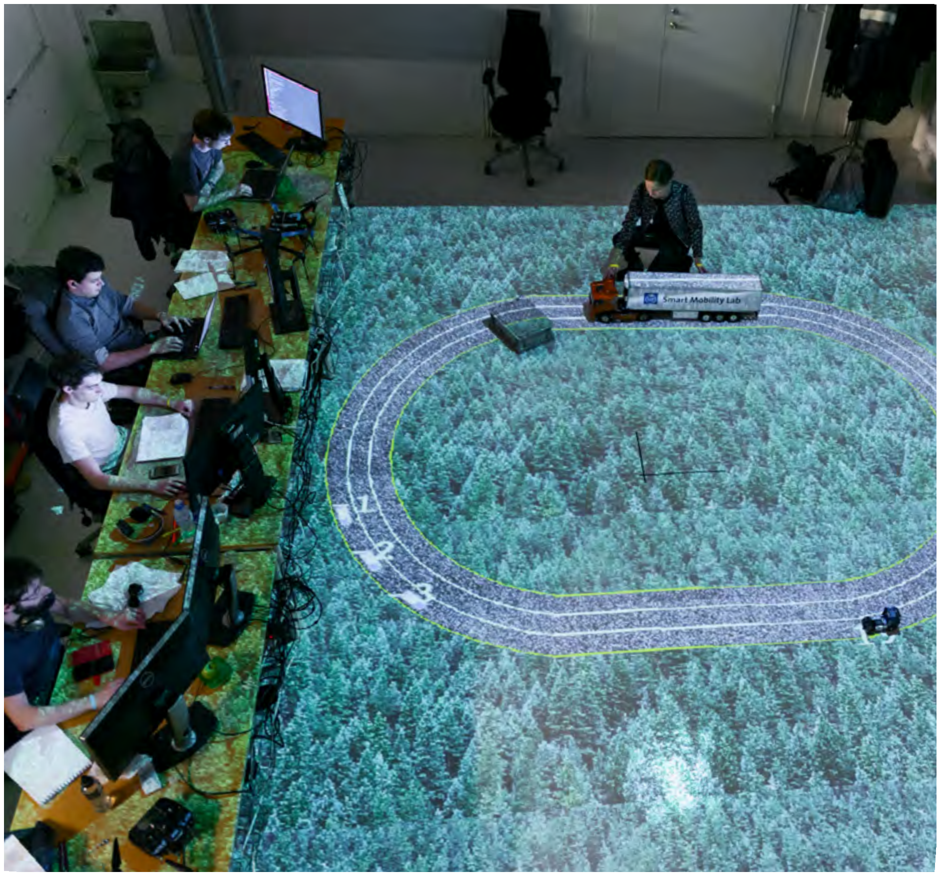
Scaling up demand
Scania is working with major transport buyers who have global reach and influence to specify alternative fuels. Scania's discussions with these companies are focusing on supporting them in transport tenders to make the shift to sustainable transport. We're also scaling up demand through new contract structures to reduce total cost of ownership of vehicles powered by renewable fuels.

Driving change in the food retail sector

To drive sustainability in transport, Scania goes beyond the traditional sales approach, not only investing in partnerships with our customers but also working with others across their entire transport network. An example of this holistic approach in action is our partnership with food retailer SPAR International, who nominated Scania as a preferred supplier in 2018.

Through our partnership with SPAR, we are challenging the global SPAR logistics community to shift to renewable fuels. For example, in Ireland, SPAR wholesaler BWG Foods has invested in 14 compressed gas trucks from Scania, and plans to acquire an additional 50 gas vehicles by 2025.

SPAR named Scania its Global Supplier of the Year in 2019, in recognition of our commitment to sustainability.



Partnerships beyond the transport system

Decarbonising the transport sector requires systemic change on a scale that society has never experienced before. Achieving this calls for collaboration and partnerships beyond the traditional boundaries of the transport system.

Scania recognises this, and has initiated several strategic partnerships including with technology companies, industry leaders, academics and government decision-makers to drive the shift towards a sustainable transport system. In general our partnerships take two broad forms: those that seek to test, pilot or accelerate commercialisation of new technological or business model based solutions, and those that seek to address larger scale global transport system challenges.

Academic partnerships
Academic research plays an important role in building the sustainable transport system of the future, and Scania has a long history of partnering with academic institutions. Research projects we support include the Integrated Transport Research Lab, a joint initiative between Scania, Ericsson and Stockholm's Royal Institute of Technology exploring new approaches in transport that could address global environmental challenges.

Another project include the Scania Center of Innovation and Operational Excellence, a research facility set up in partnership with the Stockholm School of Economics exploring business models for the future transport ecosystem.

Technology partnerships
Delivering an autonomous, connected and electrified transport system depends on technological innovation. Over the last two years, Scania has been part of a consortium of seven European partners developing the ProPART system, a software solution that improves the accuracy of positioning sensors in autonomous vehicles. Other technology partnerships include a €10m investment in the next generation battery company Northvolt to develop and commercialise battery cell technology for heavy commercial vehicles. Scania is also working with Haylion Technologies to develop autonomous and electrified vehicles for the Chinese transport industry.

Government/industry partnerships
Within our industry, Scania is taking a leading position in contributing to global efforts to decarbonise the transport system, acting as a key advisor to nations and international bodies on building a sustainable transport future.

To deliver the seismic shift required to decarbonise transport, the industry must work hand-in-hand with government authorities on both a local and national level. Scania's contribution to developing electric road infrastructure for electrified heavy vehicles is a good example of this kind of partnership in action. Scania has been cooperating for a long time with the Swedish Ministry of Infrastructure and Road Authority around the ongoing pilot in Sweden. In Germany, Scania and Siemens are involved in the Trucks for German eHighways project, co-financed by the German government through BMUB, the Federal Ministry of the Environment, Nature Conservation and Nuclear Safety. A similar project is under preparation on a six-kilometre stretch of the A35 Brebemi highway in northern Italy, involving the regional road authority Concessioni Autostradali Lombarde.

Multi-stakeholder strategic partnerships are also an important part of our approach to driving change across our industry. Through the Pathways Coalition we've joined forces with H&M, Siemens and E.ON to promote a cross-sector approach to accelerating the decarbonisation of heavy transport. Scania's other strategic partnerships include Drive Sustainability, an industry partnership bringing leading automotive manufacturers together to build a shared platform for improving the social, ethical and environmental performance of automotive supply chains.

Breaking down barriers to fossil-free transport

The Pathways Coalition is an initiative bringing together Scania, E.ON, H&M, and Siemens to explore cross-sector approaches to achieving a fossil-free heavy transport system by 2050, in line with the Paris Agreement. Since it was formed in 2018, the coalition has driven debate around how to achieve sustainable transport. Topics highlighted in recent meetings included the importance of promoting common standards in biofuel availability, and the need to decarbonise the energy sector in parallel with transport electrification.

Read more at
www.thepathwayscoalition.com

Exploring the potential of biofuels

One important part of Scania's decarbonisation approach is to use sustainable biofuels that are available here and now. In 2018, Scania launched a collaboration with Xynteo, a cross-industry platform for connecting ideas, to explore the full potential for biofuels and the wider bioeconomy in Europe. The project engage experts, business leaders and stakeholders across different sectors of the bioeconomy, to map opportunities for growth and identify barriers and possible solutions to its development.

Read more at
www.scania.com/group/en/biofuels-key-to-driving-the-shift

A PATH TO ZERO CARBON HEAVY TRANSPORT

Scania is involved in several ongoing projects in Europe to test and evaluate electrified roads – a solution that could pave the way to zero carbon long-haul heavy transport. On an electric road, a truck can be fed continuously with power supplied by overhead electric lines, avoiding the need to stop and charge at charging points. Other benefits include no exhaust emissions. Last year, a 5 km electric road was inaugurated in Germany, with Scania supplying the hybrid electric trucks for the project. This will be the first of three long-haulage test sites in the country. A similar project is under preparation on a six-kilometre stretch in northern Italy and the world's first electric road project has been ongoing in Sweden since 2016.

Change is coming fast – and to drive the shift, we need to be able to innovate and scale up quickly. By combining our core strengths with new ways of working, we're rapidly developing the ideas and technologies that will shape tomorrow's transport system.

HELLO TOMORROW INNOVATION AT SCA

Transport is experiencing one of the biggest shifts in its history. Our business landscape is more disruptive than ever, with new technologies and business models emerging all the time. At Scania we're responding by developing the right balance between today's and tomorrow's business.

It means that we continue investing significantly in the sustainable transport solutions that are viable today, i.e. efficient drivetrains with a combustion engine powered by renewable fuels. The project team behind the Common Base Engine 1 – the joint engine platform within the TRATON GROUP – is creating a drive system for heavy duty commercial vehicles that will set new standards in terms of efficiency and that can further reduce carbon emissions when used with renewable fuels. This next generation, ultra-efficient, low-emission engines will remain our core for many years to come and are a crucial part in achieving the science-based targets we have committed to.

At the same time, we're making longer-term decisions to develop the autonomous, connected and electrified transport technologies of tomorrow.

Fail fast, learn fast

The rapid pace of change requires us to behave less like a traditional manufacturer and more like a start up. We develop and test many ideas in real operation, fail fast, learn fast and bring viable ideas to market quickly. We can test these on a small scale with customers, find out what works best, and then move them on to our core business to scale up for production.

Experimental pilot projects are at the core of this approach. Some of our technology pilots are happening within Scania itself, such as autonomous operations within our own premises. Other pilots are taking place in collaboration with customers and other partners.

As well as piloting new technological solutions, we're also trialling new ways of working that harness new technologies and enable us to innovate more quickly. Through our experimental technology labs such as Scania Smart Engineering Lab and Scania Smart Factory Lab, we're exploring how emerging technologies such as artificial intelligence and virtual reality could enhance our production, engineering and collaboration processes. For more on Scania's smart labs, see pages 28 to 29.

Investments are an important part of this approach. Through our corporate venture capital fund Scania Growth Capital, we invest in companies that support the shift towards a sustainable transport system, and in ventures to explore disrupting technologies and business models in the automotive and transport industries.

Creative thinking

For innovation to thrive, it's important that we foster an agile mindset and an environment that allows fresh ideas to take root and flourish. Initiatives such as our Future Room roundtable discussions (read more at www.scania.com/futureroom) and our annual Scania Hack are examples of how we're encouraging creative thinking and nurturing an entrepreneurial spirit at Scania. Competence building also has a vital role to play, and we're committed to developing the technology and entrepreneurship skills our people will increasingly need in the future through programmes such as the Scania Innovation Factory, see page 31.

NIA

Innovation at Scania is not just about embracing the new – it's also about building on our core strengths. For example, our modular platform will bring us the same advantages in designing autonomous vehicles as it does for conventional trucks and buses, allowing us to rapidly introduce vehicles customised to suit different requirements based on relatively few components and parts. This will be supported by our investment in connectivity and data sharing, which will continue to give us more valuable insights into our customers' needs and how they use our products and services.

A NEW CABLESS CONCEPT – REVEALING SCANIA AXL

At Scania, we believe that self-driving vehicles will play an increasingly important role in improving the productivity and sustainability of heavy industrial operations. To explore these possibilities, we created Scania AXL – a fully autonomous concept truck without a cab, designed for tough environments such as mines and large construction sites. The robust, driverless vehicle runs on renewable biofuels, and is steered and monitored by an intelligent control environment.

TAKING URBAN TRANSPORT TO THE NXT LEVEL

In today's cities, commercial transport flows are far from optimised. Public buses are overcrowded in the mornings and evenings, and almost empty during the day. Meanwhile refuse and goods are often transported during rush hour, increasing congestion and emissions. But what if a commercial vehicle could be flexible enough to adapt to different purposes at different times of day?

To test this idea, we created Scania NXT – a self-driving, battery electric urban concept vehicle. Taking our modular system to the next level, Scania NXT can change shape for different assignments, becoming a bus in the mornings and evenings, a goods delivery vehicle by day and a refuse truck by night. The concept was unveiled at the UITP Global Public Transport Summit in Stockholm in June 2019.

SCANIA HACK: INNOVATION UNLEASHED

More than 100 employees in 29 teams stayed up for 24 hours in last year's Scania Hack, our no-holds-barred annual hackathon. Scania Hack gives employees a chance to focus on developing bright ideas that could be part of Scania's future, from the practical to the outlandish. Useful and not-so-useful ideas the teams worked on during the session included an experiment to test how radio-controlled trucks could be used in assessing driver behaviour, and a facial recognition programme to gauge team members' moods before meetings.

INSIDE SCANIA'S SMART FACTORY LAB

What benefits could robots bring to our factory processes? And could virtual reality improve the way we develop vehicles? These are some of the questions being answered in Scania's Smart Factory Lab – an experimental test environment set up to explore, assess and pilot new technologies before we adopt them in our production processes.

New digital and Internet-of-Things technologies are rapidly advancing, and Scania needs to be in the forefront of developments to remain competitive. It would be too risky to introduce these new technologies to our factory processes untested. This is where our Scania Smart Factory Lab comes into play.

"As we can't be certain that the new technologies will actually work, we can't directly implement them in production," explains Vipasha Laijawala, one of the Smart Factory Lab's young engineers. "So the idea of the lab is to test new technologies in the vicinity of the factory. We adapt solutions, evaluate them, and if we think that they are good enough, we conduct pilots. If the proof of concept is promising, we can design a large-scale solution and implement it in production."

The lab engages a multinational team of 15 engineers, thesis workers and trainees to carry out trials. "Our mission is to adopt new technology for production as it becomes available from universities and suppliers," says Lars Hanson, Coordinator of the Smart Factory Lab.

"Here at the Smart Factory Lab, there are no limits on the ideas we can work with. We have a lot of creative freedom."

Xiaomeng Zhu

"These technologies need to be adapted to Scania's needs and the Scania Production System. Our aim is to improve productivity, quality and employee health."

Exploring possibilities, spreading knowledge

The engineers have in most cases been recruited immediately upon graduation from Stockholm's Royal Institute of Technology (KTH), with which Scania has a long-standing collaboration. In addition to exploring the merits and suitability of technologies, they help explain the new opportunities and enlighten others – both within Scania and externally.

"What we are doing is important since we are spreading all this knowledge to the rest of Scania," says Project Engineer Juan Luis Jiménez Sánchez. "Others are being made aware that the technology exists and can be used to really improve Scania's production systems."

The entire team of lab engineers is enthusiastically engaged in applying the latest technologies to improve Scania's production. Jim Tolman, who comes from an educational background in creative technology and human-computer interaction, is exploring new opportunities to benefit from virtual and augmented reality. With this technology, a training instructor could coach operators in new assembly methods without travelling to Scania's production sites in Europe, Latin America and Asia.

"One of the great things about VR is the sense of depth," says Tolman. "You can interact with 3D representations of parts and components in a natural way that's impossible with a 2D screen. VR also allows you to do things you can't in real life – like pick up a truck, turn it around and see what it looks like from different angles."

Another advantage of VR is that test assemblies can be completed very early on. "As soon as the CAD model is finished, you can put it into the tool and work with it," continues Tolman. "You don't have to wait until the components are physically available."

"We have a lot of creative freedom"

Meanwhile, Xiaomeng Zhu is applying advanced analytics and machine learning to determine whether robots can be gainfully employed for component picking in a more rational order. And Vipasha Laijawala is looking into how Internet-of-Things devices might improve monitoring wear in production machinery.

OUR PEOPLE ARE THE KEY TO THE FUTURE

Transport is changing – and Scania is changing too. As our business model evolves, we're ensuring that our people have the skills and entrepreneurial mindset we need to succeed in the future.

Business shift requires a competence shift

The transport industry is being disrupted by a wave of new technologies, from electrification and automation to digitalisation. This in turn is transforming Scania's business model, turning it from a manufacturer of heavy vehicles to a provider of transport solutions. As our business evolves, we need to ensure we have the skills and competencies to match.

The answer lies in developing the people we already have, allied to a recruitment process that targets the skills we will need in the years ahead. To support this, we also need to develop the right culture at Scania, encouraging flexibility and curiosity, and fostering an agile, entrepreneurial mindset. We also need to ensure our people are aligned with our strategy, with sustainability at the heart of everything they do. And because innovation depends on fresh perspectives, we also need to cultivate a diverse workforce and an inclusive working culture, in which individuality is recognised and valued.

Developing our people

To ensure we have the skills we need as a business, our first step is to understand what different perspectives we need. To support this, we have what we call the Skill Capture model, where we encourage teams to be more inclusive, break down unconscious prejudices and help us to discover skills that have been hidden or underused. Skill Capture is part of our wider Diversity and Inclusion programme, which supports building an inclusive corporate culture.

As we identify and capture the need for new perspectives, skills and competencies in our business, we also need to develop the new ones. Through Scania Academy, we provide a range of tailor-made programmes designed to help our employees foster and develop the skills they will need in tomorrow's transport industry, such as our Front-end Developer Talent Programme, see page 31.

Start-up culture

Succeeding in the future also requires dynamic, flexible ways of working and an entrepreneurial mindset. To encourage this, we have changed our organisational structure to create a more dynamic company, where employees have more freedom to take on new roles, switch career paths and try out new skills. Through the Innovation Factory, we develop entrepreneurship within the company, giving employees the skills and support to develop their ideas and bring them to market as products and services, see page 31.

Attracting new talent

While we develop our own people, it's also important to attract new talent. We work closely with the education sector to secure innovative talent, through initiatives such as the Scania Engineer Programme, the Scania Global Champion Trainee Programme and our Industrial Doctorate Programme. Through strategic partnerships with leading academic organisations, we cultivate the people and skills we will need for the future.

"Developing entrepreneurial skills is a great opportunity for our employees, but we also firmly believe that it makes the company better equipped for the future."

**Anton Wieselblad,
Innovation Coach at Scania**

Scania entrepreneurs team up with start-up community

For Scania, being equipped for the future depends on having the entrepreneurial skills to turn bright ideas into business opportunities. For that reason, we created Scania Innovation Factory: an in-house accelerator programme that channels our employees' ideas and gives them hands-on experience of releasing new products and services to the market that could benefit Scania and contribute to driving the shift.

During 2019, the programme moved into Stockholm-based start-up incubator SUP46. Founded in 2013, SUP46 is a hub for Sweden's start-up community, giving members access to a world-class ecosystem of investors, advisors and partners. As part of the Scania Innovation Factory programme, four Scania teams joined SUP46 to develop their ideas for six months full time. The teams each had a seed investment of 500,000 SEK from Scania, and were supported by programme coaches.

The four ideas being developed through the partnership include Indular, which provides charging solutions for electric vehicle operators and charge point providers, and Scania Shepherd, a digital platform that extends and guarantees the functionality of autonomous vehicles in daily operations.

Digital skills to take on the future

As digital connectivity and IT becomes ever more critical to our business, Scania is committed to helping our employees acquire the software skills they need now and in the future. One example is our new Front-end Developer Talent Programme, a programme that gives employees with no prior experience of software development the chance to gain valuable coding skills and begin a new career in IT, while working on real solutions. Through the three-month programme, 15 employees with an interest in technology will have the opportunity to switch careers while retaining their skills within the company.

ACTING RESPONSIBLY IN EVERYTHING WE DO

As a global company, our operations affect the lives of millions of people every day. We're committed to managing our impacts responsibly across our value chain, aiming for high environmental, social and ethical standards in everything we do.

At Scania, change starts at home. To drive the shift in the wider transport industry, we need to make sure we are conducting our own business responsibly, in line with our core values and international standards.

Scania is a global company working on five continents, with customers in more than 100 countries. Every day, our operations and products impact millions of people, both directly and indirectly. For Scania, being a responsible business means understanding and managing these impacts across every stage in our value chain, from the way we source materials all the way through to the end-of-life phase of our products.

Scania's aim is to integrate sustainability in the normal processes and in all decision-making. Scania has identified three key areas that needs to permeate all parts of our business going forward: reducing CO_2 emissions, circular business and people sustainability. These key areas are directly linked to our most significant impacts, and are aligned with the priorities of our stakeholders and the opportunities we see in the future. Setting high standards and working towards our targets across these areas will increase our ability to be leaders in the shift towards a sustainable transport system.

Read about our materiality assessment at www.scania.com/materiality

Reducing CO_2 emissions
CO_2 emissions are our main environmental impact, and the area where we can make the biggest contribution to sustainable development. To manage our climate impact, we are committed to reducing emissions throughout our entire value chain and across all relevant scopes. To scale up our efforts, we have recently committed to setting science-based targets for CO_2 reduction, read more on page 10.

Circular business
We use the term circular business to define what circular economy means for Scania and we recognise the importance of circularity in maximising value and minimising carbon emissions along the value chain. We have started the journey to promote circular business across our organisation. This journey includes exploring innovative business models, developing products that are designed for life, maximising the use of resources and energy, maintain value as far as possible in our products and to promote recycling when the product life can no longer be extended.

People sustainability
Our business operations impact the lives of people every day, both within our own company and across our entire value chain. For Scania, people sustainability is about identifying and managing these impacts, in order to mitigate the negative and increase positive ones.

Deep dive in the areas on pages 34–35.

Our commitment

Scania is a signatory to the United Nations Global Compact, which means that we have committed ourselves to environmentally and socially responsible practices globally.

Scania recognises UN's Agenda 2030 and its 17 goals for sustainable development (SDGs) as a key guidance for sustainable development. Advances in transport will play an integral role in achieving the Agenda 2030 and Scania strives for alignment with the SDGs when setting strategic and operational targets.

For more on the SDGs and their relation to the transport industry, visit www.scania.com/sdg

For more on our sustainability KPIs and targets, see pages 132–135.

Service
A well-maintained vehicle performs more efficiently and has fewer environmental impacts. More than 12,000 employees work in our service network and through services such as Scania Flexible Maintenance, we are helping tens of thousands of customers to maximise their uptime and to be as efficient as possible in their operations. Scania Zone gives traffic-planners and drivers the ability to pre-programme vehicles to follow local traffic regulations automatically, improving efficiency and road safety. Other Scania services support our circular approach – for example, by giving faulty or worn parts a second life through remanufacturing.

Research and development
Scania invests around SEK 7.2 bn in R&D, and an increasing part of that investment focuses on making the transport system safer and more sustainable for society as a whole. We're also focused on understanding and managing the impact of the materials our products are made of. This includes promoting a circular approach in our designs, as high-quality solutions as possible for as long as possible but also ensuring that more of the materials and components we use are recycled and recyclable.

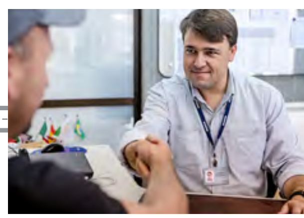
Sourcing
With more than 1,000 direct and 10,000 indirect suppliers, managing our sourcing impacts calls for a structured approach. Scania requires its suppliers, to for example maintain high social and labour standards for their employees, while minimising their environmental impact. We work with our suppliers to help them improve their sustainability performance through customised audits and training. We also work together in partnerships, to improve for example traceability of material. This area will be increasingly important going forward, as new technologies such as electrification may increase our environmental and social sourcing impact. Read more at www.scania.com/responsible-sourcing.

MANAGING OUR LIFE CYCLE IMPACTS

The life cycle of every Scania product has a number of stages, beginning at research and development and running all the way through to end-of-life. By integrating responsible business practices at each of these stages, we can minimise social and environmental impacts across our products' full life cycle.

Logistics
Scania has an extensive logistical network including inbound flows (materials and parts coming to Scania from our suppliers), and outbound flows (Scania vehicles and components being delivered to customers all over the world). Promoting responsible transport buying is part of our core business, and we aim to lead by example and set the benchmark for sustainable logistics. We are committed to continuously improving our logistical flows to eliminate waste, improve energy efficiency and reduce CO_2 emissions, while also working to promote fair working conditions for drivers. Read more at www.scania.com/group/en/sustainable-logistics.

Production
Scania produces hundreds of vehicles every day and has around 19,000 people working in our production facilities worldwide. We operate according to the Scania Production System, which drives us to reduce the environmental impact of production by using energy efficiently, reducing CO_2 emissions, minimising waste and managing chemicals and water resources responsibly. We're committed to ensuring that our production facilities are safe, healthy environments to work in.



Sales
Our sales staff work with our customers to ensure that their vehicles are optimised for their specific transport assignment and to address the products' environmental impact. This includes offering a non-diesel product option in every quotation, where possible. The sustainable transport solutions we provide are based on three pillars: energy efficiency, renewable fuels and electrification, and smart and safe transport, see pages 14–15.

In use
The emissions produced by Scania's products during their use represent their biggest life cycle impact, accounting for 96 percent of our total carbon footprint across our value chain. We're focused on driving down the carbon footprint of our vehicles while they are in use through energy efficient drivetrains, promoting the adoption of renewable fuels, and introducing cleaner technology such as electrification. We also provide training for drivers on energy-efficient driving techniques that further reduce fuel consumption and emissions.

End of life
Scania aims to promote a circular life cycle, where parts and materials from Scania products at the end of their life are reused and recycled. We provide guidelines for end-of-life treatment and dismantling to help us close the loop. Remanufacturing, the collection of faulty or worn parts which are remade and sold again, also plays a key role moving forward.

CO_2 reductions

Our main environmental impact comes from the CO_2 emissions emitted by our vehicles while they are in use. While the core of our contribution to society is about the transformation of the transport system, it does not mean that our responsibility ends there. We are committed to reducing CO_2 emissions across our entire value chain, in our direct operations, as well as upstream and downstream. Read more on our work on emissions from user phase, starting on page 14.

We have set two strong CO_2 reduction targets for our own operations.

Firstly, by 2025, we are aiming to reduce CO_2 emissions by 50 percent in both our industrial and commercial operations compared to 2015. Already 2019, our industrial operations are well ahead of schedule. However, in our global business units we still have work to do to achieve the target. In our production operations globally we are close to 100 percent fossil-free electricity and around 75 percent of the electricity required for our business units also comes from fossil-free sources.

The second target is to achieve a 50 percent reduction in CO_2 per transported tonne from our land transport with 2016 as a baseline. In our logistics organisation we are on track for the target. In several cases we reduce emissions levels while also reducing cost. In one of our major logistics procurements for Europe, CO_2 was reduced with almost 20 percent while also reducing cost with six percent, made possible by for example a re-design of the flow.

Climate Day: raising awareness, making a difference

The climate crisis is one of the major forces driving the transformation of the transport industry. For Scania to be able to drive the shift, it's critical that everyone in our organisation understands the challenge we are facing, the impact from the industry and what Scania is doing to address it.

To raise awareness and give everyone a chance to contribute, Scania held a Climate Day on 20 September 2019. Operations across Scania's sites around the world stopped for a minimum of one hour, giving our 51,000 employees time out to focus solely on climate change. During the event, employees attended workshops to learn more about the issue, Scania's impact and brainstorm ideas for carbon-saving actions that each group could incorporate in their plans in both the short and long term.

The event was a resounding success, generating a huge level of engagement, energy and positive feedback among employees. As well as producing a wide range of promising ideas for carbon-reduction initiatives, the day helped raise awareness among Scania employees of the company's overall strategy to address climate change and the impact along the Scania value chain. Altogether, the event involved 2,500 trainers, and fact-sheets for the day were translated into 33 languages.

Read more on Climate day at www.scania.com/climate-day

>51,000 EMPLOYEES
>50 COUNTRIES
2,500 TRAINERS
33 LANGUAGES
1 DAY

"Initiatives like Climate Day show our people that Scania is more than a transport company. It's a tool they can use to change the world."

Anders Williamsson
Scania Executive Vice President,
Head of Purchasing

Scania has a range of other resources to raise employee awareness of sustainability priorities such as climate change, and what they can do in their work to make a difference. These include sustainability training days, online platforms and e-learning tools. During 2019 Scania's sustainability e-learning became mandatory for managerial positions globally. Over 25,000 employees have completed the course and among them more than 4,000 had managerial positions.

Circular business

At Scania, we believe that being a sustainable business depends on adopting a more circular economic model, where use of existing resources is maximised and waste is minimised. The linear economic model, where resources are extracted to make products and wasted at the end of the products' life cycle, is no longer fit for purpose. For Scania this transition is supported by many of our existing principles and values. Circular business aligns with our core value, elimination of waste, as well as our lean production system and our modularisation approach.

For Scania circularity is and will even more in the future be important in several parts of our value chain. From new business models, such as vehicle as a service, the way we design our vehicles and choose material to the way we maintain value and use resources all along the value chain. During 2019 we have for example started to introduce recycled plastics both in our vehicles and in our inbound logistics network where we have set a target of 60 percent recycled plastics or bio-based plastics in the packaging until 2025. The target is also set to reduce the related CO_2 emissions from packaging by 40 percent until 2025. Our work with remanufacturing of used parts is also an important part of our circular thinking, bringing parts back from the value chain to be renovated, sold again in our service network or used again in our production processes. Currently around 6 percent of Scania's total parts sales are remanufactured parts and 90–95 percent of a disassembled truck from our Used Parts Center in Sweden is recycled where relevant parts are looped back to Scania production facilities.

People Sustainability

Scania works to manage impact and support people throughout our value chain, from our own employees to our suppliers, customers and communities. Scania is actively working to develop a clearer understanding of the human rights risks associated with our activities and to establish tools and processes to manage these risks. Social dialogue is central when it comes to being a sustainable company as well as making the transition just in the shift towards a sustainable transport system. Scania is also an active member in the multi-stakeholder partnership Global Deal.

Scania's people

Our people sustainability work starts with our own employees. During 2019, we carried out an assessment of labour condition standards across all Scania entities. Based on this we defined minimum standards for all employees globally, collectively known as the Scania People Perspective. For more information on Scania's approach to investing in our employees, see pages 30–31.

Suppliers

Scania has an impact on a large number of people through our supply chain. We also recognise that important human rights risks are found in our raw material supply chains. In 2020 we will continue to develop our raw material due diligence system created with our partners in the Volkswagen Group and through our industry alliance Drive Sustainability. Transparency and cooperation are key for promoting positive change throughout our supply chain and we expect our business partners to take responsibility together with us.

Customers and transport users

Sustainable transport solutions improve life for users and contributes to social development. We are helping our customers address challenges, such as cities and suburbs suffering from the effects of badly-planned transportation systems: air and noise pollution, congestion, road safety and unequal access to transport. We also engage in dialogue with stakeholders to ensure that the transport system evolves in a way that is socially sustainable. One example is our work on fair transport in our logistics network where we work in partnerships to improve working conditions for drivers.

Communities

Scania strives to ensure our business has a positive impact in communities around the world where we do business.
We operate in countries where protection of human rights is weak, and we understand this requires more of our ability to manage human rights impact through our tools and processes. Scania's employees are passionate about making a contribution to society, and we support a number of initiatives in which our employees take part. This includes the Together programme, a mentorship initiative set up in partnership with international aid organisation War Child to support young refugees. Through the programme, Scania employees become mentors to newly arrived young people, helping them feel included in society and giving an introduction to working life.

Drive Sustainability

Drive Sustainability is an industry partnership bringing leading automotive manufacturers together to build a shared platform for improving social, ethical and environmental performance of automotive supply chains.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CORPORATE GOVERNANCE

Scania AB and its direct wholly-owned subsidiary Scania CV AB (together "Scania") maintain a high international standard of corporate governance through the clarity and simplicity of its management systems and governing documents. Corporate governance at Scania is based on the Articles of Association, Swedish legislation, in particular the Swedish Companies Act, the Annual Accounts Act and internal governing documents. This Corporate Governance Report has been prepared in compliance with Chapter 6, Section 7 of the Annual Accounts Act.

Owner and shareholders

Shareholders of Scania that hold more than 10 percent of the voting rights on 31 December 2019 is TRATON SE and its subsidiary MAN SE. TRATON SE holds 86.65 percent of the shares in Scania AB and MAN SE holds 13.35 percent of the shares in Scania AB. TRATON SE thus directly or indirectly owns and controls 100 percent of the shares in Scania.

TRATON SE is a subsidiary of Volkswagen AG and is listed on the Frankfurt Stock Exchange and the Nasdaq Stockholm Stock Exchange. Both Scania and TRATON are members of the Volkswagen Group.

The Annual General Meeting

The right of shareholders to make decisions on Scania's affairs is ultimately exercised at the Annual General Meeting (AGM). An Annual General Meeting of shareholders shall be held within six months of the expiry of each financial year, where the Board of Directors shall present the Annual Report and the Auditors' Report.

The Notice convening the AGM shall be issued no earlier than six and no later than four weeks before the Meeting. A Notice convening an Extraordinary General Meeting (EGM) shall be issued no earlier than six and no later than three weeks before the meeting. In accordance with the Swedish Companies Act and Scania's Articles of Association, the composition of the Board of Directors is decided by election. Decisions at the AGM are usually made by simple majority. In some cases such as an amendment to the Articles of Association, however, the Swedish Companies Act or the Articles of Association stipulates either a certain level of attendance in order to reach a quorum or a qualified majority of votes. During 2019, the AGM did not authorise the Board of Directors to resolve on the issue or repurchase or shares.

The Board of Directors

Scania's Board of Directors, which is identical for Scania AB and Scania CV AB, is elected every year by the shareholders at the AGM. The Board of Directors 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.

In addition to those members of the Board of Directors who are appointed pursuant to Swedish law by a party other than the AGM, the Board of Directors shall comprise a minimum of three and a maximum of ten members plus a maximum of two deputy members. The members are elected each year at the AGM for the period up to the end of the next AGM. Scania's Board of Directors is composed of seven elected Board members and no deputy members. On 31 December 2019, they were:

Lilian Fossum Biner
Henrik Henriksson
Nina Macpherson
Stephanie Porsche-Schröder
Andreas Renschler
Christian Schulz
Peter Wallenberg Jr

Andreas Renschler is the Chairman of the Board of Directors. In addition, the trade unions at Scania have according to Swedish law appointed two Board members and two deputy members for them. For 2019 they were:

Lisa Lorentzon
Michael Lyngsie
Mikael Johansson, deputy member
Mari Carlquist, deputy member

The Board of Directors is responsible for establishing the Rules of Procedure of the Board of Directors, and their instruction to the President and CEO, where the Board of Directors specifies the duties and powers of the CEO. Furthermore, the Board of Directors is also responsible for establishing the Rules of Procedure of the Audit Committee.

The Audit Committee
Scania's Board of Directors have established one working committee, the Audit Committee, to which the Board of Directors appoints the members from among its own members. The Audit Committee monitors issues related to administrative processes, refinancing and treasury operations. 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.

Financial, commercial, legal and tax risks are reported regularly to the Audit Committee.

The Audit Committee also regularly receives reports regarding Internal Audits and the state of the Internal Controls and Risk Management Systems.

