ANNUAL REPORT SCANIA 1997

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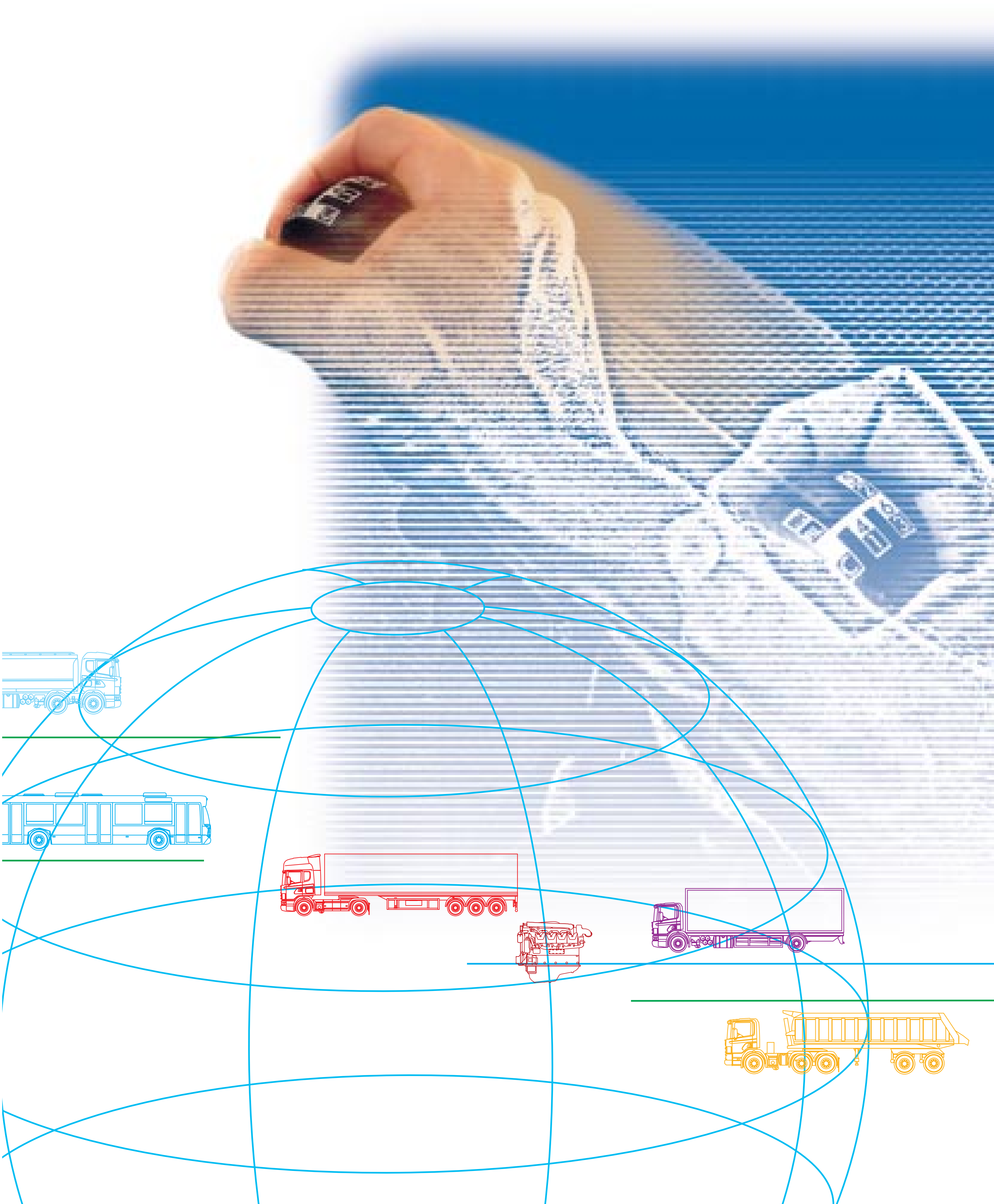

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The Report of the Directors encompasses pages 1–49. Numbers in brackets after 1997 figures refer to the corresponding 1996 figures.

Annual General Meeting

The Annual General Meeting of Shareholders (AGM) will be held at 5.30 pm on Wednesday, 22 April 1998 at Scaniarinken, Södertälje, Sweden.

Participation

Shareholders who wish to participate in the AGM must:

be recorded in the share register list maintained by Värdepapperscentralen, VPC AB (the Swedish Securities Register Centre) no later than Thursday, 9 April 1998, and also

register with the company by written notice to Scania AB, SE-151 87 Södertälje, Sweden, or by telephone at +46 8 55 38 30 52 or by fax at +46 8 55 38 34 01 no later than 4 pm on Friday, 17 April 1998 that they intend to participate in the AGM. When doing so, shareholders shall state their name, address and telephone number. If a shareholder is participating on the basis of a proxy, the proxy must be submitted to the company in good time before the AGM.

Nominee shares

To be entitled to participate in the AGM, shareholders whose shares have been registered in the name of a nominee through the trust department of a bank or brokerage house must temporarily register their shares in their own name with VPC. Shareholders who wish to re-register their shares in this way must inform their nominees to this effect well before 9 April 1998.

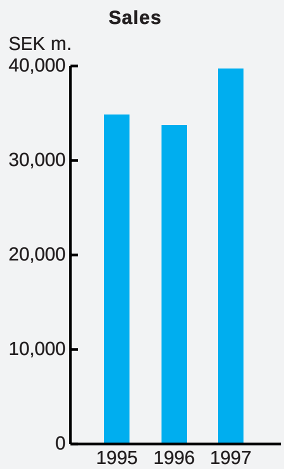
Dividend

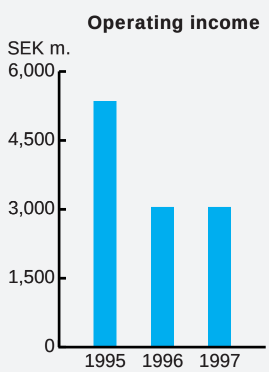
The Board of Directors proposes Monday, 27 April 1998 as the record date for the 1997 dividend. The last day for trading shares that include this dividend is Wednesday, 22 April 1997. Provided that the AGM approves this proposal, the dividend will be paid on Tuesday, 5 May 1998.

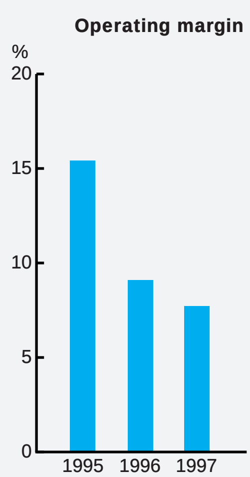
Information from Scania

In addition to the Annual Report, the following informational material may be ordered from Scania AB, S-151 87 Södertälje, Sweden. It may also be ordered by telephone at +46 8 55 38 10 00 or by fax at +46 8 55 38 55 59 or be downloaded from http://www.scania.com

Year-End Report, January–December 1997	
Interim Report, January–March	22 April 1998
Interim Report, January–June	3 August 1998
Interim Report, January–September	26 October 1998







HIGHLIGHTS

	1997	1996	1995
Sales, units			
Trucks	**42,392**	39,028	40,467
Buses	**4,584**	3,963	4,170
Total	**46,976**	42,991	44,637
Sales, SEK m.			
Scania products	**35,087**	29,954	31,716
Svenska Volkswagen products	**4,632**	3,776	3,124
Total	**39,719**	33,730	34,840
Operating income, SEK m.			
Scania products	**2,789**	2,842	5,109
Svenska Volkswagen products	**258**	215	243
Total	**3,047**	3,057	5,352
Operating margin, %			
Scania products	**7.9**	9.5	16.1
Svenska Volkswagen products	**5.6**	5.7	7.8
Total	**7.7**	9.1	15.4
Income after financial items, SEK m.	**2,751**	2,706	4,847
Net income, SEK m.	**1,985**	1,981	3,280
Earnings per share, SEK	**9.90**	9.90	16.40
Earnings per share according to U.S.GAAP, SEK	**11.10**	10.30	15.75
Return, %			
on shareholders' equity	**20.9**	23.1	60.1
on capital employed	**13.2**	16.2	31.0
on capital employed excluding customer finance operations	**16.3**	19.4	36.4
Debt/equity ratio	**0.70**	0.65	0.75
Equity/assets ratio, %	**26.8**	27.7	28.2
Capital expenditures for property, plant and equipment, SEK m.	**2,566**	2,579	2,182
Research and development expenses, SEK m.	**1,169**	1,084	923
Number of employees at year-end	**23,763**	22,206	23,024

SCANIA TODAY

Scania is one of the world's leading manufacturers of trucks and buses. It is the fourth largest heavy truck make in the world market and the third largest in Europe. Scania is also the fourth largest bus make in the world.

Scania has been manufacturing heavy vehicles for nearly a century. Today the company can offer its customers an overall commitment that, aside from the vehicle, may include everything from parts to a fixed price per kilometre. Scania is entering the 21st century with a new generation of trucks and buses, the 4-series.

Scania shares are quoted on the Stockholm Stock Exchange and on the New York Stock Exchange.

Scania worldwide

Scania is represented in about 100 countries through 1,000 distribution points and 1,500 service workshops. During 1997, the largest markets for Scania trucks were Brazil, Great Britain, Germany, France and the Netherlands, and for buses Brazil, Egypt and Spain.

Scania was founded in 1891. The company built its first truck in 1902 and its first bus in 1911.

The company has production facilities in eight European and Latin American countries: Sweden, Denmark, France, the Netherlands, Poland, Brazil, Argentina and Mexico. In addition, there are assembly plants in about a dozen more countries.

At the close of 1997, Scania had about 23,800 employees worldwide.

Research and development work is concentrated in Sweden.

Scania's products

Scania manufactures trucks with a gross vehicle weight of more than 16 tonnes (Class 8), designed for long-distance haulage, regional and local distribution of goods and construction haulage.

The Scania bus and coach range consists of fully built city and inter-city buses as well as bus chassis for more than 30 passengers, intended for use in urban and inter-city traffic or as tourist coaches.

Scania's industrial and marine engines are used as power sources in generator sets, earthmoving and agricultural machinery as well as aboard ships and pleasure craft.

Scania and Volkswagen each own 50 percent of Svenska Volkswagen AB, which is the Swedish importer for Volkswagen, Audi, Seat, Skoda and Porsche.

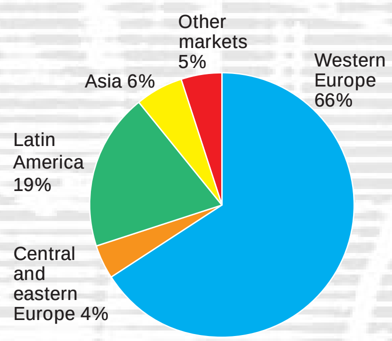
Scania's strengths

Scania vehicles can be tailored to each customer. These vehicles have a long service life and low operating costs, thereby creating Scania's position as a high-quality make. Scania's success is based on:

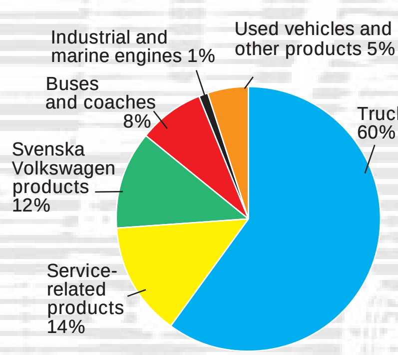
- Its concentration on heavy vehicles designed for the transport of goods and passengers
- A modular product system and a global production system
- Maintenance and repairs, parts and various services as an integral element of operations
- A focus on growth markets

Scania is represented in about 100 countries. Its production plants are located in eight countries in Europe and Latin America. Research and development work is concentrated in Sweden.

Sales by market area, 1997
Scania products



Sales by product category, 1997



STATEMENT OF THE CHAIRMAN

Scania's overall goal is to provide optimal solutions to demanding customers around the world in the heavy transport segment. Over time, the company's concentration on the heavy vehicle segment has proved very successful.

Scania is undergoing a process of change and development. The company is gradually broadening its focus by increasing its emphasis on the service portion of the total package it offers its customers. During 1997, Scania launched an aggressive investment programme to improve its marketing organisation. Today the company's product and production-related investments of recent years are drawing to a close, now that the 4-series range is being launched in Latin America. This makes Scania the first heavy vehicle manufacturer in the world with the same product range in all markets.

Europe – Scania's most important market

In Europe, which accounts for some 70 percent of company sales, the process of establishing the European Union's single market has been completed. Meanwhile, the planned introduction of the new Euro currency has had an increasing effect on national economies. Within the EU, the transport market has been deregulated. This has intensified competition in national markets that at one time were essentially protected in terms of pricing.

The deregulated single market is laying the groundwork for the emergence of large transnational haulage enterprises. Since the core business of these enterprises is based on professional know-how in the fields of transport and logistics, many of them prefer to delegate the transport equipment aspect of their work to companies that specialise in the manufacture, maintenance and management of vehicles. This opens up greater opportunities for Scania to broaden its operations in a market with an overall value many times larger than new vehicle sales.

Scania's marketing investments must be viewed in light of this potential. The strategy is thoroughly tested and Scania has successfully implemented it in Europe's first deregulated transport market, Great Britain.

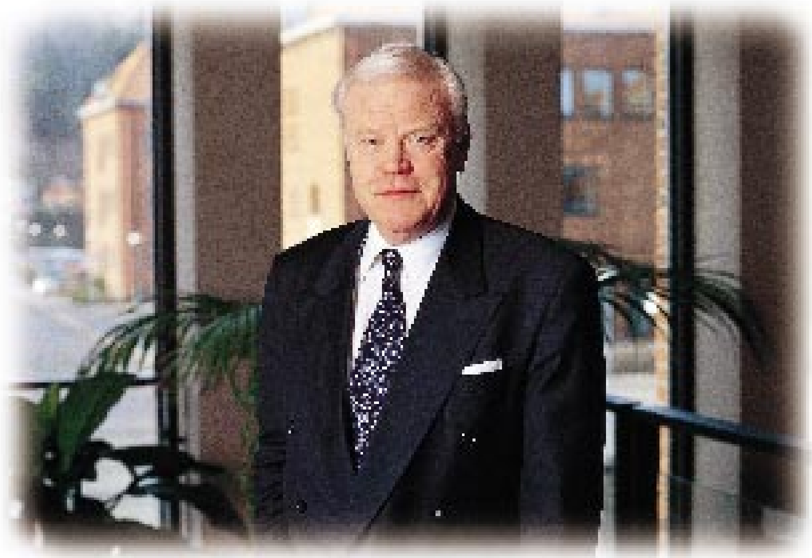
EMU harmonisation offers new challenges

Today a gradual harmonisation of prices is under way in the future European Economic and Monetary Union (EMU) currency zone. This means that Scania and all other Swedish exporters that do a large part of their business in Europe must adapt to a situation where the opportunities to benefit from fluctuations between currencies and price differentials in national markets are disappearing.

In light of this, Scania's continued efforts to improve and broaden its business operations are more vital than ever. Given a fixed currency, there will be no easy victories in the prevailing fierce competition. The advent of the Euro will compel every company to work hard to improve its productivity and control its costs in order to stay abreast of the competition and continue growing. With the advantages provided by Scania's new production system and product range, the company has good prospects of success in this situation.

Growth in central and eastern Europe

Scania has devoted substantial energy to the rapid developments in central and eastern Europe. Economic growth is surging in the former East bloc, including Russia, as the market economy takes hold and as countries establish firm legal ground rules for the business sector. It is important to join this dynamic process at an early stage to ensure highly profitable business operations in



Anders Scharp

this part of Europe a few years down the road. During 1997, the Board of Directors therefore decided to step up Scania's capital spending in central and eastern Europe.

Scania strong in Latin America

In Latin America, which represents about one fifth of Scania's business, many countries have experienced rapid economic growth. Although the financial crisis in Asia has also temporarily affected Latin American markets they are shaped primarily by a strong underlying positive growth dynamic.

The Mercosur free trade area, while still at a very early stage compared to the European single market, is a driving force behind the emergence of a stronger market economy and democracy. The transition from high- to low-inflation economies has stabilised the development process. There is now substantial and growing trade among countries in Latin America. Scania's position in Latin America is strong.

Financial instability in South East Asia

During the second half of 1997, financial instability became increasingly pronounced in South East Asia. So far, this has only had a marginal effect on Scania, since no more than about six percent of the company's sales volume originates in Asia. Late in 1997, most countries in the region were experiencing a substantial slowdown in economic activity.

The economic crisis in South East Asia is triggering reforms that, in the long term, will result in sounder, more stable economies. A number of countries now seem to be evolving towards a more traditional market economy, characterised by diversity and competition on equal terms. Looking ahead a few years, there is good reason to count on a return to stable growth.

Long-range perspective necessary

Compared to other companies in its industry, Scania has a high profitability. Despite this, the company has not lived up to the earnings expectations of the stock market. But I would like to underscore the importance of having a long-term perspective when assessing enterprises like Scania. The company operates in an industry characterised by ten year business cycles and fifteen year product life cycles. Scania's performance should be judged in this perspective.

In light of this, the Board of Directors has decided to propose that the Annual General Meeting approve a dividend of SEK 5.50 per share for 1997.

Well aware that 1997 was a challenging and demanding year for everyone working at Scania, my fellow directors and I would like to express our sincere gratitude to the president and to all employees worldwide for their efforts to make Scania even better equipped to meet the demands of the future.

Anders Scharp
Chairman

SCANIA SHARE DATA

Scania's share capital is distributed among 100 million A shares and 100 million B shares.

Each A share represents one vote and each B share one tenth of a vote. Otherwise there are no differences between the two types of shares. The nominal (par) value per share is SEK 10.