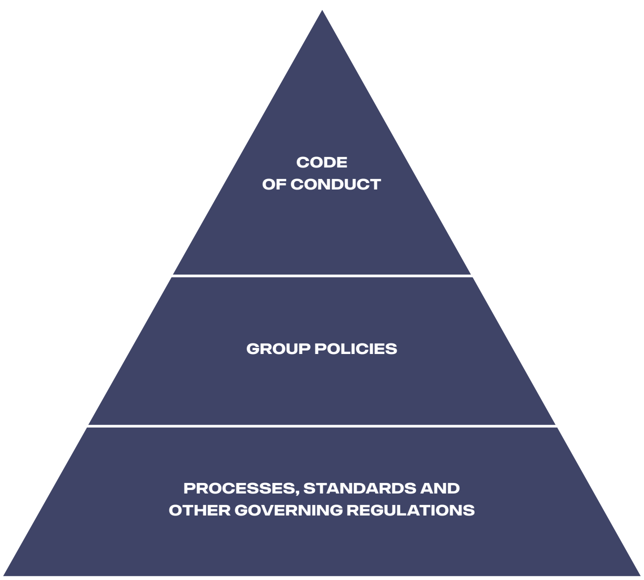
The Audit Committee shall also receive and discuss complaints concerning accounting, internal controls or auditing in the company.

The Audit Committee is identical and common to Scania AB and Scania CV AB.

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

To ensure that the requirements concerning information and controls that are incumbent on the Board of Directors 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 of Directors meeting per year and are invited, as needed, to participate in and report to the meetings of the Board of Directors.

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.



Hierarchy of governing documents within Scania

Internal audit
Scania Group's Internal Audit, whose main task is to independently monitor and review the internal control, risk management and governance of Scania, prepares a report at least twice a year to Scania's Audit Committee. The report is also shared with the CEO and the Executive Board. Group Internal Audit reports functionally to the Audit Committee and administratively to the CEO. Group Internal Audit performs risk-based and by regulation required reviews according to an annual audit plan.

The management of the company

The decision-making structure and management of Scania are described at Scania's intranet. The governing regulation structure starts with the Scania Code of Conduct, which contains a set of binding rules and guidance regarding responsible behaviours for all Scania Group employees.

There are also Scania Group Policies that govern topics within different areas that need to be regulated on a group-wide level. Scania Group Policy 1 – Group Regulations Management describes the structure of the governing documents within the Scania Group.

The main responsibility for the operations of Scania's subsidiaries rests with the Board of each respective subsidiary. This Board ensures that the established profitability targets are achieved and that all of Scania's internal rules and principles, as well as laws and regulations, are followed.

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

Scania's Executive Board decided in November 2016 to create a Governance, Risk and Compliance (GRC) function at Scania. The GRC function shall ensure that legal requirements, international GRC standards and owner requirements are fulfilled considering Scania specific risk environment and culture. The function shall also support in reducing compliance and other risks by providing knowledge in terms of policies, guidelines, training and advice and by setting up respective structures and processes. The GRC function secures alignment with the Volkswagen Group as well as TRATON GROUP regulations through the policy management function.

Since 2017 Volkswagen Group has set up an improvement programme named Together for Integrity with the target of achieving an improved culture of openness, transparency and accountability.

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

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

The Executive Board meets every week. When necessary, considering amongst others market developments, the strategies are summarised from a global perspective and updated at such meetings.

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

Control environment
Internal control at Scania is based on the decisions on organisational structure, powers and guidelines made by the Board of Directors. The Board of Directors' 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 policies, standards and other regulations. Also included in the basis for internal control are group-wide accounting and reporting instructions, instructions regarding powers and authorisation rights as well as manuals. The Group reporting system for integrated financial and operational information is another central element of the control environment and internal control. Integrated reporting of financial and operational information ensures that external financial reporting is firmly based on business operations. In addition to information on final outcome figures, the reporting system also includes frequently updated forecast information. Corporate Control is responsible for continuous updating of accounting and reporting instructions, with due regard for external and internal requirements.

Risk assessment and control activities
Risk management and risk assessment are integral elements of the business management and decision-making processes. For a closer description of the risk management and how it is run at Scania, please see section Risk and risk management, page 45. The controller organisation, like financial responsibility, follows the company's organisational and responsibility structure. Risk areas identified in financial reporting are handled and scrutinised via Scania's controller organisation.

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 governing documents and the effectiveness of the control structure. Monitoring and evaluation is performed by the company's corporate controller departments in industrial operations, all sales and services companies, and finance companies. During the 2019 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 Group Policies remained a high priority area, along with units undergoing changes.

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

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

MARKET TREND AND PERFORMANCE IN 2019

Global demand for transport continued to expand in the first half of 2019 and while demand slowed down in the second half, Scania enjoyed an impressive volume growth for the year. At Busworld in October, Scania's first fully electric bus in series production for city traffic and the first model in our new bus and coach generation, the Scania Citywide, was launched.

Vehicles and services

Scania's vehicle deliveries increased in 2019 compared to 2018 by 3 percent. Truck deliveries increased by 4 percent to a total of 91 680 units and bus and coach deliveries decreased by 8 percent to 7,777 units. Engine deliveries decreased by 21 percent to 10,152 units. Service sales increased by 9 percent to SEK 28,971 m., the highest level ever.

The European truck market

The positive economic situation in Europe continued in early 2019. Demand for trucks was high, but slowed down in the second half of the year. A growing uncertainty about market development made an increasing number of our customers take a wait-and-see attitude regarding ordering new vehicles.

With 18.7 percent of the European market, Scania was second in the registration statistics for trucks over 16 tonnes, after being the European market leader for the first nine months. The success in Europe is mainly explained by the good reception of Scania's new truck generation. Scania delivers a clear customer benefit and during the year Scania's R 450 won the prestigious Green Truck Award 2019 as the most fuel-efficient and sustainable commercial vehicle in its class. Consequently, Scania has won the award for the third year in a row. In Italy, the Scania L 320 hybrid truck was awarded Sustainable Truck of the Year in the distribution category.

The total market for heavy trucks in 27 of the European Union member countries (all EU countries except Malta) plus Norway and Switzerland increased by 0.3 percent to about 320 700 units in 2019, compared to about 319,700 trucks in 2018.

Scania's deliveries in Europe increased by 13 percent in 2019 from the level in 2018, and totalled 58,851 (52,016) trucks. Deliveries increased in Great Britain, France and Germany, partly offset by decreases in Bulgaria, Romania and Latvia.

Scania has the full range of all commercially available alternative fuel solutions in the market to meet all customer demand – even the most ambitious. To this wide range of alternative fuel trucks and buses, the plug-in hybrid distribution truck was added 2018, and the battery electric bus in 2019, manifesting the increasing opportunities for decarbonisation.

In 2019 the plug-in hybrid truck was deployed in silent night-time deliveries to McDonald's restaurants in Stockholm, trials carried out within the framework of the EU initiative Civitas Eccentric in collaboration with the City of Stockholm, McDonald's and its logistics partner HAVI, Stockholm's Royal Institute of Technology, and Scania.

During the year Scania extended the e-road pilots with additional customer trials in Germany, and a similar trial is under preparation in Italy. These tests will determine whether the e-road technology is viable in actual operations and can be implemented for goods transport with reduced carbon emissions and noise.

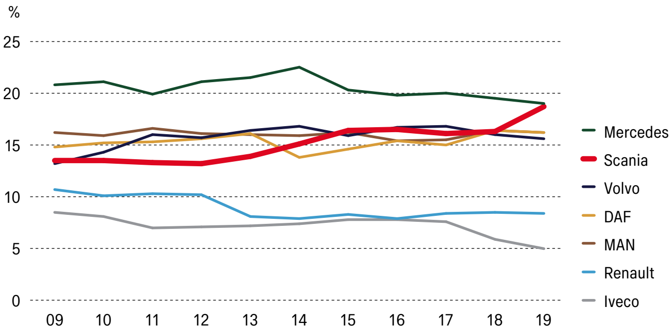
In September Scania launched Scania AXL, a fully autonomous concept truck, without a cab. With the AXL concept truck Scania take a significant step towards the smart transport systems of the future, where self-driving vehicles will play a natural part.

High market share in Europe

Scania truck registrations in Europe amounted to some 60,500 units. Thus, the company's European market share increased from 2018, at about 18.7 (16.3) percent. Scania's market share in Europe 2019 reached its highest level ever, reflecting continuing strong demand for the new truck generation.

Market share

Trucks above 16 tonnes, 27 EU countries plus Norway and Switzerland (all EU countries except Malta)



Continuing recovery in Latin America

In Latin America demand continued to recover, but at a sluggish pace. In Brazil, the continued recovery affected demand in 2019 in a positive way, but there is still a long way to get back to the previous high levels that were seen before Brazil's recession. Scania truck registrations in Brazil amounted to some 12,800 units, equivalent to a market share of about 17 percent.

At the Brazilian transport trade show FENATRAN in October, Scania received the prestigious "Truck of the Year" award for the Latin American market.

Scania's truck deliveries in Latin America increased by 17 percent in 2019, and amounted to 14,905 (12,725) trucks.

Eurasia, Asia and Africa and Oceania

The uncertainty related to political instability and global trade had a negative impact on demand in Eurasia and Asia.

In Eurasia, deliveries decreased during 2019 by 28 percent compared to 2018 and amounted to 5,763 (8,006) trucks, primarily related to Russia and Belarus, partly offset by Ukraine.

The demand situation in the Asia region was impacted negatively by lower order bookings in the Middle East, mainly due to political uncertainty in the region. In Asia, deliveries decreased by 26 percent to 7,703 (10,464) trucks, mainly explained by Turkey, Indonesia and Iran, partly offset by China. In China the European truck segment is growing in line with the development of the logistics systems, along with stricter emission legislation levels.

Scania agreed with one of the world's largest construction machinery enterprises, Zoomlion Concrete Machinery in Changsha, China, to deliver another 520 vehicles for truck mounted pumps. Since the collaboration was first established in 2007, Scania has delivered 3,300 vehicles to the Chinese manufacturer.

In Africa and Oceania, deliveries decreased by 7 percent compared to the full year 2018 and amounted to 4,458 (4,784) units, mainly related to Tunisia and South Africa.

Buses and coaches

Scania's deliveries of buses and coaches in 2019 decreased by 8 percent and amounted to 7,777 units, compared to 8,482 units in 2018. In Europe deliveries decreased mainly due to Germany, Spain and Poland, partly offset by Finland, Estonia and Czech Republic. Deliveries to Eurasia decreased mainly in Russia. In Latin America deliveries increased in Colombia and Brazil. Deliveries in Asia decreased due to Iran and Hong Kong, partly offset by Taiwan. Deliveries in Africa and Oceania increased, mainly due to Morocco and Australia, partly offset by Nigeria and New Zeeland.

In Europe Scania's market share for buses and coaches amounted to 6.4 percent in 2019, compared to a 7.1 percent share in 2018.

At Busworld in October, the new Scania Citywide was premiered – Scania's first fully electric bus in series production for city traffic and the first model in our new bus and coach generation.

In June Scania launched the NXT, a new battery electric self-driving urban concept vehicle, designed with the flexibility to shift from ferrying commuters to and from work in mornings and evenings, delivering goods during the day and collecting refuse at night. The eight-metre-long bus module is built as one composite unit, substantially reducing weight. With a weight of less than eight tonnes, the range with present-day batteries is estimated at 245 kilometres.

In December 2019 Scania signed an agreement to improve public transport in Abidjan, Ivory Coast. Scania will deliver 450 buses, whereof 50 will be fuelled by compressed gas. The agreement includes upgrading bus depots and vocational training of drivers and service technicians. Over the past few years, Scania has successfully participated in improving urban mobility in Ghana and Nigeria. With the strategic partnership in Abidjan Scania further strengthens its position in West Africa as a provider of sustainable solutions for urban mobility.

Engines

Last year's pre-buy effect ahead of the new engine emission standards (Stage V) in Europe boosted deliveries in 2018 and 2019 Engine deliveries fell by 21 percent to 10,152 (12,809). The downturn was mainly attributable to Germany, Great Britain and South Korea, which was partly offset by China, Italy and Poland.

Services continues to grow

Services continued to perform strongly in 2019. Overall revenue rose by 9 percent to SEK 28,971 m., with strong increases in Europe (up 9 percent to SEK 19,881 m.), Asia (up 8 percent to SEK 2,846 m.), Africa and Oceania (up 7 percent to SEK 1,924 m.) and Eurasia (up 24 percent to SEK 989 m.) while Latin America was up by 9 percent at SEK 3,331 m.

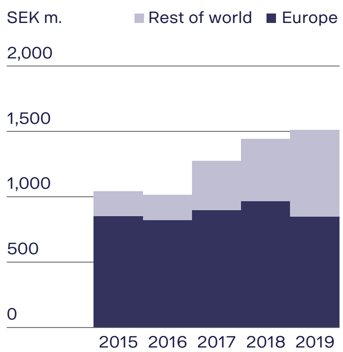
Service demand is boosted by the data from more than 430,000 connected vehicles, which allows Scania to keep tailoring service packages to customers, based on how they use their vehicles. About 90 percent of the rolling fleet in Europe is connected. Other parts of the world are following. The total rolling fleet of Scania vehicles drives 2.9 billion kilometres every month. The development of smart maintenance services in the form of Scania Flexible Maintenance continues and now has more than 100,000 vehicles subscribed.

Financial services

At the end of 2019, Scania's customer finance portfolio amounted to SEK 103.8 bn, which was SEK 14.6 bn higher than the end of 2018. In local currencies, the portfolio increased by SEK 11.6 bn. The penetration rate was 42 (43) percent in those markets where Scania has its own financing operations. Operating income in Financial Services increased to the record level of SEK 1,511 m. (1,440 m.) in 2019, compared to the same period in 2018. A larger portfolio and currency effects had a positive impact on earnings, while smaller margins and increased operating cost had a negative effect. Bad debt expenses were SEK 314 m., 0.33 percent in relation to portfolio.

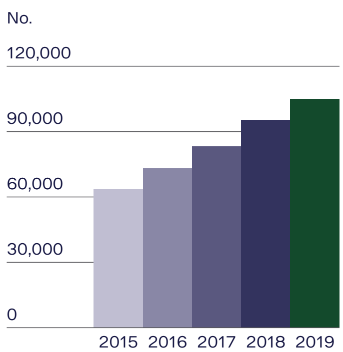
Operating income Financial Services

Operating income in Financial Services for 2019 increased to SEK 1,511 m. (1,440). A larger portfolio and currency effects had a positive impact on earnings, while lower margins and increased operating costs had a negative impact.



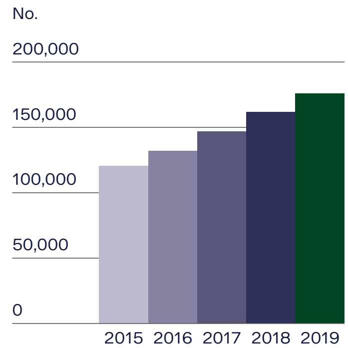
Insurance contracts

There was an increasing demand for Scania's insurance solutions during 2019. Efficient claims management and fast repairs in Scania's service network are the core of the offer.



Finance contracts

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



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

Our employees

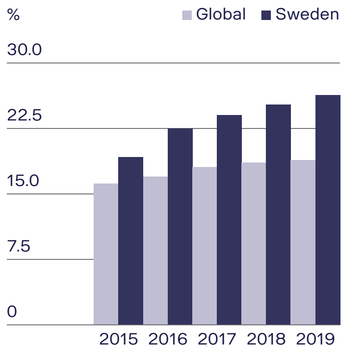
Ensuring that, regardless of their job and location, all employees feel valued and dedicated, have job satisfaction and have a sense of well-being at work is an important task for managers at all levels of the organisation. Scania's systematic efforts to monitor job satisfaction also include a single common survey – the Employee Satisfaction Barometer – that includes three specific questions on employees' views of Scania as a diverse and inclusive company. Scania is convinced that diverse and inclusive work groups, reflecting diversity in gender, ethnicity, background and skills etc., are key to success and therefore aims to work for a more diversified workforce in all of its operations.

Issues relating to well-being, working environment, safety and health have high priority. All managers and employees at production units are involved in improving working methods. In this way, Scania has been able to maintain low levels of employee turnover and keep healthy attendance at a high stable level over the years, amounting to 96.5 percent in 2019. The working principles, developed over many years at Scania's production units, have been adapted and implemented in the other parts of the company. The number of employees at Scania in 2019 decreased to 51,278 compared with 52,103 at the end of 2018. The decrease is mainly related to a reduction of staffing levels in production to adjust to the prevailing demand situation.

On 20th September Scania arranged its first Climate Day. Scania operations all over the world were paused to carry out training in climate science and sustainable operations for the company's 51,000 employees. The Climate Day is arranged as a show of commitment to battling climate change and to reaching the goal of the Paris Agreement. The focus is on conducting further training in sustainability for Scania's employees.

Share of female managers

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



Production and environment

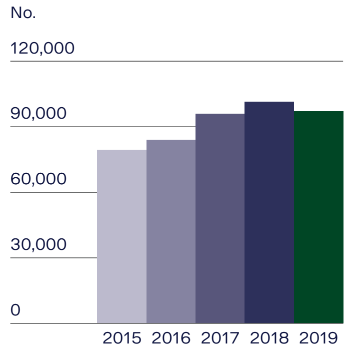
By the end of 2019 Scania had completed the largest ever industrial changeover in Scania's history from the old to the new truck programme.

Scania's global production system allows us to spread capacity between our production sites around the globe. Scania's technical capacity is 120,000 vehicles, and the work on ensuring flexibility to meet short-term fluctuations in demand is continuing. Scania's production units are continuously working to improve their environmental performance. The Scania Production System (SPS) is central to the work with energy efficiency and reduction of waste and chemicals. Scania places a special focus on the environmental impact from transport, both in-bound in the form of components and articles from suppliers and also from outbound delivery of parts and vehicles.

In 2019 Scania opened a new factory for trucks and buses in Bangkok, Thailand. In addition to truck and bus assembly, the factory also includes a manufacturing facility for truck cabs, and a regional headquarters for Scania's operations in Asia and Oceania has been created in Bangkok. The industrial operation in Thailand is important to Scania's overall strategy for Asia, as it means Scania now is part of the ASEAN Free Trade Area.

Vehicles produced

During 2019, Scania produced 96,995 vehicles (101,375).



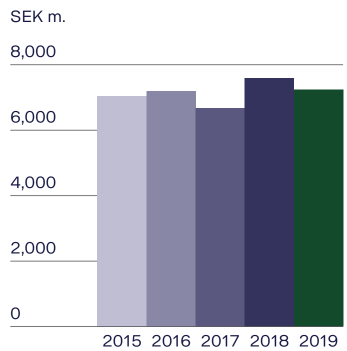
Research and development

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. In 2019, Scania invested SEK 7.2 bn in research and development (7.6), which corresponded to 5 percent of net sales.

Scania benefits from the synergies as part of the TRATON GROUP. The group's deep pool of technical expertise boosts innovation and drives cost efficiency, while its financial muscle means Scania can invest earlier in new innovations and bring ideas to market quicker.

R&D Investments

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



SUSTAINABILITY REPORT STATEMENT

In accordance with the Swedish Annual Accounts Act 6 Chapter 11§, Scania AB has chosen to draw up the sustainability report as a report separated from the Annual Report. The extent of the Sustainability Report can be found on page 136 of this document.

RISK AND RISK MANAGEMENT

Purpose of risk management within Scania

As a company, Scania is continuously exposed to risks that, if not properly managed, may impact the opportunity to be a leader in sustainable transport, to execute its strategies and achieve its objectives. Such matters pose risks to Scania and may involve a broad range of topics spanning from IT security to supplier dependency, product safety and matters related to responsible business e.g. human, environmental and social issues. Negative impacts can be avoided, or at least minimised, if they are proactively identified and properly managed. The purpose is to have a risk management approach within Scania which is transparent, systematic and hands on. This enables Scania to maintain focus on its core business and its customers, while spending less time and effort on remediating unwanted situations.

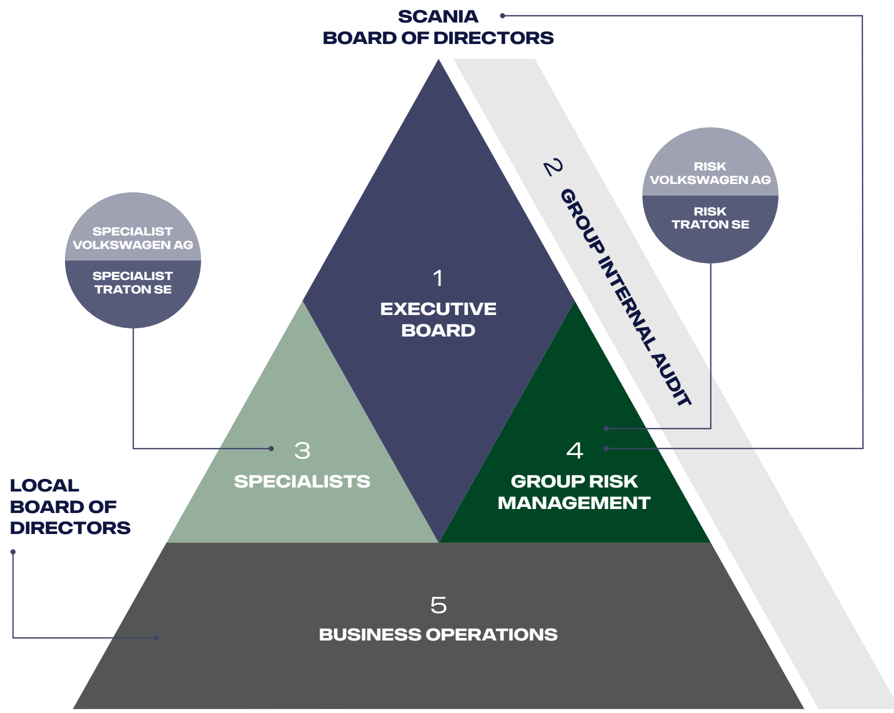
The risk management process enables effective risk management and risk reporting.

How we drive risk management within Scania

The aim is for each entity within Scania to gain a greater understanding of which their important risks are, and how such risks are managed, but also to establish a shared view of important risks throughout the Scania Group.

On behalf of Scania's Board of Directors, the Executive Board has the overall responsibility for risk management within Scania. The business operations are central since they are exposed to risks, that need to be managed. The business operations are therefore responsible for identifying and assessing key risks, assuming risk ownership and managing risks, as well as periodically reporting risks to the Executive Board via the central support function Group Risk Management.

Risk management at Scania should be performed in accordance with the Scania Group Policy on Risk management and supporting instructions.



Roles and responsibilities within Scania's risk management

1
- Foster a sustainable risk culture
- Ratify key components of the group-wide risk management programme
- Discuss risks and assume ownership of group-wide risks
- Assume responsibility for core process and cross-functional risks
- Evaluate that strategies for managing group-wide and cross-functional risks have been developed to reach acceptable risk levels

2
- Provide assurance on the effectiveness of the risk management programme, the controls and risk response plans for significant risks

3
- Provide guidance and support to the central support function Group Risk Management and business units on specific topics

4
- Compile risk information for transparent reporting
- Identify and assess group-wide risks for escalation
- Monitor risks and risk response plans
- Facilitate assessment and mitigation activities for cross-functional and group-wide risks
- Create and maintain a common risk management framework
- Provide direction and support on how to apply the framework
- Provide guidance and training programme

5
- Identify and assess key risks
- Assume risk ownership and manage risks
- Monitor risks and report to Group Risk Management
- Escalate emerging risk issues

Risk process

Scania Group promotes a risk awareness culture which is characterised by openness and encourages people throughout the organisation to speak up and discuss the risks the Group is facing. Transparency is fundamental for dealing effectively with risks and avoiding blind spots, i.e. risk which remain undetected and therefore are not addressed properly. As a principle, all management across the organisation is responsible for managing risks within its area of responsibility.

To ensure consistency in the assessment of the risks identified, pre-defined risk categories (Strategic, Financial and Business risks), sub-categories and risk assessment criteria are established that help organise consistent identification, assessment, analysis, and monitoring of risks.

The recurrent risk process consists of four phases: identify, assess, respond, and follow-up and report. The first step, **identify**, involves identifying risks of targets not being achieved and emerging risks. Secondly, the identified risks shall be **assessed** in terms of probability of occurrence and potential impact in order for the appointed risk owner to be able to prioritise risks for further analysis. The following analysis is the basis for evaluating response options as part of the third step, **respond,** as well as to design and implement risk response plans. The final step, **follow-up and report**, is to monitor the implementation and status of the risks to ensure that the risk response is effective. The process is run through an annual workshop and additionally reports on a quarterly basis.

The four phases in the risk process

Risk workshop

Once a year, all reporting units are required to perform a risk perception workshop session. This workshop involves the Chief Financial Officer (CFO) or Head Controller gathering the relevant persons, usually between five to fifteen people, for example local management and specialists within legal, information security, compliance or tax to brainstorm on risks which may prevent them from reaching their targets and objectives. The purpose is for the entity to gain a greater understanding of which their most important risks are but also how such risks can be managed.

The result is documented in a risk register including assessed, prioritised and analysed risks. This is also the basis for establishing and documenting a response plan.

"For us at Commercial Operations Hong Kong, the risk process provides support in identifying and managing risks and has also contributed to interesting discussions in the management team and with other stakeholders within the Group."

Magnus Karlsson,
CFO at Scania Hong Kong

RISK OVERVIEW

STRATEGIC PRIORITIES

- L Leader in sustainable transport
- C Customer satisfaction
- T Top employees
- P Profitability
- V Volume growth

Risk category	Strategic priorities	Context/ Potential impact	Management actions/ Mitigation
Strategic risks			
Corporate governance and policy-related risks	L C T P V	It is important that Scania effectively manages and develop the business in the right direction, otherwise there would be a risk of the company not achieving our ambition and targets.	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. Management systems are continuously being improved, through day-to-day work and through regular review internally and by third parties. The central support function Governance, Risk and Compliance is in place to support both Executive Board and line mangers in reducing risks by providing knowledge in terms of governance, trainings and advice.
Geopolitical risks including sanctions and trade barriers such as BREXIT	L P V	Changes in foreign trade policy and trade barriers, as well as governments or international bodies imposing sanctions on countries, goods and services, or persons, impedes our opportunities to do business. Failure to comply with sanctions could result in significant fines and penalties. As a global company, Scania needs to manage conflicting sanction regulations. Scania operates in markets with political volatility, conflict and high human rights risk requiring more from Scania to uphold standards to mitigate adverse environmental and social effects. BREXIT poses a risk to the current operating model. There are uncertainties and risk such as potential business interruptions due to suppliers facing challenges in delivering to and from Great Britain.	All entities within the Scania Group conduct their business in accordance with national and international laws and regulations, export control legislations of all relevant jurisdictions and regimes in which we operate as well as Scania's Code of Conduct. Scania has established a cross-functional organisation for BREXIT to ensure awareness and that preparations are undertaken to mitigate the risk.
Business development risks	L C P	The transport industry is facing new technologies, business models, competitors, and global trends such as digitalisation which combined create a highly disruptive environment. These factors are transforming Scania from a heavy commercial vehicle manufacturer into a provider of transport and logistics solutions. Hence there is a risk related to the ability to respond to specific customer needs with tailored products and services, and the availability of technological innovations that respond to the major trends of the industry (i.e. Connected, Autonomous and Electrified vehicles). The complex supply chain related to battery production involve increased social risks for example human right violations, labour issues and discrimination.	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 is in fact 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. Through a culture of integrity and speak up all unclarities and queries are to be identified and discussed openly. It also means that the risk of uncertainty and lack of clarity concerning the company's strategy and business development can be managed in a precise and efficient way. In addition to this Scania continuously investigates new areas that may be of interest connected to the future development of the ecosystem of transport and logistics. Research and development projects are also revised continuously, based on each project's technological and commercial relevance.

Risk category	Strategic priorities	Context/ Potential impact	Management actions/ Mitigation
Financial risks			
Currency and interest rate risk	P	Due to currency and interest rate movements there is a risk of negative effects on earnings and balance sheet items. Currency exposures result from the widely spread geographic sales of products and rather concentrated production operations. Interest rate risk may occur from interest rate-sensitive assets and liabilities. For further information see Note 27.	Currency and interest rate risks are managed in accordance with Scania Group Policy – Treasury, reviewed every year by Scania Audit Committee. To improve visibility and manageability, Scania generally concentrates currency exposures to its major industrial operations in Sweden and Brazil. The goal of interest rate risk management is to largely reduce these risks using derivatives.
Refinancing risk	C P	Access to competitive funding is critical and to a large extent dependent on Scania's credit rating on the financial markets. A risk of worsening in credit rating would increase Scania's cost of funding which in turn could affect the company's profitability. For further information see Note 27.	Refinancing risks are managed in accordance with Scania Group Policy – Treasury, reviewed every year by Scania Audit Committee.
Credit risk	C P	If Scania's contract parties fail to meet their contractual obligations as a result of their own financial situation or the political environment, Scania might thereby be exposed to financial loss. For further information see Note 2 and 27.	Credit risks are managed in accordance with the Scania Group Policies – Credit Risk Governance and Treasury, reviewed every year by Scania Audit Committee.
Tax risks	P	Scania is subject to various taxes in multiple jurisdictions. A certain degree of judgement and estimation is required in determining Scania Group's provisions for income tax, sales and use tax, value-added tax, and other taxes. Additionally, Scania and its subsidiaries are involved in a number of tax cases, and disputes. 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.	Scania has central and local resources that ensure compliance with current legislation, and take an active part in tax related issues and assist with tax expertise. Furthermore, in addition to statutory audits, Scania is regularly audited by tax authorities, who may disagree with Scania's tax treatments. Although Scania believes its tax estimates are reasonable, the final determination of any such tax audits or reviews could differ from our tax provisions and accruals. As a result, Scania may be subject to additional tax liabilities, interest, penalties, or any regulatory, administrative, or other sanctions relating thereto. Tax risks above a certain level are monitored and reported regularly to management. Once a year, a report is submitted to the Audit Committee of the Board.
Insurance risks	P V	Scania works continuously with the identification, analysis and administration of insurable risks, both at Group and local level.	A central function 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 governing document. 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 loss prevention level and a low incidence of claims.

STRATEGIC PRIORITIES

- L Leader in sustainable transport
- C Customer satisfaction
- T Top employees
- P Profitability
- V Volume growth

Risk category	Strategic priorities	Context/ Potential impact	Management actions/ Mitigation
Business risks			
Market risks	L V	The commercial vehicles industry is influenced by external impact such as competition, price, political conditions as well as potential financial downturn which may result in both opportunities and risks regarding the demand for Scania's products. For example, risks related to used vehicles and repurchase obligations.	Scania can address the fluctuation in the demand for our products by well-diversified sales in more than 100 countries, which limits the risk in relation to each individual customer and market. Furthermore, Scania continuously manages and oversees existing contractual obligations towards customers which otherwise could result in challenges to properly forecast future asset values of used vehicles. See Note 2.
New and changed laws and regulation	L P	Different countries' legal systems and major changes in laws and regulation (e.g. environmental laws, safety standards, trade laws, and export control regulations with extraterritorial effect) may have features that threaten the comprehensive position and its capacity to efficiently conduct business as well as the capacity to consummate important transactions, enforce contractual agreements or complement specific strategies and activities.	Scania monitors all markets continuously for early warning signs, which means the company can make the necessary changes to its marketing strategy. In addition, Scania's local and central specialist functions provide guidance and supports regarding new and changed legislation to mitigate the risk.
Compliance risks	L C T P	Scania needs to address anti-money laundering, anti-corruption and adherence to applicable competition laws in a systematic and transparent way. Scania's operations also include the provision of financing and insurance services, which must comply with the rules set out by financial supervisory authorities.	The company has specialised staff both centrally and locally to support the business to monitor and control these risks. Group Compliance, Group Risk Management and Group Internal Audit are the functions that support the businesses to achieve those targets.
Production risks	L C V	An unforeseen disruption of a production facility represents a risk and may be caused by a number of incidents — for example power failure, equipment failure, fires, floods, social unrest or terrorist activity, infectious diseases, labour difficulties, or other operational problems. If overestimating the demand for our products, there might be a risk that the available capacity will be underutilised, while pessimistic forecasts could result in insufficient capacity to meet demand.	Scania has a business continuity programme which focus on responsibility by local management to assure that business continuity is owned, operated and embedded with local needs, resources and competence. In addition, Scania has a safety, health and environment standard as well as activities with the aim to preserve and promote the performance. Production, environmental and quality risks in the workshop network's services are managed through the Scania Retail System, the Scania Dealer Operating Standard Certification, as well as the Scania Code of Conduct. The production capacity is closely monitored in cross-functional meetings and continuously adopted accordingly.
Supply chain risks	L C T P	If one or more suppliers are unable or unwilling to fulfil delivery obligations, for example due to supply shortages, labour strikes, capacity allocation to other customers, or financial distress of the supplier, Scania might face the risk of production downtime, increased production costs, delays and loss of customer confidence. Furthermore, with a more global supply chain there are sustainability risks such as adverse effects on the environment, health and safety, human rights and business ethics in Scania's business operations.	Scania has taken a variety of preventive and detective measures to counter these risks. This includes a pre-qualification process to ensure suppliers meet the company's requirements regarding technology, quality, delivery, cost and sustainability, and which is regularly reported to Scania Purchasing management. Suppliers are required to comply with Scania's Supplier Code of Conduct and Scania continuously assess and consider the risk in sourcing nominations. Furthermore, Scania uses external risk indices for keeping track of risks in specific regions and to meet the different risk profiles, measures are taken to support and follow up e.g. by performing training and audits.

Risk category	Strategic priorities	Context/ Potential impact	Management actions/ Mitigation
Business risks, continued			
Natural hazards	L C P	As Scania and our suppliers are located all over the world we might be faced with extreme weather conditions and natural hazards. It is hard to predict the occurrence or location of natural disasters as well as their frequency and impact. With changing climate, extreme weather situations are expected to be more frequently occurring as well as the weather conditions to be changing in certain areas.	As Scania's own business operations or suppliers are located all over the world the risk of natural disaster and resource scarcity are given special attention in the business impact analysis as well as the business continuity planning process. Furthermore, Scania has committed to setting a science-based carbon emission reduction target in line with limiting the rise in global temperature.
People and competence	L V T	The technology shift will require a shift in competence and Scania must act proactively and identify future needs before they occur. Difficulties to attract and retain key personnel could lead to challenges in delivering towards customer needs.	Scania will continue to develop the area of people management to secure business-driven competence supply. The people perspective is key in driving the shift – both for the company and its employees. Scania focuses on various re-skilling programmes as well as entrepreneurial and innovation learning. Further, 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, offering high-quality technical education.
Information risks	L C	Scania relies on information technology. Beside opportunities for improving efficiency and effectiveness of Scania's internal operations and customer offer, this might also give rise to risks. Parts of the infrastructure may be interrupted because of accidents, disasters, technical damage, outdated technology, or cyberattacks etc. If not properly managed Scania might be exposed to the risk of information being revealed to unauthorised person(s) or intentionally/unintentionally changed, corrupted or lost.	To ensure the availability, integrity, and confidentiality of information, Scania uses a risk-based information security management system as well as a combination of the latest hardware and software technologies and effective IT organisational mechanisms. Furthermore, Scania has a central unit for Information Security, which is responsible for the introduction and follow-up on Scania's information security policy.
Data privacy	L C P	Scania is subject to data protection regulations with respect to, among other things, the use and disclosure of personal data, and the confidentiality, integrity, and availability of such information. If Scania fails to comply with these regulations, this could result in claims for damages and other liabilities, significant fines and other penalties, and the loss of customer and reputation.	One of Scania's core values is "Respect for the individual." This is the foundation when interacting with our customers, drivers of our vehicles, co-workers in our global organisation or with business partners/suppliers contributing to our delivery of sustainable transport solutions. Scania has a data protection organisation to support the business in ensuring that personal data is handled appropriately. The business is responsible for demonstrating compliance with privacy and data protection legislations.

STRATEGIC PRIORITIES

- L Leader in sustainable transport
- C Customer satisfaction
- T Top employees
- P Profitability
- V Volume growth

Risk category	Strategic priorities	Context/ Potential impact	Management actions/ Mitigation
Contracts and rights	L C P	Administration of contracts, essential rights and legal risks occur in the normal course of operations. 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.	Scania has specialised personnel, Corporate Legal Affairs and Risk Management to support with advisory and guidance in legal, commercial, patent, licensing and other matters.
Legal actions and administrative proceedings	L C P	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. Some of the associated risks may be considerable. For further information see Note 2.	Scania has introduced a legal risk reporting system, according to which risks are defined and reported to the head office as they occur. At least once a year, a report on such risks is submitted to the Audit Committee of the Board of Directors. Scania has specialised personnel, Corporate Legal Affairs and Risk Management to support with advisory and guidance in legal matters.

BOARD OF DIRECTORS

Andreas Renschler

Chairman of the Board of Directors since 2015

Born: 1958.

Education: Degrees in business engineering and business administration.

Other directorships: Member of the Board of Management, Volkswagen AG. Chairman of the Board of Directors, MAN SE, the Board of Directors, MAN Truck & Bus SE and the Board of Directors, MAN Latin America Indústria e Comércio de Veículos Ltda. Member of the Board of Directors, Deutsche Messe AG, the Board of Directors, Sinotruk (Hongkong) Limited, Dr. Ing. h.c. F. Porsche AG, Porsche Holding Stuttgart GmbH and the Board of Directors, Navistar Int. Corp. Chairman of the Commercial Vehicles Board Group of the VDA.

Relevant work experience: Member of the Board of Management, Volkswagen AG, responsible for Commercial Vehicles. CEO, TRATON SE. 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.

Henrik Henriksson

Member of the Board of Directors since 2016.

Born: 1970.

Education: Bachelor of Science in Business Administration, BSc.

Other directorships: Member of the Board of Hexagon AB.

Relevant work experience: Various managerial positions at Scania since 1999. President and CEO of Scania since 2016. Member of Executive Board at TRATON SE.

Chairman of the Commercial Vehicle Board of Directors of ACEA (European Automobile Manufacturers' Association). Member of the Board of the Association of Swedish Engineering Industries and the Board of Confederation of Swedish Enterprise.

Lilian Fossum Biner

Member of the Board of Directors since 2019. Member, Audit Committee.

Born: 1962.

Education: Bachelor of Science in Business Administration, BSc.

Other directorship: Chairman of Cloetta AB. Board member of LE Lundbergföretagen, Carlsberg Group, Givaudan S.A. and a-connect (group) ag.

Relevant work experience: Broad experience from retail and consumer companies and managerial positions Axel Johnson AB and at Electrolux Group.

Nina Macpherson

Member of the Board of Directors since 2018. Member, Audit Committee.

Born: 1958.

Education: Master of Laws, LL.M.

Other directorships: Member of the Supervisory Board of TRATON SE and member of its Audit Committee since 2019.

Relevant work experience: Chief Legal Officer, secretary to the Board and member of the Ericsson Executive Team until 2018. Previous positions include in-house legal positions and private practice in corporate and commercial law.

Member of the Swedish Securities Council.

Markus S. Piëch resigned from the Board of Directors on his own request on 20 November 2019.

Stephanie Porsche-Schröder

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

Born: 1978.

Education: Diplom Designer.

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

Relevant work experience: Designer at Bosch Siemens Haushaltsgeräte GmbH, Munich, 2004-2012.

Christian Schulz

Member of the Board of Directors since 2018. Chairman, Audit Committee.

Born: 1977.

Education: Business and administration.

Other directorships: Member of the Supervisory Board of MAN Truck & Bus SE and Navistar Inc. Corp.

Relevant work experience: Member of Executive Board at TRATON SE, CFO responsible for Finance and Business Development. Various managerial positions at Daimler AG, Mitsubishi Fuso Truck & Bus and Mercedes-Benz Cars.

Peter Wallenberg Jr

Member of the Board of Directors since 2005.

Born: 1959.

Education: International Baccalaureate and BSBA Hotel Administration.

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 and EQT AB.

Relevant work experience: 30 years in the service industry. Held different roles at Grand Hôtel since 1985, 12 years as CEO and Chairman since 2006.

Lisa Lorentzon

Representative of PTK at Scania. Member of the Board of Directors since 2015. Previously deputy member since 2012.

Born: 1982.

Education: Master of Science, MSc.

Other directorships: Employee representative, Supervisory Board of TRATON SE.

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.

Other directorships: Employee representative, Supervisory Board of TRATON SE.

Relevant work experience: Various positions at Scania since 1987.

Michael Lyngsie

Representative of the Swedish Metal Workers´ Union at Scania. Member of the Board of Directors since 2018.

Born: 1977.

Other directorships: Employee representative, Supervisory Board of TRATON SE.

Relevant work experience: Various positions at Scania since 1993.

Mikael Johansson

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

Born: 1963.

Relevant work experience: Various positions at Scania.

EXECUTIVE BOARD

1. **Ruthger de Vries**
Executive Vice President, Head of Production and Logistics.
Born: 1965.
Education: Master of Science in Industrial Engineering and Management, MSc.
Joined Scania in 1990.

2. **Anders Williamsson**
Executive Vice President, Head of Purchasing.
Born: 1969.
Education: Master of Science in Industrial Engineering and Management, MSc.
Joined Scania in 1994.

3. **Kent Conradson**
Executive Vice President, Head of Human Resources
Born: 1958.
Education: Bachelor of Science in Business Administration and Economics, BSc.
Joined Scania in 1979.

4. **Karin Rådström**
Executive Vice President, Head of Sales and Marketing.
Born: 1979.
Education: Master of Engineering in Industrial Management, MSc.
Joined Scania in 2004.

5. **Henrik Henriksson**
Member of the Board of Directors. President and CEO.
Born: 1970.
Education: Bachelor of Science in Business Administration, BSc.
Joined Scania in 1997.

6. **Claes Erixon**
Executive Vice President, Head of Research and Development.
Born: 1969.
Education: Master of Science in Engineering Physics, MSc.
Joined Scania in 1994.

7. **Johan Haeggman**
Executive Vice President, Chief Financial Officer (CFO).
Born: 1960.
Education: Bachelor of Science in Business and Economics, BSc.
Joined Scania in 1989, employed until 1999.
Rejoined Scania in 2003.

8. **Mathias Carlbaum**
Executive Vice President, Head of Commercial Operations.
Born: 1972.
Education: Master of Business Administration, MBA.
Joined Scania in 1997.

GROUP FINANCIAL REVIEW

Revenue

The sales revenue of the Scania Group, in the Vehicles and Services segment, increased by 11 percent to SEK 147,557 m. (133,222). Currency effects had a positive impact on sales of 4 percent.

New vehicle sales revenue increased by 14 percent. Sales were positively influenced by price increases, positive currency effects and market mix. Engine sales revenue decreased with 13 percent.

Service revenue increased by 9 percent and amounted to SEK 28,971 m. (26,588). Higher volume in Europe and currency effects had a positive impact.

Interest and lease income in the Financial Services segment increased by 15 percent due to a higher average portfolio and positive currency effects, partly offset by lower margins.

Net sales by product, SEK m.	2019	2018
Trucks	98,292	85,231
Buses	11,958	11,658
Engines	2,409	2,769
Services	28,971	26,588
Used vehicles	8,411	7,726
Miscellaneous	4,615	4,843
Delivery sales value	**154,656**	**138,815**
Adjustment for lease income [1]	–7,099	–5,593
Total Vehicles and Services	147,557	133,222
Financial Services	8,992	7,797
Elimination [2]	–4,130	–3,893
Scania Group total	**152,419**	**137,126**

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

2 Elimination refers to rental income from operating leases.

Deliveries

During 2019 Scania delivered 91,680 (87,995) trucks, an increase of 4 percent. Bus deliveries decreased by 8 percent to 7,777 (8,482) units. Engine deliveries decreased by 21 percent to 10,152 (12,809) units.

Vehicles delivered	2019	2018
Vehicles and Services		
Trucks	91,680	87,995
Buses	7,777	8,482
Total new vehicles	**99,457**	**96,477**
Used vehicles	19,753	18,691
Engines	10,152	12,809

Financial Services		
Number financed (new during the year)	2019	2018
Trucks	35,814	33,017
Buses	1,212	967
Total new vehicles	**37,026**	**33,984**
Used vehicles	7,016	7,107
New financing, SEK m.	54,221	47,636
Portfolio, SEK m.	**103,781**	**89,166**

Earnings

Scania's operating income amounted to SEK 17,488 m. (13,832) during 2019. Operating margin amounted to 11.5 (10.1) percent.

Operating income in Vehicles and Services totalled SEK 15,977 m. (12,392) during 2019. Higher vehicle and service volume, currency effects and the market mix contributed positively.

Scania's research and development expenditure amounted to SEK 7,244 m. (7,603). After adjusting for SEK 1,788 m. (1,996) in capitalised expenditure and SEK 706 m. (727) in depreciation of previously capitalised expenditures, recognised expenses increased to SEK 6,162 m. (6,334).

Compared to the full year 2018, the total currency effect was positive and amounted to SEK 1,900 m.

Operating income in Financial Services increased to SEK 1,511 m. (1,440). This was equivalent to 1.6 (1.7) percent of the average portfolio during the year. A larger portfolio and currency effects had a positive impact on earnings, while lower margins and increased operating costs had a negative impact.

At year-end 2019, the size of the customer finance portfolio amounted to SEK 103.8 bn, which represented an increase of SEK 14.6 bn since the end of 2018. In local currencies, the portfolio increased by SEK 11.6 bn, equivalent to 12.9 percent.

Operating income per segment, SEK m.	2019	2018
Vehicles and Services		
Operating income	15,977	12,392
Operating margin, %	10.8	9.3
Financial Services		
Operating income	1,511	1,440
Operating margin, % [1]	1.6	1.7
Operating income, Scania Group	17,488	13,832
Operating margin, %	11.5	10.1
Income before taxes	16,476	13,319
Taxes	–4,092	–3,585
Net income	**12,384**	**9,734**

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 -1,012 m. (–513) including net income from associated companies and joint ventures amounting to SEK 46 m. (40). Net interest items amounted to SEK –456 m. (–338). The net interest was negatively impacted by increased funding volumes in high interest currencies and increased interest expenses in Latin America. Other financial income and expenses amounted to SEK -602 m. (–215). These included SEK -150 m. (-44) in valuation effects related to financial instruments where hedge accounting was not applied.

Income before taxes amounted to SEK 16,476 m. (13,319). The Scania Group's tax expense for 2019 was equivalent to 24.8 (26.9) percent of income before taxes.

Net income for the year totalled SEK 12,384 m. (9,734), corresponding to a net margin of 8.4 (7.1) percent.

Cash flow

Cash flow after investing activities attributable to operating activities in Vehicles and Services amounted to SEK 10,994 m. (3,718).

Cash flow from investing activities attributable to operating activities amounted to SEK 7,518 m. (7,139), including SEK 1,788 m. (1,996) in capitalisation of development expenses. At the end of 2019, the net cash position in Vehicles and Services amounted to SEK 17,057 m. (16,926).

Cash flow in Financial Services amounted to SEK -10,632 m. (–10,743), due to a growing customer finance portfolio.

Financial position

Financial ratios related to the balance sheet	2019	2018
Equity/assets (E/A) ratio, %	25.5	27.1
E/A ratio, Vehicles and Services, %	34.4	35.5
E/A ratio, Financial Services, %	9.4	8.9
Return on capital employed, Vehicles and Services, % [2]	25.4	24.1
Net debt/equity ratio, Vehicles and Services [3]	–0.32	–0.34

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

During 2019, the equity of the Scania Group increased by SEK 6,529 m. and totalled SEK 60,888 m. (54,359) at year-end. Net income added SEK 12,384 m. (9,734). Equity increased by SEK 944 m. (–529) because of exchange rate differences that arose when translating net assets outside Sweden. In addition, equity decreased by SEK -2,427 m. (–716) because of actuarial gains/losses on pension liabilities and decreased by SEK–48 m. (44) due to fair value adjustment on equity instruments. Taxes attributable to items reported under "Other comprehensive income" totalled SEK 542 m. (–9). The non-controlling interest increased during the year with SEK 4 m. During 2019 dividend to Scania's shareholders decreased equity with SEK -4,867 m.

Financial risks

Currency risk

The largest currency flows were in British pounds, Euros and Polish Zloty.

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 2019, 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 2019, 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 2019, Scania CV AB's credit rating was unchanged by Standard & Poor's (S&P) and remains at BBB+ regarding the credit risk of long-term debt, i.e. longer than one year.

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

Other contractual risks

Residual value exposure

Scania delivers some of its vehicles with repurchase obligations, where Scania thus has residual value exposure. There is also residual value exposure for short-term rental vehicles with an estimated residual value. The amount for residual value exposure at year-end was SEK 21.310m. (19,405). During 2019, the volume of new contracts with repurchase obligations was about 13,400 (11,700), 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 2019 by 3,600 and totalled 252,300 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 2019 totalled SEK 0 m. (13,853). The income 2018 related to dividend received and anticipated dividend 2019 from its wholly owned subsidiary Scania CV AB.

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.

FINANCIAL REPORTS

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CONSOLIDATED INCOME STATEMENTS

January – December, SEK m.	Note	2019	2018
Revenue	3	152,419	137,126
Cost of goods sold and services rendered		–113,689	–102,888
Gross income		**38,730**	**34,238**
Research and development expenses [1]		–6,162	–6,334
Selling expenses		–12,680	–11,996
Administrative expenses		–2,306	–2,009
Other operating income		153	163
Other operating expenses		–247	–230
Operating income	4, 5	**17,488**	**13,832**
Interest income		501	419
Interest expenses		–957	–757
Share of income from associated companies and joint ventures	12	46	40
Other financial income		253	378
Other financial expenses		–855	–593
Total financial items	6	**–1,012**	**–513**
Income before taxes		**16,476**	**13,319**
Taxes	7	–4,092	–3,585
Net income		**12,384**	**9,734**
Other comprehensive income	15		
Items that may be reclassified subsequently to profit or loss			
Translation differences		945	–529
Taxes		19	27
		964	–502
Items that will not be reclassified to profit or loss			
Re-measurement defined benefit plans	16	–2,427	–716
Translation adjustment		–	421
Fair value adjustment equity instruments		–48	44
Taxes		523	–36
		–1,952	–287
Other comprehensive income		**–988**	**–789**
Total comprehensive income		**11,396**	**8,945**
Net income attributable to:			
– Scania shareholders		12,381	9,733
– non-controlling interest		3	1
Total comprehensive income attributable to:			
– Scania shareholders		11,392	8,943
– non-controlling interest		4	2
Operating income includes depreciation of	8	–10,914	–8,451

1 Total research and development expenditures during the year amounted to SEK 7,244 m. (7,603).

CONSOLIDATED BALANCE SHEETS

31 December, SEK m.	Note	2019	2018
Assets			
Non-current assets			
Intangible assets	9	11,905	10,761
Tangible assets	10, 11	38,481	31,486
Lease assets	10	31,336	28,273
Holdings in associated companies and joint ventures	12	964	823
Long-term interest-bearing receivables	28	50,938	43,251
Other long-term receivables [1]	14, 28	1,444	1,861
Deferred tax assets	7	5,561	4,826
Tax receivables		297	234
Total non-current assets		**140,926**	**121,515**
Current assets			
Inventories	13	26,065	25,804
Current receivables			
Tax receivables		848	716
Interest-bearing receivables	28	32,808	27,797
Non-interest-bearing trade receivables	28	8,368	9,071
Other current receivables [1]	14, 28	7,513	7,213
Total current receivables		49,537	44,797
Current investments	28	814	1,612
Cash and cash equivalents	28		
Current investments comprising cash and cash equivalents		15,143	3,925
Cash and bank balances		5,838	3,297
Total cash and cash equivalents		20,981	7,222
Total current assets		97,397	79,435
Total assets		**238,323**	**200,950**
1 Including fair value of derivatives for hedging of borrowings:			
– other non-current receivables, derivatives with positive value		370	274
– other current receivables, derivatives with positive value		167	564
– other non-current liabilities, derivatives with negative value		1,076	372
– other current liabilities, derivatives with negative value		630	976
– net amount		–1,169	–510

CONSOLIDATED BALANCE SHEETS, CONTINUED

31 December, SEK m.	Note	2019	2018
Equity and liabilities			
Equity			
Share capital		2,000	2,000
Other contributed capital		10,864	1,120
Reserves		−2,307	−3,270
Retained earnings		50,313	54,495
Equity attributable to Scania shareholders		60,870	54,345
Non-controlling interest		18	14
Total equity	15	**60,888**	**54,359**
Non-current liabilities			
Non-current interest-bearing liabilities	28	54,008	42,950
Provisions for pensions	16	12,262	10,439
Other non-current provisions	17	6,776	6,389
Accrued expenses and deferred income	18	8,568	7,017
Deferred tax liabilities	7	3,873	3,736
Other non-current liabilities [1]	28	6,580	5,066
Total non-current liabilities		**92,067**	**75,597**
Current liabilities			
Current interest-bearing liabilities	28	43,979	29,922
Current provisions	17	3,986	3,569
Accrued expenses and deferred income	18	15,973	14,032
Advance payments from customers		1,195	1,124
Trade payables	28	12,737	15,579
Tax liabilities		1,352	815
Other current liabilities [1]	28	6,146	5,953
Total current liabilities		85,368	70,994
Total equity and liabilities		**238,323**	**200,950**

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

In Note 15 there is a description of the consolidated equity items and information about the company's shares.
The equity of the Scania Group has changed as follows (SEK m.):

2019	Share capital	Other contributed capital	Currency translation reserve	Retained earnings	Total, Scania shareholders	Non-controlling interest	Total equity
Equity, 1 January	2,000	1,120	–3,270	54,495	54,345	14	54,359
Exchange differences on translation			944	–	944	1	945
Remeasurements of defined-benefit plans			–	–2,427	–2,427	–	–2,427
Fair value adjustment equity instruments			–	–48	–48	–	–48
Tax attributable to items recognised in other comprehensive income			19	523	542	–	542
Total other comprehensive income			**963**	**–1,952**	**–989**	**1**	**–988**
Net income for the year				**12,381**	**12,381**	**3**	**12,384**
Change in non-controlling interest			–	–	–	–	–
Dividend to Scania AB Shareholders			–	–14,611	–14,611	–	–14,611
Capital contribution		9,744	–	–	9,744	–	9,744
Equity, 31 December	**2,000**	**10,864**	**–2,307**	**50,313**	**60,870**	**18**	**60,888**

2018	Share capital	Other contributed capital	Currency translation reserve	Retained earnings	Total, Scania shareholders	Non-controlling interest	Total equity
Equity, 1 January	2,000	1,120	–2,767	49,551	49,904	15	49,919
Adjustment transition, IFRS 9				–150	–150	–	–150
Adjusted equity, 1 January	2,000	1,120	–2,767	49,401	49,754	15	49,769
Exchange differences on translation			–530	–	–530	1	–529
Remeasurements of defined-benefit plans			–	–716	–716	–	–716
Translation adjustment			–	421	421	–	421
Fair value adjustment equity instruments			–	44	44	–	44
Tax attributable to items recognised in other comprehensive income			27	–36	–9	–	–9
Total other comprehensive income			**–503**	**–287**	**–790**	**1**	**–789**
Net income for the year			**–**	**9,733**	**9,733**	**1**	**9,734**
Change in non-controlling interest			–	–	–	–3	–3
Dividend to Scania AB Shareholders			–	–4,352	–4,352	–	–4,352
Equity, 31 December	**2,000**	**1,120**	**–3,270**	**54,495**	**54,345**	**14**	**54,359**

CONSOLIDATED CASH FLOW STATEMENTS

January–December, SEK m.	Note	2019	2018
Operating activities			
Income before tax	21 a	16,476	13,319
Items not affecting cash flow	21 b	10,416	9,450
Taxes paid		–3,885	–3,897
Cash flow from operating activities before change in working capital		**23,007**	**18,872**
Change in working capital [1]			
Inventories		426	–4,308
Receivables		383	–1,813
Financial receivables, Financial Services	21 c	–10,444	–9,727
Vehicles with repurchase obligations and rental		–5,490	–5,577
Trade payables		–2,937	1,647
Other liabilities and provisions		2,931	1,314
Total change in working capital		**–15,131**	**–18,464**
Cash flow from operating activities		**7,876**	**408**
Investing activities			
Net investments through acquisitions/divestments of businesses	21 d	0	2
Net investments in non-current assets	21 e	–7,558	–7,177
Cash flow from investing activities attributable to operating activities		**–7,558**	**–7,175**
Cash flow after investing activities attributable to operating activities		**318**	**–6,767**
Investments in securities and loans [2]		**818**	**42**
Cash flow from investing activities		**–6,740**	**–7,133**
Cash flow before financing activities		**1,136**	**–6,725**
Financing activities			
Change in debt from financing activities [3]	21 f	17,359	12,334
Dividend		–4,867	–4,352
Cash flow from financing activities		**12,492**	**7,982**
Cash flow for the year		**13,628**	**1,257**
Cash and cash equivalents, 1 January [4]		7,222	6,042
Exchange rate differences in cash and cash equivalents		131	–77
Cash and cash equivalents, 31 December [5]	21 g	**20,981**	**7,222**

Cash flow statement, Vehicles and Services	2019	2018
Cash flow from operating activities before change in working capital	21,884	17,429
Change in working capital [1]	–3,372	–6,572
Cash flow from operating activities	18,512	10,857
Cash flow from investing activities attributable to operating activities	–7,518	–7,139
Cash flow after investing activities attributable to operating activities	10,994	3,718

As from 2019 changes have been made in Cash flow statement in accordance with Volkswagen Group presentation of cash flow. Comparative figures for 2018 have been adjusted with:

1 Loan receivables moved to investments in securities and loans with SEK 50 m.

2 Municipal bonds included with SEK –505 m, previously presented in cash and cash equivalents. Loan receivables included with SEK – 50 m, previously presented in working capital. Loan receivables included with SEK 590 m, previously presented in financing activities.

3 Loan receivables moved to investments in securities and loans with SEK –590 m.

4 Municipal bonds moved to investments in securities and loans with SEK –450 m.

5 Municipal bonds moved to investments in securities and loans with SEK –955 m.

In addition to the above, some other reclassifications have been made, affecting comparative figures for 2018 as follows: Items not affecting cash flow SEK 23 m., taxes paid SEK –10 m., change in working capital SEK 483 m. (whereof SEK 324 m. consist of accrued interest on borrowings), investing activities SEK 101 m, financing activities SEK -589 m. (whereof SEK –324 m. consists of accrued interest on borrowings) and change in cash and cash equivalents SEK –8 m.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

NOTE 1 Accounting principles

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

The consolidated accounts of the Scania Group have been prepared in compliance with International Financial Reporting Standards (IFRS) issued by the International Accounting Standards Board (IASB) as well as the interpretations by the IFRS Interpretations Committee (IFRS IC) as adopted by the European Union. In addition, Recommendation RFR 1, "Supplementary Accounting Rules for Groups" from the Swedish Financial Reporting Board has been applied. The Parent Company applies the same accounting policies as the Group except in the instances described below in the section "Parent Company accounting principles." The functional currency of the Parent Company is Swedish kronor (SEK), and the financial reports are presented in Swedish kronor. Assets and liabilities are recognised at costs, aside from certain financial assets and liabilities which are carried at fair value. Financial assets and liabilities that are carried at fair value are mainly derivative instruments. Preparing the financial reports in compliance with IFRS requires that management make judgements and estimates as well as assumptions that affect the application of accounting principles and amounts recognised in the financial reports. The actual outcome may diverge from these estimates and judgements. Judgements made by management that have a substantial impact on the financial reports, and estimates which have been made that may lead to significant adjustments, are described in more detail in Note 2, "Key judgements and estimates."

Estimates and assumptions are reviewed regularly. Amendments of estimates are reported in the period in which the amendment was made if the amendment only affects this period, or in the period in which the amendment was made and future periods if the amendment affects both the current period and future periods. The principles stated below have been applied consistently for all periods, unless otherwise indicated below. Furthermore, the Group's accounting principles have been consistently applied by Group companies, in respect of associate companies and joint ventures, if necessary, by adjustment to the Group's principles.

Changes in accounting principles

New accounting standards

IFRS 16 Leases, applied as from 1 January 2019, amends the rules for lease accounting and replaces the previous IAS 17 standard and related interpretations. The main objective of IFRS 16 is the recognition of all leases in the balance sheet. Accordingly, lessees are no longer required to classify their leases as either finance leases or operating leases. Instead, they will be required to recognise a right-of-use asset and a lease liability for all leases in their balance sheets. In the Scania Group, the lease liability is measured on the basis of the outstanding lease payments discounted using the incremental borrowing rate, while the right-of-use asset is always measured at the amount of the lease liability plus initial direct costs. During the lease term, the right-of-use asset must be depreciated and the lease liability adjusted using the effective interest method while taking lease payments into account. IFRS 16 offers practical expedients for short-term and low-value leases that the Scania Group applies and therefore does not recognise right-of-use assets or liabilities for these types of leases. In this respect, the lease payments will continue to be recognised in the income statement in the same way as before. At the initial application date, leases whose term end before 1 January 2020 were reclassified as short-term leases, irrespective of the start date of the lease.

The accounting for lessors will in all material aspects be unchanged.

The Scania Group accounts for leases in accordance with IFRS 16, using the modified retrospective method for the first time as of 1 January 2019. Prior-year periods have not been restated. According to this method, the lease liability had to be recognised at the present value of the outstanding lease payments at the transition date. The present value calculation was based on the incremental borrowing rates as of 1 January 2019. The weighted average interest rate applied in the Scania Group was 3.7%.

For the purpose of simplification the right-of-use assets were recognised at the amount of the corresponding lease liability, adjusted for any prepaid or accrued lease payments. In addition, existing leases were not reassessed at the initial application date to determine whether or not they are leases under the criteria of IFRS 16. Instead, contracts classified as leases under IAS 17 or IFRIC 4 will continue to be accounted for as leases.

The right-of-use assets are recognised in the balance sheet under those items in which the assets underlying the lease would have been reported if they were owned by the Scania Group. For this reason, the right-of-use assets are presented under tangible assets.

The initial recognition of right-of-use assets and lease liabilities had the following effects as of 1 January 2019:

- Right-of-use assets amounting to SEK 4,564 m. were recognised in the opening. Of the right of-use assets recognised, SEK 31 m. had already been recognised in the balance sheet as of 31 December 2018 under finance leases.
- Lease liabilities in an amount of SEK 4,544 m. were recognised in the balance sheet and reported under non-current and current financial liabilities. Of the recognised lease liabilities, SEK 11 m. had already been recognised in the balance sheet as of 31 December 2018 under finance leases.
- Initial application did not have any effect on equity.

The difference between the expected payments for operating leases in an amount of SEK 3,999 m. discounted using the incremental borrowing rate as of 31 December 2018, and the lease liabilities in an amount of SEK 4,544 m. recognised in the opening balance was mainly due to the reassessment of lease terms in accordance with IFRS 16. In this process, reasonably certain extension or termination options were taken into account in

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS, CONTINUED

NOTE 1 Accounting principles, continued

determining the lease payments to be capitalised. Moreover the opening balance does not include lease payments for low-value and short-term leases.

Unlike the previous procedure, under which all operating lease expenses were reported under operating income, under IFRS 16 depreciation charges on right-of-use assets are allocated to operating income. Interest expense from adding interest on lease liabilities is reported in net financial items for the Vehicle and Services segment.

The change in the way expenses from operating leases are presented in the cash flow statement resulted in an improvement in cash flows from operating activities. Cash flows from financing activities declined accordingly. The increase in financial liabilities attributable to IFRS 16 had a negative impact on Scania Group's net debt.

This standard also resulted in far more extensive disclosures in the notes.

Other changes
During 2018 Argentina was defined as a hyperinflationary economy and Scania's subsidiary in Argentina has therefore adjusted its non-monetary items for inflation. The inflation adjustment has been remeasured using CPI Consumer Price index with a rate of 184.13 percent at 31 December 2018. The cumulative effect amounting to SEK 309 m., net of tax, has been accounted for as a translation adjustment and recognised in other comprehensive income. The comparative figures in Scania consolidated financial statements has not been restated since they are presented in a stable currency.

As from 1 January 2019 Scania´s subsidiary in Argentina has changed its functional currency to USD since its economic environment is significantly influenced by the USD. As a consequence non-monetary assets will no longer be inflation adjusted from that date.

Application of accounting principles

Consolidated financial statements
The consolidated financial statements encompass Scania AB and all subsidiaries. "Subsidiaries" refers to companies in which Scania directly or indirectly owns more than 50 percent of the voting rights of the shares or otherwise has control. In the case of a structured entity consolidated in the Group, Scania is able to direct the material relevant activities even if it is not invested in the structured entity concerned and is thus able to influence the variable returns from its involvement. Structured entities are used primarily to enter into asset-backed securities transactions to refinance the financial services business. The composition of the Group is shown in Note 29. Subsidiaries are reported according to the acquisition method of accounting. This method means that acquisition of a subsidiary is treated as a transaction through which the Group indirectly acquires the subsidiary's assets and assumes its liabilities. The acquisition analysis establishes the fair value on the acquisition date of the acquired identifiable assets, liabilities assumed and contingent liabilities and any non-controlling interests. The consideration transferred on acquisition of a subsidiary consists of the fair values on the transfer date of assets given, liabilities that have arisen to previous owners and equity instruments issued as payment in exchange for the acquired net assets. Transaction costs directly attributable to the acquisition are recognised directly in the income statement as they arise.

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

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

A separate disclosure of the portion of the year's earnings that belongs to non-controlling interests is provided.

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

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

When preparing the consolidated financial statements, the income statements and balance sheets of foreign subsidiaries are translated to the Group's reporting currency, Swedish kronor. All items in the income statements of foreign subsidiaries are translated using the average exchange rates during the year. All balance sheet items are translated using the exchange rates on the balance sheet date. The translation differences that arise when translating the financial statements of subsidiaries outside Sweden are recognised under "Other comprehensive income" and accumulate in the currency translation reserve in equity.

Subsidiaries use the local currency as their functional currency, aside from a few subsidiaries for which the euro is the functional currency.

Monetary long-term items in a business outside Sweden for which settlement is not planned or will probably not occur within the foreseeable future are, in practice, part of the company's net investment in operations outside Sweden.

Exchange rate differences on such monetary items, which comprise part of the company's net investment (extended investment) are recognised under "Other comprehensive income" and accumulate in the currency translation reserve in equity.

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

Leases

Scania as lessee
The Group recognises a right-of-use asset and a corresponding lease liability for all lease arrangements in which it is the lessee. The assessment whether a contract is or contains a lease is made at inception of the contract. IFRS 16 contains practical expedients for short-term and low-value leases, which the Scania Group exercises and hence does not recognise any right-of-use assets or liabilities for these types of leases. The related lease payments are recognised as expenses in the income statement.

The lease liability is initially measured at the present value of the outstanding lease payments at the commencement date, discounted using the Scania Groups incremental borrowing rate. The lease term underlying the lease liability is determined as the non-cancellable period of the lease together with any periods covered by options to extend or terminate the lease, if it is reasonably certain that such options will be exercised.

In subsequent periods the lease liability is measured by increasing the carrying amount to reflect interest on the lease liability using the effective interest method. The carrying amount of the lease liability is reduced reflecting the lease payments made.

The lease liability is remeasured, with the corresponding adjustment to the related right-of-use asset, whenever:

- the lease term has changed or there is a change in the assessment of exercise of a purchase option. In such cases the lease liability is remeasured by discounting the revised lease payments using a revised discount rate.
- the lease payments change due to changes in an index or rate or a change in expected payment under a residual value guarantee, in which the lease liability is remeasured by discounting the revised lease payments using the initial discount rate. If the change in lease payments is due to a change in a floating interest rate a revised discount rate is used.
- a lease contract is modified and the lease modification is not accounted for as a separate lease, in which case the lease liability is remeasured by discounting the revised lease payments using a revised discount rate.

The right-of-use assets comprise of the initial measurement of the corresponding lease liability, lease payment made at or before the commencement date and any initial direct costs. The right-of-use assets are presented as tangible assets in the balance sheet items in which the assets underlying the lease would be presented if they were owned by the Scania Group.

In subsequent periods the right-of-use assets are measured at cost less accumulated depreciation and impairment losses. Right of use assets are depreciated over the shorter period of the lease term and the useful life of the underlying asset. If the lease agreement transfer the ownership or the lease agreement contains an option, that is expected to be exercised, to purchase the underlying asset the right-of-use asset is depreciated over the useful life of the underlying asset.

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

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

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS, CONTINUED

NOTE 1 Accounting principles, continued

Sales transactions that include repurchase obligations, which mean that important risks remain with Scania, are recognised as operating leases; see above.

Balance sheet – valuation principles

Tangible non-current assets including lease assets
Tangible non-current assets are carried at cost less accumulated depreciation and any impairment losses. A non-current asset is divided into separate components, each with a different useful life and depreciated separately. Machinery and equipment as well as lease assets have useful lives of 3–15 years. Buildings have useful lives of 20–50 years. Land is not depreciated.

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

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

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

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

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

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

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

Impairment testing of non-current assets
The carrying amounts of Scania's intangible and tangible assets as well as its shareholdings are tested annually to assess whether there is indication of impairment. This includes intangible assets with an indefinite useful life, which refer in their entirety to goodwill. The recoverable amount of goodwill and intangible assets that have not yet gone into service is calculated annually regardless of whether there is an indication of impairment loss or not.

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

Financial instruments

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

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

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

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

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

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

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

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

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

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

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

Cash and cash equivalents consists of cash and bank balances as well as current liquid investments with a maturity with a maximum of 90 days, which are subject to an insignificant risk of fluctuation in value. "Current investment" consists of investments with a longer maturity than 90 days.