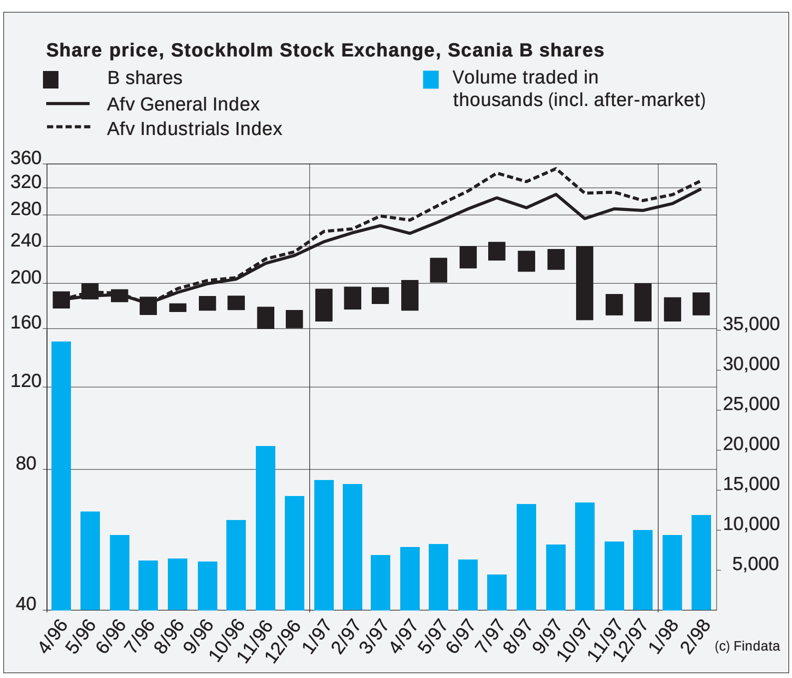
Since 1 April 1996, both types of Scania shares – Series A and Series B – have been quoted on the Stockholm Stock Exchange (SSE) and the New York Stock Exchange (NYSE). On the NYSE, Scania shares are traded in the form of American Depositary Receipts (ADRs). Scania shares are also traded on the London Stock Exchange Automated Quotations system for non-UK equities (SEAQ International).

Share trading during 1997

Scania B shares – the more heavily traded of its two series – rose by five percent during 1997, while Swedish industrials rose by an average of 30 precent and the SSE General Index by 24 percent. At year-end, B shares were quoted at a market value of SEK 179 apiece. This was equivalent to a total market capitalisation of SEK 35,650 m., compared to SEK 34,050 m. at the beginning of 1997.

One way of measuring the fluctuations of a specific share in relation to an entire stock exchange is its beta value. According to calculations by the SSE, the beta value of Scania shares was 0.91 at year end 1997. This means that Scania shares fluctuated nine percent less than the average share on the Exchange.

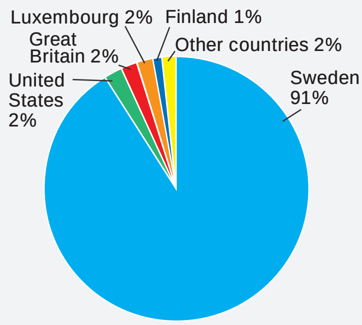
On average, about 480,000 shares changed hands each trading day in Stockholm, for a turnover rate of 60 percent, compared to 66 percent on the SSE as a whole. In NewYork, an average of about 4,900 ADRs were traded per day. At year-end there were 1,720,460 ADRs outstanding, compared to 2,792,000 at the beginning of 1997.



Ownership structure

At the end of 1997, Scania had approximately 45,000 shareholders, down by 6,000 since the beginning of the year. The ten largest shareholder groups accounted for 72 percent of voting power and 71 percent of share capital at year-end. The National Pension Insurance Fund, Fourth Fund Board increased its holding in Scania during the year and is now among the ten largest shareholders. The Nordbanken mutual funds, the pension insurance company SPP and the mutual funds managed by Skandinaviska Enskilda Banken (S-E-B) also increased their holdings, while Fidelity mutual funds, Trygg-Hansa insurance company and the Svenska Handelsbanken mutual funds reduced their holdings. Ownership by non-Swedish investors fell from 16 percent of Scania's share capital to 9 percent during 1997. The largest decline occurred among investors registered in the United States, with a drop from 6.6 percent to 2.1 percent of share capital during 1997. Investors registered in Great Britain reduced their holdings from 5.2 percent to 1.9 percent, while

Geographic distribution of shareholders, by share capital 1997



those registered in Luxembourg increased their holdings from 1.0 percent to 1.6 percent of share capital.

Warrants

In conjunction with the 1996 initial public offering of Scania, Investor AB distributed some 190 million warrants, representing about 20 percent of the share capital in Scania, to their shareholders. These warrants have a life of three years and entitle (but do not oblige) their holder to buy one Scania share for each five warrants on or before 4 June 1999. Five warrants plus a redemption price of SEK 180 entitle their holder to one of Investor's Series B shares in Scania. Exercising these warrants does not lead to any dilution for other shareholders, since the shares are drawn from Investor's holding.

Dividend policy

The Board of Directors currently intends to recommend regular dividends at levels that reflect the longer-term performance of the company's business rather than the year-to-year fluctuations in Scania's earnings due to the cyclical nature of the heavy truck industry.

Scania on the Internet

Scania's Web site, http://www.scania.com, includes information about the company's share prices over time and its quarterly and annual reports. The site also provides a way to contact Scania's Investor Relations department and other departments.

The ten largest shareholders

31 December 1997

	% of voting power	% of the number of shares
Investor	45.4	45.5
FöreningsSparbanken mutual funds	7.7	7.9
SPP	3.8	3.6
Nordbanken mutual funds	3.2	3.4
S-E-Banken mutual funds	3.1	2.8
Trygg-Hansa (insurance)	2.5	1.7
National Pension Insurance Fund, Fourth Fund Board	2.1	1.8
Skandia	1.8	1.9
SHB mutual funds	1.6	1.3
AMF Sjukförsäkring AB	1.2	1.1
Total	72.4	71.0

Ownership structure

31 December 1997

Number of shares	% of shareholders	% of shares
1 – 500	87.5	3.3
501 – 2,000	9.4	2.2
2,001 – 10,000	2.0	1.9
10,001 – 50,000	0.7	3.1
50,001 – 100,000	0.2	2.4
> 100,000	0.2	87.1
Total	100.0	100.0

Per share data

31 December	1997	1996
(SEK unless otherwise indicated)		
Earnings	9.9	9.9
Shareholder's equity	51.2	44.9
Dividend (1997 proposed)	5.5	5.5
Market prices, B shares (closing price)		
Highest for the year	240.0	199.5
Lowest for the year	166.5	161.5
Year-end	179.0	170.5
Price/earnings ratio, B shares	18.1	17.2
Dividend payout ratio, %	55.6	55.6
Dividend yield, % (B shares)[1]	3.1	3.2

Average daily number of shares traded		
– Stockholm Stock Exchange	A	162,000
	B	318,000
	Total	480,000
– New York Stock Exchange	A-ADRs	4,300
	B-ADRs	600
	Total	4,900

Annual turnover rate 60%

Approximate number of shareholders 45,000

[1] *Dividend divided by market price of the B share at year-end.*

STATEMENT OF THE PRESIDENT AND CEO

Our 1997 truck and bus sales volume was the highest in Scania's history, but operating income remained at the 1996 level.

Both our shareholders and we ourselves had high expectations for 1997. I therefore consider it important to provide an account of a number of factors that affected Scania's earnings.

Competition and price pressure in Europe

In our main markets in western Europe, competition intensified. German heavy vehicle manufacturers in particular are adopting a very tough stance, using lower prices as a weapon to recapture the market share they have lost since the early 1990s. In spite of this, we managed to maintain an essentially unchanged market share in western Europe.

When we introduced the 4-series, we were counting on charging higher prices than for the 3-series. Because of stiffening competition, it has not been possible to charge the prices we had reckoned. Meanwhile, it is clear that Scania would have had a far weaker position if we had not had been able to offer our customers a new product generation.

In my judgement, the competitive climate will not change during 1998.

Latin America and Asia

During the year, the Latin American market developed favourably until the fourth quarter, when the Brazilian government adopted economic measures that cooled demand.

Developments in South East Asia were increasingly gloomy during the second half of 1997. Demand slowed significantly in most countries. The financial crisis will continue into 1998. Weak demand can therefore be expected during most of the year. In this situation, our priority in the region is to ensure the survival of our distributors.

Production changeover to be completed in 1998

Since late 1995, when we began to manufacture 4-series trucks, Scania has been engaged in the most extensive production changeover in its history. In Europe, the changeover was not without problems and resulted in higher costs than expected.

During 1997 our European bus and bus chassis production system switched over to the 4-series. This changeover, which we expect to complete by mid-1998, reduced 1997 earnings by about SEK 100 m. and will also have an impact on 1998 earnings. Once the changeover is completed, assembly time will be 20–30 percent lower than for the bus range we have just discontinued, contributing to higher productivity.

Our capital spending for the new product range, along with higher capacity in both our production plants and our distribution and service organisation, have admittedly led to increased depreciation and greater sensitivity to volume fluctuations. But such investments are crucial if Scania is to remain among the world's leading truck and bus manufacturers in the future.

Launch of the 4-series in Latin America

During the second half of 1997, preparations began in Brazil and Argentina for the changeover to the 4-series. Late in the year, Scania Latin America built up a sizeable inventory of outgoing models to bridge over the production shortfall during the assembly line overhaul. During February 1998, production resumed at a slow pace, with the goal of reaching full speed during June. We expect to lose market share during this period, despite lower total demand.

The production changeover in Latin

Leif Östling

America did not lower 1997 earnings significantly, but it will affect 1998 earnings, especially in the first quarter.

Higher warranty and goodwill expenses

During 1997 Scania's distribution organisation was climbing the learning curve related to our new products. It is not possible to specify a 4-series truck in the same way as a truck from the 3-series.

The task of Scania's sales people, along with their customers, is to find an appropriate solution in the new product range. There have been cases of incorrect specifications. It is, moreover, impossible to test all conceivable combinations during the development phase. This has contributed to higher warranty and goodwill expenses. Based on experience from previous changes of product generations, we anticipated that during the first two years, these expenses would double per vehicle. That is where we are now.

In 1997, about SEK 400 m. in higher warranty and goodwill expenses were consequently charged against earnings. We will maintain the higher level of provisions in our European operations during much of 1998, then lower it towards a more normal level. We anticipate similar developments in Latin America after the introduction of the 4-series there.

Restructuring of the transport industry

Over the past few years, the competitive climate has also become tougher for haulage companies. Deregulation and economic integration in Europe are leading to dramatic consolidation and specialisation in the transport industry. New customers and customer constellations mean greater demands on our distribution and service networks as well as the products and services we provide to the market.

Outsourcing of vehicle-related services is becoming more and more common, primarily maintenance and repairs, but also financing and insurance etc. In the most highly developed form of vehicle management, the customer uses a vehicle at a fixed price per kilometre during a period of three to five years.

The expanded market for aftersales support and for other vehicle-related services offers us major potential. We are therefore developing Scania's product portfolio and marketing organisation in order to capture a growing percentage of this market.

Investments in our marketing organisation

During the first half of the 1990s, we restructured our organisation in Great Britain into fewer and larger strategic dealerships, with advanced service workshops linked to these. We developed new business concepts and increased Scania's market share from about 10 percent to 20 percent. In the Netherlands, our partly-owned distributor Beers' has achieved similar results. In France and Germany, we began to implement a similar programme of changes during 1996.

Central and eastern Europe are continuing their transition towards a market economy. Poland in particular is on its way to becoming a sizeable market. Today Scania is rapidly expanding its distribution and service network. In Russia, we established a Scania-owned importing company during 1997, and we are now building up a distribution and service organisation.

During 1997, investments in our European distribution and service organisation rose by SEK 600 m. This expansion, which is continuing during 1998, also generates extra costs. But we regard them as a crucial investment in our future.

Focus on growth

During the period 1995-1997, we maintained a high level of capital spending for new products and for greater capacity in our production and marketing organisation. Our aim is to supply the best products in the market, strengthen our position in major markets, broaden Scania's business concept and achieve volume growth in new markets.

During the next few years, we will reduce capital spending in our production system to a lower level. However, we will continue to invest aggressively in our marketing organisation. Parallel with this, we are working intensively to improve our cost structure and enhance both the quality and the environmental characteristics of our products and services in order to improve Scania's profitability.

A different distribution structure in western Europe, new distributors in central and eastern Europe, as well as the continued expansion of our network elsewhere in the world are necessary to enable us to efficiently deliver the best money-making machine – a Scania truck, a Scania bus or a Scania engine – to our customers.

Only by generating high customer value can we deliver good shareholder value.

Leif Östling
President and CEO

MISSION AND STRATEGIES

Scania's mission is to supply its customers with vehicles and services related to the transport of goods and passengers by road. By focusing on customer needs, Scania shall grow with sustained profitability, thereby generating shareholder value.

Scania's industrial operations specialise in developing and manufacturing vehicles, which shall lead the market in terms of performance, life-cycle cost, quality and environmental characteristics.

Scania's commercial operations, which include importers, dealers and service points, shall supply customers with optimal equipment and aftersales support, thereby providing maximum operating time at minimum cost over the service life of their vehicles.

Focus on heavy transport vehicles

Scania is the only European truck producer that concentrates on heavy vehicles. Similarly, its bus and coach operations focus on the heavy segment of the market.

Economic growth and improved infrastructure are making larger vehicles financially advantageous in the transport industry. As a result, the demand for heavy trucks and buses is growing faster than the total demand for commercial vehicles.

The technology and production systems for heavy vehicles are specialised and different from those of lighter vehicle segments. Individually specified products require individual pricing. Scania's trucks and buses have established a reputation as quality products, both in terms of performance and price.

Scania is the only European truck manufacturer whose operations focus on heavy vehicles.

Modular product system and global production system

Buyers of heavy transport vehicles are demanding increasingly individualised solutions. The more closely a vehicle is adapted for a specific purpose, the more economically it will operate.

Scania's modular system – developed over several decades – is based on using the same components in numerous specifications. This makes it possible to design products that meet customer needs. Meanwhile, these products can be developed, manufactured and distributed cost-effectively. The total number of components in Scania's product range is limited, and the modular system allows considerably longer production runs than a conventional product system.

After the changeover to production of 4-series trucks and buses at the Latin American plants during 1998, Scania will have a global product range that features standardised, interchangeable components made to global quality standards. This will make it possible to use the same process engineering worldwide. Plants in different countries and on different continents will also be able to help each other smooth out fluctuations in capacity utilisation.

Integrating vehicles with services

Aside from vehicles and engines, other products and services – such as maintenance, parts, repairs and financing – are integral elements of Scania's operations.

Hauliers need rapid, continuous round-the-clock access to servicing and repairs. This is why Scania is improving its distribution and service network in all markets to ensure its customers the greatest possible vehicle availability.

In highly developed markets, it is becoming more common for transport enterprises to outsource a growing proportion of their fleet management to outside suppliers.

Many hauliers are demanding package solutions, with the customer paying a fixed kilometre-based price for continuous vehicle availability. A growing proportion of Scania's sales thus consists of various kinds of repair, maintenance and full service contracts. The company is developing its new Scania Vehicle Management concept in response to this demand, thereby opening up a larger potential business volume.

Focus on growth markets

A large proportion of long-term global growth in demand for heavy trucks is expected to occur in Scania's three main markets: Europe, Latin America and Asia.

In western Europe, a cross-border restructuring and integration of the transport industry is under way. This trend offers growth potential to those truck manufacturers that are capable of meeting the overall vehicle and service needs of their customers.

In central and eastern Europe, the transport sector is expanding very rapidly, and a growing proportion of demand is targeting western European truck and bus makes.

In Latin America, national economies and trade between countries are growing. An increasing share of both goods and passenger traffic is employing heavy vehicles. Scania's very strong market position in the continent's largest countries is a solid base for further expansion.

Asia is an important long-term growth market. As infrastructure improves, streamlining of the transport sector will become possible. This, in turn, will increase the demand for heavy vehicles. Scania is consolidating and strengthening its distribution and service organisation in order to maintain its position as the leading European make in the region.

REVIEW OF OPERATIONS

Scania operates in the heavy vehicle markets of Europe, Latin America, Asia (except Japan), Africa and Oceania. Latin American markets are supplied mainly from Scania's production plants in that region, while other markets are supplied from European production plants. Scania reports its operating income in terms of its European and Latin American operations, respectively.

Total world production

During 1997, world production of heavy trucks (excluding the former East bloc countries) rose by 9 percent to about 545,000 vehicles (500,000). Production of major European and American makes increased, while production of Japanese makes declined. As in 1996, Scania was the fourth largest make in the world.

World production of city and inter-city buses and tourist coaches in Scania's segment – buses and coaches for more than 30 passengers – was about 72,000 vehicles (56,000), an increase of 29 percent. As in 1996, Scania was the fourth largest bus make in the world.

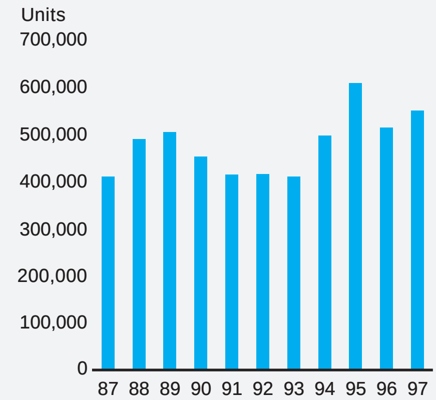
European operations

The western European truck market

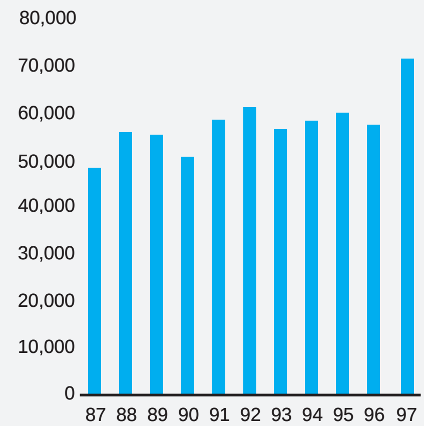
During 1997 the number of heavy trucks registered in western Europe was largely unchanged, compared to the two preceding years. A total of 170,000 heavy trucks were registered, against 172,000 in 1996 and 173,000 in 1995.

Early 1997 witnessed a continuation of the clear downturn that characterised the latter part of 1996. During the first quarter of 1997, registrations of trucks exceeding 16 tonnes was 20 percent lower than in the corresponding period of the previous year.