The Group's investments in equity instruments are classified as at FVTOCI. Such investments are measured at fair value at the end of each reporting period, with any fair value gains or losses recognised in other comprehensive income. The net gain or loss includes dividends.

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

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

Interest income is recognised using the effective interest method for debt instruments measured subsequently at amortised cost. For financial instruments, interest income is calculated by applying the effective interest rate to the gross carrying amount of a financial asset, except for financial assets that have subsequently become credit-impaired (see impairment section).

For financial assets that have subsequently become credit-impaired, interest income is recognised by applying the effective interest rate to the amortised cost of the net financial asset. If, in subsequent reporting periods, the credit risk on the credit-impaired financial instrument improves so that the financial asset is no longer credit-impaired, interest income is recognised by applying the effective interest rate to the gross carrying amount of the financial asset.

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

Interest income is recognised in profit or loss.

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

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

For all other financial instruments, the Group recognises lifetime ECL when there has been a significant increase in credit risk since initial recognition. If, on the other hand, the credit risk on the financial instrument has not increased significantly since initial recognition, the Group measures the loss allowance for that financial instrument at an amount equal to 12 month ECL. The assessment of whether lifetime ECL should be recognised is based on significant increases in the likelihood or risk of a default occurring since initial recognition. In this assessment, the Group considers both quantitative and qualitative data that are reasonable and verifiable, including historical experience and long-term data that are available without unreasonably high costs or efforts.

Financial instruments are assigned to one of three credit risk stages:

- Stage 1: Financial instruments at initial recognition and no changes in credit risk
- Stage 2: Significant changes in credit risk on the basis of the lifetime expectation of the underlying contract
- Stage 3: Impaired financial instruments

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS, CONTINUED

NOTE 1 Accounting principles, continued

The assignment to the different stages is evaluated on every reporting period. A financial asset is credit-impaired when one or more events have occurred that have a detrimental impact on the estimated future cash flow, such as a default.

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

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

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

Financial liabilities and equity instruments

Classification as debt or equity

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

Equity instruments

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

Financial liabilities

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

Derivative financial instruments

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

Derivatives are initially recognised at fair value at the date the derivative contracts are entered into and are subsequently remeasured to their fair value at the end of each reporting period. The resulting gain or loss is recognised in profit or loss immediately.

Provisions

Provisions are recognised if an obligation, legal or constructive, exists as a consequence of events that have occurred. It must also be deemed likely that an outflow of resources will be required to settle the obligation and that the amount can be reliably estimated. Provisions for warranties for vehicles sold during the year are based on warranty conditions and the estimated quality situation. Provisions on service contracts are related to expected future unavoidable expenses that exceed contractual future revenue. For provisions related to pensions, see the description under "Employee benefits" below and in Note 15, "Provisions for pensions and similar commitments."

For provisions related to taxes, see below under "Taxes."

Taxes

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

Employee benefits

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

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

Plans in which Scania only pays fixed contributions and has no obligation to pay additional contributions if the assets of the plan are insufficient to pay all compensation to the employee are classified as defined contribution plans.

The Group's expenditures for defined contribution plans are recognised as an expense during the period when the employees render the services in question.

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

The interest rate on top-quality corporate bonds is used in those countries where there is a functioning market for such bonds. In other countries, the interest rate on government bonds is used instead. For plans that are funded, the fair value of the plan assets is subtracted from the estimated present value of the obligation.

Remeasurements of net pension liabilities, which include actuarial gains and losses, return on plan assets excluding amounts that are part of net interest income on net defined benefit liability and each change in the effect of the asset ceiling excluding amounts that are part of net interest income on net defined benefit liability, are recognised in “Other comprehensive income” and do not affect net income. Remeasurements are not reclassified to net income in subsequent periods.

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

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

Share-based payment

The share-based payment consists of performance shares. The obligations arising from the share-based payment are accounted for as cash-settled plans in accordance with IFRS 2. The cash-settled share-based payments are measured at fair value until maturity. A liability corresponding to the fair value is recognised and remeasured each reporting period until the liability is settled, with any changes in fair value recognised in profit or loss. Fair value is determined using a recognised valuation technique. The compensation cost is allocated over the vesting period.

Income statement – classifications

Research and development expenses

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

Selling expenses

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

Administrative expenses

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

Financial income and expenses

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

Income statement – valuation principles

Revenue recognition

The Group recognises revenue from the following main sources:

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

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

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

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

Sale of goods

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

In a transaction where the Group delivers a vehicle with a repurchase obligation control is not transferred to the customer and no revenue are recognised on delivery, instead such transaction is recognised as an operating lease.

A transaction when the customer has an option that gives the customer the right to require that the Group to repurchase the vehicle no revenue is recognised since such a transaction is recognised as a lease.

In transactions where the Group does not have any repurchase obligations revenue is recognised when control is transferred to the customer. That is normally when the vehicles have been delivered to the customer, the customer has approved the vehicle and the Group has received payment or invoiced with short-term credit time.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS, CONTINUED

NOTE 1 Accounting principles, continued

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

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

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

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

Miscellaneous

Related party transactions
Related party transactions occur on market terms.

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

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

Incentive programmes
The outcome of the incentive programme for executive officers is recognised as a salary expense in the period to which it relate.

Changes in accounting principles during the next years

New standards, amended standards and interpretations that enter into force on 1 January 2020 and subsequently have not been applied in advance.

Changes in standards and interpretations that enter into force on 1 January 2020 or subsequently are not expected to have any material impact on Scania's accounting.

Parent company

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

Financial Instruments
The Parent Company does not apply IFRS 9 Financial instruments, but instead applies a cost-based method in accordance with the Annual Accounts Act.

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

Leases
The Parent Company does not apply IFRS 16 Leases, instead expenses relating to lease contracts for which the parent company is the lessee are expensed as incurred.

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

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

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

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

NOTE 2 Key judgements and estimates

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

The Corona virus outbreak has resulted in many countries taking measures to limit the spread of the virus. The full impact on Scania due to the outbreak of the Coronavirus is not currently possible to predict, given the uncertainty of the situation. We are following developments day-by-day and keep a tight dialogue with our customers, suppliers, union representatives and other partners. We are taking a number of risk mitigating actions to try and safeguard the health of our employees and plan for different business scenarios depending on the development of the outbreak, temporary close down of factories could be one scenario.

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

In those transactions the total transaction price are allocated to those distinct components. A service contract is in general not sold separately but only together, or nearby, the sale of a vehicle. When allocating the price to the different performance obligations Scania is using stand-alone selling prices. Any discounts are allocated to the vehicle.

Warranty costs
Scania's product obligations are mainly related to vehicle warranties in the form of a one-year "factory warranty" plus extended warranties and, in some cases, special quality campaigns. For each vehicle sold, Scania makes a warranty provision. For extended warranties and campaigns, a provision is made at the time of the decision.

Provisions are dependent on the estimated quality situation and the degree of utilisation in the case of campaigns. An essential change in the quality situation may require an adjustment in earlier provisions. Product warranty that refers to that products sold comply with agreed-upon specifications cannot be purchased separately, covers all vehicles sold and are therefore accounted for in accordance with IAS 37 "Provision, contingent liabilities and contingent assets."

Scania's product obligations can be seen in Note 17, "Other provisions" and amounted to SEK 1,828 m. (1,575) on 31 December 2019.

Leases
Many leases feature extension and termination options. To determine the lease terms, all relevant facts and circumstances that create an economic incentive to exercise, or not to exercise, such options are considered. Factors that are considered are for example historical lease durations and any costs and business disruption required to replace the leased asset. Optional periods are considered when determining the lease term if it is reasonably certain that the option will, or will not, be exercised. This assessment is updated if a significant event or a significant change in circumstances, such as significant improvement or customisation of the underlying asset that was not anticipated at commencement date, occurs which affects this assessment and is in control of the Group as lessee.

Repurchase obligations
Scania delivers about 13 percent of its vehicles with repurchase obligations. These are recognised as operating lease contracts, with the consequence that recognition of revenue and earnings is allocated over the life of the obligation.

In transactions when customers have the option to call for Scania to repurchase the sold vehicle it is Scania's view that such transaction should be accounted for as a lease.

Based on the contract and the relationship with the customer history shown that the customer has an economic incentive to exercise such option and hence it is almost always exercised.

If there are major downturns in the market value of used vehicles, this increases the risk of future losses when divesting the returned vehicles. When a residual value guarantee is deemed likely to result in a future loss, the depreciation of the vehicle is adjusted accordingly.

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

At the end of 2019, repurchase obligations amounted to SEK 21,310 m. (19,405).

Credit risks
In its Financial Services operations, Scania has an exposure in the form of contractual payments. At the end of 2019, these amounted to SEK 103,781 m. (89,166). In all essential respects, Scania has collateral in the form of the right to repossess the underlying vehicle. In case the market value of the collateral does not cover the exposure to the customer, and the customer has a problem completing its contractual payments, Scania has a risk of loss.

The Group recognises a loss allowance for expected credit losses (ECL) and the amount of expected credit losses is updated at each reporting date to reflect changes in credit risk since initial recognition of the respective financial instrument. Irrespective of the outcome of the assessment whether there have been a significant increase in credit risk, the Group presumes that the

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS, CONTINUED

NOTE 2 Key judgements and estimates, continued

credit risk on a financial asset has increased significantly since initial recognition when contractual payments are more than 30 days past due, unless the Group has reasonable and supportable information that demonstrates otherwise.

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

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

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

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

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

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

On 31 December 2019, the reserve for doubtful receivables in Financial Services operations amounted to SEK 1,243 m. (1,199). See also "Credit risk" under Note 27, "Financial risk management."

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

In the long term, the increase in sales of Scania's products is deemed to be closely correlated with economic growth (GDP) in each respective market, which has been estimated at 2 percent (2 percent). The revenue/cost ratio, or margin, for both vehicles and service is kept constant over time compared to the latest known level. When discounting to present value, Scania uses its average cost of capital, currently 5.2–7.5 percent (10 percent) before taxes.

These assumptions do not diverge from information from external information sources or from earlier experience. To the extent the above parameters change negatively, an impairment loss may arise. On 31 December 2019, Scania's goodwill amounted to SEK 1,430 m. (1,406). The impairment tests that were carried out showed that there are reassuring margins before impairment losses will arise.

Scania's development costs are capitalised in the phase of product development where decisions are made on future production and market introduction. At that time there is future predicted revenue and a corresponding production cost. In case future volume or the price and cost trend diverges negatively from the preliminary calculation, an impairment loss may arise. Scania's capitalised development costs amounted to SEK 9,873 m. (8,790) on 31 December 2019.

Pension obligations
In the actuarial methods that are used to establish Scania's pension liabilities, a number of assumptions are highly important. The most critical one is related to the discount rate on the obligations. Other vital assumptions are average life expectancy and average duration of the obligations. A higher discount rate decreases the recognised pension liability. In calculating the Swedish pension liability, the discount rate used was 1.5 percent (2.5). Changes in the above-mentioned actuarial parameters are recognised in "Other comprehensive income," net after taxes.

Legal and tax risks
On 31 December 2019, provisions for legal and tax risks amounted to SEK 4,624 m. (4,673). See Note 17, "Other provisions."

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

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

In 2011, Scania became subject of an investigation by the European Commission (EC) in 2011 into allegedly inappropriate cooperation with other European truck manufacturers.

A Statement of Objections was served on Scania by the EC in November 2014. In light of such statement and other developments in the investigation and in accordance with relevant accounting principles, Scania made a provision with an amount of SEK 3,800 m. in June 2016. Scania always cooperated fully with the EC, while all through the investigation contesting the EC's view that Scania would have participated in a pan-European cartel during 1997–2011 on pricing and delayed introductions of emissions related technology. Scania were served a final decision by the EC in October 2017, holding Scania liable for such scope of a cartel in the amount of around SEK 8.4 bn. (EUR 881 m.) in fines. Scania has appealed against this decision in its entirety, and has in January 2018 provided a guarantee as security for the fines pending the outcome of such appeal.

Scania is also the subject of related civil claims by direct or indirect customers of Scania, and may face additional similar claims. However, at this stage it is not possible to give any meaningful indication as to Scania´s risk associated with private damages. Scania's appeal against the EU Commission decision before the General Court is still pending and there is also great uncertainty around the extent to which claims will be made against Scania. In addition, risk assessment around claims that have already been made is associated with significant uncertainties, and investigations are in their initial stages only.

Tax risks

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

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

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS, CONTINUED

NOTE 3 Operating segments

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

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

Vehicles and Services are, moreover, organised into shared areas of responsibility. The Financial Services operating segment provides financial solutions to Scania customers, such as loan financing, lease contracts and insurance solutions.

Scania's internal pricing is determined according to market principles, at "arm's length distance." The revenue and expenses, as well as the assets and liabilities, of each operating segment are – in all essential respects – items directly attributable to that respective segment. Scania has a large number of customers all over the world, which means that its dependence on a single customer in each respective operating segment is very limited.

Income statements

January – December	2019	2018
Vehicles and Services		
Revenue	147,557	133,222
Cost of goods sold	–112,053	–101,782
Gross income	**35,504**	**31,440**
Research and development expenses	–6,162	–6,334
Selling expenses	–11,059	–10,705
Administrative expenses	–2,306	–2,009
Operating income	**15,977**	**12,392**
Interest income	501	419
Interest expenses	–957	–757
Share of income in associated companies and joint ventures	46	40
Dividends in between segments	726	241
Other financial income	253	378
Other financial expenses	–856	–593
Total financial items	**–287**	**–272**
Income before taxes	**15,690**	**12,120**
Taxes	–3,666	–3,170
Net income for the period	**12,024**	**8,950**
Financial Services		
Interest and lease income	8,675	7,521
Insurance commission	317	276
Interest and prepaid expenses	–5,766	–4,999
Interest surplus and insurance commission	3,226	2,798
Other income	153	163
Other expenses	–247	–230
Gross income	**3,132**	**2,731**
Selling and administration expenses	–1,307	–1,110
Bad debt expenses, realised and anticipated	–314	–181
Operating income	**1,511**	**1,440**
Income before tax	**1,511**	**1,440**
Taxes	–423	–415
Net income for the period	**1,088**	**1,025**

Reconciliation of segments to the Scania Group

	Vehicles and Services		Financial Services		Eliminations		Scania Group	
January – December	2019	2018	2019	2018	2019	2018	2019	2018
Revenue	147,557	133,222	8,992	7,797	–4,130	–3,893	152,419	137,126
Cost of sales	–112,053	–101,782	–5,766	–4,999	4,130	3,893	–113,689	–102,888
Gross income	**35,504**	**31,440**	**3,226**	**2,798**	**0**	**0**	**38,730**	**34,238**
Research and development expenses	–6,162	–6,334	–	–	–	–	–6,162	–6,334
Selling expenses	–11,059	–10,705	–1,621	–1,291	–	–	–12,680	–11,996
Administrative expenses	–2,306	–2,009	–	–	–	–	–2,306	–2,009
Other operating income	–	–	153	163	–	–	153	163
Other operating expenses	–	–	–247	–230	–	–	–247	–230
Operating income	**15,977**	**12,392**	**1,511**	**1,440**	**0**	**0**	**17,488**	**13,832**
Interest income	501	419	–	–	–	–	501	419
Interest expenses	–957	–757	–	–	–	–	–957	–757
Share of income in associated companies and joint ventures	46	40	–	–	–	–	46	40
Dividends in between segments	726	241	–	–	–726	–241	0	0
Other financial income	253	378	–	–	–	–	253	378
Other financial expenses	–856	–593	–	–	1	–	–855	–593
Total financial items	**–287**	**–272**	**–**	**–**	**–725**	**–241**	**–1,012**	**–513**
Income before taxes	**15,690**	**12,120**	**1,511**	**1,440**	**–725**	**–241**	**16,476**	**13,319**
Taxes	–3,666	–3,170	–423	–415	–3	–	–4,092	–3,585
Net income for the period	**12,024**	**8,950**	**1,088**	**1,025**	**–728**	**–241**	**12,384**	**9,734**
Depreciation/amortization included in operating income	–10,869	–8,411	–4,136	–40	4,091	–	–10,914	–8,451

Cash flow statement by segment	Vehicles and Services		Financial Services		Eliminations		Scania Group	
	2019	2018	2019	2018	2019	2018	2019	2018
Cash flow from operating activities before change in working capital	21,884	17,429	5,240	1,185	–4,117	258	23,007	18,872
Change in working capital etc.	–3,372	–6,572	–15,832	–11,892	4,073	–	–15,131	–18,464
Cash flow from operating activities	**18,512**	**10,857**	**–10,592**	**–10,707**	**–44**	**258**	**7,876**	**408**
Cash flow from investing activities attributable to operating activities	–7,518	–7,139	–40	–36	–	–	–7,558	–7,175
Cash flow after investing activities attributable to operating activities	**10,994**	**3,718**	**–10,632**	**–10,743**	**–44**	**258**	**318**	**–6,767**

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS, CONTINUED

NOTE 3 Operating segments, continued

Balance sheet	Vehicles and Services		Financial Services		Eliminations		Scania Group	
31 December	2019	2018	2019	2018	2019	2018	2019	2018
Assets								
Intangible assets	11,859	10,729	46	32	–	–	11,905	10,761
Tangible assets	38,358	31,371	8,833	115	–8,710	–	38,481	31,486
Lease assets	31,287	28,237	49	36	–	–	31,336	28,273
Holdings in associated companies and joint ventures	4,283	4,448	–	–	–3,319	–3,625	964	823
Interest-bearing receivables, non-current	122	–15	59,061	50,585	–8,245	–7,319	50,938	43,251
Other receivables, non-current	6,884	6,521	545	4,873	–127	–4,473	7,302	6,921
Inventories	26,065	25,804	–	–	–	–	26,065	25,804
Interest-bearing receivables, current	249	182	36,096	31,093	–3,537	–3,478	32,808	27,797
Other receivables, current	15,359	15,275	2,560	5,577	–1,190	–3,852	16,729	17,000
Current investments, cash and cash equivalents	22,153	16,930	640	1,513	–998	–9,609	21,795	8,834
Total assets	**156,619**	**139,482**	**107,830**	**93,824**	**–26,126**	**–32,356**	**238,323**	**200,950**
Equity and liabilities								
Equity	53,922	49,495	10,138	8,360	–3,172	–3,496	60,888	54,359
Interest-bearing liabilities	5,090	–	94,212	82,481	–1,315	–9,609	97,987	72,872
Provisions for pensions	12,163	10,359	99	80	–	–	12,262	10,439
Other non-current provisions	6,765	6,380	11	9	–	–	6,776	6,389
Other liabilities, non-current	31,820	26,960	689	712	–13,488	–11,853	19,021	15,819
Current provisions	3,924	3,476	62	93	–	–	3,986	3,569
Other liabilities, current	42,935	42,812	2,619	2,089	–8,151	–7,398	37,403	37,503
Total equity and liabilities	**156,619**	**139,482**	**107,830**	**93,824**	**–26,126**	**–32,356**	**238,323**	**200,950**
Gross investment for the period in								
– intangible assets	1,901	2,107	29	11	–	–	1,930	2,118
– tangible assets	7,328	5,008	7,818	26	–7,792	–	7,354	5,034
– lease assets	13,867	11,884	24	30	–	–	13,891	11,914

Products and services Vehicles and Services	2019	2018
Trucks[1]	98,292	85,231
Buses[2]	11,958	11,658
Engines	2,409	2,769
Service	28,971	26,588
Used vehicles[3]	8,411	7,726
Other products	4,615	4,843
Total delivery value	**154,656**	**138,815**
Adjustment for lease income[4]	–7,099	–5,593
Net sales, Vehicles and Services	**147,557**	**133,222**
Financial Services	8,992	7,797
Eliminations[5]	–4,130	–3,893
Revenue from external customers	**152,419**	**137,126**

1 Of which SEK 6,368 m. (5,665) relates to lease income 2019.
2 Of which SEK 761 m. (718) relates to lease income 2019.
3 Of which SEK 250 m. (163) relates to lease income 2019.
4 Refers mainly to new trucks, SEK –6,353 m. (–4,549) and new buses, SEK –262 m. (–662). The adjustment amount consists of the difference between sales value based on delivery and revenue recognised as income. This difference arises when a lease or delivery is combined with a repurchase obligation. Significant risks remain, therefore recognition is based on an operating lease contract. This means that recognition of revenue and earnings is allocated over the term of the obligation.
5 Elimination of the amount that corresponds to operating lease expenses in the Financial Services segment. At Group level, the revenue from operating leases shall consist of accrued income in the Vehicles and Services segment and interest income in the Financial Services segment, which is achieved by elimination of lease expenses.

The aggregate amount of the transaction price allocated to the performance obligations that are unsatisfied or partially unsatisfied at the end of the reporting period and the expected timing of revenue recognition are as follows:

SEK m.	2019	2018
Expected timing of revenue recognition		
Within a year	38,747	40,838
1–5 years	15,463	12,412
After 5 years	2,042	1,642

The transaction price allocated to remaining performance obligations for which revenue recognition is expected within a year primarily relates to the delivery of trucks. Expected revenue recognition in more than one year mainly stems from long-term service.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS, CONTINUED

NOTE 3 Operating segments, continued

Geographical areas

	Europe		Eurasia		Asia		America [3]		Africa & Oceania		Total	
SEK m.	2019	2018	2019	2018	2019	2018	2019	2018	2019	2018	2019	2018
Vehicles and Services												
Net sales, January – December [1, 4]	96,289	84,113	7,427	8,393	12,610	14,759	21,030	16,511	10,201	9,446	147,557	133,222
Assets, 31 December [2]	132,294	117,950	1,378	1,165	3,522	2,704	16,170	15,280	3,255	2,383	156,619	139,482
Gross investments [2]	7,470	5,843	29	35	304	141	1,212	1,054	214	42	9,229	7,115
Non-current assets [5]	79,558	70,134	573	475	1,431	1,177	9,030	8,118	2,201	1,387	92,793	81,291
Financial Services												
Revenue, January – December [1, 6]	6,398	5,743	734	613	206	182	1,125	798	529	461	8,992	7,797
Assets, 31 December [2]	80,365	72,117	5,660	4,514	3,892	3,369	13,043	9,747	4,870	4,077	107,830	93,824
New financing customers	38,260	34,915	3,770	3,841	1,628	1,560	7,497	4,612	3,066	2,708	54,221	47,636
Non-current assets [7]	52,521	42,972	2,859	2,521	2,542	2,280	7,772	5,632	2,840	2,236	68,534	55,641

1 Revenue from external customers is allocated by location of customers.
2 Assets and gross investments, respectively (excluding lease assets), by geographic location.
3 Refers mainly to Latin America.
4 Of which Sweden 7,205 (6,847).
5 Of which Sweden 26,418 (23,969).
6 Of which Sweden 395 (363).
7 Of which Sweden 4,537 (4,554).

The geographic areas of Scania are based on where the customers are located. In the section Definitions the countries in each geographical area are listed. Sales and financing of Scania's products occur in all five geographical areas. Most of Scania's research and development work occurs in Sweden. Manufacturing of trucks, buses and industrial and marine engines occurs in Sweden, Argentina, Brazil, Finland, France, the Netherlands, Poland and Russia.

NOTE 4 Operating expenses

Scania Group	2019	2018
Cost of goods sold		
Cost of goods	72,345	65,457
Staff	21,428	20,491
Depreciation/amortisation [1]	9,108	7,095
Other	10,808	9,845
Total	**113,689**	**102,888**

1 Of which an impairment loss of SEK 12 m. (145).

Research and development expenses		
Staff	2,737	2,434
Depreciation/amortisation	916	964
Other [1]	2,509	2,936
Total	**6,162**	**6,334**

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

Selling expenses		
Staff	7,336	6,856
Depreciation/amortisation [1]	856	376
Other	4,488	4,764
Total	**12,680**	**11,996**

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

Administrative expenses		
Staff	1,428	1,283
Depreciation/amortisation	34	17
Other	844	709
Total	**2,306**	**2,009**

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

NOTE 5 Financial Services

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

	2019	2018
Interest income	4,035	3,371
Lease income	4,640	4,150
Depreciation/Lease expense	–4,070	–3,638
Interest expenses	–1,696	–1,361
Insurance commission	317	276
Net interest income and insurance commission	3,226	2,798
Other income and expenses	–94	–67
Gross income	**3,132**	**2,731**
Selling and administrative expenses	–1,307	–1,110
Bad debt expenses [1]	–314	–181
Operating income	**1,511**	**1,440**

1 These expenses were equivalent to 0.33 (0.22) percent of the average credit portfolio.

Operating lease	2019	2018
1 January	18,258	16,665
New contracts	9,714	8,775
Depreciation/Prepaid lease expense	–4,070	–3,638
Terminated contracts	–4,158	–3,967
Change in value adjustment IFRS 9 transition	–	–125
Change in value adjustments	–41	–43
Exchange rate differences	488	591
Carrying amount, 31 December [2]	**20,191**	**18,258**

2 The consolidated balance sheet also includes elimination of deferred profit of SEK 3,152 m. (2,652).

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS, CONTINUED

NOTE 5 Financial Services, continued

Financial receivables (hire purchase contracts and financial leases)	2019	2018
1 January	70,908	60,363
New receivables	44,507	38,861
Loan principal payments/terminated contracts	−33,996	−29,079
Change in value adjustment IFRS 9 transition	–	−21
Change in value adjustments	−2	−56
Exchange rate differences	2,173	840
Carrying amount, 31 December	**83,590**	**70,908**
Total receivables and lease assets[3]	**103,781**	**89,166**

3 The number of contracts in the portfolio on 31 December totalled about 176,000 (162,000).

Net investments in financial leases	2019	2018
Receivables related to future minimum lease payments	50,461	44,526
Imputed interest	−3,454	−3,169
Net investment[4]	**47,007**	**41,357**
Reserve for bad debts	−601	−608
Total	**46,406**	**40,749**

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

Future minimum lease payments[5]	Operating leases	Financial leases
2020	3,260	18,116
2021	3,085	13,801
2022	2,020	9,632
2023	1,043	5,527
2024	421	2,353
2025 and later	236	1,032
Total	**10,065**	**50,461**

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

NOTE 6 Financial income and expenses

	2019	2018
Interest income		
Bank balances and financial investments	144	177
Derivatives[1]	357	242
Total interest income	501	419
Interest expenses		
Borrowings	−500	−441
Derivatives[1]	−1,349	−849
Total borrowings and derivatives	−1,849	−1,290
Less interest expenses recognised in Financial Services[2]	1,179	799
Pension liability	−287	−266
Total interest expenses	−957	−757
Total net interest	**−456**	**−338**
Net income from associated companies and joint ventures	46	40
Other financial income[3]	253	378
Other financial expenses[3]	−855	−593
Total other financial income and expenses	−602	−215
Net financial items	**−1,012**	**−513**

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

2 Recognised in the operating income of Financial Services.

3 Refers to SEK −150 m. (−44) in market valuation of financial instruments for which hedge accounting is not applied as well as exchange rate differences and unrealised/realised gains of SEK 20,873 m. (20,661) and unrealised/realised losses of SEK 21,009 m. (20,689) attributable to foreign exchange derivatives and bank-related costs as well as interest on lease liabilities.

NOTE 7 Taxes

Tax expense/Income for the year	2019	2018
Current tax [1]	–4,166	–3,662
Deferred tax	74	77
Total	**–4,092**	**–3,585**
1 Of which, taxes paid	–3,885	–3,897

Deferred tax is attributable to the following:	2019	2018
Tax related to temporary differences	258	–117
Tax due to changes in tax rates and tax rules [2]	–23	154
Tax income due to tax value of loss carry-forwards recognised during the year	103	168
Tax expense due to utilisation/revaluation of previously recognised tax value of tax loss carry-forwards	–25	0
Tax related to change in provision to tax allocation reserve	–234	–130
Other deferred tax liabilities/assets	–5	2
Total	**74**	**77**

2 The effect of changes in tax rates during the year mainly refers to Spain (Sweden).

	2019		2018	
Reconciliation of effective tax	Amount	%	Amount	%
Income before tax	16,476		13,319	
Tax calculated using Swedish tax rate	–3,526	21	–2,930	22
Tax effect and percentage influence:				
Difference between Swedish and foreign tax rates	–436	3	–450	3
Non-taxable income	118	–1	195	–1
Non-deductible expenses	–162	1	–239	2
Not recognised tax loss carry-forward	–17	0	–125	1
Adjustment for taxes pertaining to previous years	–61	0	–171	1
Changed tax rates	–17	0	172	–1
Other	9	0	–37	0
Tax recognised	**–4,092**	**25**	**–3,585**	**27**

Deferred tax assets and liabilities are attributable to the following:	2019	2018
Deferred tax assets		
Provisions and other liabilities	8,626	5,466
Provisions for pensions	2,356	1,751
Non-current assets	1,284	1,356
Inventories	898	924
Unutilised tax loss carry-forwards [3]	344	272
Other	0	0
Offset within tax jurisdictions	–7,948	–4,943
Total deferred tax assets	**5,561**	**4,826**
Deferred tax liabilities		
Provisions and other liabilities	913	434
Non-current assets	10,157	7,730
Tax allocation reserve [4]	750	515
Offset within tax jurisdictions	–7,948	–4,943
Total deferred tax liabilities	**3,873**	**3,736**
Deferred tax assets (–) /tax liabilities (+), net amount	**–1,688**	**–1,090**

3 Deferred tax assets related to tax loss carry-forwards are recognised to the extent that it is likely that the loss carry-forwards can be utilised to offset profits in future tax returns. Deferred tax assets related to unutilised tax loss carry-forwards of SEK 358 m. (514) were not assigned a value. Unused tax loss carry-forwards for which no deferred tax asset is recognised can be utilised without time limit.

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

Reconciliation of deferred tax assets (–) /liabilities (+), net amount	2019	2018
Carrying value on 1 January	–1,090	–1,039
Deferred taxes recognised in the year's income	–74	–77
Exchange rate differences	–1	70
Acquired/divested businesses	0	–10
Adjustment transition IFRS 9	0	–70
Recognised in "Other comprehensive income," changes attributable to:		
– remeasurements of defined-benefit plans	–513	–85
– translation adjustment	0	112
– fair value adjustment, equity instruments	–10	9
Deferred tax assets (–) /tax liabilities (+), net amount	**–1,688**	**–1,090**

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS, CONTINUED

NOTE 8 Depreciation/Amortisation

	Vehicles and Services		Financial Services		Elimination[2]		Scania Group	
	2019	2018	2019	2018	2019	2018	2019	2018
Intangible assets								
Research and development expenses	713	745	–	–	–	–	713	745
Selling expenses	130	109	15	10	–	–	145	119
Total	**843**	**854**	**15**	**10**	**–**	**–**	**858**	**864**
Tangible non-current assets								
Cost of goods sold and services rendered	9,099	7,095	4,070	–	–4,061	–	9,108	7,095
Research and development expenses	203	219	–	–	–	–	203	219
Selling expenses	690	227	51	30	–30	–	711	257
Administrative expenses	34	17	–	–	–	–	34	17
Total	**10,026**	**7,558**	**4,121**	**30**	**–4,091**	**–**	**10,056**	**7,588**
Total depreciation/Amortisation [1]	**10,869**	**8,411**	**4,136**	**40**	**–4,091**	**–**	**10,914**	**8,451**

1 Whereof SEK 12 m. (145) is an impairment loss.

2 Elimination relates to depreciation on right of use assets for Scania group internal leases.

NOTE 9 Intangible assets

2019	Goodwill	Development	Other intangibles[1]	Total
Accumulated cost				
1 January	1,442	13,843	1,422	16,707
Additions	–	1,788	142	1,930
Divestments and disposals	–	–	−33	−33
Reclassifications	–	0	49	49
Exchange rate differences	24	1	16	41
Total	**1,466**	**15,632**	**1,596**	**18,694**
Accumulated amortisation and impairment losses				
1 January	36	5,053	857	5,946
Amortisation for the year	–	706	152	858
Impairment loss of the year	–	–	–	–
Divestments and disposals	–	–	−28	−28
Reclassifications	–	–	1	1
Exchange rate differences	0	0	12	12
Total	**36**	**5,759**	**994**	**6,789**
Carrying amount, 31 December	**1,430**	**9,873**	**602**	**11,905**
– of which capitalised expenditures for projects that have been placed in service		6,091		
– of which capitalised expenditures for projects under development		3,782		

1 Refers mainly to software, which is purchased externally in its entirety, and customer relationships capitalised upon acquisitions of subsidiaries.

Group borrowing expenditures				
Borrowing expenditures included in cost of the item “Development” during the year		–		
Interest rate for determination of borrowing expenditures included in cost		–		

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS, CONTINUED

NOTE 9 Intangible assets, continued

2018	Goodwill	Development	Other intangibles[1]	Total
Accumulated cost				
1 January	1,369	11,851	1,297	14,517
Acquisitions/divestment of subsidiaries	0	–	0	0
Additions	–	1,996	122	2,118
Divestments and disposals	0	–	–27	–27
Reclassifications	–	–	29	29
Exchange rate differences	73	–4	1	70
Total	**1,442**	**13,843**	**1,422**	**16,707**
Accumulated amortisation and impairment losses				
1 January	28	4,326	742	5,096
Amortisation for the year		728	136	864
Impairment loss of the year	0	0	–	0
Divestments and disposals	0	–	–26	–26
Exchange rate differences	8	–1	5	12
Total	**36**	**5,053**	**857**	**5,946**
Carrying amount, 31 December	**1,406**	**8,790**	**565**	**10,761**
– of which capitalised expenditures for projects that have been placed in service		6,088		
– of which capitalised expenditures for projects under development		2,702		

1 Refers mainly to software, which is purchased externally in its entirety, and customer relationships capitalised upon acquisitions of subsidiaries.

Group borrowing expenditures	
Borrowing expenditures included in cost of the item “Development” during the year	–
Interest rate for determination of borrowing expenditures included in cost	–

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

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

NOTE 10 Tangible assets

2019	Buildings and land	Machinery and equipment	Construction in progress and advance payments	Lease assets[1]	Total
Accumulated cost					
1 January	23,518	40,944	5,186	36,722	106,370
Transition IFRS 16	3,542	1,048	–	–	4,590
Additions	1,411	1,455	4,488	13,891	21,245
Divestments and disposals	–376	–1,255	–4	–9,001	–10,636
Reclassifications	399	4,571	–5,073	–2,501	–2,604
Exchange rate differences	452	145	129	1,167	1,893
Total	**28,946**	**46,908**	**4,726**	**40,278**	**120,858**
Accumulated depreciation and impairment losses					
1 January	10,148	28,014	–	8,449	46,611
Depreciation for the year	1,232	3,641	–	5,171	10,044
Impairment loss for the year	11	1	–	–	12
Divestments and disposals	–125	–1,142	–	–4,183	–5,450
Reclassifications	3	–9	–	–806	–812
Exchange rate differences	150	175	–	311	636
Total	**11,419**	**30,680**	**–**	**8,942**	**51,041**
Carrying amount, 31 December	**17,527**	**16,228**	**4,726**	**31,336**	**69,817**
– of which "Buildings"	10,325				
– of which "Land"	3,382				
– of which right-of-use assets	3,820	1,168			
– of which Financial Services	52	112	0	49	

1 Including assets for short-term rentals and assets capitalised due to repurchase obligations.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS, CONTINUED

NOTE 10 Tangible assets, continued

2018	Buildings and land	Machinery and equipment	Construction in progress and advance payments	Lease assets[1]	Total
Accumulated cost					
1 January	21,895	39,413	4,527	32,964	98,799
Acquisitions/divestments of subsidiaries[2]	–10	15	33	–	38
Additions	206	863	3,965	11,914	16,948
Divestments and disposals	–81	–2,245	–36	–5,495	–7,857
Reclassifications	976	2,197	–3,221	–3,948	–3,996
Exchange rate differences	532	701	–82	1,287	2,438
Total	**23,518**	**40,944**	**5,186**	**36,722**	**106,370**
Accumulated depreciation and impairment losses					
1 January	9,280	26,844	–	7,148	43,272
Acquisitions/divestments of subsidiaries	–9	9	–	–	0
Depreciation for the year	561	2,610	–	4,272	7,443
Impairment loss for the year	110	35	–	0	145
Divestments and disposals	–48	–2,148	–	–2,297	–4,493
Reclassifications	4	–5	–	–1,023	–1,024
Exchange rate differences	250	669	–	349	1,268
Total	**10,148**	**28,014**	**–**	**8,449**	**46,611**
Carrying amount, 31 December	**13,370**	**12,930**	**5,186**	**28,273**	**59,759**
– of which “Buildings”	10,033				
– of which “Land”	3,337				
– of which Financial Services	60	55	0	36	

1 Including assets for short-term rentals and assets capitalised due to repurchase obligations.
2 Of which increase through business combinations amounts to SEK 59 m.

Note 11 Leases

Scania as a lessee

The Scania Group acts as a lessee in many areas of the Company. These transactions relate primarily to leases of office equipment, real estate, and other production facilities. The leases are individually negotiated and contain a large number of contractual terms and conditions. Right-of-use assets arising from leases are reported in the following balance sheet items:

Right-of-use assets

2019	Buildings and land	Machinery and equipment	Total
Accumulated cost			
1 January	3,542	1,048	4,590
Additions	982	613	1,595
Disposals	–184	–35	–219
Transfers	0	–1	–1
Exchange rate differences	86	6	92
Total	**4,426**	**1,630**	**6,057**
Accumulated depreciation and impairment losses			
1 January	5	12	17
Depreciation for the year	624	471	1,095
Impairment loss for the year	–	–	–
Disposals	–18	–18	–36
Transfers	–	0	0
Reversal of impairment losses	0	–	0
Exchange rate differences	–5	–3	–8
Total	**606**	**462**	**1,068**
Carrying amount, 31 December	**3,820**	**1,168**	**4,988**

Amounts recognised in profit and loss	2019
Depreciation expense on right-of-use assets	–1,095
Interest expense on lease liabilities	–190
Expense relating to short-term leases	–103
Expense relating to leases of low value assets	–168

At 31 December 2019, the Group is committed to SEK 70 m. for short-term leases.

The total cash outflow for leases amount to SEK 1,235 m.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS, CONTINUED

NOTE 11 Leases, continued

The following table shows an overview of potential future cash outflows from leases that were not included in the measurement of lease liabilities:

Potential exposure to future cash outflows from	2019
Extension options	–350
Termination options	–4
Leases not yet commenced (contractual commitment)	–575

Lease liabilities

	2019
Interest-bearing liabilities – non-current	4,041
Interest-bearing liabilities – current	1,054
Total	**5,095**

	2019
Maturity analysis	
Not later than 1 year	1,054
Later than 1 year and not later than 5 years	2,863
Later than 5 years	1,178

The Group does not face a significant liquidity risk with regard to its lease liabilities.

NOTE 12 Holdings in associated companies and joint ventures

	2019	2018
Carrying amount, 1 January	560	529
Acquisitions, capital contributions, divestments and impairment losses during the year [1, 2]	128	–47
Exchange rate differences	18	43
Share in income for the year	46	40
Dividend	–5	–5
Carrying amount, 31 December	**747**	**560**
Contingent liabilities	–	–

1 SEK 127 m. relates to sennder GmbH which has during 2019 been reclassified from other shares and perticipations to associate.

2 During 2018 Scania has acquired additional shares in Laxå Specialvehicles AB. Scania now owns 90.1% of the shares and the subsidiary is therefore consolidated in the Scania Group.

			Value of Scania's share in consolidated financial statements	
Associated companies/Corporate ID number/Country of registration	Ownership, %	Carrying amount in Parent Company financial statements	2019	2018
BITS DATA i Södertälje AB, 556121-2613, Sweden	33.0	2	6	6
ScaValencia S.A., A46332995, Spain	26.0	16	30	27
N.W.S S.R.L, IT1541500227, Italy	46.5	4	1	1
sennder GmbH, HRB 170455 B, Germany	16.85	127	117	–
Holdings in associated companies		149	154	34
Share of:				
– net income			–3	4
– total comprehensive income			–3	4

Joint ventures/Corporate ID number/Country of registration	Ownership, %	Carrying amount in Parent Company financial statements	Value of Scania's share in consolidated financial statements 2019	2018
Cummins-Scania XPI Manufacturing LLC, 20-3394999, USA	50	515	579	514
Oppland Tungbilservice AS, 982 787 602, Norway	50	1	8	7
Tynset Diesel AS, 982 787 580, Norway	50	1	6	5
Holdings in joint ventures		517	593	526
Share of:				
– net income			49	36
– total comprehensive income			49	36
Holdings in associated companies and joint ventures			**747**	**560**
Other shares and participations	–	–	217	263
Total	**–**	**–**	**964**	**823**

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

Income statement, condensed	2019	2018
Net sales	2,995	2,759
Operating income [1]	94	78
Interest income/expenses and Other financial expenses	7	18
Taxes	–10	–29
Net income for the year	**91**	**67**
Other comprehensive income for the year	**–**	**–**
Total comprehensive income for the year	**91**	**67**
Scania Group's share (50%)	45	33

1 Depreciation amounting to SEK 121 m. (114) is included in Operating income.

Balance sheet, condensed	2019	2018
Non-current assets	828	434
Current investments and cash and cash equivalents	129	295
Other current assets	806	1,171
Total assets	**1,763**	**1,900**
Equity	1,159	1,028
Other current liabilities	604	872
Total equity and liabilities	**1,763**	**1,900**
Scania Group's share of equity (50%)	579	514
Carrying amount	**579**	**514**

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

NOTE 13 Inventories

	2019	2018
Raw materials, components and supplies	3,598	2,781
Work in progress	1,631	1,621
Finished goods [1]	20,836	21,402
Total [2]	**26,065**	**25,804**

1 Whereof used vehicles SEK 3,193 m. (2,315).
2 Whereof value adjustment reserv SEK –1,274 m. (–896).

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS, CONTINUED

NOTE 14 Other receivables

	2019	2018
Prepaid expenses and accrued income	461	438
Derivatives with positive market value	370	274
Advance payments	41	38
Pension asset	30	86
Other receivables	542	1,025
Total other non-current receivables	**1,444**	**1,861**
Prepaid expenses and accrued income	2,079	1,687
Derivatives with positive market value	182	564
Value-added tax	2,623	2,933
Advance payments	411	265
Other receivables	2,218	1,764
Total other current receivables	**7,513**	**7,213**
Total other receivables	**8,957**	**9,074**

NOTE 15 Equity

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

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

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

The currency translation reserve arises when translating net assets outside Sweden according to the current method of accounting. The currency translation reserve also includes currency rate differences related to monetary items for businesses outside Sweden deemed to be a part of the company's net investment. The exchange rate difference of SEK 945 m. (–529) arose as a result of the Swedish krona's depreciation against currencies important to Scania. The exchange rate differences were mainly due to the krona's depreciation against the EUR and RUB.

Retained earnings consist not only of accrued profits but also of the change in pension liability attributable to remeasurements of defined-benefit plans etc. recognised in "Total other comprehensive income." Regarding changes in actuarial assumptions, see also Note 16, "Provisions for pensions and similar commitments."

The Board of Directors proposes to the 2020 Annual General Meeting that an amount of SEK 6,192 m. as ordinary dividend which represents 50 percent of the net income SEK 12,384 m. for 2019.

Retained earnings amounting to SEK 5,324 m. will be carried forward.

Non-controlling interests refer to the share of equity held by external owners outside of Scania in certain subsidiaries in the Group. Scania Group has a few non-wholly owned subsidiaries of which one is considered to have a substantial non-controlling interest. Scania owns 90.1 percent of the shares in Laxå Specialvehicles AB, with a non-controlling interest of 9.9 percent. In 2019, net income attributable to non-controlling interests amounted to SEK 3 m. (–1) and accumulated non-controlling interests in the company amounted to SEK 18 m. (14) as of 31 December 2019.

Reconciliation of change in number of shares outstanding	2019	2018
Number of A shares outstanding, 1 January	400,000,000	400,000,000
Number of A shares outstanding, 31 December	**400,000,000**	**400,000,000**
Number of B shares outstanding, 1 January	400,000,000	400,000,000
Number of B shares outstanding, 31 December	**400,000,000**	**400,000,000**
Total number of shares, 31 December	**800,000,000**	**800,000,000**

The equity of the Scania Group consists of the sum of equity attributable to Scania's shareholders and equity attributable to non-controlling interests. At year-end 2019, the Group's equity totalled SEK 60,888 m. (54,359). According to the Group's Financial Policy, the Group's financial position shall meet the requirements of the business objectives it has established. At present, this is deemed to presuppose a financial position equivalent to the requirements for obtaining a Standard & Poor's Investment Grade Stand Alone Rating of BBB+.

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

Financial Services includes 12 companies that are subject to oversight by national financial inspection authorities. In some countries, Scania must comply with local capital adequacy requirements. During 2019, these units met their capital adequacy requirements.

The Group's Financial Policy contains targets for key ratios related to the Group's financial position. These coincide with the ratios used by Standard & Poor's. At the end of 2019 Scania's Credit Rating according to Standard and Poor's was:

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

NOTE 16 Provisions for pensions and similar commitments

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

The Group's expenses for defined-contribution plans amounted to SEK 1,949 m. (1,274) during 2019. The commitment that is recognised in the balance sheet stems from the defined benefit plans. The plans are secured through reinsured provisions in the balance sheet, foundations and funds. Calculations are performed according to the Projected Unit Credit Method, using the assumptions presented under each country below.

Scania's forecast pension payments related to defined benefit plans, both funded and unfunded plans, is SEK 766 m. for 2020.

The largest plans are described in more detail below.

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

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

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

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

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

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

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

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

Brazil
Employees at Scania Latin America Ltda are covered by four post-employment defined benefit plans. Three health care plans cover medical, dental and pharmaceutical expenses as well as the cost of a life insurance plan. The health care plans became unfunded in February 2018. The plans are open to personnel retiring at a minimum age of 55 with at least 10 years' service.

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

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

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

The normal retirement age in the schemes is 65.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS, CONTINUED

NOTE 16 Provisions for pensions and similar commitments, continued

Multi–employer defined benefit plans

Sweden

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

At year-end 2019, Alecta's surplus, in the form of a collective consolidation level (assets in relation to the insurance obligation), amounted to 148 percent (142). If the consolidation level falls below or exceeds the normal range (125–175), Alecta shall take measures, for example raise agreed subscription prices and extension of existing benefits, or introduce premium reductions.

Alecta's insurance obligation is calculated according to Alecta's actuarial methods and assumptions, which deviate from the methods and assumptions applied in measurement of defined benefit pensions according to IAS 19. Premiums to Alecta amounted to SEK 111 m. (103).

The Netherlands

Employees at Scania's Dutch companies are covered by the Dutch collectively agreed pension plans, which are multi-employer defined benefit plans. The plans Pensioenfonds Metaal en Techniek (PMT) and Bedrijfstakpensioenfonds Metalelktro (PME) are administered by MN Services. PMT and PME do not have information about allocation and therefore these obligations are recognised as a defined contribution plan. In the Dutch plans, both companies and employees contribute to the plan. Companies' premiums to MN Services totalled SEK 134 m. (120). The consolidation level of PMT was 100 percent (99) and for PME 99 percent (98).

Information regarding the largest plans during 2019	Sweden	Switzerland	Brazil	Great Britain
Present value of defined benefit obligations	11,771	1,224	548	1,011
Fair value of plan assets	–997	–1,254	–74	–971
Net assets not fully valued due to curtailment rule	–	–	2	–
Recognised as pension liability/(asset) in the balance sheet, SEK m.	**10,774**	**–30**	**476**	**40**
Breakdown into categories				
Present value of defined benefit obligations for persons in active employment, SEK m.	7,618	690	–253	–
Persons in active employment, number	10,814	296	2,544	–
Present value of defined benefit obligations for paid-up policy holders, SEK m.	1,848	–	–	664
Paid–up policy holders, number	2,778	–	–	399
Present value of defined benefit obligations for retired employees, SEK m.	2,305	534	801	347
Retired employees, number	2,600	112	1,124	208
Assumptions/Conditions				
Discount rate, %	1,5	0,1	7,8	2,0
Average life expectancy, women/men, years	89	88	86	88
Average duration of obligations, years	23,1	15,9	12,2	20,0
Sensitivity analysis concerning change in present value of obligations, SEK m.				
0.5% increase in discount rate	–1,246	–91	–12	–91
0.5% decrease in discount rate	1,438	104	4	107
1 year increase in life expectancy	507	36	57	44

Information regarding the largest plans during 2018	Sweden	Switzerland	Brazil	Great Britain
Present value of defined benefit obligations	9,164	1,034	503	849
Fair value of plan assets	–	–1,120	–66	–793
Net assets not fully valued due to curtailment rule	–	–	17	–
Recognised as pension liability/(asset) in the balance sheet, SEK m.	**9,164**	**–86**	**454**	**56**
Breakdown into categories				
Present value of defined benefit obligations for persons in active employment, SEK m.	5,956	568	–129	–
Persons in active employment, number	11,439	292	2,727	–
Present value of defined benefit obligations for paid–up policy holders, SEK m.	1,339	–	–	545
Paid–up policy holders, number	2,683	–	–	399
Present value of defined benefit obligations for retired employees, SEK m.	1,869	466	632	304
Retired employees, number	2,503	108	1,071	208
Assumptions/conditions				
Discount rate, %	2.5	0.7	9.2	2.9
Average life expectancy, women/men, years	88	87	83	88
Average duration of obligations, years	22.7	14.6	11.1	18.4
Sensitivity analysis concerning change in present value of obligations, SEK m.				
0.5% increase in discount rate	–942	–72	–15	–70
0.5% decrease in discount rate	1,084	82	26	80
1 year increase in life expectancy	368	28	55	35

	Expenses for pensions and similar commitments	
Expenses for pensions and other defined benefit payments recognised in the income statement	2019	2018
Current service expenses	–472	–391
Net Interest income/expenses	–287	–266
Past service expenses	12	7
Net gains (+) and losses (–) due to curtailments and settlements	–	0
Total expense for defined benefit payments recognised in the income statement	**–747**	**–650**

Pension expenses and other defined benefit payments are found in the income statement under the headings “Research and development expenses,” SEK 102 m. (148), “Cost of goods sold,” SEK 210 m. (119), “Selling expenses,” SEK 99 m. (101) and “Administrative expenses,” SEK 50 m. (16). The interest portion of the net liability is recognised as an interest expense and the interest portion in net assets is recognised as interest income.

During 2018 an additional SEK 6 m. has been recognised as past service cost to the three combined schemes in relation to Guaranteed Minimum Pension (GMP) equalisation in Great Britain. This represents an estimate of the cost that may be incurred in equalising the benefits paid to both male and female members a High Court case concluding on 26 October 2018. The estimate has been based on professional market experiences and represents 0.65% of liabilities as at the date of the court ruling.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS, CONTINUED

NOTE 16 Provisions for pensions and similar commitments, continued

	Expenses related to pensions and similar commitments	
Expenses for pensions and other defined benefit payments recognised in "Other comprehensive income"	2019	2018
Experience-based adjustments in net liabilities	−321	−263
Effects of changes in demographic assumptions	−2	1
Effects of changes in financial assumptions	−2,217	−388
Actual return on plan assets excluding amount included in interest income	101	−59
Changes in present value of asset ceiling not included in interest expense	12	−7
Total expense/revenue for defined benefit payments recognised in "Other comprehensive income"	**−2,427**	**−716**

	Pension commitments	
Recognised as provision for pensions in the balance sheet	2019	2018
Present value of defined benefit obligations, wholly or partly funded	13,578	2,492
Present value of defined benefit obligations, unfunded	2,369	10,217
Present value of defined benefit obligations	15,947	12,709
Fair value of plan assets	−3,717	−2,368
Net assets not fully valued due to curtailment rule	2	12
Recognised in the balance sheet	**12,232**	**10,353**
Of which, pension liabilities recognised under the heading "Provisions for pensions"	12,262	10,439
Of which, pension assets recognised under the heading "Other long-term receivables"	−30	−86

	Liabilities related to pensions and similar commitments	
Present value of defined benefit obligations changed during the year as follows:	2019	2018
Present value of defined benefit obligations, 1 January	12,709	11,515
Present value of reclassified obligations, 1 January	−3	19
Current service expenses	472	391
Interest expenses	328	305
Payments made by pension plan participants	19	18
Experience-based actuarial gains and losses	321	263
Adjustment effects from changes in demographic assumptions	2	−1
Adjustment effects from changes in financial assumptions	2,323	388
Exchange rate differences	146	118
Disbursements of pension payments	−358	−300
Past service expenses	−12	−7
Present value of defined benefit obligations in acquired/divested companies	–	–
Settlements	–	0
Gains and losses due to net settlements for the year	–	0
Present value of defined benefit obligations, 31 December	**15,947**	**12,709**

Fair value of plan assets changed as follows during the year:	Plan assets related to pensions and similar commitments 2019	2018
Fair value of plan assets, 1 January	2,368	2,283
Fair value of plan assets related to reclassified obligations, 1 January	–2	–9
Interest income on plan assets	42	39
Actual return on plan assets excluding amount included in interest income	101	–59
Effects of changes in financial assumptions	106	0
Exchange rate differences	132	122
Payments to pension plan	1,201	68
Payments made by pension plan participants	19	18
Disbursements of pension payments	–250	–94
Settlements	–	–
Fair value of plan assets, 31 December	**3,717**	**2,368**

Present value of asset ceiling	Asset ceiling 2019	2018
Present value of asset ceiling, 1 January	12	5
Interest expenses	1	0
Changes in present value of asset ceiling not included in interest expense	–12	7
Exchange rate differences	1	0
Present value of asset ceiling, 31 December	**2**	**12**

	2019		2018	
Allocation of fair value in plan assets	Quoted price in an active market	Unquoted price	Quoted price in an active market	Unquoted price
Cash and cash equivalents	19	–	14	23
Equity instruments issued by others	1,090	–	418	–
Debt instruments issued by Scania	–	51	–	38
Debt instruments issued by others	744	–	245	–
Properties leased to Scania companies	–	40	–	38
Investment properties	–	–	–	–
Equity mutual funds	621	–	496	–
Fixed income mutual funds	219	3	202	–
Real estate funds	266	–	232	–
Other investment funds	115	–	48	3
Other plan assets	51	498	184	427
Total	**3,125**	**592**	**1,839**	**529**

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS, CONTINUED

NOTE 17 Other provisions

2019	Product obligations	Legal and tax risks [2]	Other provisions [1]	Total
1 January	1,575	4,673	3,710	9,958
Provisions during the year	1,264	143	1,871	3,278
Provisions used during the year	–920	–81	–1,246	–2,247
Provisions reversed during the year	–92	–104	–16	–212
Exchange rate differences	1	–7	–9	–15
31 December	**1,828**	**4,624**	**4,310**	**10,762**
– of which, current provisions	1,495	204	2,287	3,986
– of which, non-current provisions	333	4,420	2,023	6,776

2018	Product obligations	Legal and tax risks	Other provisions [1]	Total
1 January	1,747	4,748	3,403	9,898
Provisions during the year	1,092	94	1,631	2,817
Provisions used during the year	–1,004	–114	–1,208	–2,327
Provisions reversed during the year	–259	–51	–88	–398
Exchange rate differences	0	–4	–28	–32
31 December	**1,575**	**4,673**	**3,710**	**9,958**
– of which, current provisions	1,256	273	2,040	3,569
– of which, non-current provisions	319	4,400	1,670	6,389

1 "Other provisions" include provisions for potential losses on service agreements. Total number of contracts increased during 2019 by 3,500 contracts (40,800) and amounted to 252,300 contracts (248,800) at year-end.

2 "EU investigation" consists of provision of SEK 3,800 m. recognised in June 2016 for the investigation conducted by the European Commission concerning inappropriate cooperation.

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

NOTE 18 Accrued expenses and deferred income

	2019	2018
Accrued employee-related expenses	6,764	6,130
Deferred income related to service and repair contracts	7,176	6,237
Deferred income related to repurchase obligations [1]	6,724	5,596
Other accrued expenses and deferred income	3,877	3,086
Total	**24,541**	**21,049**
– of which, current	15,973	14,032
– of which, non-current	8,568	7,017
Of the above total, the following was attributable to Financial Services operations	687	609

1 Of the above deferred income related to vehicles sold with repurchase obligations, SEK 2,172 m. (1,845) is expected to be recognised as revenue within 12 months. SEK 407 m. (352) is expected to be recognised as revenue after more than five years.

The following table provides an explanation of the changes of contract liabilities during the year.

SEK m.	2019	2018
Contract liabilities as of 1 January	6,133	5,654
Additions and disposals	796	306
Currency translation adjustments	247	173
Contract liabilities as of 31 December	**7,176**	**6,133**

Sales revenue recognised in the reporting period that was included in the contract liability balance at the beginning of the period totalled SEK 2,840 m. (2,427).

NOTE 19 Assets pledged and contingent liabilities

Assets pledged	2019	2018
Financial receivables [2]	–	37
Other	5	–
Total [1]	**5**	**37**
[1] Of which, assets pledged for:		
– borrowings	–	37
– liabilities of others	5	–

2 Refers mainly to pledged leases in Financial Services, SEK 0 m. (37).

Contingent liabilities	2019	2018
Contingent liability related to FPG credit insurance	86	79
Other guarantees	327	278
Other contingent liability related to tax	863	733
Total	**1,276**	**1,090**

In addition to the above contingent liabilities, the Group has issued vehicle repurchase guarantees worth SEK 11 m. (31) to customers' creditors.

NOTE 20 Government grants and assistance

During 2019, the Scania Group received government grants amounting to SEK 87 m. (121) attributable to operating expenses of SEK 425 m. (600).

NOTE 21 Cash flow statement

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

	2019	2018
a. Interest and dividends received/paid		
Dividends received from associated companies	5	5
Interest received	4,451	3,749
Interest paid	–3,074	–1,629

	2019	2018
b. Items not affecting cash flow		
Depreciation/amortisation	10,914	8,451
Associated companies	–41	–35
Provision for pensions	–562	404
Other	105	630
Total	**10,416**	**9,450**

	2019	2018
c. Financial Services: Net investments in credit portfolio etc.		
New financing [1]	–54,221	–47,636
Payments of principal and completed contracts	43,777	37,909
Total	**–10,444**	**–9,727**

1 Refers mainly to financing of customers purchases of Scania vehicles.

	2019	2018
d. Net investment through acquisitions/divestments of businesses [2]		
Divestments of businesses	0	–5
Acquisitions of businesses	–	7
Total	**0**	**2**

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

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS, CONTINUED

NOTE 21 Cash flow statement, continued

	2019	2018
e. Vehicles and Services: Acquisitions of non-current assets		
Investments in non-current assets [3]	–7,787	–7,263
Divestments of non-current assets	269	122
Total	**–7,518**	**–7,141**

3 Of which, SEK 1,788 m. (1,996) in capitalised research and development expenditures.

f. Change in debt through financing activities	2019	2018
Net change in current borrowings	–8,219	–10,635
Decrease in non-current borrowings	–400	–964
Increase in non-current borrowings	26,954	23,933
Lease liabilities	–976	–
Total	**17,359**	**12,334**

g. Cash and cash equivalents	2019	2018
Cash and bank balances	5,838	3,297
Short-term investments comprising cash and cash equivalents	15,143	3,925
Total	**20,981**	**7,222**

Reconciliation of liabilities arising from financing activities

	2018	Cash flow	Non-cash changes			2019
			Foreign exchange movements	Re-classifications	New leasees	
Non-current interest-bearing liabilities	42,950	26,554	–128	–19,409	–	49,967
Current interest-bearing liabilities	29,237	–8,219	2,090	19,409	–	42,517
Finance lease liabilities [1]	4,544	–976	–15	–	1,563	5,116
	76,731	**17,359**	**1,947**	**0**	**1,563**	**97,600**
Cash and cash equivalents	7,222	13,628	131	–	–	20,981
	83,953	**30,987**	**2,078**	**0**	**1,563**	**118,581**

1 Including adjustment opening balance lease liability SEK 4,544 m.

NOTE 22 Businesses acquired/divested

Scania is not an acquisition-intensive Group or a Group that divests businesses to a large extent and no significant acquisitions or divestments have occurred during the years 2018–2019.

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

Wages, salaries and other remuneration, pension expenses and other mandatory payroll fees (excluding personnel on hire)	2019	2018
Boards of Directors, Presidents and Executive Vice Presidents [1]	512	462
– of which bonuses	193	176
Other employees	20,696	18,951
Subtotal	**21,208**	**19,413**
Pension expenses and other mandatory payroll fees	7,535	6,859
– of which pension expenses [2]	2,430	1,735
Total	**28,743**	**26,272**

1 The number of Board members and executive officers was 538 (541).
2 Of the pension expense in the Group, SEK 50 m. (24) was for Boards of Directors and executive officers in the Scania Group. At year-end, the total pension obligation was SEK 146 m. (122) for this category.

Average number of employees (excluding personnel on hire)	2019 Total	2019 Women	2018 Total	2018 Women
Sweden	17,998	23%	16,958	22%
Europe (excluding Sweden)	16,589	14%	15,822	15%
Eurasia	802	26%	788	27%
America	7,928	13%	7,694	12%
Asia	2,149	21%	2,157	20%
Africa and Oceania	2,023	19%	1,816	19%
Total	**47,489**	**18%**	**45,235**	**18%**

Gender distribution	2019	2018
Board members in subsidiaries and the Parent Company	421	427
– of whom, men	392	400
– of whom, women	29	27
Presidents/Managing Directors of subsidiaries and the Parent Company, plus the Group's Executive Board	117	114
– of whom, men	112	109
– of whom, women	5	5

Number of employees, 31 December	2019	2018[1]
Vehicles and Services		
Production and corporate units	25,224	27,176
Research and development	4,651	4,293
Sales and service companies	20,345	19,688
Subtotal	50,220	51,157
Financial Services	1,058	993
Total	**51,278**	**52,150**
– of whom, on temporary contracts and on hire	4,684	6,831

1 As a result from reorganisations from 2019 employees are presented in Production and corporate units and Research and development which were previously presented in Sales and service companies. Comparative figures have been restated.

NOTE 24 Related party transactions

	Revenue		Expenses		Receivables		Liabilities	
	2019	2018	2019	2018	2019	2018	2019	2018
Volkswagen Group	1,295	1,427	4,465	704	14,234	2,931	1,178	4,226
Associated companies and joint ventures								
BITS DATA i Södertälje AB	0	0	1	13	0	0	1	1
Cummins-Scania XPI Manufacturing L.L.C.	155	163	706	839	12	23	0	0
ScaValencia S.A.	247	161	175	79	4	6	1	1
Others	13	11	4	9	2	1	0	0

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS, CONTINUED

NOTE 24 Related party transactions, continued

Disclosures of relationships with related parties that include a controlling influence are provided in the list of subsidiaries. See also the presentation of Scania's Board of Directors and Executive Board as well as Note 25, "Compensation to executive officers." Disclosures of dividends from, and capital contributions to, associated companies and joint ventures etc. are provided in Note 12, "Holdings in associated companies and joint ventures." Disclosures of pension plans are provided in Note 16, "Provisions for pensions and similar commitments" and Note 23, "Wages, salaries and other remuneration and number of employees." Purchases and leases of company cars are included in the transactions with the Volkswagen Group.

All related party transactions occur on market terms.

NOTE 25 Compensation to executive officers

Principles for compensation to executive officers

The principles for compensation to Scania executive officers are adopted by Scania's Board of Directors. The purpose is to offer a market-related compensation package that will enable the company to recruit and retain executive officers. Compensation to executive officers consists of the following parts:

1. Fixed salary
2. Variable earnings-dependent salary
3. Pension

The fixed salary of executive officers shall be competitive in relation to position, individual qualifications and performance. The fixed salary is reviewed annually. The size of the variable salary is dependent on Scania Group´s operating income, TRATON SE's return of sales and a Volkswagen long-term incentive index. For the CEO, part of the annual fixed salary is paid from TRATON SE. The CEO has variable earnings-dependent salary based on the TRATON GROUP's return on sales, return on invested capital and a share-related program TRATON SE. Executive officers are covered under the ITP Plan. Executive officers covered under the defined benefit ITP Plan are also covered under a defined contribution pension plan that applies in addition to the public pension and the ITP Plan.

The share-related program relates to a long-term incentive (LTI) bonus which is determined by the Supervisory Board of TRATON SE at its reasonable discretion. The LTI was introduced in January 2019. The terms and conditions for the LTI provide for a period of three years for calculating the target achievement, and may be amended from time to time. In this plan, a new performance period ("performance period") starts at the beginning of each fiscal year.

At the beginning of each new performance period the CEO is conditionally awarded a certain number of performance shares. The number of performance shares depends (i) on the individual target amounts and (ii) on the calculated price of Volkswagen AG preferred shares (in the pre-IPO phase) or the price of TRATON SE shares (in the post-IPO phase), with the arithmetic mean of the closing prices of the 30 trading days preceding the performance period being used to calculate the price.

If the employment contract begins or ends in the course of a year, the target amount for the LTI is calculated rateably for the period of service.

The number of performance shares at the end of a performance period ("final number of performance shares") depends on the number of performance shares conditionally awarded at the beginning of the performance period and the achievement of the "earnings per share" target amounts. These are determined at the beginning of the performance period. The payout amount depends on the final number of performance shares and the calculated price of Volkswagen AG preferred shares (in the pre-IPO phase) or the price of TRATON SE shares (in the post-IPO phase), using the arithmetic mean of the closing prices of the last 30 trading days of the performance period and including any dividends paid out during the performance period.

The amount paid out is capped at 200% of the target amount.

In the case of extraordinary events or developments, e.g., a business combination, significant changes in the shareholder structure, or certain corporate actions or structural measures implemented by the Company, the Company is entitled, under certain conditions, to modify the terms and conditions of the plan or the number of performance shares. In "bad leaver" cases, which are defined in the relevant performance share plan (in particular in the case of the extraordinary termination of an Executive Board member), all the performance shares of a current performance period are forfeited and not replaced or otherwise compensated.

The terms and conditions of the LTI for each performance period are determined by the Supervisory Board of TRATON SE at its reasonable discretion. The Supervisory Board of TRATON SE has introduced provisions governing penalties and salary clawbacks in the event of misconduct (including breaches of oversight or organisational duties as a "cultural and integrity corrective"), which can lead to a reduction or the complete forfeiture of the LTI or to the clawback of an LTI that has already been paid out.

A total of 5,180 performance shares were awarded to the CEO. The fair value of the performance shares obligation as of 31 December 2019, was SEK 4,158 m. The expenses under the plan amounting to SEK 4,158 m. were recognised in personnel expenses. If the beneficiaries of the performance share plan had left the Company as of 31 December 2019, the obligation (intrinsic value) would have been SEK 0 m.

Termination conditions for the executive board

If the President and CEO resigns of his own volition, he is entitled to his salary for a 12-month notice period. Any variable salary during the year in question is disbursed according to conditions adopted by Scania's Board of Directors. In case of termination by the company, a 12-month notice period applies with retained benefits and severance pay equivalent to 24 months of salary is payable.

If the company terminates their employment, the other members of the Executive Board are entitled to severance pay equivalent to a maximum of 18 months of salary, in addition to their salary during the six-month notice period. If they obtain new employment within 18 months, counting from their termination date, the severance pay ceases.

2019, SEK thousand	Fixed salary	Board remuneration[1]	Variable salary	LTI	Other remuneration	Total salary and remuneration	Pension expenses, defined contribution system	Pension expenses, defined benefit system	Total pension expenses	Pension obligations
Chairman of the Board	–	–	–	–	–	–	–	–	–	–
President and CEO	6,180	–	7,336	4,158	305	17,979	2,898	480	3,378	3,319
Rest of Executive Board (7 persons)	23,564	–	48,993	–	1,849	74,406	6,685	3,520	10,205	25,008

1 Other Board members' total fees: Andreas Renschler 0; Peter Wallenberg Jr. 550; Markus S. Piëch 0; Stephanie Porsche-Schröder 0; Nina Macpherson 700; Christian Schulz 0; Lilian Fossum Biner 350; Lisa Lorentzon 0; Michael Lyngsie 0. Markus S. Piëch resigned on 20 November 2019 and Lilian Fossum Biner was appointed on 23 May 2019.

2018, SEK thousand	Fixed salary	Board remuneration[1]	Variable salary	Other remuneration	Total salary and remuneration	Pension expenses, defined contribution system	Pension expenses, defined benefit system	Total pension expenses	Pension obligations
Chairman of the Board	–	–	–	–	–	–	–	–	–
President and CEO	7,547	–	14,293	271	22,111	2,826	436	3,262	2,907
Rest of Executive Board (7 persons)	25,068	–	47,478	1,721	74,267	8,673	3,674	12,346	21,329

1 Other Board members' total fees: Andreas Renschler 0; Helmut Aurenz 250; Peter Wallenberg Jr. 525; Christian Porsche 0; Matthias Gründler 0; Markus S. Piëch 0; Stephanie Porsche-Schröder 0; Nina Macpherson 275; Christian Schulz 0; Johan Järvklo 0; Lisa Lorentzon 0; Michael Lyngsie 0. Helmut Aurenz resigned on 8 February 2018 and Matthias Gründler resigned on 15 May 2018. Nina Macpherson was appointed on 25 April 2018 and Christian Schulz was appointed on 28 June 2018. Johan Järvklo resigned on 25 June 2018 and was replaced by Michael Lyngsie on 28 June 2018.