World production of heavy trucks
(excluding the former East bloc countries)



World production of heavy buses
(excluding the former East bloc countries)



World production of heavy trucks, 1997
The ten largest makes

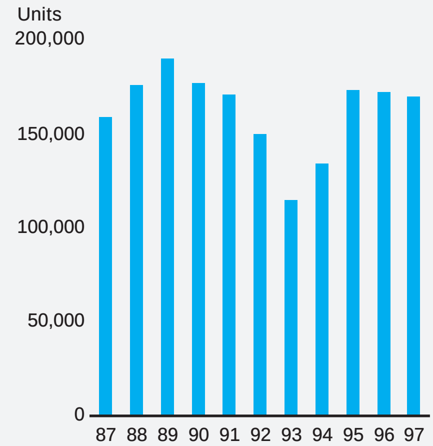
Units	1997 *	1996
Mercedes	**66,000**	47,000
Freightliner	**61,000**	55,000
Volvo	**60,000**	56,000
Scania	**44,000**	38,000
International	**41,000**	32,000
Mack	**28,000**	24,000
MAN	**26,000**	24,000
Iveco	**23,000**	24,000
RVI	**23,000**	22,000
Kenworth	**22,000**	20,000

* Preliminary figures

Beginning late in the first quarter, demand gradually strengthened. During the first half of 1997, registrations were 11 percent lower than during the same period of 1996. By year-end, the decline compared to the year-earlier period had narrowed to just over one percent.

Of the largest countries in western Europe, the German market performed best, following several years of stagnating demand. Registrations of heavy trucks rose by six percent to 41,000 vehicles. In the British market, registrations declined by 12 percent to 26,000 vehicles. In France, registrations fell by 10 percent to 31,000 vehicles. During the second half of the year, however, the trend reversed in both Great Britain and France with registrations increasing.

Registrations of heavy trucks in western Europe



Scania's efforts to market its construction and civil engineering haulage vehicles proved successful during 1997.

Weak demand during 1996 and early 1997 resulted in low capacity utilisation in the European truck industry. Price competition intensified – a situation that continued even after the increase in demand. When Mercedes-Benz launched its new truck generation, the company declared its intention to lower prices to recapture the market share it had lost during the 1990s, thereby further stepping up the competitive pressure.

Scania's average revenue per truck, adjusted for currency rate effects, was some one percent higher than in 1996. Sales from European production plants during 1997 consisted entirely of 4-series vehicles. During 1996, 40 percent of sales consisted of 4-series vehicles and 60 percent of 3-series vehicles.

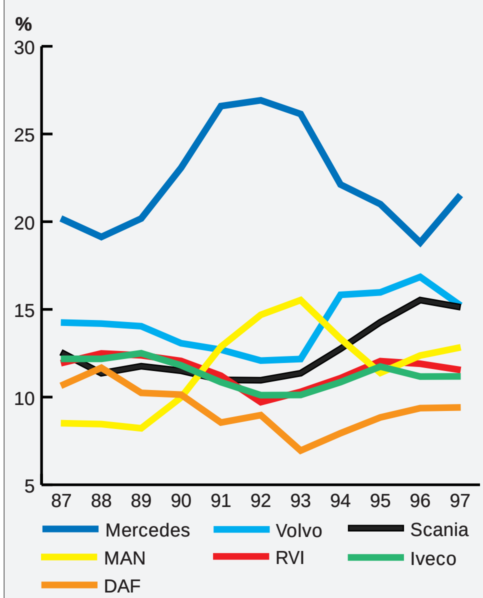
Scania's share of the western European heavy truck market fell slightly during 1997, to 15.1 percent from 15.5 percent in 1996. In 1995, Scania's share was 14.3 percent. Of major competitors, Volvo noted a decline to 15.2 percent from 16.9 percent in 1996 and 16.0 percent in 1995. Mercedes-Benz achieved a 1997 market share of 21.5 percent, compared to 18.8 percent in 1996 and 21.0 percent in 1995.

Scania's order bookings in the western European market during 1997 totalled 29,400 trucks (23,900), an increase of 23 percent. During the first quarter, order bookings were somewhat lower than in the same period of 1996. After that, order bookings improved and were especially strong during the second half.

The largest percentage increases compared to 1996 occurred in Spain, Belgium and Great Britain. By speeding up the pace of production in the second half, Scania reduced the average time from order to delivery from five or six months in late September to three or four months at year-end.

Since early 1997, the complete range of Scania's new 4-series product generation has been available in the European market. Broadening its product range has enabled Scania to increase its penetration in non-traditional market segments, such as construction vehicles. The company broke into new market segments, especially among construction and civil engineering hauliers in Spain and Austria.

Market share, western Europe



Scania's ten largest truck markets

	Registrations of heavy trucks			Market share in %		
	1997	1996	1995	**1997**	1996	1995
Brazil	**7,050**	5,226	6,540	**39.5**	38.2	33.9
Great Britain	**5,403**	5,591	5,380	**20.5**	18.6	16.6
Germany	**3,227**	2,990	2,975	**7.9**	7.7	7.4
France	**2,854**	3,276	3,144	**9.3**	9.6	9.8
The Netherlands	**2,333**	2,878	2,256	**20.1**	23.1	20.8
Spain	**2,050**	1,285	1,544	**14.9**	12.1	13.2
Italy	**1,880**	2,257	2,208	**13.4**	15.0	14.0
Argentina	**1,728**	1,509	1,069	**34.8**	42.0	39.3
Sweden	**1,429**	2,181	1,203	**43.0**	48.6	43.6
Denmark	**1,320**	1,281	1,286	**31.5**	31.1	30.4

The truck market in central and eastern Europe

In central and eastern Europe, the market for western European-made heavy trucks continued to grow. Sales doubled compared to 1996. Sales volume of local manufacturers continued to diminish. However, most of the demand for imported trucks still centered on used vehicles. Scania's sales of new trucks to the region rose by 80 percent to 1,800 units (1,000).

The country that has progressed the furthest is Poland, where the market is rapidly approaching a western European structure. During 1997, the market for new heavy trucks in Poland rose by 60 percent to 3,900 units. Scania's market share climbed to 19.1 percent (13.4).

The potentially largest market in the region is Russia, where the total annual heavy truck requirement is estimated at approximately 40,000–60,000 units. The market is still dominated by domestic manufacturers, but during 1997 western European makes continued to enlarge their market share. Scania's order bookings more than tripled to 253 trucks (72).

The Russian truck market is growing rapidly. Scania's order bookings more than doubled during 1997.

During the year, Scania established a wholly owned importing company, Scania Russia, with its head office in Moscow. New dealerships and four service workshops were also established. Other potential markets in the region are Ukraine and Belarus. The latter country is strategically important because it is a transport route for shipments between Germany and central Russia.

Service market in Europe

Service-related sales in Europe rose during 1997. Sales of parts and aftersales services climbed by 23 percent to SEK 5,025 m. (4,085). During 1997 Scania continued capital spending designed to strengthen its sales and service organisation. Priority is being given to Germany and France, where Scania is restructuring its marketing organisation.

The aim is to establish an optimal structure in relation to transport flows and adapt the locations, service levels and opening hours of Scania workshops to the needs of customers.

Total capital expenditures in the form of acquisitions and new facilities in the European marketing organisation during 1997 amounted to some SEK 900 m. Investments in the marketing organisation added SEK 500 m. to sales-related costs. Half of this increase was attributable to acquisitions. Scania acquired its importer in the Swiss market, Truck AG, as well as dealerships in Great Britain, Germany and France during 1997.

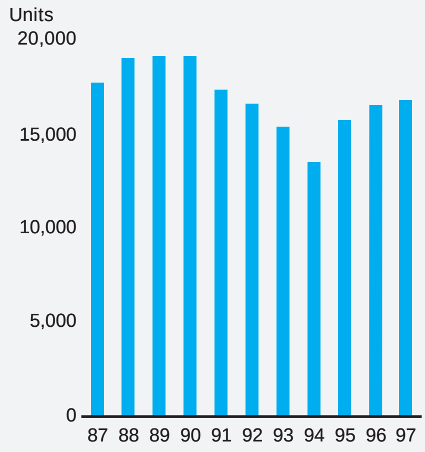
The expansion of the marketing organisation in central and eastern Europe continued. Wholly-owned importing companies now exist in most countries of the region, and the number of sales and service points increased.

Buses and coaches in Europe

The market for heavy buses and coaches in western Europe was unchanged compared to 1996. Registrations totalled 16,700 buses (16,400). Looking at major markets, there were upturns in Germany and Spain, while registrations were unchanged in France and lower in Great Britain.

The deregulation of the passenger transport industry continued. A growing share of services is being provided by fewer and larger operators, which are active in more than one country. Demand is increasingly concentrating on standardised vehicle fleets with high utilisation levels. There is growing demand for maintenance and financing contracts, and for agreements in which operators pay a fixed per-kilometre price for their buses.

Registrations of heavy buses in western Europe



Sales of Scania buses and bus chassis in Europe declined by about three percent to 1,690 units, compared to 1,740 buses in 1996 and 1,690 in 1995. Scania's market share in western Europe fell to 8.6 percent, compared to 9.9 percent in 1996, mainly due to lower demand in traditionally strong Scania markets such as Great Britain and

In Europe, deregulation has led to a trend towards fewer but larger bus companies. This is generating greater demand for service contracts and - financing agreements.

the Nordic countries as well as lower manufacturing capacity during the changeover to production of Scania's new bus generation. Spain was again the company's largest bus market in western Europe, with 363 new Scania buses (335) registered. Scania's order bookings for buses and bus chassis in Europe rose during 1997 by 23 percent to 1,850 units (1,500).

During the latter part of 1997, Scania began to deliver its new generation of buses and coaches. From having previously manufactured 45 different models of bus chassis, Scania's new bus range is based on seven chassis modules. By combining these modules, the new generation of buses can satisfy a substantially broader range of transport needs, coupled with greater reliability and ease of service due to the smaller number of components.

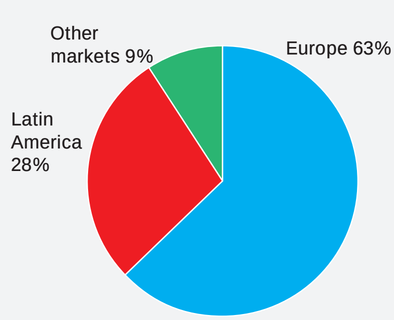
In August, assembly of complete city buses began at the Scania plant in Angers, France. This unit mainly delivers buses to France and southern European markets.

The standardisation of the new bus range increases the customer's choices and makes servicing and maintenance easier.

Industrial and marine engines

Scania's total unit sales of industrial and marine engines rose by 12 percent during 1997 to 3,060 engines (2,730). In Europe, sales advanced by 4 percent to 1,920 units (1,840) mainly due to upturns in such countries as Spain, Great Britain and the Netherlands. Meanwhile, deliveries in the Nordic countries fell. Order bookings were stable during the year.

In September 1997, Scania introduced its new 12-litre engine for industrial and marine applications.



Scania's five largest bus markets

	Registrations			Market share in %		
	1997	1996	1995	**1997**	1996	1995
Brazil	**1,351**	1,369	1,516	**10.1**	9.1	8.9
Egypt*	**438**	–	–	**–**	–	–
Spain	**363**	335	350	**16.8**	17.3	19.2
Sweden	**262**	325	269	**27.6**	38.0	36.5
Great Britain	**231**	272	285	**10.4**	11.0	12.5

* Sales

During 1997 Scania introduced a new 12-litre industrial engine in the 330–540 horsepower output interval, based on the company's new vehicle engine range.

Asia, Africa and Australia

During the first half of 1997, the market trend in Asia was positive and Scania's deliveries climbed by 17 percent, compared to the same period of 1996. Scania's sales of heavy trucks in Asia for 1997 as a whole rose by three percent to 3,100 vehicles, compared to 3,000 units in 1996 and 3,300 in 1995. Deliveries increased substantially in Taiwan, Indonesia and Hong Kong during the first half. Later in the year, there was an upturn in deliveries to Turkey.

The financial crisis in South East Asia led to a drastic decline in order bookings during the second half of 1997. In South Korea, Indonesia and Thailand, demand evaporated. In South Korea, Scania's marketing organisation has to be reorganised. Hong Kong and Taiwan have showed somewhat greater stability than other markets. However, demand has fallen significantly.

Continued turmoil in South East Asian markets is hampering investment activity and the ability of hauliers to finance their purchases. The demand for new vehicles is expected to be low in most markets in the region during 1998.

The scale of the aftersales market is affected to a smaller extent, since the postponement of fleet renewal increases the need for maintenance and parts. During 1997, Scania continued to consolidate and improve its service network.

In other markets, principally Africa and Australia, truck sales fell by about 23 percent. The main declines occurred in Ethiopia, Tunisia and South Africa, while Morocco showed higher sales.

Turning to non-European bus and coach markets that are supplied from European production plants, deliveries to Egypt rose sharply, making that country Scania's second largest bus market during 1997. In most other markets, deliveries fell.

Deliveries of industrial and marine engines to these markets doubled, compared to 1996, but this increase was concentrated during the first half. Due to the crisis in South East Asia, there were virtually no orders in the region during the final months of 1997.

European production

The pace of production at European plants was relatively slow at the beginning of 1997 due to weak order bookings late in 1996. As order bookings climbed during the year, production was ramped up. Total production was on a par with 1995.

In recent years, Scania has invested in a new product range and expanded its manufacturing capacity. These investments have significantly raised the company's depreciation level. Depreciation in the European production system rose by about SEK 150 m. during 1996 and by an additional SEK 200 m. during 1997. Provided that current technical capacity is sufficient, it appears likely that Scania can reduce the pace of capital expenditures during the next few years.

In order to achieve higher efficiency and better utilisation of the investments it has made, Scania is increasing the level of specialisation at its manufacturing units. Preparations are under way to move engine and axle assembly operations from Zwolle in the Netherlands to Södertälje and Falun, Sweden, respectively. As a result, Zwolle will become a pure assembly plant, opening up additional capacity.

Continuous efforts are under way at Scania to reduce material costs while improving quality and precision of delivery for the 4-series trucks.

A planned staffing reduction by about 1,500 persons from the peak level at the end of the first quarter of 1996 was completed during the first half of 1997. During the second half, about 400 new employees were recruited to handle increasing production. As a result, staffing at the close of 1997 was the same as at the beginning of the year. The number of employees did not increase as fast as the pace of production, however. The newly recruited workforce has a collective skills profile that is better suited to the company's current needs.

Productivity, measured as the number of vehicles manufactured divided by hours worked, rose by more than 8 percent during 1997 as a whole, compared to the fourth quarter of 1996. This was partly a consequence of higher volume, but also of the impact of the 4-series changeover on efficiency. The increase in productivity was offset by higher labour costs and a bonus of SEK 200 m. to Scania employees. Aside from collective wage and salary agreements, labour costs were affected by a higher employee skill level as well as periodically extensive overtime hours late in 1997 as a consequence of the rapidly increased rate of production.

An agreement on flexible working hours went into effect late in 1996 for most employees of Scania's European operations. Its purpose is to enable the company to respond cost-effectively to variations in demand.

Material costs per truck sold increased in 1997, since only 4-series trucks were sold, compared to 1996 when 60 percent of sales consisted of 3-series trucks. Scania's 4-series trucks fulfill higher technical specifications and feature a more advanced fuel injection system in order to meet new emissions standards. At the end of 1997, however, material costs for 4-series trucks were about two percent lower in local currencies than at the beginning of the year.

During most of the year, production of components for the outgoing bus range still continued. This raised material and handling costs. Throughout 1997, 3-series trucks were produced in Latin America, which affected costs at those European units that deliver components to the Latin American production system. After the changeover in Latin America, Scania's total production of trucks, buses and marine and industrial engines will be based on the 4-series. This will increase the potential for global sourcing, enabling Scania to lower its material and component costs in the long term.

In conjunction with the launch of the 4-series, Scania estimated that warranty costs per delivered vehicle would double during the first two years. Experience to date confirms this estimate.

Precision of delivery, which declined in conjunction with the production changeover, rose and reached the same level as before the changeover.

Latin American operations

The truck market

The positive trend in the truck markets of Latin America that began late in 1996 continued during 1997. The upturn was most apparent during the first half of the year, while demand fell during the last quarter. The Mercosur free trade area is having a positive impact on the demand for transport services, since the increased economic integration between the Mercosur countries is resulting in an expansion of cross-border trade.

Scania's unit sales in Latin American markets rose by 30 percent to 9,600 trucks (7,400). Order bookings rose by 34 percent to 9,900 trucks (7,400) during 1997.

In Brazil, the dominant market, demand rose sharply during the second and third quarters. Compared to 1996, the market for heavy trucks grew by 30 percent, reaching 17,900 vehicles. This is the third-highest level ever in Brazil and is a consequence of

When the production changeover in Latin America has been completed, Scania will be the only heavy vehicle manufacturer to offer the same products in all its markets.

the long term favourable trend in the national economy. Efficiency improvements in Brazil's transport network are continuing, thereby increasing the demand for heavy trucks.

Late in 1997, imbalances emerged in the Brazilian economy. The government responded by introducing an economic action programme that included sizeable increases in interest rates and taxes. These measures caused a decline in demand for heavy trucks, which is expected to continue during the first half of 1998. Early in 1997, heavy truck prices rose, but keen price competition reappeared late in the year due to the slowdown in demand.

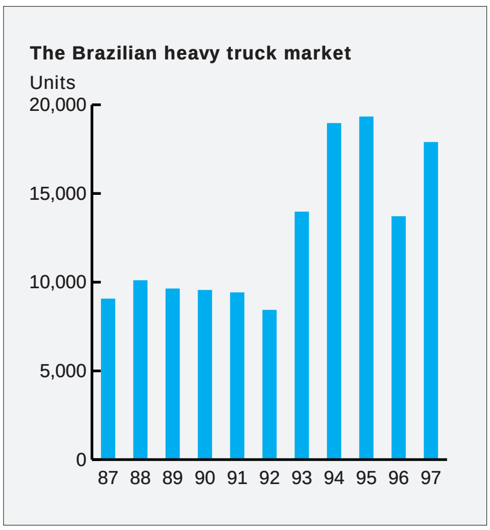
Scania consolidated its position as the market leader in Brazil, with a market share of 39.5 percent (38.2). The number of newly registered Scania trucks reached 7,100 (5,200), an upturn of 37 percent.