Pension expenses, defined-contribution system: annual premiums according to a defined contribution pension system and ITPK (defined contribution portion of the ITP occupational pension).

Pension expenses, defined-benefit system (ITP): risk insurance premiums and the increase of retirement pension liability according to the ITP occupational pension plan.

Other remuneration: taxable portion of car allowance, newspaper subscriptions and other perquisites.

Retirement age: the President and CEO is covered by the ITP plan and a defined contribution pension plan with premiums up to 65 years. Members of the Executive Board are covered by the ITP Plan with premiums up to 65 years. Members of the Executive Board covered under the defined benefit ITP Plan are also covered under defined contribution pension plan with premiums payments up to 65 years and, to a lesser extent, with premium payments up to 60 years.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS, CONTINUED

NOTE 26 Fees and other remuneration to auditors

Fees and other remuneration to auditors that were expensed during the year are reported below. Remuneration for consultations is reported in cases where the same public accountancy firm has the assignment to audit an individual company. "Auditing assignments" refers to statutory examination of the annual accounts as well as the administration of the Board of Directors and the President and CEO. "Auditing activities beyond auditing assignments" refers to examination of administration or financial information that shall be performed in accordance with laws, articles of association, statutes or agreements that is also intended for parties other than the client, and which is not included in the auditing assignment. "Tax consultancy" is consultation on matters of tax law. "Other services" refers to consultancy that cannot be attributed to any of the other categories. Auditing expenses that have arisen because Scania is a subsidiary of Volkswagen have been reinvoiced.

	2019		2018	
Auditing firm	PwC	Other auditors	PwC	Other auditors
Auditing assignments	44	1	42	1
Auditing activities beyond auditing assignments	1	1	1	0
Tax consultancy	2	–	2	0
Other services	1	0	1	–
Total	**48**	**2**	**46**	**1**

NOTE 27 Financial risk management

Financial risk management in the Scania Group

In addition to business risks, Scania is exposed to various financial risks in its operations. The financial risks that are of the greatest importance are currency, interest rate, credit and refinancing risk, which are regulated by a Financial Policy adopted by Scania's Board of Directors.

Credit risk related to customer commitments is managed, within established limits, on a decentralised basis by means of local credit assessments. Decisions on major credit commitments are made in corporate credit committees. Other risks are managed primarily at corporate level by Scania's treasury unit. On a daily basis, the corporate treasury unit measures the risks of outstanding positions, which are managed within established limits in compliance with the Financial Policy.

Liquidity risk

Liquidity risk describes the risk that the Scania Group will have difficulty in meeting its obligations associated with financial liabilities or that it can only procure liquidity at a higher price.

To counter this risk, cash inflows and outflows and due dates are continuously monitored and managed. Cash requirements are primarily met by our operating business and by external financing arrangements. As a result, there are no material concentrations of risk.

The solvency and liquidity of Scania are ensured at all times by rolling liquidity planning, a liquidity reserve in the form of cash, confirmed credit lines and the issuance of securities on the international money and capital markets. For Scania Financial Services, there shall be dedicated funding to cover the estimated funding demands during the next six months. There shall also always be borrowings that safeguard the existing portfolio.

Local cash funds in certain countries (e.g. Brazil, China, India, Russia and South Korea) are only available to the Group for cross-border transactions subject to exchange controls. There are no significant restrictions over and above these.

Currency risk

Currency risk is the risk of negative effects on earnings and balance sheet items denominated in foreign currency, due to currency movements. Changes in exchange rates also affect Scania's income statement and balance sheet as follows:

- An individual company may have monetary assets and liabilities in a currency other than its functional currency, which are translated to the functional currency using the exchange rate on the balance sheet date. When settling monetary assets and liabilities, an exchange rate difference arises between the exchange rate on the balance sheet date and on the payment date. All changes in exchange rates attributable to translation or settlement of monetary items are recognised in the income statement (transaction effect).
- Revenue, expenses, assets and liabilities in a functional currency other than the reporting currency of the Parent Company (SEK) are translated at the average exchange rate during the year and the exchange rate on the balance sheet date, respectively. The effect that arises because the exchange rate on the balance sheet date is changed from the beginning of the year and the average exchange rate of the year deviates from the balance sheet rate is recognised in the translation reserve in other comprehensive income (translation effect).

During 2019, 95 (95) percent of Scania's sales occurred in countries outside Sweden. Since a large proportion of production occurs in Sweden, at costs denominated in Swedish kronor, this means that Scania has large net inflows of foreign currencies.

During 2019, total currency exposure in Scania's operating income amounted to about SEK 54,200 m. (49,000). The largest currencies in this flow were GBP, EUR, and PLN. The table below shows currency exposure in Scania's operating income in the most commonly occurring currencies.

Currency exposure in operating income, Vehicles and Services	2019	2018
British pound (GBP)	10,300	7,600
Euro (EUR)	5,200	4,900
Polish zloty (PLN)	5,000	4,600
Russian rouble (RUB)	4,800	5,300
Norwegian krone (NOK)	4,200	3,300
Australian dollar (AUD)	2,100	2,200
Chinese Yuan remnimbi (CNY)	2,100	1,800
Danish krone (DKK)	2,000	1,700
South African rand (ZAR)	2,000	2,000
Swiss franc (CHF)	2,000	1,600
Korean won (KRW)	1,900	2,100
Czech koruna (CZK)	1,700	1,200
Brazilian real (BRL)	–1,300	–3,700
Other currencies	10,400	12,900
Total currency exposure in operating income	**52,400**	**47,500**

Currency exposure in operating income, Financial Services	2019	2018
Euro (EUR)	600	600
Other currencies	1,200	900
Total currency exposure in operating income	**1,800**	**1,500**

Based on revenue and expenses in foreign currencies during 2019, a one percentage point change in the Swedish krona against other currencies, excluding currency hedges, has an impact on operating income of about SEK 542 m. (490) on an annual basis. In Vehicles and Services, compared to 2018, the total positive currency rate effects amounted to about SEK 1,900 m. (2,678).

According to Scania's Financial Policy, Scania's Management may hedge future currency flows with a hedging period varying between 0 and 12 months. Maturity over 12 months is decided by the Board of Directors. When currency risks are hedged, currencies are mainly sold by means of forward contracts, but currency options may also be used. At year-end 2019, no future currency flows were hedged.

To ensure efficiency and risk control, borrowings in Scania's subsidiaries largely occur through the corporate treasury unit, mainly in EUR and SEK, and are then transferred to subsidiaries in the form of internal loans in their local currencies.

By means of derivative contracts, corporate-level borrowings are converted to lending currencies. In Financial Services, assets should be financed by liabilities in the same currency. Scania's borrowings in various currencies excluding and including currency derivatives can be seen in the table "Borrowings" in the section on interest rate risk.

At the end of 2019, Scania's net assets in foreign currencies amounted to SEK 39,100 m. (32,900). The net foreign assets of subsidiaries are normally not hedged. To the extent subsidiaries have significant net monetary assets in functional currencies, however, they may be hedged. At year-end 2019 no foreign net assets were hedged (–).

Net assets, Vehicles and Services	2019	2018
Brazilian real (BRL)	9,200	6,400
Euro (EUR)	5,500	7,400
US dollar (USD)	2,100	–100
Russian rouble (RUB)	1,200	1,100
Norwegian krone (NOK)	1,000	800
Colombian pesos (COP)	800	0
South African rand (ZAR)	800	300
Polish zloty (PLN)	700	800
Australian dollar (AUD)	700	500
Danish krone (DKK)	600	500
Swiss franc (CHF)	600	600
Thai baht (THB)	500	200
Korean won (KRW)	500	300
Other currencies	3,800	4,800
Total net assets in foreign currencies, Vehicles and Services	**28,000**	**23,600**

Net assets, Financial Services	2019	2018
Euro (EUR)	5,200	5,300
Other currencies	5,900	4,000
Total net assets in foreign currencies, Financial Services	**11,100**	**9,300**
Total net assets in foreign currencies, Scania Group	**39,100**	**32,900**

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS, CONTINUED

NOTE 27 Financial risk management, continued

Effect on exchange rate differences on net income

Net income for the year was affected by exchange rate differences as shown in the following table:

	2019	2018
Operating income	156	335
Financial income and expenses	–52	–28
Taxes	–26	–83
Effect on net income for the year	**78**	**224**

Interest rate risk

Interest rate risk is the risk of negative effects on interest income and expenses due to movements in interest rates. For Scania's assets and liabilities that carry variable interest rates, a change in market interest rates has a direct effect on cash flow, while for fixed-interest assets and liabilities, the fair value of the portfolio is affected instead. To manage interest rate risks, Scania primarily uses interest rate derivatives in the form of interest rate swap agreements.

At year-end 2019, Scania's interest-bearing assets mainly consisted of assets in Financial Services and of short-term investments and cash and cash equivalents. Interest-bearing liabilities consisted mainly of loans, to a great extent intended to fund lending in Financial Services operations and to a lesser extent to fund working capital in Vehicles and Services.

Interest rate risk in Vehicles and Services

Borrowings in Vehicles and Services are mainly used for funding of working capital. To match the turnover rate of working capital, a short interest rate refixing period is used in the borrowing portfolio. Scania's policy concerning interest rate risks in the Vehicles and Services segment is that the interest rate refixing period on its net debt should normally be within 0–6 month range, but that divergences are allowed up to 24 months. The Board of Directors approves maturities of more than 24 months.

Net cash in Vehicles and Services was SEK 17,057 m. (16,419) at year-end 2019. The borrowing portfolio amounted to SEK 0 m. (0). Short-term investments and cash and cash equivalents amounted to SEK 21,196 m. (7,338) and the average interest rate refixing period on these assets was less than 2 (1) month. As from 2019 the net cash does not include derivatives that hedge borrowings, comparative figures 2018 has been restated.

Given the same loan liabilities, short-term investments, cash and cash equivalents and interest rate refixing periods as at year-end 2019, a change in market interest rates of 100 basis points (1 percentage point) would change the interest income in Vehicles and Services by about SEK 175 m. (75) on an annual basis.

Interest rate risk in Financial Services

Scania's Financial Policy regarding interest rate risks in the Financial Services segment is that assets and liabilities should match in terms of interest rates and maturity periods. Interest rate refixing related to the credit portfolio and borrowing in Financial Services had the following structure as of 31 December 2019:

Interest rate refixing in Financial Services, 31 December 2019	Interest-bearing portfolio [1]	Interest-bearing liabilities [2]
2020	51,559	50,251
2021	21,589	21,137
2022	16,047	14,427
2023	9,553	6,873
2024	3,880	1,219
2025 and later	1,153	150
Total	**103,781**	**94,057**

Interest rate refixing in Financial Services, 31 December 2018	Interest-bearing portfolio [1]	Interest-bearing liabilities [2]
2019	45,250	46,336
2020	18,323	18,785
2021	13,778	11,714
2022	7,766	4,839
2023	3,184	685
2024 and later	865	121
Total	**89,166**	**82,480**

1 Including operating leases.
2 Including the effect of interest rate derivatives. Other funding consists mostly of equity.

Given the same lending and borrowing structure as at year-end 2019, a change in market interest rate of 50 basis points (0.5 percent point) would change the interest in Financial Services by about SEK 4,2 m. (15.6) on an annual basis.

Scania's total borrowing portfolio amounted to SEK 92,871 m. (72,873) at year-end 2019.

Borrowings, 31 December 2019	Borrowings incl. currency swap agreements	Borrowings excl. currency swap agreements
EUR	56,782	49,047
GBP	7,871	3,065
BRL	7,533	3,247
USD	4,628	897
ZAR	3,180	724
NOK	2,238	2,645
KRW	1,783	23
CLP	1,350	1,321
AUD	1,336	0
OTH	1,215	1,389
CHF	1,162	46
THB	1,101	42
SEK	–4,139	30,025
Other currencies	6,444	14
Total [1]	**92,484**	**92,484**
Accrued interest	387	387
Total	**92,871**	**92,871**

1 Total borrowings excluded SEK 387 m. (685) related to accrued interest.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS, CONTINUED

NOTE 27 Financial risk management, continued

Credit risk

Credit risk is the risk that the counterparty in a transaction will not fulfil its contractual obligations and that any collateral will not cover the company's claim. An overwhelming share of the credit risk for Scania is related to receivables from customers. Scania sales are distributed among a large number of end customers with a large geographic dispersion, which limits the concentration of credit risk.

Reconciliation of loss allowance for financial assets measured at amortised cost, including lease receivables

	General approach			Simplified approach	Total
SEK m.	12 month expected credit loss (Stage 1)	Life time expected credit loss – not impaired (Stage 2)	Life time expected credit loss – impaired (Stage 3)		
Loss allowance as at 1 January 2019	57	48	305	1,168	1,578
Changes due to financial instruments recognised as at 1 January					
Transfer to stage 1	0	–9	–7		–16
Transfer to stage 2	–25	37	–1		11
Transfer to stage 3	–18	–11	60		31
Write-offs (Utilization)			–8	–104	–112
New originated or purchased financial assets	75			527	602
Changes in models/risk parameters	–	–	–	–	–
Reversals	–31	–32	–106	–497	–666
Foreign exchange movements	1	3	10	28	42
Other changes within a stage	0	9	53	167	229
Loss allowance as at 31 December 2019	**59**	**45**	**306**	**1,289**	**1,699**

	General approach			Simplified approach	Total
SEK m.	12 month expected credit loss (Stage 1)	Life time expected credit loss – not impaired (Stage 2)	Life time expected credit loss – impaired (Stage 3)		
Loss allowance as at 1 January 2018	64	96	173	1,127	1,460
Changes due to financial instruments recognised as at 1 January					
Transfer to stage 1	1	–16	–6		–21
Transfer to stage 2	–23	33	–4		6
Transfer to stage 3	–17	–47	182		118
Write-offs (Utilization)			–11	–53	–64
New originated or purchased financial assets	64	0	0	353	417
Changes in models/risk parameters	–	–	–	–	–
Reversals	–34	–24	–58	–444	–560
Foreign exchange movements	1	5	2	1	9
Other changes within a stage	1	1	27	184	213
Loss allowance as at 31 December 2018	**57**	**48**	**305**	**1,168**	**1,578**

Reconciliation of gross carrying amount for financial assets measured at amortised cost, including lease receivables

SEK m.	General approach: 12 month expected credit loss (Stage 1)	General approach: Life time expected credit loss – not impaired (Stage 2)	General approach: Life time expected credit loss – impaired (Stage 3)	Simplified approach	Total
Gross carrying amount as at 1 January 2019	37,878	1,190	1,155	52,020	92,243
Transfer to stage 1	209	–190	–19		0
Transfer to stage 2	–521	527	–6		0
Transfer to stage 3	–95	–175	270		0
Changes in gross carrying amount (non significant changes)	0	0	0	0	0
Changes in gross carrying amount (due to additions and disposals, significant modifications)	20,680	23	–449	2,824	23,078
Foreign exchange movements	735	44	44	1,804	2,627
Gross carrying amount as at 31 December 2019	**58,886**	**1,419**	**995**	**56,648**	**117,948**

Gross carrying amount of Scania´s irrevocable credit commitments at 31 December 2019 amounts to SEK 4,345m. (5,985) with a loss allowance of SEK 2 m. (2).

SEK m.	General approach: 12 month expected credit loss (Stage 1)	General approach: Life time expected credit loss – not impaired (Stage 2)	General approach: Life time expected credit loss – impaired (Stage 3)	Simplified approach	Total
Gross carrying amount as at 1 January 2018	32,412	1,364	480	46,526	80,782
Transfer to stage 1	250	–230	–20		0
Transfer to stage 2	–444	458	–14		0
Transfer to stage 3	–456	–339	795		0
Changes in gross carrying amount (non significant changes)	0	0	0	0	0
Changes in gross carrying amount (due to additions and disposals, significant modifications)	6,165	–136	–88	5,544	11,485
Foreign exchange movements	–49	73	2	–50	–24
Gross carrying amount as at 31 December 2018	**37,878**	**1,190**	**1,155**	**52,020**	**92,243**

Gross carrying amounts of financial assets by rating category

SEK m.	12 month expected credit loss (Stage 1)	Life time expected credit loss – not impaired (Stage 2)	Life time expected credit loss – impaired (Stage 3)	Financial assets – simplified approach	Total
Rating Grade 2019					
Credit Risk Rating Grade 1	58,886			49,780	108,666
Credit Risk Rating Grade 2		1,419		5,546	6,965
Credit Risk Rating Grade 3			995	1,322	2,317
Total	**58,886**	**1,419**	**995**	**56,648**	**117,948**

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS, CONTINUED

NOTE 27 Financial risk management, continued

SEK m.	12 month expected credit loss (Stage 1)	Life time expected credit loss – not impaired (Stage 2)	Life time expected credit loss – impaired (Stage 3)	Financial assets – simplified approach	Total
Rating Grade 2018					
Credit Risk Rating Grade 1	37,878	–	–	45,742	83,620
Credit Risk Rating Grade 2	–	1,190	–	4,948	6,138
Credit Risk Rating Grade 3	–	–	1,155	1,330	2,485
Total	**37,878**	**1,190**	**1,155**	**52,020**	**92,243**

Credit risk in Vehicles and Services

In the Vehicles and Services segment, carried receivables before provisions for bad debts from customers totalled SEK 9,265 m. (9,362), most of which consisted of receivables from independent dealerships and end customers. The total estimated fair value of collateral was SEK 1,838 m. Most of the collateral consisted of repossession rights and bank guarantees. During the year, collateral valued at SEK 359 m. was repossessed.

Timing analysis of portfolio assets past due but not recognised as impairment losses	Past-due payments 2019	Past-due payments 2018
< 30 days	1,064	572
30–90 days	300	269
91–180 days	163	25
> 180 days	355	303
Total	**1,882**	**1,169**

Provisions for bad debts amounted to SEK 455 m. (362), equivalent to 5.4 (4.0) percent of total receivables. The year's bad debt expense amounted to SEK 173 m. (63).

Provisions for bad debts changed as follows:

Provisions for bad debts	2019	2018
Provisions, 1 January	362	292
Adjustment transition IFRS 9	0	64
Adjusted provision, 1 January	362	356
Provisions for potential losses	202	63
Withdrawals due to actual credit losses	–146	–69
Currency rate effects	10	6
Other	27	6
Provisions, 31 December	**455**	**362**

Credit risk in Financial Services

The credit portfolio including operating leases in the Financial Services segment can be seen in the table below:

Credit portfolio	2019	2018
Exposure	105,024	90,365
– of which, operating leases	20,418	18,440
Credit risk reserve	1,243	1,199
Carrying amount	**103,781**	**89,166**
– of which, operating leases	20,184	18,258

To maintain a controlled level of credit risk in the segment, the process of issuing credit is supported by a credit policy as well as credit instructions. Credit risks are limited by active credit assessment, management of the loan portfolio and its underlying assets as well as an intensive focus and constructive dialogue with those customers who do not follow the agreed payment plan. Collateral in Financial Services operations mainly exist in the form of the possibility of repossessing the financed assets.

The portfolio mainly consists of financing of trucks, buses and trailers for small and medium-sized companies. The credit risk concentration in 2019 was equal to that of 2018.

Timing analysis of portfolio assets

Past due receivables	2019 Past-due payments	2019 Total exposure [1]	2019 Estimated fair value of collateral	2018 Past-due payments	2018 Total exposure [1]	2018 Estimated fair value of collateral
< 30 days	158	5,552	5,366	102	4,711	4,636
30–90 days	149	2,154	2,037	294	2,379	2,106
91–180 days	76	733	652	68	613	528
> 180 days	97	399	384	130	357	343
Inactive contracts	316	1,383	848	225	1,213	812
Total	**796**	**10,221**	**9,287**	**819**	**9,273**	**8,425**

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

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

Concentration of credit risk	31 December 2019 Number of customers	31 December 2019 Percentage of total number of customers	31 December 2019 Percentage of portfolio value	31 December 2018 Number of customers	31 December 2018 Percentage of total number of customers	31 December 2018 Percentage of portfolio value
Exposure < SEK 15 m.	39,426	97.5	65.0	36,753	97.9	66.1
Exposure SEK 15–50 m.	806	2.0	19.0	649	1.7	18.0
Exposure > SEK 50 m.	193	0.5	16.0	137	0.4	15.9
Total	**40,425**	**100.0**	**100.0**	**37,539**	**100.0**	**100.0**

Accounts with past-due receivables ordinarily lead to relatively quick repossession of the item being financed. Renegotiation only occurs in those cases where, after a new credit evaluation, Financial Services deems the customer's payment problems to be of a short-term, temporary nature and where renegotiation can take place without greatly worsening its risk position.

For Scania's customers the renegotiation need was at the same level during 2019 as in 2018. The carrying amount of the financial assets, whose terms had been renegotiated, amounted to SEK 1,847 m. (2,001) at year-end. Contracts are regarded as bad debts when payment is more than 90 days past due or when there is information that causes Scania to terminate the contracts early.

The resale market for repossessed and used vehicles functioned smoothly during 2019. During the year, 2,392 (1,490) financed vehicles were repossessed. At year-end, the number of repossessed but not yet sold vehicles amounted to 591 (425), with a total carrying amount of SEK 321 m. (195). Repossessed vehicles are sold off by means of a new financing contract with another customer, direct sale to an end customer or sale via Scania's dealership network.

Provisions for bad debts changed as follows:

Provisions for bad debts	2019	2018
Provisions, 1 January	1,199	954
Adjustment transition, IFRS 9	–	146
Adjusted provision, 1 January	1,199	1,100
Provisions for potential losses	155	173
Withdrawals due to actual credit losses	–142	–79
Exchange rate differences	31	5
Provisions, 31 December	**1,243**	**1,199**
Provisions as percentage of gross portfolio	1.2	1.3

The year's expenses for actual and potential credit losses amounted to SEK 314 m. (181).

Asset-Backed Securities Transaction

As of the reporting date, financial liabilities included asset-backed securities transactions implemented to refinance the Financial Services segment with a carrying amount of SEK 3,064 m. The corresponding carrying amount of financial services receivables is SEK 3,477 m. Collateral totaling SEK 3,477 m. was provided in connection with asset-backed securities transactions.
The expected payments to structured entities are assigned in this process and ownership of the financed vehicles pledged as collateral is transferred. These asset-backed securities transactions did not lead to the derecognition of financial services receivables in the balance sheet because the Scania group retains

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS, CONTINUED

NOTE 27 Financial risk management, continued

the bad debt and payment date risk. The difference between the amount of receivables assigned and the associated liabilities is the result of different terms and conditions and the proportion of bonds held by Scania itself.

Under certain conditions, the asset-backed securities transactions implemented by the Scania group may be repaid early (clean-up call). The assigned receivables cannot be assigned a second time or used as collateral in any other way. The bondholders' claims are limited to the assigned receivables, the cash inflows arising from these receivables are intended for the settlement of the corresponding liability.

As of December 31, 2019, the fair value of assigned receivables that continue to be recognized in the balance sheet was SEK 3,477 m. The fair value of the associated liabilities amounted to SEK 3,064 m as of that date. The resulting net position is SEK 418 m.

No asset-backed securities transactions were implemented in the previous year.

Other credit risks at Scania

The administration of the financial credit risks that arise primarily in corporate treasury operations, among other things when investing liquidity and in derivatives trading, is regulated in Scania's Financial Policy. Transactions occur only within established limits and with selected, creditworthy counterparties. To reduce credit risk, the volume of exposure allowed per counterparty is limited, depending on the counterparty's credit rating. To further limit credit risk, Scania has entered into International Swaps and Derivatives Association (ISDA) netting contracts with all of its counterparties.

The corporate treasury unit is responsible for ensuring compliance with the rules of Scania's Financial Policy.

Net exposure to counterparty risk related to derivatives trading amounted to SEK –1,154 m. (–515) at the end of 2019. Estimated gross exposure to counterparty risks related to derivatives trading totalled SEK 552 m. (838). Estimated gross exposure to cash and cash equivalents and short-term investments amounted to SEK 21,818 m. (8,834). Short-term investments are deposited with various banks.

Scania had short-term investments worth SEK 15,956 m. (5,537), of which SEK 15,954 m. (4,884) consists of investments with a maturity of less than 90 days and SEK 2 m. (652) consisted of investments with a maturity of 91–365 days. In addition to short-term investments, Scania had bank balances worth SEK 5,862 m. (3,297).

Refinancing risk

Refinancing risk is the risk of not being able to meet the need for future funding. Scania applies a conservative policy concerning refinancing risk. For Vehicles and Services, there shall be a liquidity reserve consisting of available cash and cash equivalents as well as unutilised credit facilities which exceeds the funding needs over a two-year period.

For Financial Services, there shall be dedicated funding that covers the estimated demand for funding during the next six months. There shall also always be borrowings that safeguard the refinancing of the existing portfolio.

At the end of 2019, Scania's liquidity reserve, consisting of guaranteed credit facilities, cash and cash equivalents and short-term investments, amounted to SEK 51,064 m. (41,136). Scania's credit facilities include customary Change of Control clauses, which means that the counterparty could demand early payment in case of significant changes in ownership involving a change in control of the company.

At year-end, Scania had borrowings, in some cases with related ceilings, as follows:

Borrowings, 2019	Total borrowings	Ceiling
European Medium Term Note Programme	63,872	83,560
Credit facility (EUR, SEK)	–	29,246
Commercial paper, Sweden	80	10,000
Commercial paper, Belgium	9,233	15,668
Bank loans and Other loans	19,299	0
Total [1, 2]	**92,484**	**138,474**

Borrowings, 2018	Total borrowings	Ceiling
European Medium Term Note Programme	49,393	71,755
Credit facility (EUR, SEK)	–	32,302
Commercial paper, Sweden	50	10,000
Commercial paper, Belgium	3,188	10,251
Bank loans and Other loans	19,557	–
Total [1, 2]	**72,188**	**124,308**

1 Of the total ceiling, SEK 29,246 m. (32,302) consisted of guaranteed revolving credit facilities.

2 Total borrowings excluded SEK 387 m. (685) related to accrued interest and fair value adjustments on bonds where hedge accounting was previously applied.

Controlling Scania's refinancing risk includes safeguarding access to credit facilities and ensuring that the maturity structure of borrowings is diversified. At year-end, Scania's total borrowings had the following maturity structure:

Maturity structure of Scania's borrowings	2019	2018
2019	–	29,237
2020	42,517	21,315
2021	32,417	13,250
2022	14,192	7,090
2023	1,276	494
2024	1,025	802
2025 and later	1,057	0
Total [1]	**92,484**	**72,188**

1 Total borrowings excluded SEK 387 m. (685) related to accrued interest and lease liabilities. Maturity structure for lease liabilities, see Note 11.

Maturity structure of derivatives attributable to borrowings, 2019	Derivatives with positive value	Derivatives with negative value
2020	2	–15
2021	0	–104
2022	40	–15
2023	1	0
2024 and later	0	–12
Total [1]	**43**	**–146**

Maturity structure of derivatives attributable to borrowings, 2018	Derivatives with positive value	Derivatives with negative value
2019	1	–8
2020	28	–2
2021	0	–83
2022	10	–2
2023 and later	0	0
Total [1]	**39**	**–95**

1 Does not include accrued interest.

NOTE 28 Financial instruments

Financial assets in the Scania Group mainly consist of financial leases and hire purchase receivables that have arisen in the Financial Services segment due to financing of customers' vehicle purchases. Other financial assets of significance are trade receivables from independent dealerships and end customers in the Vehicles and Services segment plus short-term investments and cash and cash equivalents. Scania's financial liabilities consist largely of loans, mainly taken out to fund Financial Services' lending and leasing to customers and, to a lesser extent, to fund capital employed in Vehicles and Services. Financial assets and liabilities give rise to various kinds of risks, which are largely managed by means of various derivative instruments. Scania uses derivative instruments, mainly for the purpose of:

- Transforming corporate-level borrowings in a limited number of currencies to the currencies in which the financed assets are denominated.
- Transforming the interest rate refixing period for borrowings in Financial Services as well as achieving the desired interest rate refixing period for other borrowings.
- Converting future commercial payments to functional currency.
- To a lesser extent, converting surplus liquidity in foreign currencies to SEK.

Fair value of financial instruments

In Scania's balance sheet, items carried at fair value are mainly derivatives, current investments and equity instruments. For derivatives for which hedge accounting is not applied, fair value adjustment is carried at fair value via the income statement. Fair value is established according to various levels, defined in IFRS 13, that reflect the extent to which market values have been utilised. Current investments and cash and cash equivalents are carried according to Level 1, i.e. quoted prices in active markets for identical assets, and amounted to SEK 86 m. (1,005). Other assets that are carried at fair value refer to derivatives. These assets are carried according to Level 2, which is based on data other than the quoted prices that are part of Level 1 and refer to directly or indirectly observable market data. Scania applies a valuation technique that consists of estimating the present value of future cash flows based on observable yield curves. The yield curve applied is derived from relevant listed yields for the respective period during which cash flows are received or paid. The derivatives are recognised under other non-current assets, other current assets, other non-current liabilities and other current liabilities and amounted to SEK –1,154 m. (–515) net.

For financial instruments that are carried at amortised cost, fair value disclosures are provided in the table below. The carrying amounts of interest-bearing assets and liabilities in the balance sheet may diverge from their fair value, among other things as a consequence of changes in market interest rates. To establish the fair value of financial assets and liabilities, official market quotations have been used for those assets and liabilities that are traded in an active market.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS, CONTINUED

NOTE 28 Financial instruments, continued

In those cases where assets and liabilities are not traded in an active market, fair value has been established by discounting future payment flows at current market interest rates and then converting to SEK at the current exchange rate.

Fair value of financial instruments such as trade receivables, trade payables and other non-interest-bearing financial assets and liabilities that are recognised at accrued cost minus any impairment losses, is regarded as coinciding with the carrying amount.

Impairment losses on assets occur only when there is reason to believe that the counterparty will not fulfil its contractual obligations, not as a consequence of changes in market interest rates.

Financial assets and liabilities that can be offset against each other consist of derivatives covered by legally binding master netting agreements. Carrying amounts of assets and liabilities amounted to SEK 537 m. (836) and SEK 1,696 m. (1,260). The amount that can be offset from each amount was SEK 475 m. (662).

Scania Group, 2019, SEK m.	Measured at fair value	Measured at amortised cost	Financial liabilities measured at amortised cost	Total carrying amount	Total fair value
Equity instruments	143			143	143
Non-current interest-bearing receivables		50,938		50,938	51,149
Current interest-bearing receivables		32,792		32,792	33,000
Non-interest-bearing trade receivables		8,368		8,368	8,368
Current investments and Cash and cash equivalents	86	21,708		21,794	21,790
Other non-current receivables [1]	370	46		416	416
Other current receivables [2]	182	291		473	473
Total assets	**781**	**114,143**	**0**	**114,924**	**115,339**
Non-current interest-bearing liabilities			49,967	49,967	50,280
Current interest-bearing liabilities			42,904	42,904	42,880
Trade payables			12,738	12,738	12,738
Other non-current liabilities [3]	1,076			1,076	1,076
Other current liabilities [4]	630			630	630
Total liabilities	**1,706**	**0**	**105,609**	**107,315**	**107,604**

1 Financial instruments included in the balance sheet under “Other long-term receivables,” SEK 1,444 m.
2 Financial instruments included in the balance sheet under “Trade receivables and Other current receivables,” SEK 15,881 m.
3 Financial instruments included in the balance sheet under “Other non-current liabilities,” SEK 6,580 m.
4 Financial instruments included in the balance sheet under “Other current liabilities,” SEK 6,146 m.

Scania Group, 2018, SEK m.	Measured at fair value	Measured at amortised cost	Financial liabilities measured at amortised cost	Total carrying amount	Total fair value
Equity instruments	256	–	–	256	256
Non-current interest-bearing receivables	–	43,251	–	43,251	42,902
Current interest-bearing receivables	–	27,797	–	27,797	27,758
Non-interest-bearing trade receivables	–	9,071	–	9,071	9,071
Current investments and Cash and cash equivalents	1,005	7,828	–	8,834	8,834
Other non-current receivables [1]	274	25	–	299	299
Other current receivables [2]	564	8	–	572	572
Total assets	**2,099**	**87,980**	**–**	**90,080**	**89,692**
Non-current interest-bearing liabilities	–	–	42,950	42,950	43,016
Current interest-bearing liabilities	–	–	29,922	29,922	29,734
Trade payables	–	–	15,579	15,579	15,579
Other non-current liabilities [3]	372	–	–	372	372
Other current liabilities [4]	981	–	–	981	981
Total liabilities	**1,353**	**–**	**88,451**	**89,804**	**89,682**

1 Financial instruments included in the balance sheet under "Other long-term receivables," SEK 1,861 m.
2 Financial instruments included in the balance sheet under "Other current receivables," SEK 16,284 m.
3 Financial instruments included in the balance sheet under "Other non-current liabilities," SEK 5,066 m.
4 Financial instruments included in the balance sheet under "Other current liabilities," SEK 5,953 m.

Hedge accounting

During 2019 Scania has not applied hedge accounting.

Scania considers that it is hedged economically, and risk management follows the financial policy approved by the Board. For more detailed information on accounting of hedging instruments and hedged items, see Note 1, "Accounting principles."

Net gains/losses on financial instruments recognised in the income statement

The table below shows the following items that are recognised in the income statement:

- Gains and losses related to currency rate differences, including gains and losses attributable to cash flow hedge accounting.

Net gains/losses	2019	2018
Financial assets and liabilities carried at fair value	60	–324
Financial assets measured at amortised cost[1]	–861	1,444
Financial liabilities measured at amortised cost	900	–1,192
Total	**99**	**–72**

1 Also includes operating leases.

Gains and losses due to currency rate differences related to derivatives, loan receivables and borrowings mainly arise in Scania's treasury unit. Most of the loan receivables that give rise to currency rate differences comprise the treasury unit's receivables from Group companies.

Interest income and expenses on financial instruments

The table below shows interest income and interest expenses for all of Scania's financial assets and financial liabilities:

	2019	2018
Interest income on financial assets [1]	4,368	3,641
Interest expenses on financial liabilities [2,3]	–2,320	–1,826
Total	**2,048**	**1,815**

1 SEK 357 m. (241) consists of interest income generated from financial assets carried at fair value.
2 Also includes interest expenses related lease liabilities and interest expenses related to Financial Services that were recognised in the operating income.
3 SEK –1,376 m. (–843) consists of interest expenses generated from financial liabilities carried at fair value.