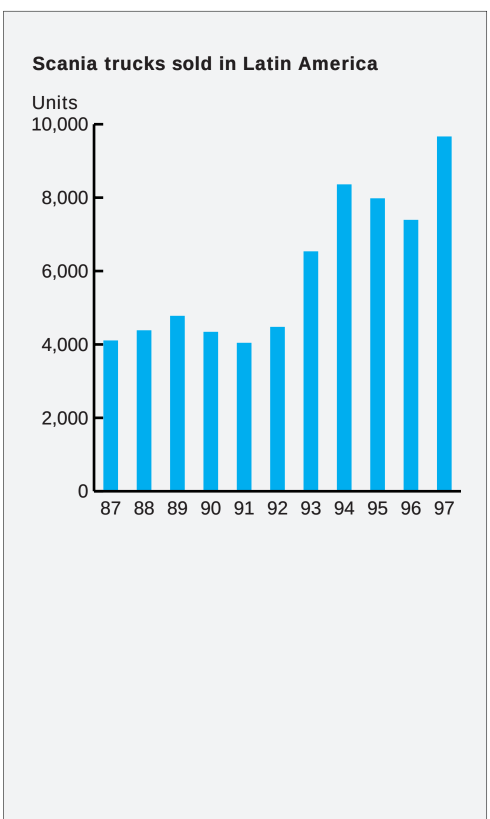
The Argentine market for heavy trucks advanced by 38 percent to 5,000 vehicles, which was also among the highest levels ever. The country's economy is in a growth phase.

Scania's deliveries in Argentina were up by more than 15 percent to 1,728 trucks, which is the highest volume ever. Scania retained its position as the market leader with a 34.8 percent (42.0) share. During 1997, the company strengthened its sales and service organisation. For example, a new importing facility was inaugurated in Buenos Aires.

Elsewhere in Latin America, demand also improved. In Mexico, Scania increased its sales volume significantly. Scania's investments in Chile, which have included a wholly-owned importing company since 1996, are beginning to pay off. Volume remains limited, but the country's strong growth is opening up potential for expansion.

Service-related sales also developed favourably, with parts sales in Latin America up more than 20 percent.





The Latin American bus market

The bus and coach market in Brazil declined by more than ten percent during 1997. Scania registrations were largely unchanged at 1,350 buses, and its market share rose to 10.1 percent (9.1). Deliveries of Scania buses rose in most markets. Scania's bus deliveries in Latin America totalled 1,800 units (1,600), an increase of 12 percent.

Scania is now taking steps to break into markets outside its traditional segment, inter-city buses. City buses comprise a substantially larger proportion of the total bus

In Latin America, Scania has competed primarily in the market for inter-city buses. The production start-up of the new bus generation strengthens Scania's competitive position in the city bus market.

market. City buses from Scania are now being tested in São Paulo, Buenos Aires and elsewhere.

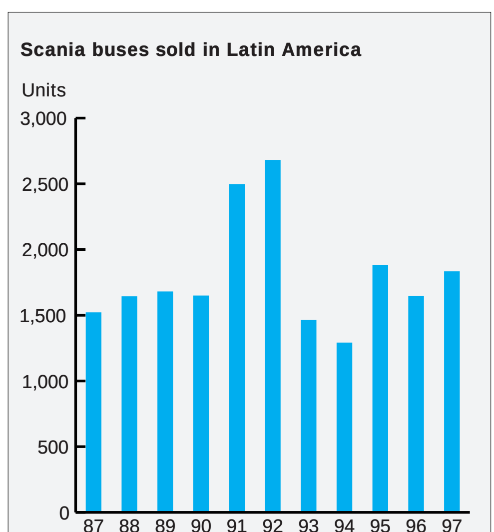
Industrial and marine engines

Deliveries of industrial and marine engines in Latin America rose by eight percent to 740 units (685) after an upturn in Brazil.

Latin American production

At year-end Latin American manufacturing units ended their production of 3-series trucks. As one step in the streamlining of operations, production of gearbox and transmission components was concentrated in Tucumán, Argentina. A new, separate assembly line for buses went into service at the São Paulo plant.

Production volume rose sharply during 1997, due to the rapid climb in order bookings, and was the highest ever. A buffer stock of about 1,300 trucks was built up by



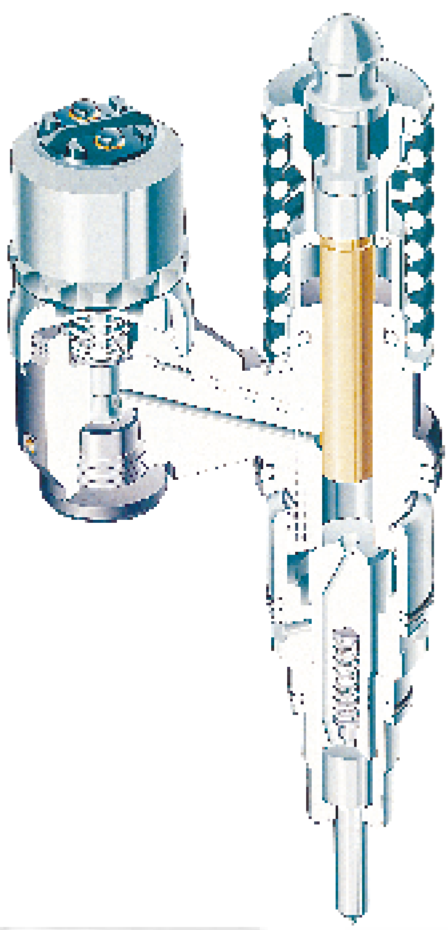
year-end in order to cover the expected production shortfall during the first half of 1998 due to the changeover to the 4-series.

Staffing was largely unchanged during 1997, despite record-high volume. The costs of materials and components were relatively stable during 1997. In preparation for the switch to production of the 4-series, the purchasing structure was changed and the number of suppliers was halved.

In December 1997, Scania's plants in Latin America began the changeover to 4-series truck production, which is scheduled to be finished during the first half of the year. The changeover in bus production will begin during April and is expected to be completed during the third quarter. During the changeover period, production capacity will be limited. After changing to the 4-series in Latin America, Scania will be the only manufacturer of heavy trucks and buses in the world to offer the same product range in all markets.

Research and development expenses

The Scania Group's research and development expenses during 1997 totalled SEK 1,169 m. (1,084). A substantial share of the work was related to continued engine development. A new 11-litre engine was unveiled in February 1998. A new type of fuel injection system, the unit injector, was launched early in 1998 for Scania's new 11- and 12-litre engines.



Scania's new unit injector – a combined injection pump and injector for each cylinder – makes maintenance very easy. Each cylinder can be repaired separately, without affecting other parts of the engine.

Selling expenses

The Scania Group's selling expenses rose by SEK 992 m. to SEK 4,786 m. (3,794).

In European operations, these expenses rose by about SEK 750 m., with about SEK 600 m. attributable to marketing companies. Higher goodwill costs accounted for about SEK 100 m. of this. The continued expansion of the marketing organisation increased costs by about SEK 500 m., including SEK 250 m. through acquisitions. Selling, distribution and goodwill expenses at the factory level also increased, due among other things to higher volume.

Selling expenses in Latin America rose by about SEK 200 m., of which SEK 80 m. was a currency rate effect.

Svenska Volkswagen products

The 1997 income after financial items of the importing operations of the Svenska Volkswagen Group was SEK 290 m. (286). Half this amount is included in the Scania Group's consolidated income under "Share of income of associated companies". Svenska Volkswagen's share of the Swedish passenger car market in 1997 rose to 20.4 percent (19.2). Its share of the light truck market reached 43.1 percent (38.8).

Sales and distribution are handled largely through a dealer network that also sells Scania's own products in the Swedish market. Some thirty of these dealers are wholly owned by Scania. Their sales of Svenska Volkswagen products amounted to SEK 4,632 m. (3,776). Operating income from Svenska Volkswagen products, including Scania's share of income in importing operations, rose to SEK 258 m. (215).

During 1997, the new Volkswagen Golf was introduced.

Sales

Total Scania Group sales rose by 18 percent to SEK 39,719 m. (33,730). Sales of Scania products advanced by 17 percent. Excluding currency effects, the increase was about 10 percent. The number of vehicles sold increased by 9 percent to 46,976 (42,991). Sales of service-related products rose by 22 percent during the year to SEK 5,649 m. (4,616).

Sales by product

SEK m.	**1997**	1996	1995
Trucks	**24,005**	20,636	22,296
Buses	**3,251**	2,852	2,955
Engines	**392**	344	370
Service related products	**5,649**	4,616	4,790
Used vehicles etc.	**1,790**	1,506	1,305
Total Scania products	**35,087**	29,954	31,716
Svenska Volkswagen products	**4,632**	3,776	3,124
Total	**39,719**	33,730	34,840

Sales by market area

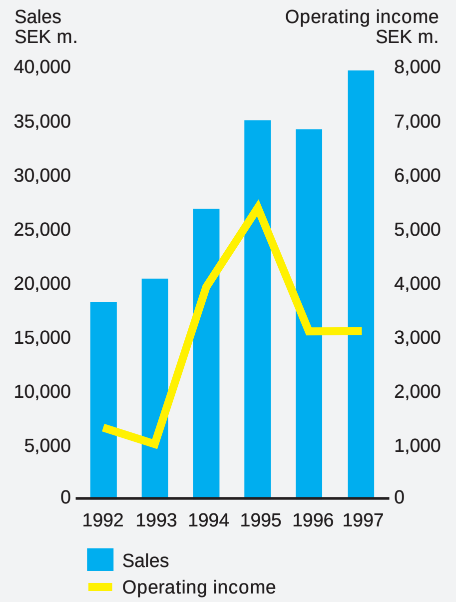
SEK m.	**1997**	1996	1995
Scania products			
Western Europe	**23,102**	21,059	21,581
Central and eastern Europe	**1,393**	827	732
Europe	**24,495**	21,886	22,313
Latin America	**6,799**	4,800	5,742
Asia	**1,936**	1,740	1,904
Other markets	**1,857**	1,528	1,757
Total Scania products	**35,087**	29,954	31,716

Number of vehicles sold by market area

Trucks	**1997**	1996	1995
Western Europe	**26,756**	26,249	26,596
Central and eastern Europe	**1,833**	1,030	951
Europe	**28,589**	27,279	27,547
Latin America	**9,649**	7,377	7,964
Asia	**3,096**	2,997	3,329
Other markets	**1,058**	1,375	1,627
Total	**42,392**	39,028	40,467

Buses	**1997**	1996	1995
Western Europe	**1,595**	1,655	1,642
Central and eastern Europe	**95**	83	45
Europe	**1,690**	1,738	1,687
Latin America	**1,829**	1,641	1,878
Asia	**308**	309	304
Other markets	**757**	275	301
Total	**4,584**	3,963	4,170

Sales and operating income



Operating income

The Scania Group's operating income amounted to SEK 3,047 m. (3,057), equivalent to a margin of 7.7 percent (9.1). Adjusted for the positive nonrecurring effects of rulings on disputes related to indirect taxes in Latin America, operating income was SEK 2,877 m. (2,477), equivalent to a margin of 7.2 percent (7.3). In a static comparison, operating income was positively influenced by currency rate effects of about SEK 900 m., excluding the effects of currency hedging, which totalled about SEK –100 m. Capital spending on the new product range as well as capacity expansion both at production plants and in the marketing organisation resulted in an increase of SEK 344 m. in depreciation.

Operating income of European operations (which encompass all markets except Latin America) was SEK 2,309 m. (2,276). Income was favourably influenced by the somewhat higher volume of trucks sold and by higher sales of service-related products, as well as by positive currency effects.

In local currencies, average revenue per truck in European operations was some one percent higher than in 1996. In 1997, sales consisted exclusively of 4-series trucks, while they accounted for 40 percent of 1996 sales.

Material costs per truck sold were higher in 1997 because only 4-series trucks were sold. The 4-series trucks are sold with higher technical specifications and a more advanced fuel injection system to meet new emissions standards. At the end of 1997, the material cost for 4-series trucks was about two percent lower in terms of local currencies than at the beginning of the year. Improved productivity was offset by higher labour costs and by a bonus to employees, amounting to SEK 200 m.

Warranty and goodwill expenses, both in distribution and production, rose by about SEK 400 m. Investments in the marketing organisation raised sales-related costs by SEK 500 m. Half of this increase was attributable to acquisitions. The remaining amount represented investments and restructuring in distribution companies.

Low capacity utilisation at bus and coach production plants in Europe, due to the changeover to the new bus range, reduced earnings by about SEK 100 m.

The operating income of Latin American operations totalled SEK 407 m. (511).

Adjusted for the positive nonrecurring effects of rulings on disputes concerning indirect taxes, operating income was SEK 237 m. (–69). Operating income improved due to higher volume and somewhat improved margins. This was partly offset by the costs of preparing the changeover to production of the 4-series as well as other nonrecurring costs.

Sales and earnings by area of operations

Number of vehicles sold	**1997**	1996	1995
European operations	**35,521**	33,986	34,809
Latin American operations	**11,455**	9,005	9,828
Total Scania vehicles sold	**46,976**	42,991	44,637

Sales SEK m.	**1997**	1996	1995
European operations	**28,114**	25,200	25,783
Latin American operations	**6,973**	4,754	5,933
Total Scania products	**35,087**	29,954	31,716
Svenska Volkswagen products	**4,632**	3,776	3,124
Total	**39,719**	33,730	34,840

Operating income SEK m.	**1997**	1996	1995
European operations	**2,309**	2,276	4,598
Latin American operations	**407**	511	413
Customer finance operations	**73**	55	98
Total Scania products	**2,789**	2,842	5,109
Svenska Volkswagen products	**258**	215	243
Total	**3,047**	3,057	5,352

Operating margin %	**1997**	1996	1995
European operations[1]	**8.5**	9.3	18.2
Latin American operations	**5.8**	10.7	7.0
Total Scania products	**7.9**	9.5	16.1
Svenska Volkswagen products	**5.6**	5.7	7.8
Total	**7.7**	9.1	15.4

[1] *Including customer finance operations.*

Financial income and expenses

Consolidated net financial items improved by SEK 55 m. to SEK –296 m. (–351), of which SEK 71 m. was related to a positive nonrecurring effect from the sale of securities in Latin American operations. Negative cash flows due to increased capital spending, combined with lower interest income assets in Latin America, were offset by lower interest rates on borrowings in European operations.

Taxes

The Group's tax expenses amounted to SEK 764 m. (725), equivalent to 28 percent (27) of income after financial items. The higher percentage in 1997 was largely the result of a nontaxable nonrecurring item in Latin America during 1996.

Financial position

Cash flow developments

Operating cash flows excluding customer finance operations amounted to SEK –55 m. (1,625).

Cash flows from operating activities rose by SEK 400 m. as a consequence of improved income before depreciation.

Tied-up working capital rose by about SEK 900 m. The entire increase is attributable to Latin American operations where tied-up capital was affected by a payment of about SEK 600 m. for a tax dispute as well as an inventory build-up, resulting in an inventory of around 1,300 trucks. The purpose of the build-up, along with back-up deliveries from Europe, is to offset expected production losses when the change-over to production of the 4-series is implemented during the first half of 1998.

In European operations, tied-up working capital was unchanged during the year, compared to a reduction of about SEK 900 m. in 1996.

Net capital expenditures rose by nearly SEK 300 m. In European operations, they were unchanged. An increase of about SEK 600 m. in capital spending in the marketing organisation was offset by an equivalent reduction in production-related investments. In Latin American operations, net capital expenditures rose by about SEK 300 m. in preparation for the changeover to the new truck and bus range.

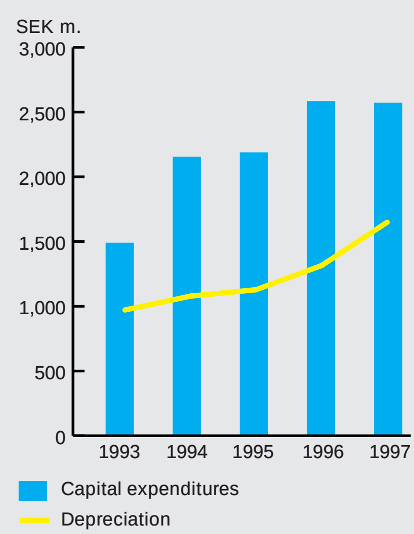
Customer finance operations expanded sharply during 1997, resulting in a cash flow of SEK –2,319 m. (–1,060). This expansion was especially strong during the fourth quarter of 1997.

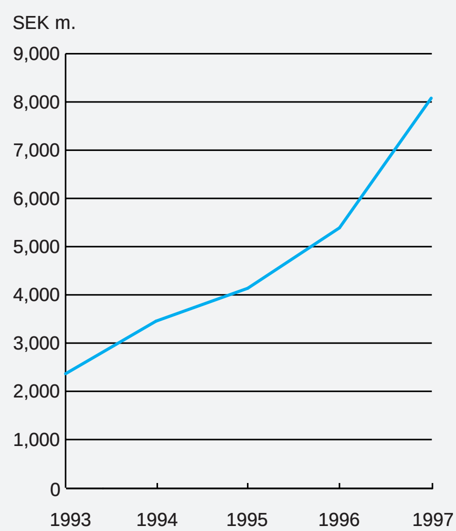
Customer finance operations

Customer finance operations reported an income of SEK 73 m. (55).

Customer financing is an important form of marketing support for the company's products. Operations grew rapidly during 1997, and lending volume rose by SEK 2,700 m. to a total of SEK 8,100 m., i.e. by 50 percent. Contributing factors were Scania's increased focus and investments in customer financing operations as well as the fact that customers are seeking solutions that combine leasing with various types of maintenance and repair agreements. Efforts to expand customer financing in Poland, Finland, Norway and Denmark also contributed to higher volume.

Capital expenditures for property, plant and equipment, depreciation





Operations are mainly carried out by Scania-owned finance companies in major European markets (Sweden, Great Britain, France, Germany, Belgium and since 1997 Poland). In most other countries, Scania offers financing in cooperation with international lenders. In the Dutch market, Scania's importer Beers' (50 percent Scania-owned) offers customer financing. In those countries where Scania operates finance companies, trucks financed via these companies accounted for a total of 31 percent of sales in 1997, compared to 24 percent in 1996. The largest markets are Sweden and Great Britain, with 1997 shares of 44 and 34 percent of the year-end total, respectively.

Operations in central and eastern Europe grew strongly during 1997. Scania's Polish finance company opened late in 1997 and got off to a strong start by financing about 35 percent of vehicle purchases.

In Latin America, Scania mainly offers customers financing in cooperation with international lenders.