The reason why income diverges from recognised interest income in net financial items is largely that Financial Services is included in the table and that interest income and interest expenses attributable to pensions are excluded.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS, CONTINUED

NOTE 29 Shares and participations in subsidiaries

The following listing shows shareholdings owned directly and indirectly by the Parent Company as of 31 December 2019:

Company	Corporate ID no.	Registered office	Country	% Ownership
Vehicles and services				
DynaMate AB	556528-9286	Södertälje	Sweden	100
Fastighetsaktiebolaget Flygmotorn	556528-9112	Södertälje	Sweden	100
Fastighetsaktiebolaget Hjulnavet	556084-1198	Södertälje	Sweden	100
Fastighetsaktiebolaget Vindbron	556040-0938	Södertälje	Sweden	100
Kai Tak Holding AB	556548-4739	Södertälje	Sweden	100
LOTS Group AB	556593-3057	Södertälje	Sweden	100
MW-hallen Restaurang AB	556616-7747	Södertälje	Sweden	100
Mälardalens Tekniska Gymnasium AB	556548-4754	Södertälje	Sweden	80.00
Scania Bus Financing AB	556728-9433	Södertälje	Sweden	100
Scania CV AB	556084-0976	Södertälje	Sweden	100
Scania Delivery Center AB	556593-2976	Södertälje	Sweden	100
Scania Growth Capital AB	559090-6524	Södertälje	Sweden	90.10
Scania Industrial Maintenance AB	556070-4818	Södertälje	Sweden	100
Scania IT AB	556084-1206	Södertälje	Sweden	100
Scania Overseas AB	556593-2984	Södertälje	Sweden	100
Scania Real Estate Lund AB	556791-9823	Södertälje	Sweden	100
Scania Real Estate Services AB	556593-3024	Södertälje	Sweden	100
Scania Sales and Services AB	556593-3073	Södertälje	Sweden	100
Scania Sverige AB	556051-4621	Södertälje	Sweden	100
Scania Transportlaboratorium AB	556528-9294	Södertälje	Sweden	100
Scania Treasury AB	556528-9351	Södertälje	Sweden	100
Scania Trucks & Buses AB	556267-1585	Södertälje	Sweden	100
Sågverket 6 AB	556528-9062	Södertälje	Sweden	100
Vabis Försäkringsaktiebolag	516401-7856	Södertälje	Sweden	100
Vindbron Arendal AB	556822-2367	Södertälje	Sweden	100
TRATON AB	556528-9104	Södertälje	Sweden	100
Laxå Specialvehicles AB	556548-4705	Laxå	Sweden	90,10
Ferruform AB	556528-9120	Luleå	Sweden	100
CNC Factory AB	556387-4659	Värnamo	Sweden	100
Scania Argentina S.A.	30-51742430-3	Buenos Aires	Argentina	100
Scania Australia Pty Ltd.	000537333	Melbourne	Australia	100
Scania Real Estate Österreich GmbH	FN95419y	Brunn am Gebirge	Austria	100
Scania Österreich GmbH	FN366024x	Brunn am Gebirge	Austria	100
Scania Belgium N.V.	BE0402.607.507	Neder-Over-Heembeek	Belgium	100
Scania Real Estate Belgium N.V.	BE0423.251.481	Neder-Over-Heembeek	Belgium	100
Scania BH d.o.o., Sarajevo	4200363460007	Sarajevo	Bosnia-Herzegovina	100
Scania Botswana (Pty) Ltd.	CO.2000/6045	Gaborone	Botswana	100
Santa Catarina Veículos e Serviços Ltda.	22.416.982/0001-30	Biguaçu	Brazil	100
Scania Administradora de Consórcios Ltda.	96.479.258/0001-91	Cotia	Brazil	99.99
Suvesa Super Veics Pesados Ltda.	88.301.668/0001-10	Eldorado do Sul	Brazil	99.98
Codema Comercial e Importadora Ltda.	60.849.197/0001-60	Guarulhos	Brazil	99.98
LOTS Latin América Logística de Transportes Ltda.	29.094.173/0001-06	São Bernardo do Campo	Brazil	100
Scania Latin America Ltda.	59.104.901/0001-76	São Bernardo do Campo	Brazil	100
Scania Bulgaria EOOD	BG121796861	Sofia	Bulgaria	100
Scania Real Estate Bulgaria EOOD	BG201589120	Sofia	Bulgaria	100
Scania Chile S.A.	96.538.460-K	Santiago de Chile	Chile	100
Lots Logistics (Guangxi) Co.Ltd.	32956526-9	Beihai, Guangxi Province	China	100
Scania Sales (China) Co., Ltd.	110000450001661	Beijing	China	100
Scania Sales and Service (Guangzhou) Co., Ltd.	440101400126397	Guangzhou	China	100
Scania (Hong Kong) Ltd.	1205987	Hongkong	China	100
Scania Colombia S.A.S.	900.353.873-2	Bogotá	Colombia	100
Scania Hrvatska d.o.o.	080213913	Zagreb	Croatia	100
Scania Czech Republic s.r.o.	CZ61251186	Praha	Czech Republic	100
Scania Real Estate Czech Republic s.r.o.	24196746	Praha	Czech Republic	100
Scania Danmark A/S	DK17045210	Ishøj	Denmark	100
Scania Danmark Ejendom Aps	33156332	Ishøj	Denmark	100
Scania Eesti AS	10238872	Tallinn	Estonia	100
Scania Real Estate Finland Oy	2559582-1	Helsinki	Finland	100
Scania Real Estate Holding Oy	2566377-5	Helsinki	Finland	100
Scania Suomi Oy	0202014-4	Helsinki	Finland	100
SOE Busproduction Finland Oy	26121679	Lahti	Finland	100
Scania France S.A.S.	307166934	Angers	France	100
Scania Holding France S.A.S.	403092786	Angers	France	100
Scania IT France S.A.S.	412282626	Angers	France	100
Scania Production Angers S.A.S.	378442982	Angers	France	100
Scania Real Estate France S.A.S.	78961241300011	Angers	France	100
B. + V. Grundstücksverwertungs-GmbH & Co. KG	HRA 3377	Koblenz	Germany	100
B. + V. Grundstücks- Verwaltungs- und Verwertungs-GmbH	HRB 2277	Koblenz	Germany	100
Scania CV Deutschland Holding GmbH	HRB 6077	Koblenz	Germany	100
SCANIA DEUTSCHLAND GmbH	HRB 532	Koblenz	Germany	100

Company	Corporate ID no.	Registered office	Country	% Ownership
SCANIA Real Estate Deutschland GmbH	HRB 23796	Koblenz	Germany	100
SCANIA Real Estate Deutschland Holding GmbH	HRB 23798	Koblenz	Germany	100
SCANIA Vertrieb und Service GmbH	HRB 20490	Koblenz	Germany	100
Scania West Africa Ltd.	CS450862014	Accra	Ghana	100
Scania Great Britain Ltd.	831017	Milton Keynes	Great Britain	100
Scania Real Estate (UK) Ltd.	7648886	Milton Keynes	Great Britain	100
Griffin Automotive Ltd.	27922106	Road Town	Great Britain	100
Scania Hungaria Kft.	10415577	Biatorbágy	Hungary	100
Scania Real Estate Hungaria Kft.	13-09-159119	Biatorbágy	Hungary	100
Scania Commercial Vehicles India Pvt. Ltd.	U35999KA2011FTC05698	Bangalore	India	100
SST Sustainable Transport Solutions India Private Ltd	U74999MH2017PTC29098	Nagpur	India	99.99
PT Scania Parts Indonesia	AHU-09655.40.10.2014	Balikpapan	Indonesia	100
Italscania S.p.A.	11749110158	Trento	Italy	100
Scania Commerciale S.p.A.	IT 01184460226	Trento	Italy	100
Scania Milano S.p.A.	IT 02170120220	Trento	Italy	100
Scania Japan Ltd.	0104-01-083452	Tokyo	Japan	100
Scania Central Asia LLP	84931-1910-TOO	Almaty	Kazakhstan	100
Scania East Africa Ltd.	PO51426902Z	Nairobi	Kenya	100
Scania Real Estate Kenya Ltd.	PVT-XYUME96	Nairobi	Kenya	100
Scania Latvia SIA	50003118401	Riga	Latvia	100
UAB Scania Lietuva	123873025	Vilnius	Lithuania	100
Scania Luxembourg S.A.	B53.044	Münsbach	Luxembourg	100
Scania Real Estate Holding Luxembourg S.àr.l	B160795	Münsbach	Luxembourg	100
Scania Makedonija d.o.o.e.l	7027532	Ilinden	Macedonia	100
Scania (Malaysia) Sdn. Bhd.	518606-D	Shah Alam	Malaysia	100
Scania Comercial, S.A. de C.V.	SCO031124MF5	Queretaro	Mexico	100
Scania Servicios, S.A. de C.V.	SSE031124MF5	Queretaro	Mexico	100
Scania Maroc S.A.	06100472	Casablanca	Morocco	100
Scania Moçambique, S.A.	100453150	Beira	Mozambique	100
Scania Namibia (Pty) Ltd.	2004/438	Windhoek	Namibia	100
Scania New Zealand Limited	9429047066823	Wellington	New Zealand	100
Norsk Scania A/S	879263662	Oslo	Norway	100
Norsk Scania Eiendom A/S	996036545	Oslo	Norway	100
Scania del Perú S.A.	20101363008	Lima	Peru	100
Scania Polska S.A.	KRS0000091840	Nadarzyn	Poland	100
Scania Real Estate Polska Sp.z o.o.	435941	Nadarzyn	Poland	100
Scania Production Slupsk S.A.	KRS0000083601	Slupsk	Poland	100
Scania Power Polska Sp. z o.o.	517301	Warszawa	Poland	100
Scania Portugal S.A.	PT502929995	Santa Iria de Azóia	Portugal	100
Scania Investimentos Imobiliários S.A.	PT508948118	Vialonga	Portugal	100
Scania Real Estate Romania S.R.L.	J23/2019/29.07.2011	Ciorogârla	Romania	100
Scania Romania S.R.L.	J23/588/27.04.2004	Ciorogârla	Romania	100
OOO Scania Service	1035006456044	Golitsino	Russia	100
OOO Scania-Rus	1025004070079	Golitsino	Russia	100
OOO Scania Peter	1027804908372	St. Petersburg	Russia	100
Scania Senegal SUARL	SN.DKR.2018.B.25840	Dakar	Senegal	100
Scania Real Estate d.o.o. Beograd	20659874	Beograd	Serbia	100
Scania Srbija d.o.o.	17333321	Krnjesevci	Serbia	100
Scania Singapore Pte. Ltd.	200309593R	Singapore	Singapore	100
Scania Real Estate Slovakia s.r.o.	44767668	Senec	Slovakia	100
Scania Slovakia s.r.o.	35826649	Senec	Slovakia	100
Scania Slovenija d.o.o.	1124773	Ljubljana	Slovenia	100
Scania South Africa Pty Ltd.	1995/001275/07	Aeroton	South Africa	100
Scania Korea Group Ltd.	110111-5304681	Seoul	South Korea	100
Scania Hispania Holding S.L.	B82853938	San Fernando de Henares	Spain	100
Scania Hispania S.A.	A59596734	San Fernando de Henares	Spain	100
Scania Real Estate Hispania, S.L.U.	B36682003	San Fernando de Henares	Spain	100
Scania Schweiz AG	CH-020.3.926.624-8	Kloten	Switzerland	100
Scania Real Estate Schweiz AG	CH-020.3.035.714-4	Kloten	Switzerland	100
Scania Tanzania Ltd.	39320	Dar es Salaam	Tanzania	100
Power Vehicle Co. Ltd.	01055547132895	Bangkok	Thailand	100
Scan Siam Service Co. Ltd.	0105545023525	Bangkok	Thailand	100
Scania Siam Co Ltd.	0105543060121	Bangkok	Thailand	100
Scania Thailand Co Ltd.	0105534098031	Bangkok	Thailand	100
Scania Group (Thailand) Co., Ltd.	0115560001383	Smutprakarn	Thailand	100
Scania Manufacturing (Thailand) Co., Ltd.	0115560001375	Smutprakarn	Thailand	100
Scania Nederland B.V.	27136821	Breda	The Netherlands	100
Scania Real Estate The Netherlands B.V.	50687921	Breda	The Netherlands	100
Scania Production Meppel B.V.	05046846	Meppel	The Netherlands	100
Scania IT Nederland B.V.	05062402	Zwolle	The Netherlands	100
Scania Logistics Netherlands B.V.	56552793	Zwolle	The Netherlands	100

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS, CONTINUED

NOTE 29 Shares and participations in subsidiaries, continued

Company	Corporate ID no.	Registered office	Country	% Ownership
Scania Production Zwolle B.V.	05020370	Zwolle	The Netherlands	100
Scania Middle East FZE	150175	Dubai	The United Arab Emirates	100
TOV Kyiv-Scan	35706433	Kyiv	Ukraine	100
TOV Scania Ukraine	30107866	Kyiv	Ukraine	100
TOV Scania-Lviv	37497108	Lviv	Ukraine	100
TOV Donbas-Scan-Service	34516735	Makijivka	Ukraine	100
Scania USA Inc.	06-1288161	San Antonio/ TX	United States	100
Scania Holding Inc.	4019619	Wilmington	United States	100
Scanexpo International S.A.	21.490591.0012	Montevideo	Uruguay	100
Scania de Venezuela S.A.	J-30532829-3	Valencia	Venezuela	100
Financial Services				
Scania Credit AB	556062-7373	Södertälje	Sweden	100
Scania Finance Holding AB	556548-4697	Södertälje	Sweden	100
Scania Finans AB	556049-2570	Södertälje	Sweden	100
Scania Finance Australia Pty Ltd.	609637596	Melbourne	Australia	100
Scania Leasing Österreich GmbH	FN246699v	Brunn am Gebirge	Austria	100
Scania Österreich Holding GmbH	FN 316321 d	Brunn am Gebirge	Austria	100
Scania Finance Belgium N.V.	BE0413.545.048	Neder-Over-Heembeek	Belgium	100
Scania Banco Brasil S.A.	CNPJ11.417.016/00011	São Bernardo do Campo	Brazil	100
Scania Corretora de Seguros Ltda.	CNPJ11.513.179/00105	São Bernardo do Campo	Brazil	100
Scania Finance Bulgaria EOOD	BG175108126	Sofia	Bulgaria	100
Scania Finance Chile S.A.	76.574.810-0	Santiago de Chile	Chile	100
Scania Financial Leasing (China) Co Ltd.	41000002201903280018	Shanghai	China	100
Scania Finance Colombia S.A.S.	901197448	Bogotá	Colombia	100
Scania Credit Hrvatska d.o.o.	80516047	Lucko	Croatia	100
Scania Finance Czech Republic spol. s r.o.	CZ25657496	Prague	Czech Republic	100
Scania Finance France S.A.S.	350890661	Angers	France	100
Scania Location S.A.S.	402496442	Angers	France	100
Scania Finance Deutschland GmbH	HRB 3917	Koblenz	Germany	100
Scania Versicherungsvermittlung GmbH	HRB 22831	Koblenz	Germany	100
Scania Finance Great Britain Ltd.	2173954	London	Great Britain	100
Scania Finance Magyarország Zrt.	13-10-040959	Biatorbágy	Hungary	100
Scania Lízing Kft.	13-09-107823	Biatorbágy	Hungary	100
Scania Finance Ireland Ltd.	482137	Dublin	Ireland	100
Scania Finance Italy S.p.A.	03333020158	Milano	Italy	100
Scania Finance Luxembourg S.A.	B0082907	Münsbach	Luxembourg	100
Scania Credit (Malaysia) Sdn. Bhd.	1011611-H	Shah Alam	Malaysia	100
Scania Finance New Zealand Limited	7857037	Auckland	New Zealand	100
Scania Services del Perú S.A.	20392923277	Lima	Peru	100
Scania Finance Polska Sp.z.o.o.	0000036594	Stara Wies	Poland	100
Scania Insurance Polska Sp.z o.o.	0000478529	Stara Wies	Poland	100
Scanrent – Alguer de Viaturas sem Condutor, S.A.	502631910	Santa Iria de Azóia	Portugal	100
Scania Credit Romania IFN S.A.	J23/1818/2005	Ciorogârla	Romania	100
Scania Regional Agent de Asigurare S.R.L.	J23/534/2011	Ciorogârla	Romania	100
Scania Rent Romania S.R.L.	J23/1669/2008	Ciorogârla	Romania	100
OOO Scania Finance	1045005504774	Moscow	Russia	100
OOO Scania Leasing	1027700203970	Moscow	Russia	100
OOO Scania Strachovanie	1127747003097	Moscow	Russia	100
Scania Leasing RS d.o.o.	21401625	Krnjesevci	Serbia	100
Scania Credit Singapore Pte. Ltd.	201816765C	Singapore	Singapore	100
Scania Finance Slovak Republic s.r.o.	43874746	Senec	Slovakia	100
Scania Leasing d.o.o.	356417700	Ljubljana	Slovenia	100
Scania Credit Solutions Pty Ltd.	2009/016998/07	Aeroton, Gauteng	South Africa	100
Scania Finance Southern Africa (Pty) Ltd.	2000/025215/07	Aeroton, Guateng	South Africa	100
Scania Finance Korea Ltd.	195411-0007994	Chung-Ang	South Korea	100
Scania Commercial Vehicles Renting S.A.	A82853995	San Fernando de Henares	Spain	100
Scania Finance Hispania EFC S.A.	A82853987	San Fernando de Henares	Spain	100
Scania Finance Schweiz AG	CH-020.3.029.627-6	Kloten	Switzerland	100
Scania Credit Taiwan Ltd.	54330725	Taipeh	Taiwan	100
Scania Siam Leasing Co. Ltd.	0105550082925	Bangkok	Thailand	100
Scania Finance Nederland B.V.	3446773	Breda	The Netherlands	100
Scania Insurance Nederland B.V.	1745773	Middelharnis	The Netherlands	100
TOV Scania Credit Ukraine	33052443	Kyiv	Ukraine	100

Dormant companies are not included.

PARENT COMPANY FINANCIAL STATEMENTS, SCANIA AB

Income statement

January – December, SEK m.	Note	2019	2018
Administrative expenses		0	0
Operating income		0	0
Financial income and expenses		0	13,853
Income after financial items		0	13,853
Income before taxes		0	13,853
Taxes		–	–
Net income		**0**	**13,853**

Statement of other comprehensive income

January – December, SEK m.	2019	2018
Net income	0	13,853
Other comprehensive income	–	–
Total comprehensive income	**0**	**13,853**

Balance sheet

31 December, SEK m.	Note	2019	2018
Assets			
Financial non-current assets			
Shares in subsidiaries	1	8,435	8,435
Current assets			
Due from subsidiaries	2	6,201	11,068
Total assets		**14,636**	**19,503**
Shareholders´ equity	3		
Restricted equity			
Share capital		2,000	2,000
Statutory reserve		1,120	1,120
Unrestricted shareholders' equity			
Retained earnings		11,516	2,530
Net income		0	13,853
Total shareholders' equity		**14,636**	**19,503**
Current liabilities			
Interest-bearing liabilities		0	0
Total equity and liabilities		**14,636**	**19,503**

Statement of changes in equity

	Restricted equity			
2019 (SEK m.)	Share capital	Statutory reserve	Unrestricted shareholders' equity	Total
Equity, 1 January	2,000	1,120	16,383	19,503
Total comprehensive income for the year				
Capital contribution			9,744	9,744
Dividend			–14,611	–14,611
Equity, 31 December 2019	**2,000**	**1,120**	**11,516**	**14,636**

	Restricted equity			
2018 (SEK m.)	Share capital	Statutory reserve	Unrestricted shareholders' equity	Total
Equity, 1 January	2,000	1,120	6,882	10,002
Total comprehensive income for the year			13,853	13,853
Dividend			–4,352	–4,352
Equity, 31 December 2018	**2,000**	**1,120**	**16,383**	**19,503**

Cash flow statement

January – December, SEK m.	Note	2019	2018
Operating activities			
Income after financial items	4	0	13,853
Items not affecting cash flow		–	–
Taxes paid		–	–
Cash flow from operating activities before change in working capital		**0**	**13,853**
Cash flow from change in working capital			
Receivable subsidiaries		4,867	–9,501
Total change in working capital		4,867	–9,501
Cash flow from operating activities		**4,867**	**4,352**
Investing activities			
Shareholders' contribution paid		–	–
Cash flow from investing activities		–	–
Total cash flow before financing activities		**–**	**4,352**
Financing activities			
Dividend paid		–4,867	–4,352
Cash flow from financing activities		**–4,867**	**–4,352**
Cash flow for the year		**0**	**0**
Cash and cash equivalents, 1 January		**0**	**0**
Cash and cash equivalents, 31 December		**0**	**0**

NOTES TO THE PARENT COMPANY FINANCIAL STATEMENTS

Amounts in the tables are reported in millions of Swedish kronor (SEK m.), unless otherwise stated. A presentation of the Parent Company's accounting principles is found in Note 1 to the consolidated financial statements. Taking into account that the operations of the Parent Company consists exclusively of share ownership in Group companies, aside from the notes below, the Scania Group's Report of the Directors and notes otherwise apply where appropriate.

NOTE 1 Shares in subsidiaries

			Carrying amount	
Subsidiary / Corporate ID number / registered office	Ownership, %	Thousands of shares	2019	2018
Scania CV AB, 556084-0976, Södertälje	100.0	1,000	8,435	8,435
Total			**8,435**	**8,435**

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

NOTE 2 Due from subsidiaries

	2019	2018
Current interest-bearing receivable from Scania CV AB	6,201	11,068
Total	**6,201**	**11,068**

The receivables are in SEK, so there is no currency risk.

NOTE 3 Equity

For changes in equity, see the equity report.

Under Swedish law, **equity** shall be allocated between non-distributable (restricted) and distributable (unrestricted) funds.

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

NOTE 4 Cash flow statement

Interest received was SEK 0 m. (0).

NOTE 5 Contingent liabilities

	2019	2018
Loan guarantees on behalf of borrowings in Scania CV AB	81,580	61,013
Total	**81,580**	**61,013**

NOTE 6 Salaries and remuneration to Board of Directors, executive officers and auditors

The Board of Directors, the President and CEO of Scania AB and the other executive officers hold identical positions in Scania CV AB. Wages, salaries and other remuneration are paid by Scania CV AB. The reader is therefore referred to the notes to the consolidated financial statements: Note 23, "Wages, salaries and other remuneration and number of employees" and Note 25, "Compensation to executive officers." Compensation of SEK 10,000 (10,000) was paid to auditors with respect to the Parent Company.

NOTE 7 Transactions with related parties

Scania AB is a subsidiary of TRATON SE, corporate ID number HRB 241814 registered office in Munich and MAN SE RE SHB RE NTGS, corporate ID number HRB 179426 registered office in Munich.

The consolidated Annual Report of Scania's foreign parent company is available on the website www.volkswagen.com.

Transactions with related parties consist of dividends paid to TRATON SE and MAN SE. Dividends decided in 2019 amounted to SEK 12,660 m. (3,771) to TRATON SE and SEK 1,951 m. (581) to MAN SE.

PROPOSED DISTRIBUTION OF EARNINGS

The Board of Directors proposes to the 2020 Annual General Meeting that an amount of SEK 6,192 m. as ordinary dividend, which represents 50 percent of the net income SEK 12,384 m. for 2019, to be distributed to the shareholders as cash dividend.

Amounts in SEK m.	
Retained earnings	11,516
Net income for the year	0
Other comprehensive income for the year	–
Total	**11,516**

Shall be distributed as follows:	
To the shareholders, a dividend of SEK m.	6,192
To be carried forward	5,324
Total	**11,516**

After implementing the proposed distribution of earnings, the equity of the Parent Company, Scania AB, is as follows:

Amounts in SEK m.	
Share capital	2,000
Statutory reserve	1,120
Retained earnings	5,324
Total	**8,444**

The undersigned certify that the consolidated accounts and the annual accounts have been prepared in accordance with International Financial Reporting Standards (IFRSs), as adopted for use in the European Union, and generally accepted accounting principles respectively, and give a true and fair view of the financial positions and results of the Group and the Parent Company, and that the Report of the Directors for the Group and the Parent Company gives a true and fair review of the development of the operations, financial positions and results of the Group and the Parent Company and describes substantial risks and uncertainties faced by the companies in the Group. The annual accounts and the consolidated financial statements were approved for issuance by the Board of Directors on 12 March 2020. The consolidated income statement and balance sheet and the Parent Company income statement and balance sheet will be subject to adoption by the Annual General Meeting on 13 May 2020.

Södertälje, 12 March 2020

Andreas Renschler
Chairman of the Board

Henrik Henriksson
Board member
President and CEO

Lilian Fossum Biner
Board member

Nina Macpherson
Board member

Stephanie Porsche-Schröder
Board member

Christian Schulz
Board member

Peter Wallenberg Jr
Board member

Lisa Lorentzon
Board member
Employee representative

Michael Lyngsie
Board member
Employee representative

Our Audit Report was submitted on 20 March 2020

PricewaterhouseCoopers AB

Bo Karlsson
Authorised Public Accountant
Auditor-in-charge

Björn Irle
Authorised Public Accountant

AUDITOR'S REPORT

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

Report on the annual accounts and consolidated accounts

Opinions

We have audited the annual accounts and consolidated accounts of Scania AB (publ) for the 2019. The annual accounts and consolidated accounts of the company are included on pages 40–121 in this document.

In our opinion, the annual accounts have been prepared in accordance with the Annual Accounts Act and present fairly, in all material respects, the financial position of parent company as of 31 December 2019 and its financial performance and cash flow for the year then ended in accordance with the Annual Accounts Act. The consolidated accounts have been prepared in accordance with the Annual Accounts Act and present fairly, in all material respects, the financial position of the group as of 31 December 2019 and their financial performance and cash flow for the year then ended in accordance with International Financial Reporting Standards (IFRS), as adopted by the EU, and the Annual Accounts Act. The statutory administration report is consistent with the other parts of the annual accounts and consolidated accounts.

We therefore recommend that the general meeting of shareholders adopts the income statement and balance sheet for the parent company and the group.

Basis for Opinions

We conducted our audit in accordance with International Standards on Auditing (ISA) and generally accepted auditing standards in Sweden. Our responsibilities under those standards are further described in the Auditor's Responsibilities section. We are independent of the parent company and the group in accordance with professional ethics for accountants in Sweden and have otherwise fulfilled our ethical responsibilities in accordance with these requirements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinions.

Our audit approach

Audit scope

We designed our audit by determining materiality and assessing the risks of material misstatement in the consolidated financial statements. In particular, we considered where management made subjective judgements; for example, in respect of significant accounting estimates that involved making assumptions and considering future events that are inherently uncertain. As in all of our audits, we also addressed the risk of management override of internal controls, including among other matters consideration of whether there was evidence of bias that represented a risk of material misstatement due to fraud.

We tailored the scope of our audit in order to perform sufficient work to enable us to provide an opinion on the consolidated financial statements as a whole, taking into account the structure of the Group, the accounting processes and controls, and the industry in which the group operates.

A significant part of the group's activity take place in Scania CV AB (publ) where a major part of the group's manufacturing of vehicles and research and development is carried out. The operating entities in the group can be classified into manufacturing units, sales units, finance companies and intragroup support functions. Manufacturing and development is performed in few entities. For remaining manufacturing units audit procedures are performed by local auditors according to instructions issued by us. Sales and finance companies represent a significant part of the number of units in the group spread over a number of countries. In our audit, we have focused on those reporting units that have the largest impact on the financial reporting. For these units, the local audit is performed according to our instructions. All these entities represent some seventy percent of the external sales. Remaining units are manly smaller sales units and support functions.

Materiality

The scope of our audit was influenced by our application of materiality. An audit is designed to obtain reasonable assurance whether the financial statements are free from material misstatement. Misstatements may arise due to fraud or error. They are considered material if individually or in aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of the consolidated financial statements.

Based on our professional judgement, we determined certain quantitative thresholds for materiality, including the overall group materiality for the consolidated financial statements as a whole. These, together with qualitative considerations, helped us to determine the scope of our audit and the nature, timing and extent of our audit procedures and to evaluate the effect of misstatements, both individually and in aggregate on the financial statements as a whole.

Key audit matters

Key audit matters of the audit are those matters that, in our professional judgment, were of most significance in our audit of the annual accounts and consolidated accounts of the current period. These matters were addressed in the context of our audit of, and in forming our opinion thereon, the annual accounts and consolidated accounts as a whole, but we do not provide a separate opinion on these matters. The key audit matters presented below relate to the consolidated accounts. The provision for obligations regarding the alleged breaches of competition law according to the investigations by the EU commission also affect the parent company.

Key audit matter	How our audit addressed the Key audit matter
Provision for obligations regarding alleged breaches of competition law according to investigation by the EU Commission As described in note 2 and note 17 to the financial statements, Scania is involved in an alleged breaches of competition law in form of a cartel on price coordination and a vast information exchange according to investigation by the EU Commission. The Commission's investigation has proceeded for several years. A provision of SEK 3,8 billion is recognized for the risk for future penalties. In September 2017, the Commission finally passed a decision holding Scania liable for the alleged breaches of the competition law. The fines imposed total 880 m EUR. Scania did not agree to the decision and in December 2017, Scania appealed the decision to the EU Court of Justice. Scania has provided a cash collateral bank guarantee for the period prior to relevant court has come to a conclusion. No significant events affecting legal status has occurred in 2019. The investigation and the case itself is complex and the valuation of the commitment depends on management's assessment of the outcome of the ongoing dispute.	Scania's management and board of directors have been highly involved in the handling of the ongoing investigation. In our audit, we assess how these matters are treated on management and board level through reading through supporting documentation and calculations. To asses this kind of legal disputes is complicated and require us to involve experts within relevant areas to assist us in our assessment of the financial application aspects of the matters. In our audit we have requested and received written representations from Scania's legal advisors about the development of the investigation by the EU Commission. These representations have been received each quarter during 2019. Since Scania is a subsidiary in the VW-group we have also reported and discussed the matter with the parent company's auditors. As described in the annual report, Scania has recognized a significant provision. In our audit, we have renewed our examination of the size of the provision. We note that, although the ongoing investigation by the EU Commission has been treated reasonably in the accounting records there is a remaining inherent uncertainty that the final outcome can deviate significantly for management's judgment. Further, as stated in note 2, it is not possible to quantify the risk of related civil law claims against Scania.
Revenue recognition for vehicles delivered with residual value commitment and allocation or revenue for service contracts The accounting principles for revenue is described in note 1 to the annual report. For vehicles delivered with residual value commitments, revenue is recognized over the contracted time for the commitment since the residual value risk rests within Scania. For service and repair contrast, revenue is recognized in line with the costs involved to fulfil the commitment occur. In both cases there is a risk that revenue is recognised in the incorrect period over the contracted period.	Recognition of revenue in the right period for vehicles with residual value commitment and for service and repair contracts is accounted for in the sales entities. In their accounting manual Scania has developed instructions and models for how to recognise revenue over time for these transactions with customers. From the Group audit team we have assessed whether the accounting models are in line with applicable IFRS. In our instructions to the component auditors, we have disclosed the accounting principles and models used by Scania and instructed them to confirm that the local components adhere to the accounting principles selected by Scania and that this has been covered in their audit. Although the accounting model is commonly used throughout the group, estimates used in the calculation are based on local circumstances in different markets. These estimates are assessed by the local audit teams. In connection with the reporting from the local auditors we have discussions with them in order to understand audit procedures performed on the matter.

AUDITOR'S REPORT, CONTINUED

Other Information than the annual accounts and consolidated accounts
This document also contains other information than the annual accounts and consolidated accounts and is found on pages 1–39 and 126-131. The Board of Directors and the Managing Director are responsible for this other information.

Our opinion on the annual accounts and consolidated accounts does not cover this other information and we do not express any form of assurance conclusion regarding this other information.

In connection with our audit of the annual accounts and consolidated accounts, our responsibility is to read the information identified above and consider whether the information is materially inconsistent with the annual accounts and consolidated accounts. In this procedure we also take into account our knowledge otherwise obtained in the audit and assess whether the information otherwise appears to be materially misstated.

If we, based on the work performed concerning this information, conclude that there is a material misstatement of this other information, we are required to report that fact. We have nothing to report in this regard.

Responsibilities of the Board of Directors and the Managing Director
The Board of Directors and the Managing Director are responsible for the preparation of the annual accounts and consolidated accounts and that they give a fair presentation in accordance with the Annual Accounts Act and, concerning the consolidated accounts, in accordance with IFRS as adopted by the EU. The Board of Directors and the Managing Director are also responsible for such internal control as they determine is necessary to enable the preparation of annual accounts and consolidated accounts that are free from material misstatement, whether due to fraud or error.

In preparing the annual accounts and consolidated accounts, The Board of Directors and the Managing Director are responsible for the assessment of the company's and the group's ability to continue as a going concern. They disclose, as applicable, matters related to going concern and using the going concern basis of accounting. The going concern basis of accounting is however not applied if the Board of Directors and the Managing Director intends to liquidate the company, to cease operations, or has no realistic alternative but to do so.

The audit committee shall, without prejudice to the Board of Director's responsibilities and tasks in general, among other things oversee the company's financial reporting process.

Auditor's responsibility
Our objectives are to obtain reasonable assurance about whether the annual accounts and consolidated accounts as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinions. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with ISAs and generally accepted auditing standards in Sweden will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these annual accounts and consolidated accounts.

A further description of our responsibility for the audit of the annual accounts and consolidated accounts is available on Revisorsinspektionen's website: www.revisorsinspektionen.se/revisornsansvar. This description is part of the auditor´s report.

Report on other legal and regulatory requirements

Opinions
In addition to our audit of the annual accounts and consolidated accounts, we have also audited the administration of the Board of Directors and the Managing Director of Scania AB (publ) for the year 2019 and the proposed appropriations of the company's profit or loss.

We recommend to the general meeting of shareholders that the profit be appropriated in accordance with the proposal in the statutory administration report and that the members of the Board of Directors and the Managing Director be discharged from liability for the financial year.

Basis for Opinions
We conducted the audit in accordance with generally accepted auditing standards in Sweden. Our responsibilities under those standards are further described in the Auditor's Responsibilities section. We are independent of the parent company and the group in accordance with professional ethics for accountants in Sweden and have otherwise fulfilled our ethical responsibilities in accordance with these requirements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinions.

Responsibilities of the Board of Directors and the Managing Director

The Board of Directors is responsible for the proposal for appropriations of the company's profit or loss. At the proposal of a dividend, this includes an assessment of whether the dividend is justifiable considering the requirements which the company's and the group's type of operations, size and risks place on the size of the parent company's and the group's equity, consolidation requirements, liquidity and position in general.

The Board of Directors is responsible for the company's organization and the administration of the company's affairs. This includes among other things continuous assessment of the company's and the group's financial situation and ensuring that the company's organization is designed so that the accounting, management of assets and the company's financial affairs otherwise are controlled in a reassuring manner. The Managing Director shall manage the ongoing administration according to the Board of Directors' guidelines and instructions and among other matters take measures that are necessary to fulfill the company's accounting in accordance with law and handle the management of assets in a reassuring manner.

Auditor's responsibility

Our objective concerning the audit of the administration, and thereby our opinion about discharge from liability, is to obtain audit evidence to assess with a reasonable degree of assurance whether any member of the Board of Directors or the Managing Director in any material respect:

- has undertaken any action or been guilty of any omission which can give rise to liability to the company, or
- in any other way has acted in contravention of the Companies Act, the Annual Accounts Act or the Articles of Association.