As of 31 December 1997, volume financed consisted of SEK 3,230 m. in operating leases, SEK 2,538 m. in financial leases and SEK 2,332 m. in lending.

Given its increased customer financing exposure, Scania must devote efforts to continuous credit evaluations and monitoring of financed contracts. Scania's total commitments are monitored at the Group level and risks are limited by establishing ceilings on exposure per country and customer.

Credit losses attributable to finance companies amounted to SEK 25 m. in 1997. They consist mainly of changes in the bad debt reserve. As a percentage of total financed volume, this was equivalent to 0.3 percent.

Net indebtedness and refinancing

Net indebtedness, excluding pension liabilities and net borrowings of customer finance operations, increased by SEK 1,284 m. to SEK 7,143 m. (5,859). Net indebtedness as a ratio of shareholders' equity rose to 0.70 (0.65). Net indebtedness including customer finance operations totalled SEK 14,054 m. (10,304).

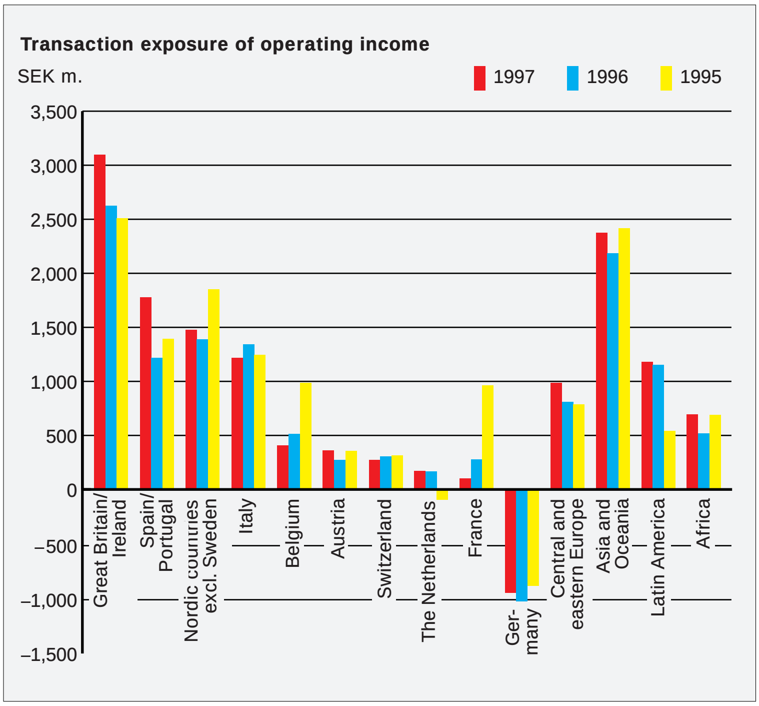
According to Scania's financial policy, cash and cash equivalents, long-term funding and committed credit lines should cover at least 125 percent of foreseeable funding needs over the next two years.

Scania has a committed revolving credit facility of USD 1,850 m. from an international banking syndicate that expires in December 2004. At year-end 1997, USD 425 m. of this facility was being utilised.

During 1997 the Group's medium-term note programme was expanded to SEK 5,000 m., under which Scania can issue notes and bonds with maturities ranging from one to ten years. At year-end, SEK 3,300 m. worth of such debt securities had been issued under the programme.

Interest and credit risk

Scania's policy concerning interest rate risk is that the duration of its loan portfolio should normally be six months but that maturities may be allowed to vary from 0 to 24 months. One exception is Scania's



Net assets outside Sweden, SEK m.

Currency	31 Dec 1997	31 Dec 1996	31 Dec 1995
Europe			
NLG	**810**	704	1,070
FRF	**311**	447	743
GBP	**111**	307	199
Other European currencies	**1,520**	1,231	1,523
Latin America			
USD	**1,831**	2,062	835
Real, Peso and other local currencies	**2,007**	709	727
Other areas			
USD	**27**	23	37
Other currencies	**308**	353	346
Total	**6,925**	5,836	5,480

finance companies, in which the fixed rate period on loans is matched with the fixed interest period on assets.

During 1997, the average funding expense was 5.5 percent. The average fixed interest period on Scania's loan portfolio (excluding finance companies) was between 3 and 9 months. As of 31 December 1997, the average fixed interest period was 6 months.

Derivative instruments are used to manage interest rate risks within the Group. All the above data include the effects of these derivatives. The difference between the market value and book value of these instruments at year-end was insignificant.

Credit risks that arise when investing liquid assets and engaging in derivatives trading, among other things, in Scania's treasury unit are regulated in Scania's financial policy. Transactions take place only within established ceilings and with carefully selected, creditworthy counterparties.

Currencies

The adjacent chart shows the net amount of Group revenues and operating expenses by country. Net currency transaction exposure during 1997 was about SEK 13,000 m. The largest inflow of currencies was in USD and GBP. Based on the 1997 geographic breakdown of revenues and expenses, a one percent change in the Swedish krona would change operating income by about SEK 130 m. on a full-year basis.

Scania's current policy is to hedge its net currency transaction exposure from the time an order is placed until delivery is paid for. The total hedging period is normally 3–4 months. At year-end approximately three months of estimated net flows were hedged in all currencies. At year-end, about three months of projected net flows in all currencies were hedged.

The adjacent table shows the Group's net assets in foreign currencies as of 31 December 1997. Scania's policy is not to hedge the net assets of foreign subsidiaries under normal circumstances. To the extent a subsidiary is overcapitalised or if there is surplus liquidity in a subsidiary, it should be hedged. As of 31 December 1997, SEK 1,173 m. of the net assets of foreign subsidiaries were hedged.

Personnel

At year-end, the number of employees – including contract employees – totalled 23,763, an increase of 1,557 persons since the beginning of 1997.

The number of employees in European production increased by 193 persons to 13,197 (13,004). Expansion of the marketing organisation continued, and the number of employees in sales companies rose by 1,283 persons to 6,160 (4,877), of whom more than 620 worked in newly acquired units in Switzerland, Germany, Great Britain, France and Belgium. In customer finance operations, the number of employees rose to 107 (75).

The number of employees in Latin American operations was largely unchanged at 4,299 (4,250) persons.

Year 2000 date management project

During December 1996, and in light of the coming turn of the century, Scania's Executive Management approved the initiation of a coordination project for the purpose of ensuring that its global operations are not adversely affected by faulty date management in its information technology (IT) systems.

Necessary changes in IT systems will be implemented at the end of 1998 in operations-critical and high priority areas. This includes most computer applications as well as systems integrated in products and production operations. Other changes will be made during 1999.

Parent Company

The Parent Company of the Scania Group, Scania AB, is a "public company" as defined by the Swedish Companies Act. Its assets consist of shares in and financial balances with the subsidiary Scania CV AB, ownership of the Latin American subsidiaries and the 50 percent shareholding in Svenska Volkswagen AB.

Scania CV AB is a public company and the parent company of the Scania Group's European operations, comprising European production and marketing companies as well as Scania's other companies outside Latin America.

The net income of Scania AB amounted to SEK 851 m. (595).

SALES AND INCOME BY QUARTER

Sales and income by quarter

	January–March			April–June		
	1997	1996	1995	**1997**	1996	1995
Sales, units						
Trucks	**9,190**	10,658	10,056	**11,023**	10,028	10,773
Buses	**969**	1,033	784	**1,251**	1,293	1,198
Total	**10,159**	11,691	10,840	**12,274**	11,321	11,971
Sales, SEK m.						
Scania products	**7,717**	7,873	7,807	**8,921**	7,594	8,628
Svenska Volkswagen products	**1,087**	853	718	**1,216**	1,056	862
Total	**8,804**	8,726	8,525	**10,137**	8,650	9,490
Operating income, SEK m.						
Scania products	**585**	1,189	1,484	**722**	1,006	1,477
Svenska Volkswagen products	**57**	40	37	**59**	58	56
Total	**642**	1,229	1,521	**781**	1,064	1,533
Operating margin, %						
Scania products	**7.6**	15.1	19.0	**8.1**	13.2	17.1
Svenska Volkswagen products	**5.2**	4.7	5.2	**4.9**	5.5	6.5
Total	**7.3**	14.1	17.8	**7.7**	12.3	16.2
Income after financial items, SEK m.	**577**	1,113	1,401	**771**	989	1,405

KEY FINANCIAL RATIOS[1)] AND DEFINITIONS

	1997	1996	1995
Earnings per share, SEK	**9.90**	9.90	16.40
Earnings per share according to U.S. GAAP, SEK	**11.10**	10.30	15.75
Return on shareholders' equity,%	**20.9**	23.1	60.1
Profit margin, %	**8.6**	10.5	17.2
Capital turnover, times	**1.91**	1.85	2.11
Return on capital employed, excluding customer finance companies, %	**16.3**	19.4	36.4
Return on capital employed, %	**13.2**	16.2	31.0
Debt/equity ratio	**0.70**	0.65	0.75
Interest coverage, times	**4.8**	4.1	4.9
Equity/assets ratio, %	**26.8**	27.7	28.2

July–September			October–December		
1997	1996	1995	**1997**	1996	1995
9,441	8,113	8,327	**12,738**	10,229	11,311
1,160	747	1,161	**1,204**	890	1,027
10,601	8,860	9,488	**13,942**	11,119	12,338
8,168	6,372	6,725	**10,281**	8,115	8,556
1,079	818	702	**1,250**	1,049	842
9,247	7,190	7,427	**11,531**	9,164	9,398
553	77	781	**929**	570	1,367
67	59	53	**75**	58	97
620	136	834	**1,004**	628	1,464
6.8	1.2	11.6	**9.0**	7.0	16.0
6.2	7.2	7.5	**6.0**	5.5	11.5
6.7	1.9	11.2	**8.7**	6.9	15.6
503	40	706	**900**	564	1,335

Earnings per share
Net income divided by the number of shares.

Return on shareholders' equity
Net income as a percentage of average shareholders' equity.

Profit margin
Operating income plus financial income as a percentage of sales.

Capital turnover
Sales divided by average capital employed.

Return on capital employed
Operating income plus financial income as a percentage of average total assets less non-interest-bearing liabilities.

Return on capital employed excluding customer finance companies
Operating income plus financial income less the income of the customer finance operations. This is calculated as a percentage of average total assets less non-interest-bearing liabilities with customer finance companies reported according to the equity accounting method.

Debt/equity ratio
Short- and long-term borrowings (excluding pension liabilities and net indebtedness in the customer finance companies) less liquid assets, divided by shareholders' equity.

Interest coverage
Operating income plus financial income divided by financial expenses.

Equity/assets ratio
Shareholders' equity as a percentage of total assets.

[1] *Unless otherwise indicated, calculations are based on an average for five measurement points (quarters).*

CONSOLIDATED INCOME STATEMENT

Amounts in SEK m.	**1997**	1996	1995
Sales (Note 1)	**39,719**	33,730	34,840
Cost of goods sold	**(30,407)**	(25,539)	(25,150)
Gross income	**9,312**	8,191	9,690
Research and development expenses	**(1,169)**	(1,084)	(923)
Selling expenses	**(4,786)**	(3,794)	(3,384)
Administrative expenses	**(668)**	(611)	(472)
Income from customer finance operations (Note 2)	**73**	55	98
Share of income of associated companies (Note 3)	**285**	300	343
Operating income (Note 4**)**	**3,047**	3,057	5,352
Financial income and expenses (Note 5)			
Interest income	**416**	526	746
Interest expenses	**(689)**	(869)	(1,256)
Other financial income and expenses	**(23)**	(8)	5
Net financial items	**(296)**	(351)	(505)
Income after financial items	**2,751**	2,706	4,847
Taxes (Note 6)	**(764)**	(725)	(1,566)
Minority interests	**(2)**	0	(1)
Net income	**1,985**	1,981	3,280

CONSOLIDATED BALANCE SHEET

Amounts in SEK m.	**1997**	1996	1995	Customer finance companies according to the equity method of accounting, proforma **1997**	1996	1995
ASSETS						
Fixed assets						
Intangible fixed assets (Note 7)	**134**	53	12	**134**	53	12
Tangible fixed assets (Note 8)	**16,258**	13,908	12,116	**13,012**	11,839	10,805
Financial fixed assets						
Shares in associated companies, etc (Note 9)	**1,230**	1,128	1,045	**1,952**	1,637	1,591
Interest-bearing receivables (Note 10)	**3,294**	2,190	1,671	**603**	398	323
Total fixed assets	**20,916**	17,279	14,844	**15,701**	13,927	12,731
Current assets						
Inventories (Note 11)	**6,902**	5,848	5,656	**6,803**	5,811	5,632
Receivables						
Interest-bearing receivables (Note 12)	**2,950**	2,271	2,002	**817**	748	547
Trade receivables	**3,715**	3,047	3,811	**3,691**	3,035	3,781
Other receivables	**1,261**	812	1,102	**1,088**	739	1,027
Prepaid expenses and accrued income	**355**	273	227	**330**	249	191
Total receivables	**8,281**	6,403	7,142	**5,926**	4,771	5,546
Short-term investments (Note 13)	**1,429**	1,825	761	**1,420**	1,825	757
Cash and bank balance	**704**	1,012	286	**644**	963	275
Total current assets	**17,316**	15,088	13,845	**14,793**	13,370	12,210
Total assets	**38,232**	32,367	28,689	**30,494**	27,297	24,941
SHAREHOLDERS' EQUITY AND LIABILITIES						
Shareholders' equity						
Share capital	**2,000**	2,000	2,000	**2,000**	2,000	2,000
Restricted reserves	**2,634**	1,875	1,651	**2,634**	1,875	1,651
Total restricted equity	**4,634**	3,875	3,651	**4,634**	3,875	3,651
Unrestricted reserves	**3,617**	3,125	1,165	**3,617**	3,125	1,165
Net income	**1,985**	1,981	3,280	**1,985**	1,981	3,280
Total unrestricted equity	**5,602**	5,106	4,445	**5,602**	5,106	4,445
Total shareholders' equity (Note 14)	**10,236**	8,981	8,096	**10,236**	8,981	8,096
Minority interests in subsidiaries	**15**	16	17	**15**	16	17
Provisions						
Provisions for pensions (Note 15)	**1,889**	1,764	1,540	**1,887**	1,762	1,538
Provisions for deferred taxes (Note 16)	**1,882**	1,741	1,652	**1,596**	1,492	1,524
Other provisions (Note 17)	**1,667**	1 ,614	1,735	**1,662**	1,599	1,724
Total provisions	**5,438**	5,119	4,927	**5,145**	4,853	4,786
Liabilities						
Long-term borrowings (Note 18)	**7,003**	8,046	7,458	**6,834**	7,883	5,541
Short-term borrowings (Note 18)	**9,184**	5,095	3,119	**2,373**	764	1,659
Advance payments from customers	**466**	406	246	**408**	364	185
Trade accounts payable	**2,375**	1,808	1,949	**2,262**	1,766	1,904
Tax liabilities	**236**	239	570	**230**	239	567
Other liabilities	**1,022**	802	721	**854**	655	708
Accrued expenses and prepaid income (Note 19)	**2,257**	1,855	1,586	**2,137**	1,776	1,478
Total liabilities	**22,543**	18,251	15,649	**15,098**	13,447	12,042
Shareholders' equity and total liabilities	**38,232**	32,367	28,689	**30,494**	27,297	24,941
Assets pledged and contingent liabilities						
Assets pledged (Note 20)	**223**	158	321			
Contingent liabilities (Note 21)	**522**	789	739			

CONSOLIDATED STATEMENT OF CASH FLOWS [1)]

Amounts in SEK m.	**1997**	1996	1995
Cash flows from operating activities			
Net income	**1,922**	2,002	3,260
Items not affecting cash flows (Note 22)	**1,757**	1,270	1,673
Cash from operating activities	**3,679**	3,272	4,933
Change in working capital etc.			
Inventories	**(549)**	(30)	(1,579)
Receivables	**(1,016)**	935	(1,028)
Provisions for pensions	**97**	256	141
Non-interest-bearing liabilities and provisions	**524**	(285)	102
Total change in working capital etc (Note 22)	**(944)**	876	(2,364)
Total cash flows provided by operating activities	**2,735**	4,148	2,569
Net cash used by investing activities (Note 22)	**(2,790)**	(2,523)	(2,139)
Operating cash flows excluding customer finance operations	**(55)**	1,625	430
Customer finance operations			
Funds generated internally	**208**	85	94
Change in financial receivables	**(1,418)**	(473)	(254)
Change in leasing assets	**(1,031)**	(627)	(445)
Change in other assets and liabilities	**(78)**	(45)	98
Cash flows from customer finance operations	**(2,319)**	(1,060)	(507)
Cash flows including customer finance operations	**(2,374)**	565	(77)
Change in net indebtedness from financing activities (Note 22)	**2,527**	2,280	(1,026)
Dividend to shareholders	**(1,100)**	(1,100)	(800)
Net change in cash and short-term investments	**(947)**	1,745	(1,903)
Effect of exchange rate fluctuations on cash and short-term investments	**243**	45	(237)
Cash and short-term investments at beginning of year	**2,837**	1,047	3,187
Cash and short-term investments at end of year	**2,133**	2,837	1,047

[1)] *Cash flows in industrial operations could be calculated separately because the elimination of internal profits in operational leasing via Scania-owned finance companies does not reduce the net capital spending concept. In addition, capital spending in acquired subsidiaries is reported (in compliance with the draft recommendation of the Swedish Financial Accounting Standards Council entitled "Reporting of Cash Flows") as the purchase price paid less liquid assets in the company on the acquisition date. Figures from prior years have been recalculated to allow comparisons.*

PARENT COMPANY FINANCIAL STATEMENTS

Income statement

Amounts in SEK m.	**1997**	1996	1995
Operating income	**0**	0	0
Financial income and expenses (Note 1)	**(180)**	(250)	(451)
Dividend received (Note 1)	**50**	55	1,173
Group contribution received	**1,600**	1,250	2,900
Allocation to tax allocation reserve	**(284)**	(250)	(600)
Taxes (Note 2)	**(335)**	(210)	(671)
Net income	**851**	595	2,351

Balance sheet

Amounts in SEK m.	**1997**	1996	1995
ASSETS			
Financial fixed assets			
Shares (Note 3)	**11,269**	11,269	11,269
Due from subsidiaries	**–**	–	173
Total assets	**11,269**	11,269	11,442
SHAREHOLDERS' EQUITY AND LIABILITIES			
Shareholders' equity (Note 4)	**9,558**	9,807	10,312
Untaxed reserves (Note 5)	**1,134**	850	600
Current liabilities			
Due to subsidiaries	**234**	400	–
Tax liabilities	**335**	210	507
Accrued expenses and prepaid income	**8**	2	23
Total current liabilities	**577**	612	530
Total shareholders' equity and liabilities	**11,269**	11,269	11,442
Assets pledged and contingent liabilities			
Assets pledged	**None**	None	None
Contingent liabilities (Note 6)	**1,330**	1,254	1,191

Statement of cash flows

Amounts in SEK m.	**1997**	1996	1995
Cash flows from operating activities			
Net income	**851**	595	2,351
Items not affecting cash flows			
Group contributions received	**(1,600)**	(1,250)	(2,900)
Allocation to untaxed reserves	**284**	250	600
Cash from operating activities	**(465)**	(405)	51
Change in working capital			
Other current liabilities	**131**	(318)	419
Due to former Parent Company	**–**	–	(812)
Total cash flows from operating activities	**(334)**	(723)	(342)
Change in net indebtedness from financing activities			
Change in liabilities to subsidiaries	**1,434**	1,823	8,518
Change in liabilities to former Parent Company	**–**	–	(7,376)
Dividend	**(1,100)**	(1,100)	(800)
Net cash provided by financing activities	**334**	723	342
Cash and short-term investments at end of year	**–**	–	–

ACCOUNTING PRINCIPLES

Consolidated accounts

The Scania Group applies Swedish accounting principles that comply in all material respects with the principles of the International Accounting Standards Committee (IASC). In the case of the Scania Group, there are limited differences compared to U.S. generally accepted accounting principles (GAAP). A description of U.S. GAAP can be found on page 47.

Beginning in 1997, the company is applying the new Swedish Annual Accounts Act, which has been harmonised with European Union practices. For Scania, this has primarily entailed changes in the structure of the income statements and balance sheets. The income statements and balance sheets of prior years have been recalculated in conformity with the new rules to allow comparisons. The new rules have only had an insignificant effect on the company's valuation principles.

The consolidated accounts encompass Scania and all subsidiaries and associated companies in Sweden and abroad. Subsidiaries are companies in which Scania directly or indirectly owns more than 50 percent of the voting rights of the shares or in which Scania otherwise has a decisive influence. Associated companies are companies in which Scania has a long-term ownership interest and voting rights of between 20 and 50 percent.

Associated companies are reported in accordance with the equity accounting method. This means that the shares and participations in associated companies are reported in the consolidated balance sheet as the Group's share of their equity after adjusting for the Group's share of surplus or deficit value, respectively. Thus, consolidated income includes Scania's share of the income of associated companies.

The consolidated accounts are prepared in accordance with the recommendation of the Swedish Financial Accounting Standards Council (RR1:96) and in accordance with the purchase accounting method. This means that an acquired subsidiary's, assets and liabilities are accounted for at fair market value according to an analysis of the acquisition. If the acquisition cost of the shares in the subsidiary exceeds the estimated fair market value of the company's net assets according to the analysis, the difference is reported as goodwill and is amortised over a five-year period unless there is special reason for another period. Only income that arises after the date of acquisition is included in consolidated shareholders' equity.

The minority interests' share of net income and shareholders' equity of partially owned subsidiaries is reported separately in the calculation of net income and shareholders' equity.

Foreign subsidiaries and associated companies

The income statements and balance sheets of these companies are translated to Swedish kronor using the current method, with the exception that the financial statements of subsidiaries in Latin American countries with currencies that are not yet sufficiently stable are translated using the monetary/non-monetary method.

Under the current method, assets and liabilities are translated at the year-end exchange rate, while income and expenses are translated at the average exchange rate for the year. The translation difference that arises in part when translating the net assets of foreign companies at a different rate at the beginning of the year than at year-end, and in part when net income is translated at other than the year-end rate, is reported directly in shareholders' equity in the balance sheet.

Under the monetary/non-monetary method, monetary items are translated at the year-end rate, while non-monetary items are translated at the rate in effect on the acquisition date. Inventories, property, plant and equipment and shareholders' equity are translated at the acquisition date rate and other assets and liabilities at the year-end rate. Non-monetary items reported by subsidiaries at their actual year-end value are translated at the year-end rate. With the exception of the cost of goods sold and depreciation of property, plant and equipment, which are translated at the acquisition date rate, income and expenses are translated at a weighted average exchange rate for the year.

The translation difference on monetary assets and liabilities is included in net income for the year and is reported in the income statement as follows. The portion of the translation difference attributable to operating items, primarily trade accounts receivable and payable, is included in operating income. The portion of the translation difference attributable to financial items is included as interest in financial income and expenses.

Receivables and liabilities in foreign currency

Receivables and liabilities in foreign currency are valued at the year-end exchange rate. Unrealised exchange rate gains and losses are included in income. Receivables and liabilities hedged by forward contracts are valued at the current forward rate.

Short-term investments

Short-term investments are valued at the lower of acquisition cost or market value.

Inventories

Inventories are valued at the lower of cost according to the first in, first out principle (FIFO) or market value. An allocable portion of indirect expenses is included in the value of the inventories.

Property, plant and equipment

Property, plant and equipment are reported at acquisition cost less accumulated depreciation.

Revenue recognition

Sales revenues are recognised upon delivery of the products and services, on the date when substantially all the risks and rights of ownership pass to the buyer.

Leasing contracts

Leasing contracts with customers are reported as financial leases in cases where substantially all risks and benefits associated with ownership have been transferred to the lessee. This means that these transactions are reported as sales when the contracts go into effect, with the accompanying reporting of revenue and receivables. Other leasing contracts are accounted for as operating leases and income is recognised when earned over the life of the lease.

Depreciation

Depreciation is based on an asset's historical cost and estimated useful life. The estimated useful life of machinery and equipment is 5–15 years. Industrial buildings are depreciated over 25 years.

Research and development expenses

The cost of research and development is charged to income as it arises.

Warranty expenses

Estimated costs for product warranties are charged to operating income when the product is sold.

Exchange rate differences

Exchange rate differences related to short- and long-term borrowings are reported as financial income or expenses, while other exchange rate differences are reported under operating income.

Exchange rate differences attributable to loans and forward exchange contracts in foreign currencies that are designated as a hedge of the net assets of foreign subsidiaries are reported, with consideration given to tax effects, directly in shareholders' equity in the consolidated balance sheet together with the corresponding translation difference. The portion of these forward exchange contracts that pertains to interest is amortised over the life of the contract and is reported among financial income and expenses.

Taxes

The Group's total tax expense consists of current tax and deferred tax. Deferred tax consists primarily of the tax on the difference between the value of assets and liabilities in the financial statements and from a tax standpoint. One exception is deferred taxes attributable to countries with currencies that are not yet sufficiently stable, which are not assigned a value. Deferred tax receivables related to unutilised tax losses carried forward are assigned a value to the extent they are considered very likely to be utilised in the future.

Tax regulations in Sweden and certain other countries permit allocations to special reserves. In this manner, companies, within certain limits, can retain and continue to have access to reported business earnings without subjecting them to immediate taxation. Untaxed reserves are not subject to taxation until they are utilised. However, in the event the business should incur a loss, the reserves may be utilised to cover such a loss without the payment of tax.

In the consolidated balance sheet, untaxed reserves are allocated between shareholders' equity and the deferred tax liability. Tax attributable to the year's change in untaxed reserves is reported in the income statement as deferred tax.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

All amounts are stated in millions of Swedish kronor (SEK m.) unless otherwise indicated

Note 1 Sales

	1997	1996	1995
Trucks	**24,005**	20,636	22,296
Buses	**3,251**	2,852	2,955
Engines	**392**	344	370
Service-related products	**5,649**	4,616	4,790
Used vehicles and other products	**1,790**	1,506	1,305
Total Scania products	**35,087**	29,954	31,716
Svenska Volkswagen products[1]	**4,632**	3,776	3,124
Total	**39,719**	33,730	34,840

[1] *Refers to Scania's sales through the Group's wholly owned Swedish dealership companies.*

Note 2 Customer finance operations

The Group's customer finance operations are conducted primarily by separate subsidiaries. Their financial statements are summarised below.

Income statement	1997	1996	1995
Interest income	**308**	280	306
Leasing income	**628**	418	382
Interest expenses	**(318)**	(252)	(247)
Depreciation	**(436)**	(297)	(223)
Bad debts	**(25)**	(16)	11
Other expenses	**(84)**	(78)	(131)
Income of the customer finance operations	**73**	55	98

Balance sheet	1997	1996	1995
ASSETS			
Leasing assets	**3,230**	2,063	1,304
Financial receivables	**4,870**	3,323	2,829
Other assets	**437**	201	195
Total	**8,537**	5,587	4,328
SHAREHOLDERS' EQUITY AND LIABILITIES			
Shareholders' equity	**722**	509	546
Loan liabilities	**7,022**	4,500	3,280
Other liabilities	**793**	578	502
Total	**8,537**	5,587	4,328

Statement of cash flows	1997	1996	1995
Net income	**63**	(21)	20
Items not affecting cash flows	**145**	106	74
Cash from operating activities	**208**	85	94
Change in financial receivables	**(1,418)**	(473)	(254)
Change in leasing assets	**(1,031)**	(627)	(445)
Change in other assets and liabilities	**(78)**	(45)	98
Operating cash flows	**(2,319)**	(1,060)	(507)

Leasing assets	1997	1996	1995
Cost	**4,043**	2,626	1,625
Accumulated depreciation	**(813)**	(563)	(321)
Residual value at year-end[1]	**3,230**	2,063	1,304

[1] *Included in the consolidated accounts under "Machinery and equipment" after subtracting intra-Group profits.*

Net investments in financial leases	1997	1996	1995
Minimum lease payments receivable	**2,905**	2,137	1,331
Less:			
Executory costs and reserve for doubtful receivables	**(68)**	(69)	(62)
Imputed interest	**(299)**	(281)	(165)
Net investment[2]	**2,538**	1,787	1,104

[2] *Included in "Interest-bearing trade accounts receivable" and Long-term interest-bearing receivables."*

Future payments	Operating leases	Financial leases
1998	881	1,064
1999	603	807
2000	401	599
2001	190	304
2002	132	111
2003 and thereafter	40	20
Total	2,247	2,905

Note 3 Share of income of associated companies

The Group's share of income before taxes of associated companies consisted of the following:

	1997	1996	1995
Scania products	**146**	162	179
Svenska Volkswagen products	**139**	138	164
Total	**285**	300	343

Note 4 Depreciation

Distribution of depreciation by function:

	1997	1996	1995
Cost of goods sold	**1,356**	1,085	929
Research and development expenses	**80**	71	60
Selling expenses	**212**	155	132
Administrative expenses	**24**	17	15
Total	**1,672**[1]	1,328[1]	1,136[1]

[1] *Does not include depreciation in customer finance operations. See Note 2.*

Note 5 Financial income and expenses

	1997	1996	1995
Interest income			
Short-term investments	**70**	328	466
Long-term receivables	**201**	49	60
Interest portion of forward exchange contracts used for hedging net assets	**(6)**	58	97
Other	**151**	91	123
Total interest income	**416**	526	746
Interest expenses			
Borrowing	**(637)**	(800)	(1,189)
Interest on pension liability (PRI)	**(52)**	(69)	(67)
Total interest expenses	**(689)**	(869)	(1,256)
Other	**(23)**	(8)	5
Net financial items	**(296)**	(351)	(505)

Note 6 Taxes

	1997	1996	1995
Income tax	**(592)**	(487)	(743)
Withholding taxes on dividends and interest	**2**	–	(164)
Total current tax expense	**(590)**	(487)	(907)
Deferred tax	**(82)**	(140)	(551)
Share of tax of associated companies	**(92)**	(98)	(108)
Total	**(764)**	(725)	(1,566)

Geographic distribution of income before taxes and minority interest:

Sweden	**1,820**	1,703	3,396
Rest of the world	**931**	1,003	1,451
Total	**2,751**	2,706	4,847

Geographic distribution of income tax expense:

Current income tax			
Sweden	**(369)**	(295)	(552)
Rest of the world	**(221)**	(192)	(355)
Total	**(590)**	(487)	(907)
Deferred income tax			
Sweden	**(109)**	(145)	(468)
Rest of the world	**27**	5	(83)
Total	**(82)**	(140)	(551)
Tax of associated companies	**(92)**	(98)	(108)
Total	**(764)**	(725)	(1,566)

The main reasons behind the difference between the statutory tax rate in Sweden and the effective tax rate in relation to income before taxes are indicated below:

	1997	1996	1995
	%	%	%
Swedish statutory income tax rate	**28**	28	28
Valuation of tax loss carry-forwards	**1**	(2)	–
Difference between Swedish and foreign tax rates	**1**	1	3
Foreign withholding taxes	**–**	–	4
Tax-exempt income	**(2)**	(3)	(3)
Non-deductible expenses	**1**	3	1
Adjustment for taxes pertaining to previous years	**–**	–	(3)
Other	**(1)**	–	2
Effective income tax rate	**28**	27	32

Note 7 Intangible fixed assets

Goodwill	1997	1996	1995
Accumulated cost			
Opening balance	**60**	16	19
Additions	**102**	45	2
Translation differences for the year	**(1)**	(1)	(5)
Closing balance	**161**	60	16
Accumulated depreciation			
Opening balance	**7**	4	7
Depreciation for the year	**20**	3	2
Translation differences for the year	**–**	–	(5)
Closing balance	**27**	7	4
Book value on 31 December	**134**	**53**	**12**

Note 8 Tangible fixed assets

	Buildings and land	Machinery and equipment	Construction in progress and advance payments
Book value, 1 January 1995	5,293	5,238	318
Change in accumulated cost, 1995	91	1,832	55
Change in accumulated depreciation, 1995	(194)	(516)	(1)
Book value, 31 December 1995	5,190	6,554	372
Change in accumulated cost, 1996	238	2,291	225
Change in accumulated depreciation, 1996	(265)	(697)	–
Book value, 31 December 1996	5,163	8,148	597
1997			
Accumulated cost			
Opening balance	6,886	14,996	598
Additions	422	3,223	654
Acquisition of subsidiaries	361	169	3
Disposals	(86)	(1,337)	–
Reclassifications	35	(25)	(46)
Translation differences for the year	82	501	73
Closing balance	7,700	17,527	1,282
Accumulated depreciation			
Opening balance	1,771	6,848	–
Acquisition of subsidiaries	90	104	–
Disposals	(19)	(830)	–
Reclassifications	–	(45)	–
Depreciation for the year	279	1,810	–
Translation differences for the year	27	225	–
Closing balance	2,148	8,112	–
Accumulated depreciation			
Opening balance	49	–	–
Disposals	(16)	–	–
Depreciation for the year	(1)	–	–
Closing balance	32	–	–
Accumulated write-downs			
Opening balance	–	–	–
Write-downs for the year	–	22	–
Translation differences for the year	–	1	–
Total	–	23	–
Book value on 31 December	5,584	9,392	1,282[2]
of which "Machinery"		6,013	
of which "Equipment"		626	
of which "Leasing assets"		2,753[1]	
Tax assessment value, buildings (in Sweden)	1,399		
equivalent book value	3,099		
Tax assessment value, land (in Sweden)	380		
equivalent book value	449		

Firm obligations related to leasing of premises are distributed as follows:

	1997	1998	1999	2000	2001	2002	2003
Rent payment	**39**	41	35	27	19	15	14

[1] *After subtracting intra-Group profits.*
[2] *Refers mainly to machinery investments in preparation for the changeover to the new model range in Latin America. At year-end 1997, they had not yet been placed in service.*

Note 9 Shares in associated companies, etc

Shares in associated companies	1997	1996	1995
Accumulated cost	**796**	796	789
Accumulated share of income	**425**	318	245
Book value	**1,221**	1,114	1,034

Specification of the Group's holdings of shares and participations in associated companies etc.

Associated company/ corporate ID number/ country of registration	% Owner-ship	Book value in parent company accounts	Value of Scania's share in consolidated accounts 1997	1996	1995
Beers' N.V., NL003779439B01, the Netherlands	50	483	**601**	558	497
Oy Scan-Auto Ab, FI0202014-4, Finland	50	82	**107**	105	140
Svenska Volkswagen AB, 556084-0968, Sweden	50	298	**490**	439	397
WM-Data Scania AB, 556084-1206, Sweden	50	7	**23**	12	–
Shares in associated companies			**1,221**	**1,114**	1,034
Shares in other companies			**9**	14	11
Total			**1,230**	1,128	1,045

The shares in Beers' N.V. are publicly listed and the market value of the investment was SEK 824 m. (741 and 577 respectively) at year-end.

The difference between the value of Scania's share in the consolidated financial statements using the equity method of accounting (SEK 1,221 m.) and the Group's ownership stake in the shareholders' equity of associated companies (SEK 1,256 m.) amounted to SEK 35 m.

The Group's share of undistributed accumulated profit in associated companies comprised part of restricted reserves in the consolidated accounts. It amounted to SEK 424 m. (319 and 245, respectively)

Note 10 Interest-bearing receivables (long-term)

	1997	1996	1995
Receivables in customer finance operations	**2,691**	1,792	1,348
Other receivables	**603**	398	323
Total	**3,294**	2,190	1,671

Included in "Other receivables" were deposits of SEK 136 m. (114 and 33, respectively) with financial institutions which were restricted in their use by agreement with third-party lenders.

Note 11 Inventories

	1997	1996	1995
Raw materials	**1,241**	1,097	1,407
Work in progress	**648**	745	625
Finished goods	**5,013**	4,006	3,624
Total	**6,902**	5,848	5,656

Note 12 Interest-bearing trade accounts receivable (current assets)

	1997	1996	1995
Interest-bearing trade accounts receivable	**817**	748	547
Receivables in customer finance operations	**2,133**	1,523	1,455
Total	**2,950**	2,271	2,002

Note 13 Short-term investments

	1997	1996	1995
Cash equivalents (terms of less than 90 days)	**571**	1,165	521
Short-term investments	**858**	660	240
Total	**1,429**	1,825	761

Investments totalling SEK 502 m. (223 and 42, respectively) in value were restricted by agreement with outside parties. See also Note 10.