Our objective concerning the audit of the proposed appropriations of the company's profit or loss, and thereby our opinion about this, is to assess with reasonable degree of assurance whether the proposal is in accordance with the Companies Act.

Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with generally accepted auditing standards in Sweden will always detect actions or omissions that can give rise to liability to the company, or that the proposed appropriations of the company's profit or loss are not in accordance with the Companies Act.

A further description of our responsibility for the audit of the administration is available on Revisorsinspektionen's website: www.revisorsinspektionen.se/revisornsansvar. This description is part of the auditor´s report.

Göteborg 20 March 2020

PricewaterhouseCoopers AB

Bo Karlsson Authorised Public Accountant Auditor-in-charge	Björn Irle Authorised Public Accountant

KEY FINANCIAL RATIOS AND FIGURES

Scania presents certain performance measures that are used to explain relevant trends and performance of the Group, of which not all are defined under IFRS. As these performance measures are not uniformly defined by all companies, these are not always comparable with the measures used by other companies. These performance measures should therefore not be viewed as substitutes for IFRS-defined measures. The following are the performance measures used by Scania that are not defined under IFRS, unless otherwise stated.

	2019	2018	2017	2016	2015	2014	2013	2012	2011	2010
Scania Group										
Operating margin, % [3]	11.5	10.1	10.1	6.1	10.2	9.5	9.7	10.4	14.1	16.3
– excl. items affecting comparability [2, 3]	11.5	10.1	10.1	9.7	10.2	9.5	9.7	10.4	14.1	16.3
Equity/assets ratio, %	25.5	27.1	28.3	26.0	26.8	31.4	31.2	30.6	31.1	30.2
Net debt, excl. provisions for pensions, SEK m. [1, 4]	75,799	63,351	51,581	49,788	42,183	35,780	34,696	31,591	28,213	24,606
Net debt/equity ratio [1, 4]	1.24	1.17	1.03	1.18	1.11	0.86	0.93	0.90	0.82	0.82
Vehicles and Services										
Operating margin, % [3]	10.8	9.3	9.3	5.2	9.1	8.4	8.9	9.7	13.5	16.1
– excl. items affecting comparability [2, 3]	10.8	9.3	9.3	8.8	9.1	8.4	8.9	9.7	13.5	16.1
Capital turnover rate, times	2.24	2.44	2.45	2.31	1.99	2.18	2.15	2.02	2.47	2.35
– excl. items affecting comparability [2]	2.11	2.28	2.28	2.21	1.99	2.18	2.15	2.02	2.47	2.35
Return on capital employed, % [3]	25.4	24.1	24.4	14.0	19.3	19.9	20.9	21.4	35.9	39.1
– excl. items affecting comparability [2, 3]	24.0	22.6	22.7	21.4	19.3	19.9	20.9	21.4	35.9	39.1
Return on operating capital, % [3]	33.2	31.3	32.5	15.6	25.6	24.5	26.0	27.1	44.3	48.7
– excl. items affecting comparability [2, 3]	30.8	28.6	29.3	25.2	25.6	24.5	26.0	27.1	44.3	48.7
Net debt, excl. provisions for pensions, SEK m. [1, 4]	–17.057	–16,926	–17,058	–10,954	–7,579	–12,139	–8,019	–8,026	–8,834	–6,575
Net debt/equity ratio [1, 4]	–0.32	–0.34	–0.29	–0.31	–0.24	–0.35	–0.25	–0.27	–0.29	–0.25
Financial Services										
Operating margin, %	1.6	1.7	1.8	1.6	1.9	1.9	1.5	1.4	1.3	0.5
Equity/assets ratio, %	9.4	8.9	9.0	9.0	9.8	11.5	10.4	10.3	10.3	11.1

1 Net debt (+) and net cash position (–).
2 Adjusted for the provision of SEK 3,800 m. recognised in 2016 relating to the EU investigation, see Note 2.
3 2017 years figures has been adjusted as a result of the changes in income statement made in 2018.
4 2018 years figures has been adjusted as a result of the changes due to alignment with Volkswagen regarding presentation of cash flow 2019.

Scania Group

Net debt, excluding provision for pensions [4]	2019	2018
Assets		
Current investments	814	1,612
Cash and cash equivalents	20,981	7,222
Borrowing Volkswagen Group	8	6
Accrued interest current investments	–2	–4
	21,801	**8,836**
Liabilities		
Interest-bearing liabilities, non-current	54,008	42,950
Interest-bearing liabilities, current	43,979	29,922
Accrued interest, Interest-bearing liabilities	–387	–685
	97,600	**72,187**
Net debt	**75,799**	**63,351**

Vehicles and Services

Net debt, excluding provision for pensions [4]	2019	2018
Assets		
Current investments	1,795	10,247
Cash and cash equivalents	20,358	6,683
Accrued interest current investment	–6	–4
	22,147	16,926
Liabilities		
Interest-bearing liabilities, non-current	4,014	–
Interest-bearing liabilities, current	1,076	–
	5,090	–
Net debt	**–17,057**	**–16,926**

Capital Employed [2]	2019	2018
Total assets	148,900	130,592
– other non-current provisions + current provisions [2]	6,425	6,200
– other liabilities	74,243	67,112
– net derivatives	–1,556	–1,176
Capital Employed	**69,788**	**58,456**

Operating Capital [2]	2019	2018
Total assets	148,900	130,592
Cash and Cash equivalents	17,850	15,102
Operating liabilities		
– other non-current provisions + current provisions [2]	6,425	6,200
– other liabilities	74,243	67,112
– net derivatives	–1,556	–1,176
Operating Capital [2]	**51,938**	**43,354**

Return on Capital Employed [2]	2019	2018
Operating income [2]	15,977	12,392
Financial income	754	797
Capital employed [2]	69,788	58,456
Return on Capital Employed [2]	**24.0**	**22.6**

Capital turnover	2019	2018
Net sales	147,557	133,222
Capital employed [2]	69,788	58,456
Capital turnover	**2.11**	**2.28**

Return on operating capital [2]	2019	2018
Operating income [2]	15,977	12,392
Operating capital [2]	51,938	43,354
Return on operating capital [2]	**30.8**	**28.6**

Financial Services

Operating margin	2019	2018
Operating income	1,511	1,440
Average portfolio	96,474	83,097
Operating margin	**1.6%**	**1.7%**

Equity/asset ratio %	2019	2018
Equity	10,138	8,360
Assets	107,830	93,824
Equity/asset ratio %	**9.4%**	**8.9%**

DEFINITIONS

Operating margin
Operating income as a percentage of net sales.

Net margin
Net profit for the year as a percentage of net sales.

Equity/assets ratio
Total equity as a percentage of total assets on each respective balance sheet date.

Net debt, net cash excluding provision for pensions
Current and non-current interest borrowings (excluding pension liabilities) less cash and cash equivalents, current investments and non-current intra-group loans to Volkswagen entities.

Net debt/equity ratio
Net debt, net cash as a percentage of total equity.

Capital employed
Total assets minus operating liabilities.[1]

Operating capital
Total assets minus cash, cash equivalents and operating liabilities.[1]

Capital turnover
Net sales divided by capital employed.[1]

Return on capital employed
Operating income plus financial income as a percentage of capital employed.[1]

Return on operating capital
Operating income as a percentage of operating capital.[1]

Operating margin, Financial Services
Operating income as a percentage of average portfolio.

1 Calculations are based on average capital employed and operating capital for the 13 most recent months.

Geographic areas

Europe: Albania, Austria, Belgium, Bosnia-Herzegovina, Bulgaria, Croatia, Cyprus, the Czech Republic, Denmark, Estonia, Finland, France, Germany, Great Britain, Greece, Hungary, Iceland, Ireland, Italy, Latvia, Lithuania, Luxembourg, Macedonia, Malta, The Netherlands, Norway, Poland, Portugal, Romania, Serbia, Slovakia, Slovenia, Spain, Sweden, Switzerland.

Eurasia: Armenia, Azerbaijan, Belarus, Georgia, Kazakhstan, Russia, Ukraine.

Asia: Bahrain, Bangladesh, Bhutan, Brunei, China, Hong Kong, India, Indonesia, Iran, Iraq, Israel, Japan, Jordan, Lebanon, Malaysia, Mongolia, Myanmar, Oman, Pakistan, Philippines, Qatar, Saudi Arabia, Singapore, South Korea, Sri Lanka, Syria, Taiwan, Thailand, Turkey, the United Arab Emirates, Vietnam, Yemen.

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

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


SCANIA

MULTI-YEAR STATISTICAL REVIEW

SEK m. unless otherwise stated	2019	2018	2017	2016	2015	2014	2013	2012	2011	2010
Delivery value by market area										
Europe	105,404	91,583	78,869	73,363	65,100	53,211	46,712	43,490	47,747	41,533
Eurasia	8,162	9,003	7,081	3,291	2,623	5,319	6,047	5,966	6,084	2,413
America [1]	22,267	17,357	14,348	10,746	11,799	17,648	23,552	18,391	20,912	21,725
Asia	12,813	14,922	16,708	13,187	13,044	12,155	7,758	7,853	10,182	9,035
Africa and Oceania	10,872	9,854	8,927	8,358	7,991	6,952	5,925	5,796	5,360	5,403
Adjustment for lease income [2]	–7,099	–5,593	–2,567	–5,018	–5,660	–3,234	–3,146	–1,894	–2,599	–1,941
Total	**152,419**	**137,126**	**123,366**	**103,927**	**94,897**	**92,051**	**86,847**	**79,603**	**87,686**	**78,168**
Operating income										
Vehicles and Services	15,977	12,392	11,160	5,309	8,601	7,705	7,736	7,694	11,881	12,575
– adjusted for items affecting comparability [5]	15,977	12,392	11,160	9,109	8,601	7,705	7,736	7,694	11,881	12,575
Financial Services	1,511	1,440	1,274	1,015	1,040	1,016	719	606	517	171
Total	**17,488**	**13,832**	**12,434**	**6,324**	**9,641**	**8,721**	**8,455**	**8,300**	**12,398**	**12,746**
Operating margin, %										
Vehicles and Services	10.8	9.3	9.3	5.2	9.1	8.4	8.9	9.7	13.5	16.1
– adjusted for items affecting comparability [5]	10.8	9.3	9.3	8.8	9.1	8.4	8.9	9.7	13.5	16.1
Total [3]	**11.5**	**10.1**	**10.1**	**6.1**	**10.2**	**9.5**	**9.7**	**10.4**	**14.1**	**16.3**
Net financial items	–1,012	–513	–352	–361	–532	–399	–47	–19	214	–213
Net income	12,384	9,734	8,705	3,243	6,753	6,009	6,194	6,640	9,422	9,103
– adjusted for items affecting comparability [5]	12,384	9,734	8,705	7,043	6,753	6,009	6,194	6,640	9,422	9,103
Specification of research and development expenses										
Expenditures	–7,244	–7,603	–6,682	–7,199	–7,043	–6,401	–5,854	–5,312	–4,658	–3,688
Capitalisation	1,788	1,996	1,367	1,682	1,863	1,454	1,123	860	387	351
Amortisation	–706	–728	–454	–387	–393	–357	–293	–229	–169	–168
Research and development expenses	**–6,162**	**–6,334**	**–5,769**	**–5,904**	**–5,573**	**–5,304**	**–5,024**	**–4,681**	**–4,440**	**–3,505**
Net investments through acquisitions/divestments of businesses	0	–2	32	0	125	154	26	–25	–44	56
Net investments in non-current assets	7,558	7,177	5,905	7,864	7,612	5,561	5,294	4,480	3,776	2,753
Portfolio, Financial Services operations	103,781	89,166	77,028	67,935	56,486	55,556	48,863	45,038	42,235	36,137
Cash flow, Vehicles and Services	10,994	3,718	5,696	3,427	4,376	4,690	3,231	3,025	6,970	11,880
Inventory turnover rate, times [4]	5.2	5.2	5.4	5.4	5.3	5.4	5.8	5.4	6.1	6.4

1 Refers mainly to Latin America.

2 The adjustment amount consists of the difference between sales value based on delivery and revenue recognised as income. This difference arises when a lease or delivery is combined with a residual value guarantee or a repurchase obligation. Significant risks remain, therefore recognition is based on an operating lease contract. This means that recognition of revenue and earnings is allocated based on the term of the obligation. See also Note 3.

3 Includes Financial Services.

4 Calculated as net sales divided by average inventory.

5 Adjusted for the provision of SEK 3,800 m. recognised in 2016 relating to the EU investigation, see Note 2.

	2019	2018	2017	2016	2015	2014	2013	2012	2011	2010
Number of vehicles produced										
Trucks	89,276	92,679	87,454	75,452	72,382	75,287	75,957	60,647	75,349	60,963
Buses	7,719	8,696	8,327	8,488	6,964	6,921	6,897	6,283	8,708	6,700
Total	**96,995**	**101,375**	**95,781**	**83,940**	**79,346**	**82,208**	**82,854**	**66,930**	**84,057**	**67,663**
Number of trucks delivered by market area										
Europe	58,851	52,016	48,436	49,102	43,082	34,008	32,625	27,720	31,443	23,315
Eurasia	5,763	8,006	6,748	3,233	2,583	5,964	6,260	6,798	7,445	2,369
America	14,905	12,725	9,701	7,022	8,118	16,150	23,756	15,391	17,632	18,056
Asia	7,703	10,464	13,175	9,287	11,514	12,889	7,400	8,089	12,485	10,179
Africa and Oceania	4,458	4,784	4,412	4,449	4,465	4,004	3,570	3,053	3,115	2,918
Total	**91,680**	**87,995**	**82,472**	**73,093**	**69,762**	**73,015**	**73,611**	**61,051**	**72,120**	**56,837**
Number of buses and coaches delivered by market area										
Europe	2,099	2,212	2,009	2,094	1,917	1,361	1,000	1,312	1,916	1,760
Eurasia	109	344	365	62	94	105	850	198	84	82
America [6]	3,422	2,805	2,302	2,350	2,123	2,542	2,778	2,738	3,272	2,104
Asia	1,062	2,058	2,821	2,568	1,806	1,620	1,388	1,304	2,065	2,120
Africa and Oceania	1,085	1,063	808	1,179	859	1,139	837	798	651	809
Total	**7,777**	**8,482**	**8,305**	**8,253**	**6,799**	**6,767**	**6,853**	**6,350**	**7,988**	**6,875**
Total number of vehicles delivered	**99,457**	**96,477**	**90,777**	**81,346**	**76,561**	**79,782**	**80,464**	**67,401**	**80,108**	**63,712**
Number of industrial and marine engines delivered by market area										
Europe	4,150	5,968	3,938	3,272	2,664	2,823	2,719	3,664	3,450	2,634
America	2,874	2,667	1,368	1,727	3,180	3,176	2,925	2,582	2,809	3,281
Other markets	3,128	4,174	3,215	2,801	2,641	2,288	1,139	817	701	611
Total	**10,152**	**12,809**	**8,521**	**7,800**	**8,485**	**8,287**	**6,783**	**7,063**	**6,960**	**6,526**
Total market for heavy trucks and buses, units										
Europe (EU28) [7]										
Trucks	323,357	322,276	303,909	302,527	265,769	223,187	237,325	221,188	241,200	178,100
Buses	34,393	30,632	29,728	29,141	27,928	24,815	22,962	21,813	25,200	25,400
Number of employees December 31 [8]										
Production and corporate units	25,224	27,176	24,298	21,736	20,453	19,304	19,069	17,663	17,489	17,006
Research and development	4,651	4,293	3,908	3,900	3,801	3,671	3,596	3,509	3,327	2,930
Sales and service companies	20,345	19,688	20,166	19,718	19,331	18,395	17,549	16,734	16,038	14,987
Total Vehicles and Services	**50,220**	**51,157**	**48,372**	**45,354**	**43,585**	**41,370**	**40,214**	**37,906**	**36,854**	**34,923**
Financial Services companies	**1,058**	**993**	**891**	**889**	**824**	**759**	**739**	**691**	**642**	**591**
Total	**51,278**	**52,150**	**49,263**	**46,243**	**44,409**	**42,129**	**40,953**	**38,597**	**37,496**	**35,514**

6 Refers to Latin America.
7 Twenty-seven of the European Union member countries (all EU countries except Malta plus Norway and Switzerland).
8 Including employees with temporary contracts and employees on hire.

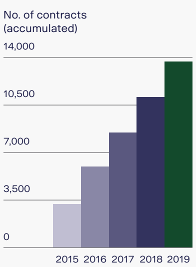
SUSTAINABILITY KPIs

To be able to continuously improve, we measure and follow up on our performance. To facilitate tracking, 18 sustainability KPI's have been developed.

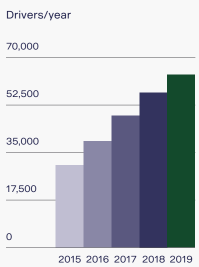
Sustainable transport

Energy efficiency

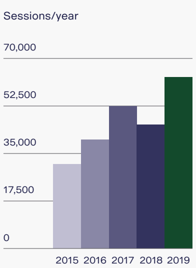
Energy efficiency is at the core of our business independent of which fuel that is used. Fuel consumption is the number one factor for buying a truck or a bus today. Hence, we work relentlessly on improving the efficiency of our vehicles, the sales of our Ecolution programme, the number of drivers who take part in our coaching and trainings, resulting in emission reduction and safer driving, and the amount of Scania Flexible Maintenance contracts that improves the resource efficiency at the workshops and gives the customer fewer standstills.



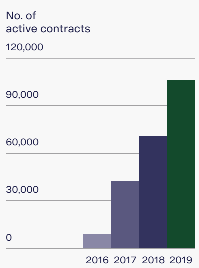
Scania Ecolution[1]
In 2019, we have continued the focus on Scania Ecolution contracts through for example incorporation in incentive programmes and an expansion to new markets resulting in a continued increase of Ecolution.



Driver Training
In 2019, the growth of driver training continued with 63,618 drivers being trained. Our customers really understand the importance of the drivers performance and the continued growth shows the benefit and appreciation for Scania Driver Training.



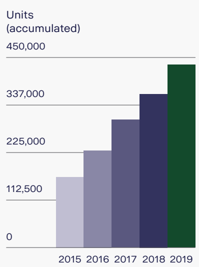
Driver Coaching
After the drop in 2018, that was due to the change to coach drivers based more on individual deviation analysis than on a regular, predefined pattern, we are again growing the number of coaching sessions.



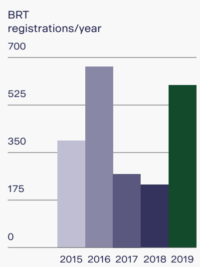
Scania Flexible Maintenance
In 2019, the target for Scania Flexible maintenance was 100,000 active contracts which was achieved already in November. In 2019, we ended the year with 106,322 active contracts.

Smart and safe transport

Smart and safe transport is dependent on digitalisation technologies to achieve the most efficient transport solutions for cities, industries or logistics. Since 2011, all Scania vehicles are equipped with the Scania Communicator computer as standard. The Communicator collects and analyses data in order for us to provide our customers, and in turn their customers, with ideas and solutions on how to improve efficiency in the transport value chain. Bus Rapid Transit systems (BRT) is an example of a transport system that positively contributes to economic and social development while being an environmentally smart solution to issues such as congestion or pollution in cities.



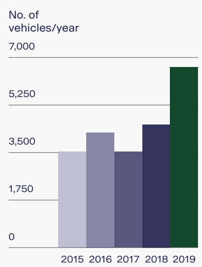
Connectivity
Even if the year started slow due to adjustment to the GDPR regulations that came into force in late 2018, we ended the year with a strong growth on connected vehicles.



BRT bus registrations[2]
In 2019, 598 new Scania buses was registered in BRT systems globally. The target for 2020 is to register 750.

Renewable fuels and electrification

In order to phase out the use of fossil fuels, renewable fuels can play a much bigger role than we see today. We are proud to provide the largest variety of vehicles for alternative to diesel on the market; additionally all Scania vehicles can run on HVO. The supply of biogas remains a challenge for the transport sector. Until this is resolved, natural gas will continue to play a role in the transition. Electrification is growing fast; as of today Scania offers solutions including hybrid buses and trucks as well as battery-powered electric buses.



Sales of alternative fuels and electrification[3]
In 2019, we managed to continue to grow the sales numbers of vehicles that can run on alternatives to diesel and landed on 6,631 vehicles which amounts to 6.6 percent of total sales. More than 40 percent of our bus sales now are alternatives to diesel.

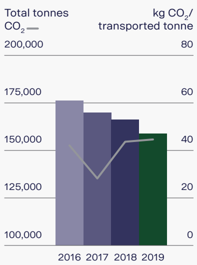
Responsible business

Environmental footprint

Proactively reducing our environmental footprint by being resource and energy-efficient is central to Scania's daily operations. Our efforts are based on the precautionary principle and the lifecycle perspective aiming to contribute to a circular economy. Our core value 'elimination of waste' guides us in our work to continuously improve our processes in areas such as CO_2 emissions, energy, waste and water. We have set two strong CO_2 reduction targets that apply to the whole company, both of which are in line with what science tells us is necessary to curb global warming.

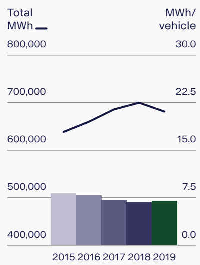
By 2025, Scania aims to achieve a 50 percent CO_2 reduction in both our industrial and commercial operations compared to 2015, and a 50 percent reduction in CO_2 emissions from our land transport per transported tonne with 2016 as a baseline. We are certified according to ISO 14001 and continuously improve the environmental performance of our products, processes and services.

More environmental indicators can be found on: www.scania.com/environmental-measures



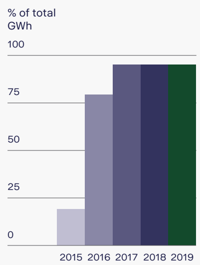
CO_2 emissions from land transport[4]
The emission level per transported tonne continued to decline during 2019, due to active work with efficiency improving measures making us on track for our 2025 target. Total emissions went up due to increased demand from production. More measures including non-land transport is reported online.

Target
50%
reduction in CO_2 emissions from land transport per transported tonne between 2016 and 2025.



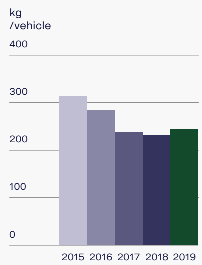
Energy consumption from industrial facilities[5]
During 2019, energy consumption has decreased on a total level and is stable per produced vehicle.

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



Fossil-free electricity purchased and internally generated[6]
In 2019, Scania continued to purchase fossil-free electricity, with more than 95 percent coming from fossil-free sources. During 2020 our last production facilities will join in, running their operations on fossil-free electricity.

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



Waste material that is not recycled[7]
During 2019, the level of waste that is not recycled has increased somewhat per produced vehicle due to a decrease in produced vehicles. Total waste levels are kept on a similar level as last year.

Target
25%
reduction of waste per produced vehicle, that is not recycled in our industrial operations between 2015 and 2020.

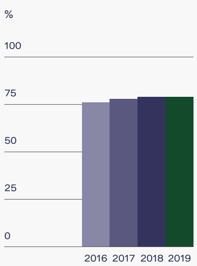
1 All Ecolution contracts are connected to the production year of the specific vehicle. In 2018, we opened up to also sell Ecolution contracts to rolling fleet and not only new vehicles. This has affected the numbers of accumulated Ecolution contracts for previous years.
2 Number of registered Scania buses in BRT systems globally. The bus is part of a complete connected public transport system with regularity, average speed and total passenger capacity in focus. Since buses for BRT operations usually are sold in big business deals involving public procurement and city authorities, the numbers can fluctuate from year to year.
3 Number of invoiced products (trucks and buses) with gas, ethanol (ED95), FAME preparation and hybrids. Until 2018 we also reported on the usage of HVO in this KPI. However starting in 2018 we recalculated previous years and excluded HVO to get more credibility in the data. In this KPI we include all vehicles with a gas engine as we cannot measure what the customer is running on. Our gas engines can run on both biogas and natural gas.
4 Total emissions of CO_2 equivalents in kg from Scania's land transport/transported tonne. Included transport are road, short sea and train transport of production material to our factories, our packaging network, transport of vehicles to the first address according to INCOTERM (International commercial terms) and transport of spare parts to our workshops. For 2019, quarter 4 data for the spare parts flow in Europe is estimated due to missing input from carriers.
5 This section covers the use of various energy sources in all Scania premises, including leased or rented within production and logistics excluding Regional product centres, including fuel consumed for engine testing.
6 Fossil-free electricity purchased and internally generated. Share of GWh for Scania CV's industrial operations in Scania Europe and Scania Latin America, without commercial operations, and without India. Target concerns markets where there is a deregulated electricity market and availability of non-fossil alternatives in the grid.
7 This KPI covers the sum of waste sent for energy recovery and waste sent for landfill divided by the total number of units produced. The scope includes the units within production and logistics excluding Regional product centres.

SUSTAINABILITY KPIs, CONTINUED

Responsible business (continued)

Diversity and inclusion

At Scania, we know that we need to have a diverse organisation in terms of gender, age, background and experience. The right mix of skills and perspectives, in combination with a working environment built on trust and inclusion, is a prerequisite for Scania to continue taking the lead in sustainable transport. Our Skill Capture programme is designed to broaden the scope of diversity to address all the ways that we are diverse; gender and cultural diversity as well as personality and experience as well as looking at how we can improve our inclusiveness. It is a programme that covers all levels of the organisation and has been developed to cover the full circle – from initial awareness, to action, continuing with recurring check-ins to further continue the journey towards a fully diverse and inclusive company. Diversity and inclusion at Scania is about continuously developing our corporate culture, forming our strategy in the area by using the collective intelligence of the Scania organisation.

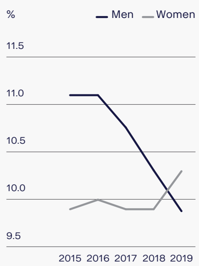


Diversity and inclusion index[8]
In 2019, we increased the number of countries participating in measuring the index from 5 to 43. Despite the substantial increase in both number of countries and participants we manage to stay on a high level.

Target

>85%

on the related questions in the Employee Satisfaction Barometer.



Gender equal opportunities[9]
In 2019, we see a shift where women take the lead in equal opportunities to become a manager. We believe this shows that our work with Skill Capture and diversity and inclusion with a broader approach has led to increased awareness of, and an increased focus on, equal opportunities in our operations globally.

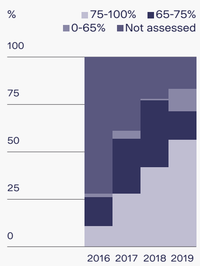
Target

EQUAL

opportunities to become managers for men and women.

Human and labour rights

Pursuing high standards in the area of human and labour rights is central at Scania. Scania works to manage its impacts and support people throughout our value chain, from our own employees to our suppliers, customers and communities. We are actively developing our company-wide approach to human rights risk and human rights due diligence. Scania also believes that good relations and social dialogue improve the work environment as well as company performance. Scania's European Committee is our highest labour relations forum, where we continuously inform and consult with our employee representatives globally. Scania has also participated in the creation and launch of the Global Deal, a high-level partnership with countries, organisations and businesses, working towards the achievement of the Agenda 2030 with a focus on decent work and reduced inequalities. Further on, we publish a slavery and human trafficking statement that applies to our global operations. We know that some of the biggest risks when it comes to human and labour rights are in our supply chain. We therefore insist that our suppliers meet the highest standards and act in full accordance with our policies and guidelines concerning human and labour rights. By conducting sustainability trainings for our suppliers we make sure that they continuously improve in the area.

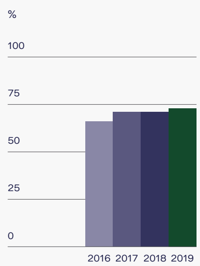


Sustainability risk assessed suppliers[10]
During 2019, Scania managed to increase the number of suppliers in the highest score category to 57 percent. The number of not assessed suppliers is now down to 17 percent. Both new and existing suppliers have been assessed. Suppliers are assessed in the areas of: social sustainability, business conduct and compliance, environmental sustainability, supplier management and conflict minerals.

Target

100%

of our suppliers are in the highest score category.



Collective bargaining agreements[11]
We continuously work to ensure our employees' right and possibility to engage in dialogue with the company, as well as good working conditions. One way of measuring this is the percentage of employees covered by collective bargaining agreement. For 2019 this landed on 73 percent.

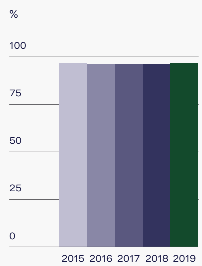
Target

100%

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

Health and safety

As a natural part of a sustainable society and the vision of becoming the leader in sustainable transport, the safety and health of all Scania employees are top priority. Our goal is to preserve and promote the safety, health and well-being at work for our employees. All work within this area is executed and aligned with existing principles and our core values. Scania strives to achieve a sustainable workplace and a good working environment from both psychosocial and physical aspects and commits to comply with any demands in accordance with legal and other applicable requirements issued by national authorities and by Scania self-appointed targets within the area. On our journey to become and remain a top employer with top employees, all our activities shall be based on the principle *"By creating good working conditions all injuries and ill health can be prevented"*.

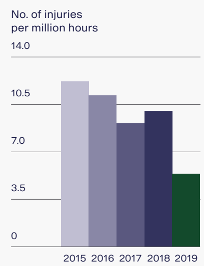


Healthy attendance[12]
Through a dedicated management team, engagement among our employees and a systematic way of working we continuously improve our performance and create good health for our employees. The global healthy attendance have increased during 2019 and is on 96.5 percent, keeping us close to our target.

Target

97%

healthy attendance.



Occupational accidents with sick-leave[13]
With dedication from our managers, engagement among our employees and a systematic way of working with deviations, risks but also possibilities, we have continuously improved our performance and are closing in on our target.

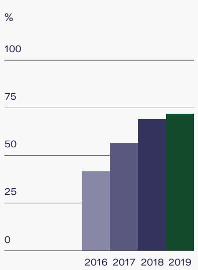
Target

5

accidents per million worked hours.

Business ethics

Scania has zero tolerance for corruption and adheres to high ethical standards wherever we operate in the world. The Scania Code of Conduct lays down the overarching framework and provides guidance for how employees are expected to act. More detailed rules regarding business ethics and compliance topics are set out in a number of Scania Group Policies, which are applicable in all Scania entities globally. These policies cover topics such as donation and sponsoring, benefits to and from counterparties, prohibition of facilitation payments, anti money-laundering, competition law, avoidance of conflicts of interest and due diligence of sales intermediaries. Scania Group Compliance, a dedicated central compliance function with regional and local reach, is responsible for the Code of Conduct as well as relevant Group policies and provides both classroom and online trainings. In order to offer the Scania organisation world-wide comprehensive support within business ethics, Group Compliance works closely with Scania's sustainability department, also covering human rights topics. Another core part of Scania's business ethics efforts is the whistleblowing system. There are several dedicated whistleblowing channels available to report suspected ethical violations conducted by Scania employees, and procedures in place to conduct internal investigations. The whistle blower programme and our independent internal audit played crucial roles in the revelation and decision to institute measures against selected managers for irregularities associated with sales in the Indian market. This was one of the reasons that Scania in 2018 decided to terminate sales of public transport buses in the Indian market.



Business ethics training[14]
During 2019, over 35,000 employees globally, corresponding to 72 percent of our employees, received training in business ethics. Among these almost 15,000 received classroom training.

Target

100%

of our employees are trained in business ethics.

8 Perception of Scania's diversity and inclusion climate from Barometer-survey: The KPI is a weighed result of three questions from Scania's annual barometer survey concerning the employees' perception of the diversity and inclusion climate at their workplace. The result is covering 43 countries where Scania have operations.

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

10 Risk assessment of direct material suppliers globally from Self assessment questionnaire (SAQ). Possible score: highest, 75-100 percent, medium, 65-75 percent, lowest score 0-65 percent. The threshold for highest and medium scores was changed to a higher level in 2019 to align with Volkswagen.

11 Percentage of employees covered by central or local collective bargaining agreement.

12 Hours of attendance relative to defined total working hours for Scania's global industrial operations.

13 Total number of work related accidents with sick-leave relative to 1 million working hours for global industrial operations and corporate units.

14 Business ethics training covers both online and classroom training in the area of business ethics and Scania's code of conduct.

SUSTAINABILITY REPORT INDEX

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

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

www.scania.com/gri-index

Materiality assessment
Scania's materiality analysis is part of the company's commitment to continuous improvement. Understanding our stakeholder's view on our industry and us as a company allows Scania to focus on the areas that matter and improve our cooperation. It also helps us to tailor our responses and supports us in getting our priorities right, as well as informing us on our reporting. The results of this year's exercise show that our focus areas are in line with our stakeholders' expectations. For a description of our materiality analysis see:

www.scania.com/materiality

Sustainability report in accordance with the Swedish Annual Accounts Act

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

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

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

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

The auditor's report on the statutory sustainability report

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

Assignment and responsibilities

The Board of Directors is responsible that the statutory sustainability report on page 136 has been prepared in accordance with the Annual Accounts Act.

The focus and scope of the review

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

Opinion

A statutory sustainability report has been prepared.

Göteborg 20 March 2020
PricewaterhouseCoopers AB

Bo Karlsson
Authorised Public Accountant
Auditor-in-charge

Björn Irle
Authorised Public Accountant

FINANCIAL INFORMATION

Financial information

On Scania Group's website, www.scania.com, it is easy to follow the company's performance during the year. The website provides truck registration statistics, key financial ratios and more.

You also may subscribe to financial reports and press releases via e-mail.

www.scania.com/subscribe-financial-reports

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ABOUT THIS REPORT

This report summarises the financial year 2019 as well as providing an overview of Scania's business and operations and is prepared in accordance to the Global Reporting Initiative (GRI) guidelines for sustainability reporting. All of Scania's business units, subsidiaries and production units worldwide are included in its scope.

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

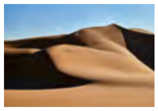
This is the English language version of Scania's integrated Annual and Sustainability Report. The Swedish language Report is the binding version that shall prevail in case of discrepancies.

The Financial Reports encompass pages 58–120 and were prepared in compliance with International Financial Reporting Standards (IFRSs). The Report of the Directors encompasses pages 40–57 and 121.

The Report of the Directors and accompanying Financial Reports also fulfil the requirements of the Swedish Annual Accounts Act and have been audited by Scania's auditors.

Scania Swedish corporate identity number: Scania AB (publ) 556184-8564.

Unless otherwise stated, all comparisons in the Annual and Sustainability Report refer to the same period of the preceding year.



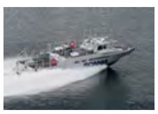


















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