Note 14 Shareholders' equity

The shareholders' equity of the Group has changed as follows:

1996	Share capital	Re-stricted reserves	Unrestricted shareholders equity	Total
Opening balance	2,000	1,651	4,445	8,096
Dividend			(1,100)	(1,100)
Net income			1,981	1,981
Translation differences for the year			1	1
Exchange rate differences on forward contracts for the year			18	18
Transfer between restricted and unrestricted equity		224	(224)	0
Other			(15)	(15)
Closing balance	2,000	1,875	5,106	8,981
1997				
Opening balance	2,000	1,875	5,106	8,981
Dividend			(1,100)	(1,100)
Net income			1,985	1,985
Translation difference for the year			444	444
Exchange rate differences on forward contracts for the year			(70)	(70)
Transfer between restricted and unrestricted equity		759	(759)	0
Other			(4)	(4)
Closing balance	**2,000**	**2,634**	**5,602**	**10,236**

Scania AB has 100,000,000 A shares outstanding with voting rights of one per share and 100,000,000 B shares outstanding with voting rights of 1/10 per share. No allocations to restricted reserves are required.

Note 15 Provisions for pensions and similar commitments

	1997	1996	1995
Provisions for FPG/PRI-pensions	**1,168**	1,063	988
Other pensions, vested	**342**	399	265
Special pension allocation	**119**	112	88
Medical care benefits	**260**	190	199
Total	**1,889**	1,764	1,540

The amount under "Provisions for pensions" corresponds to the actuarial projections of all mandatory and voluntary pension obligations.

The Swedish plan for salaried employees is administered by a Swedish secured multi-employer pension institute, the Pension Registration Institute (PRI). The level of benefits and actuarial assumptions is established by PRI. Scania's pension liability consists of the sum of the discounted current value of the company's estimated future pension payments. Pension liability is based on current wages and salaries.

"Provisions for pensions" include foreign subsidiaries, whose pension commitments are reported in accordance with the principles that apply in each country, provided that they permit earned pension benefits to be reported as an expense.

For obligations related to medical care benefits attributable to the operations in Brazil, Scania applies SFAS 106, "Employers' Accounting for Postretirement Benefits". This means that medical care benefits, etc. that are earned by the employees but not utilised until after retirement are expensed as they arise.

Note 16 Deferred tax liabilities

Deferred tax is the tax on the difference between the valuations of assets and liabilities for accounting and tax purposes:

	1997	1996	1995
Deferred tax assets			
Tax loss carry-forwards	**72**	106	97
Other	**120**	33	10
Total	**192**	139	107
Deferred tax liabilities			
Property, plant and equipment	**1,719**	1,612	1,492
Inventories	**8**	8	84
Tax allocation reserve	**326**	238	168
Other	**21**	22	15
Total	**2,074**	1,880	1,759
Net deferred tax liabilities	**1,882**	1,741	1,652

Tax loss carry-forwards stem from the Netherlands, Germany and France and may be utilised without time constraints.

In Sweden, tax laws permit allocations to an untaxed reserve called a tax allocation reserve. Deductions for allocations to this reserve are allowed to a maximum of 20 percent of the company's taxable profits. Each allocation may be freely withdrawn and face taxation, but must be withdrawn no later than the fifth year following the year the allocation was made.

Note 17 Other provisions

	1997	1996	1995
Warranty provisions	**1,259**	934	811
Other	**408**	680	924
Total	**1,667**	1,614	1,735

Note 18 Borrowings

In November 1997 Scania refinanced its previous revolving credit facility and the ceiling was raised from USD 1,700 m. to USD 1,850 m. The expiration date was extended until 2004. At year-end 1997, USD 425 m. of this facility was being utilised.

During 1997 the Group's medium-term note programme was expanded from SEK 3,000 m. to SEK 5,000 m. This programme enables Scania to issue notes and bonds with maturities of 1 to 10 years. At year-end, SEK 3,300 m. worth of such debt securities had been issued under the programme.

During 1997 commercial paper programmes were established in Sweden and Belgium, with ceilings of SEK 4,000 m. and BEF 5,000 m., respectively. At year-end, SEK 475 m. and BEF 1,719 m., respectively, were being utilised.

Short- and long-term borrowing distributed by currency[1]

	1997	1996	1995
SEK	**5,189**	1,214	178
USD	**5,042**	7,810	670
GBP	**2,412**	1,303	1,112
Other currencies	**3,544**	2,814	1,785
Total[2]	**16,187**	13,141	3,745
Due to former Parent Company	**–**	–	6,832
Total	**16,187**	13,141	10,577

1) *Does not take into account any currency hedging.*
2) *These amounts include SEK 7,022 m. (4,500 and 3,280, respectively) in borrowings for customer finance operations.*

The average interest rate on borrowings, including borrowings for customer finance operations but excluding liabilities to the former Parent Company, Investor AB, was 5.5 percent (5.4 and 7.2, respectively) at year-end.

The above loans fall due for repayment as follows:

1998	9,184
1999	1,894
2000	1,151
2001	355
2002	168
2003 and thereafter	3,435
Total	16,187

Net indebtedness

	1997	1996	1995
Cash, cash equivalents and short-term investments	**2,133**	2,837	1,047
Short-term borrowings	**(9,184)**	(5,095)	(3,119)
Long-term borrowings	**(7,003)**	(8,046)	(626)
Due to former Parent Company	**–**	–	(6 832)
Total	**(14,054)**	(10,304)	(9,530)
Of which, attributable to customer finance operations	**(6,911)**	(4,445)	(3,362)
Net indebtedness	**(7,143)**	(5,859)	(6,168)

Note 19 Accrued expenses and prepaid income

This item consisted mainly of the customary accrual items, of which about SEK 300 m. were financial items.

Note 20 Assets pledged

	1997	1996	1995
Real estate mortgages	**166**	71	261
Chattel mortgages	**16**	17	–
Receivables	**41**	70	60
Total	**223**	158	321

All assets pledged consisted of collateral for the Group's own liabilities. In 1997 all collateral was pledged to credit institutions and amounted to SEK 41 m. for short-term borrowings and SEK 182 m. for long-term borrowings.

Note 21 Contingent liabilities

	1997	1996	1995
FPG/PRI pension guarantee obligations on behalf of Group companies	**25**	22	7
FPG/PRI pension guarantee obligations on behalf of associated companies	**113**	72	69
Loan guarantees	**41**	176	92
Discounted bills and contracts	**75**	208	232
Other guarantees	**268**	311	339
Total	**522**	789	739

In addition to the above contingent liabilities, the Group has issued vehicle repurchase guarantees worth SEK 995 m. Of these, SEK 449 m. were obligations to Svenska Volkswagen Finans AB.

The Group is party to legal proceedings and related claims arising in the normal course of business. Management believes, based on its assessments of these claims, that the ultimate resolution of these proceedings will not have a material impact on the Group's financial position.

Note 22 Consolidated statement of cash flows

Items not affecting cash flows

	1997	1996	1995
Depreciation	**1,672**	1,328	1,136
Unrealised exchange rate differences	**(84)**	(39)	(10)
Doubtful receivables	**73**	1	59
Retained associated company income	**(108)**	(93)	(100)
Deferred tax	**5**	37	468
Other	**199**	36	120
Total	**1,757**	1,270	1,673

Change in working capital

Interest-bearing long-term receivables	**(140)**	10	77
Inventories	**(549)**	(30)	(1,579)
Current receivables	**(876)**	925	(1,105)
Provisions for pensions	**97**	256	141
Advance payments from customers	**1**	165	(141)
Trade accounts payable	**223**	(217)	70
Due to former Parent Company	**–**	–	(812)
Other liabilities and provisions	**300**	(233)	985
Total	**(944)**	876	(2,364)

Net investments

Investments in tangible fixed assets	**(2,615)**	(2,565)	(2,225)
Divestments of tangible fixed assets	**308**	127	177
Proceeds from sale of shares	**5**	36	–
Acquisitions of subsidiaries	**(488)**	(121)	(91)
Total	**(2,790)**	(2,523)	(2,139)

Change in net indebtedness through financing activities

Net change in short-term borrowings	**3,655**	1,958	1,593
Repayment of long-term borrowings	**(1,271)**	(324)	(303)
Increase in long-term borrowings	**147**	7,673	355
Change in "Due to former Parent Company"	**–**	(6,948)	(2,750)
Net change in restricted deposits	**(4)**	(79)	79
Total	**2,527**	2,280	(1,026)

Note 23 Wages, salaries and other remuneration; average number of employees and number of employees

	1997	1996	1995
Wages, salaries and other remuneration			
Operations in Sweden:			
Boards of Directors, Presidents and Executive Vice Presidents	**33**	32	26
of which bonuses	**4**	6	5
Other employees	**2,840**	2,651	2,430
Operations outside Sweden:			
Boards of Directors, Presidents and Executive Vice Presidents	**104**	71	67
of which bonuses	**5**	6	8
Other employees	**2,474**	2,010	2,119
Total	**5,451**	4,764	4,642
Pension costs and mandatory payroll fees	**1,919**	1,762	1,865
of which pension costs[1]	**326**	471	403
Total wages, salaries and remuneration, pension costs and mandatory payroll fees	**7,370**	6,526	6,507

	1997	1996	1995
Wages, salaries and other remuneraton by country			
Operations in Sweden:	**4,077**	3,889	3,597
Operations outside Sweden:			
Brazil	**1,012**	872	1,089
The Netherlands	**465**	478	517
France	**310**	229	239
Argentina	**290**	218	303
Denmark	**224**	193	160
Great Britain	**222**	132	117
Germany	**185**	127	118
Switzerland	**138**	–	–
Belgium	**121**	111	122
32 countries < SEK 100 m. [2]	**326**	277	245
Total	**3,293**	2,637	2,910
Group total	**7,370**	6,526	6,507

Average number of employees

Operations in Sweden:			
Average number of employees	**10,519**	11,094	10,815
Operations outside Sweden:			
Number of countries	**40**	37	36
Average number of employees	**11,759**	10,248	10,115
Average total number of employees	**22,278**	21,342	20,930

Average number of employees

Operations in Sweden:	**10,519**	11,094	10,815
– of whom men	**9,055**	9,698	9,112
– of whom women	**1,464**	1,396	1,703
Operations outside Sweden:			
Brazil	**3,092**	2,911	3,485
The Netherlands	**1,773**	1,820	1,784
Great Britain	**1,247**	705	552
Argentina	**1,104**	1,150	1,156
France	**927**	888	757
Denmark	**737**	642	479
Germany	**493**	295	284
Belgium	**419**	306	314
Australia	**306**	341	331
Austria	**305**	272	246
Switzerland	**262**	–	–
Poland	**249**	172	102
Tanzania	**177**	189	196
South Africa	**117**	88	30
26 countries with < 100 employees[3]	**551**	469	399
Total	**11,759**	10,248	10,115
– of whom men	**10,379**	9,293	9,247
– of whom women	**1,380**	955	868
Average total number of employees	**22,278**	21,342	20,930

Number of employees on 31 December 1997

	1997	1996	1995
European operations			
Production operations and central staff units:	**13,197**	13,004	14,364
Marketing companies	**6,160**	4,877	4,050
Customer finance companies	**107**	75	90
Total	**19,464**	17,956	18,504
Latin American operations	**4,299**	4,250	4,520
Group total	**23,763**	22,206	23,024
– of whom, temporary contract-hire personnel	**807**	308	782

[1] *Of the pension expense in the consolidated financial statements, SEK 38 m. (19 and 24, respectively) was for Boards of Directors and Presidents/Managing Directors in the Scania Group.*

[2] *In 1996, 30 countries had less than SEK 100 m. in wages, salaries and other remuneration. In 1995, the figure was 28 countries.*

[3] *In 1996, 25 countries had fewer than 100 Scania employees. In 1995, the figure was 24.*

Note 24 Information regarding compensation to executive officers

According to the decision of the Annual General Meeting, the 1997 compensation to the members of the Board of Directors elected by the Annual Meeting amounted to SEK 1.9 m. Anders Scharp, Chairman, received compensation of SEK 700,000. Leif Östling, President and CEO, received a salary and bonus of SEK 4,638,387, of which SEK 541,200 was a bonus. The President is entitled – or if the company so demands, obliged – to retire upon reaching the age of 60 with a pension of 70 percent of his pensionable salary, including ITP pension and national pension. Upon reaching the age of 65, a retirement pension of just above 65 percent of his pensionable salary will be payable. This pension will diminish by 10 percent annually beginning at age 75, and after 10 years it will comprise the sum of his ITP pension and national pension.

If terminated by the company, the President and CEO has a severance agreement entitling him to a maximum of two years' salary. The other executive officers do not have severance agreements.

Scania's incentive program for high-level executives and managers includes a bonus based on operating earnings, defined as Scania Group net income after subtracting expenses for shareholders' equity. If there is a positive change in earnings as defined above, incentives may also be payable in the form of equity related instruments. No payment related to 1997 will be made.

During 1997, the Board of Directors approved a new Income Security and Pension Plan for high-level executives and Managers. Unlike the older pension plan, the new plan contains rules on time limited pension benefits supplemented by employee contributions. A retirement pension of just above 65 percent of pensionable salary will be payable for 10 years beginning at age 65. There is a corresponding time limit on survivors' pensions. Certain high-level executives and managers are entitled, or may be obliged, to retire with a pension at age 62, in which case 50 percent of pensionable salary will be paid before age 65. Older commitments concerning life-long pensions have been renegotiated and the new plan is applicable, except for a small group of executives and managers with a short period remaining until retirement.

All executive officers are offered company car benefits.

FINANCIAL INFORMATION IN ACCORDANCE WITH U.S. GENERALLY ACCEPTED ACCOUNTING PRINCIPLES (GAAP)

Swedish accounting principles differ in certain respects from U.S. GAAP. The differences that have a material effect on net income and shareholders' equity are as follows:

(a) Goodwill

In June 1991, Saab-Scania AB became a wholly owned subsidiary of Investor AB through an acquisition of all outstanding shares in the market. In January 1994, the net assets of Scania's operations were transferred to a separate company. According to U.S. GAAP, push-down accounting is applied in such instances, which means that a goodwill value is assigned to the Scania operations and subsequently amortised over 40 years.

(b) Pension expenses

The pension obligations reported in the consolidated financial statements has been based on actuarial calculations in accordance with Swedish accounting principles.

For U.S. GAAP, the Group applies SFAS No. 87 "Employers' Accounting for Pensions" for the most significant stipulated pension plans. SFAS No. 87 is more controlled in particular as to the use of actuarial assumptions and requires that the projected unit credit method be used.

(c) Taxes

The Group reports deferred tax on differences between financial reporting values and tax values except in countries with currencies that are not yet sufficiently stable. According to U.S. GAAP, deferred tax is established on all differences between financial reporting values and tax values.

(d) Transactions in foreign currencies

The Group uses forward contracts to hedge certain future transactions. Unrealised gains and losses on forward contracts are accrued and recognised as income during the same period in which the hedged flow is reported.

According to U.S. GAAP, gains and losses on forward contracts are only accrued to the extent the future contract is intended for a specific purpose and effectively hedges a specific obligation. Forward contracts which do not meet these criteria are reported at fair market value and unrealised gains and losses are recognised as income.

The Group utilises forward contracts in U.S. dollars to hedge the net capital expenditures of the Latin American companies, since these assets consist primarily of U.S. dollars. In the Swedish consolidated accounts, translation differences are transferred directly to shareholders' equity.

According to U.S. GAAP, these translation differences are reported directly in the income statement and the forward contracts in question are assigned market values.

(e) Capitalisation of expenses

In accordance with Swedish accounting principles, the company has capitalised pre-operating expenses related to a production facility. According to U.S. GAAP, such expenses are charged to income in the period they actually arise.

The application of U.S. GAAP would have resulted in the following changes in net income and shareholders' equity:

Net income	**1997**	1996	1995
Net income according to Swedish GAAP	**1,985**	1,981	3,280
Goodwill (a)	**(12)**	(12)	(12)
Pension expenses (b)	**12**	21	23
Taxes (c)	**(112)**	13	24
Transactions in foreign currencies (d)	**338**	59	(169)
Capitalisation of expenses (e)	**12**	10	10
Tax effect of U.S. GAAP adjustments	**(8)**	(9)	(7)
Change in net income	**230**	82	(131)
Net income according to U.S. GAAP	**2,215**	2,063	3,149
Earnings per share according to U.S. GAAP	**11.10**	10.30	15.75

Shareholders' equity	**1997**	1996	1995
Shareholders' equity according to Swedish GAAP	**10,236**	8,981	8,096
Reporting of goodwill (a)	**400**	412	424
Pension expenses (b)	**245**	233	212
Taxes (c)	**65**	177	164
Transactions in foreign currencies (d)	**–**	(2)	–
Capitalisation of expenses (e)	**(22)**	(34)	(44)
Tax effect of U.S. GAAP adjustments	**(60)**	(53)	(44)
Change in shareholders' equity	**628**	733	712
Shareholders' equity according to U.S. GAAP	**10,864**	9,714	8,808

NOTES TO THE PARENT COMPANY FINANCIAL STATEMENTS

All amounts are stated in millions of Swedish kronor (SEK m.) unless otherwise indicated

Note 1 Financial income and expenses

	1997	1996	1995
Interest income			
From subsidiaries	–	–	252
Interest portion of forward exchange contracts used for hedging net assets	–	18	45
Subtotal	–	18	297
Interest expenses			
To subsidiaries	**(64)**	(239)	(185)
To former Parent Company	–	–	(714)
Interest portion of forward exchange contracts used for hedging net assets	**(13)**	–	–
Subtotal	**(77)**	(239)	(899)
Exchange rate differences on forward exchange contracts for hedging net assets of foreign subsidiaries	**(103)**	(29)	151
Total financial income and expenses	**(180)**	(250)	(451)
Dividends			
From Group companies	–	–	1,080
From associated companies	**50**	55	93
Subtotal	**50**	55	1,173
Total	**(130)**	(195)	722

Note 2 Taxes

	1997	1996	1995
Income tax	**(335)**	(210)	(507)
Withholding taxes on dividends and interest	–	–	(164)
Total	**(335)**	(210)	(671)

Note 3 Shares

Subsidiary/ corporate ID number/ country of registration	% ownership	1997 Book value	1996 Book value	1995 Book value
Scania CV AB, 556084-0976, Sweden	100	**8,401**	8,401	8,401
Scania Latin America Ltda, 635,010,727,112, Brazil	100	**2,257**	2,257	2,257
Scania Argentina S.A[1] 30-51742430-3, Argentina	73.6	**298**	298	298
Scania del Peru S.A[1] 101,36300, Peru	54.7	**15**	15	15
Associated company				
Svenska Volkswagen AB, 556084-0968, Sweden	50	**298**	298	298
Total[2]		**11,269**	11,269	11,269

[1] *The Group's ownership interest is 100 percent.*

[2] *The cost of these shares for tax purposes was significantly lower than their book value.*

Scania CV AB, in turn, directly or indirectly owns a number of sales companies, of which the largest are located in Australia, Austria, Belgium, Denmark, France, Germany, Great Britain, Spain and Sweden. It also owns production facilities in Denmark, France, the Netherlands and Poland.

A complete list of associated companies and other companies was included in the annual report filed with the Swedish Patent and Registration Office and may be obtained from Scania's Head Office in Södertälje, Group Financial Reporting.

Note 4 Shareholders' equity

	Share capital	Restricted reserves	Unrestricted shareholders' equity	Total
Balance on 1 January 1996	2,000	1,120	7,192	10,312
Dividend to shareholders			(1,100)	(1,100)
Net income for1996			595	595
Balance on 31 December 1996	2,000	1,120	6,687	9,807
Dividend to shareholders			(1,100)	(1,100)
Net income for 1997			851	851
Balance on 31 December 1997	**2,000**	**1,120**	**6,438**	**9,558**

Note 5 Untaxed reserves

	1997	1996	1995
Tax allocation reserve	**1,134**	850	600
Total	**1,134**	850	600

Note 6 Contingent liabilities

	1997	1996	1995
FPG/PRI pension guarantees on behalf of Group companies	**1,192**	1,083	1,025
FPG/PRI pension guarantees on behalf of associated companies	**113**	123	69
Loan guarantees	**25**	48	97
Total	**1,330**	1,254	1,191

PROPOSED DISTRIBUTION OF EARNINGS

The Scania Group's unrestricted shareholders' equity according to the consolidated balance sheet amounts to SEK 5,602 m., of which net income for the year is SEK 1,985 m. The Board of Directors and the President propose that the following amounts at the disposal of the Annual General Meeting:

SEK m.	
Retained earnings	5,587
Net income for the year	851
Total	6,438
be distributed as follows:	
To the shareholders, a dividend of SEK 5.50 per share	1,100
To be carried forward	5,338
Total	6,438

After implementing the proposed distribution of earnings, the shareholders' equity of the Parent Company, Scania AB, is as follows:

SEK m.	
Share capital	2,000
Legal reserve	1,120
Retained earnings	5,338
Total	8,458

Södertälje, 20 February 1998

Anders Scharp
Chairman

Tommy Bäcklund

Clas Åke Hedström

Lars V Kylberg

Claes von Post

Mauritz Sahlin

Tom Wachtmeister

Marcus Wallenberg

Jan Westberg

Leif Östling
President

Our auditors' report was submitted on 21 February 1998

Caj Nackstad
Authorised Public Accountant

Gunnar Widhagen
Authorised Public Accountant

AUDITORS' REPORT

We have examined the Parent Company and the consolidated financial statements, the accounts and the administration of the Board of Directors and the President of Scania AB for 1997. These accounts and the administration of the Company are the responsibility of the Board of Directors and the President. Our responsibility is to express an opinion on the financial statements and the administration based on our audit.

We conducted our audit in accordance with generally accepted auditing standards in Sweden. Those standards require that we plan and perform the audit to obtain reasonable assurance that the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and their application by the Board of Directors and the President, as well as evaluating the overall presentation of information in the financial statements. We examined significant decisions, actions taken and circumstances of the Company in order to be able to determine the possible liability to the Company of any Board member or the President, or whether they have in some other way acted in contravention of the Swedish Companies Act, the Annual Accounts Act or the Articles of Association. We believe that our audit provides a reasonable basis for our opinion set out below.

In our opinion, the Parent Company and consolidated financial statements have been prepared in accordance with the Annual Accounts Act. We consequently recommend

that the income statements and the balance sheets of the Parent Company and the Group be adopted, and

that that the profit of the Parent Company be distributed in accordance with the proposal in the Report of the Directors.

In our opinion, the Board members and the President have not committed any act, or been guilty of any omission, which could give rise to any liability to the Company. We therefore recommend

that that the members of the Board of Directors and the President be discharged from liability for the financial year

Södertälje, 21 February 1998

Caj Nackstad	Gunnar Widhagen
Authorised Public Accountant	*Authorised Public Accountant*
KPMG Bohlins AB	Ernst & Young AB

VALUE-ADDED

Amounts in SEK m. per employee in SEK thousands	**Total 1997**		**Per employee 1997**	Total 1996		Per employee 1996	Total 1995		Per employee 1995
Sales and income of customer finance operations	**39,792**		**1,786**	33,785		1,614	34,938		1,669
Cost of purchased goods and services	**(27,986)**		**(1,256)**	(23,166)		(1,107)	(22,286)		(1,065)
Value-added	**11,806**		**530**	10,619		507	12,652		604
BREAKDOWN OF VALUE-ADDED									
Employees									
Wages and salaries	**5,451**	**46%**	**245**	4,786	45%	229	4 642	37%	222
Pensions and mandatory payroll fees	**1,919**	**16%**	**86**	1,762	17%	84	1,865	15%	89
Total	**7,370**	**62%**	**331**	6,548	62%	313	6,507	51%	311
National and local governments									
Corporate income taxes	**672**	**6%**	**30**	627	6%	30	1 458	12%	70
Lenders									
Cost of net borrowing	**296**	**3%**	**13**	352	3%	17	505	4%	24
Shareholders									
Dividend paid	**1,100**	**9%**	**49**	1,100	10%	53	800	6%	38
Returned to operations									
For wear and tear to fixed assets (depreciation)	**1,654**	**14%**	**75**	1,325	12%	62	1,136	9%	54
For continued expansion	**714**	**6%**	**32**	667	6%	32	2,246	18%	107
Total returned to operations	**2,368**	**20%**	**107**	1,992	19%	94	3,382	27%	161
Value-added	**11,806**	**100%**	**530**	10,619	100%	507	12,652	100%	604

MULTI-YEAR STATISTICAL REVIEW

	1987	1988	1989	1990	1991	1992	1993	1994	1995	1996	1997
Sales, SEK m.											
Western Europe	10,117	10,822	12,612	12,838	12,218	11,424	10,920	14,881	21,524	21,055	**22,928**
Central and eastern Europe	18	17	34	114	133	289	195	266	732	827	**1,393**
Asia	501	786	1,257	863	2,286	1,084	1,171	1,504	1,904	1,740	**1,936**
Other markets, excl. Latin America	1,008	1,136	1,046	936	787	715	1,062	1,329	1,623	1,578	**1,857**
Total, European operations	11,644	12,761	14,949	14,751	15,424	13,512	13,348	17,980	25,783	25,200	**28,114**
Latin American operations	2,060	2,599	2,982	2,920	2,566	3,040	4,619	6,108	5,933	4,754	**6,973**
Total, Scania products	13,704	15,360	17,931	17,671	17,990	16,552	17,967	24,088	31,716	29,954	**35,087**
Svenska Volkswagen products	1,294	1,561	1,602	1,377	1,399	1,470	2,222	2,560	3,124	3,776	**4,632**
Total	14,998	16,921	19,533	19,048	19,389	18,022	20,189	26,648	34,840	33,730	**39,719**
Operating income, SEK m.											
European operations	2,239	2,325	2,526	2,072	1,452	1,069	488	2,816	4,598	2,276	**2,309**
Finance companies in Europe	0	0	0	0	–23	–38	–91	5	98	55	**73**
Total, Europe	2,239	2,325	2,526	2,072	1,429	1,031	397	2,821	4,696	2,331	**2,382**
Latin American operations	157	493	501	441	136	242	483	915	413	511	**407**
Total, Scania products	2,396	2,818	3,027	2,513	1,565	1,273	880	3,736	5,109	2,842	**2,789**
Svenska Volkswagen products	133	193	155	17	86	33	121	173	243	215	**258**
Total	2,529	3,011	3,182	2,530	1,651	1,306	1,001	3,909	5,352	3,057	**3,047**
Operating margin, %											
European operations	19.2	18.2	16.9	14.0	9.3	7.6	3.0	15.7	18.2	9.3	**8.5**
Latin American operations	7.6	19.0	16.8	15.1	5.3	8.0	10.5	15.0	7.0	10.7	**5.8**
Total, Scania products[1]	17.5	18.3	16.9	14.2	8.7	7.7	4.9	15.5	16.1	9.5	**7.9**
Svenska Volkswagen products	10.3	12.4	9.7	1.2	6.1	2.2	5.4	6.8	7.8	5.7	**5.6**
Total	16.9	17.8	16.3	13.3	8.5	7.2	5.0	14.7	15.4	9.1	**7.7**
Gross capital expenditures for property, plant and equipment, excluding leasing assets, SEK m.											
European operations	1,016	1,083	967	1,380	1,201	1,319	1,209	1,851	1,727	1,908	**1,592**
Latin American operations	78	109	157	154	107	182	276	298	455	671	**974**
Total	1,094	1,192	1,124	1,534	1,308	1,501	1,485	2,149	2,182	2,579	**2,566**
Research and development expenses, SEK m.											
Research and development	397	420	466	619	761	738	783	805	923	1,084	**1,169**

[1] *Including customer finance operations.*

	1987	1988	1989	1990	1991	1992	1993	1994	1995	1996	1997
Number of Scania vehicles produced											
European operations											
Trucks	22,516	23,134	26,616	23,853	23,721	19,893	16,014	23,367	33,459	31,316	**33,092**
Buses	1,945	2,187	2,119	1,462	1,321	1,557	1,176	1,542	2,373	2,326	**2,817**
Latin American operations											
Trucks	4,745	4,792	5,744	4,765	4,234	4,587	6,610	8,570	8,515	7,139	**10,463**
Buses	1,511	1,731	1,771	1,688	2,626	2,533	1,393	1,303	2,091	1,575	**1,769**
Total	30,717	31,844	36,250	31,768	31,902	28,570	25,193	34,782	46,438	42,356	**48,141**
Number of trucks sold, by market area											
Western Europe	20,638	20,298	22,912	20,749	18,463	16,366	13,052	17,814	26,596	26,249	**26,756**
Central and eastern Europe	42	32	80	254	260	507	248	312	951	1,030	**1,833**
Latin America	4,336	4,660	5,067	4,558	4,293	4,734	6,678	8,713	7,964	7,377	**9,649**
Asia	1,122	1,583	2,549	1,731	5,530	2,440	2,256	2,818	3,329	2,997	**3,096**
Other markets	1,249	1,272	1,110	991	587	611	851	1,178	1,627	1,375	**1,058**
Total	27,387	27,845	31,718	28,283	29,133	24,658	23,085	30,835	40,467	39,028	**42,392**
Number of buses and coaches sold, by market area											
Western Europe	1,470	1,447	1,448	1,199	1,067	879	835	983	1,642	1,655	**1,595**
Central and eastern Europe	0	2	0	2	2	16	35	40	45	83	**95**
Latin America	1,517	1,639	1,676	1,645	2,493	2,677	1,459	1,287	1,878	1,641	**1,829**
Asia	215	364	499	224	144	249	133	140	304	309	**308**
Other markets	284	252	261	233	276	355	215	237	301	275	**757**
Total	3,486	3,704	3,884	3,303	3,982	4,176	2,677	2,687	4,170	3,963	**4,584**
Total market, number of heavy trucks and buses											
Western Europe											
Trucks	158,000	175,000	189,000	176,000	170,000	149,000	114,100	133,300	173,300	172,000	**170,300**
Buses	17,600	18,900	19,000	19,000	17,200	16,500	15,300	13,400	15,600	16,500	**16,800**
Brazil											
Trucks	9,037	10,071	9,606	9,524	9,389	8,402	13,938	18,931	19,299	13,682	**17,861**
Buses	9,606	12,315	8,994	9,730	16,220	13,222	11,073	12,266	16,969	15,087	**13,424**
Number of employees[1)]											
European operations											
Production companies	12,384	13,215	13,830	13,218	12,736	11,417	10,493	12,374	14,364	13,004	**13,197**
Marketing companies	4,076	4,036	4,332	4,219	4,043	4,278	3,823	3,694	4,050	4,877	**6,160**
Customer finance companies	7	13	33	34	52	65	60	72	90	75	**107**
Total, European operations	16,467	17,264	18,195	17,471	16,831	15,760	14,376	16,140	18,504	17,956	**19,464**
Latin American operations	4,046	4,419	4,713	4,767	4,941	4,433	4,217	4,285	4,520	4,250	**4,299**
Total number of employees	20,513	21,683	22,908	22,238	21,772	20,193	18,593	20,425	23,024	22,206	**23,763**

[1)] *Including temporary contract-hire personnel.*

MEETING THE CUSTOMER'S TOTAL TRANSPORT NEEDS

Scania's entire marketing organisation – dealers, importers and central marketing departments – plays a crucial role in meeting the customer's needs for cost-effective total transport solutions.

The deregulation of European transport markets has intensified competition, leading to rapid changes in the structure of haulage companies. In western Europe the international integration of transport systems is under way. This will fundamentally alter the way heavy truck manufacturers do business. Above all, it will require them to have more efficient marketing organisations.

In improving its marketing organisation, Scania's focus is on raising quality and customer benefit throughout its range of products and services. This will enable the company to enlarge its market share, boost the percentage of service-related products in its overall sales mix, increase customer loyalty and lower its sales and marketing costs.

A more attractive product range

Having once been mostly local in scope, the European transport industry has undergone a consolidation process in recent years. Large national haulage companies have been established by means of mergers or acquisitions, and medium-sized hauliers have diminished in importance. National markets are increasingly dominated by fleets of several hundred vehicles. This has been a natural consequence of the deregulation that has occurred in most countries.

Today western European hauliers face a new round of restructuring. The obstacles to competition from non-national operators are being removed, and the transport market is undergoing cross-border integration. This is leading to the formation of even larger, multi-national haulage companies. These enterprises are demanding a more sophisticated array of products and services from truck manufacturers, which must also make their distribution and service networks more efficient.

Customers that used to buy a truck or a bus now often want a transport solution – a package that may encompass total responsibility for the vehicle, including financing, servicing and maintenance. Many customers want to pay a fixed kilometre-based price in order to keep their vehicle on the road at all times without having to worry about servicing, maintenance and availability. This is why Scania's marketing organisation is developing an increasingly broad range of services that enable its customers to focus on their core businesses – transport and logistics.

The western European market for heavy trucks totals about SEK 150 billion per year. Adding in the current market for services and other peripheral products, it increases to some SEK 300–350 billion. In Scania's

Market trends		Scania's strategy
Cross-border haulage business is continuing to expand	▶	Coordinated sales and service, regardless of national boundaries
Haulage companies are merging and becoming larger	▶	A more sophisticated range of products and service options
Operators must maximise their vehicle use	▶	Faster, more flexible servicing and repairs
Outsourcing is becoming more and more common	▶	Individually customised transport packages that reduce customer risk

judgement, there is sizeable potential to capture a larger share of this market.

Scania Vehicle Management

During the 1990s, Scania has developed a business concept under which it can assume total responsibility for its customers' access to transport capacity. Under this system, Scania owns the vehicles and makes them available to customers according to the needs of their specific transport tasks. In other words, Scania is in charge of financing, maintenance and repairs as well as other services, such as administration and insurance. This new relationship with its customers requires that the Scania organisation is capable of handling these operations professionally, along with greater exposure related to credit risks and the residual values of vehicles.

Scania Vehicle Management has progressed furthest in Great Britain and the Netherlands. These markets were the first in Europe to be deregulated and have therefore set the pace. Scania has begun to work with similar product and service packages for customers in other European markets. Experience indicates that this concept has very good future potential.

During 1996, Scania (Great Britain) Ltd established a subsidiary called Scania Vehicle Management Ltd to handle these operations in the British market. During 1997, 33 percent of Scania's new truck sales in Britain took place within the Scania Vehicle Management scheme.

Scania Approved Used Trucks

Early in 1997, Scania started a sales programme for used Scania trucks in Great Britain. The system is operated by Scania dealers but is coordinated by the Scania importer. The aim is to create a well-structured sales system for used Scania trucks. In principle, buyers of Scania Approved Used Trucks are offered the same services as new truck customers. Scania's full supply of used vehicles can be viewed on the Internet.

To be sold as a Scania Approved Used Truck, a vehicle may not be more than six years old. It must have a documented re-

SCANIA APPROVED USED TRUCKS

cord of good maintenance. It must undergo extensive inspection and be sold through a Scania dealership that provides at least a three-month powertrain warranty. From a customer standpoint, the Scania Approved Used Trucks system means that reliable, lower-priced vehicles are added to the existing market. This may be especially attractive as a way of ensuring adequate capacity during peak demand periods and when delivery times for new trucks are long.

The programme achieved a rapid breakthrough in the British market, In 1997 the number of used Scania trucks sold through the Scania organisation rose substantially compared to 1996. The concept is gradually being extended throughout Europe.

An organisation dedicated to customer service

Haulage companies are facing keen competition and narrower profit margins. This is why their transport equipment must continuously be on the road. Every stoppage means lost revenue and must be avoided or minimised. Growing cross-border traffic causes problems for truck operators, who may find it complex, expensive and time-consuming to arrange servicing and repairs at workshops other than the customary one at their home base.

Scania is working intensively to turn its marketing organisation into a network that can quickly and flexibly cover the aftersales service-related needs of its customers. This organisation must be uniform and easy to reach. It must provide the same high standards everywhere.

Efficient aftersales structure

A restructuring of Scania's aftersales support organisation is under way in order to ensure that workshops are optimally located in relation to transport flows. The main goal is not to have the largest possible number of service points, but to locate them where customers carry out their operations and where their servicing needs arise.

Scania is building up a network of large workshops that provide all conceivable aftersales support, supplemented by satellite workshops. This system has proved effi-

Every stoppage means lost revenue for the customer. That is why Scania is improving its network to quickly and flexibly cover the aftersales support needs of its customers.

Many customers are increasingly asking for a transport solution that encompasses total responsibility for the vehicle, including financing, servicing and maintenance.

cient, since the increased technical complexity of today's trucks requires specialised expertise and advanced equipment for complicated repairs. Routine repairs and servicing, on the other hand, can be provided more cost-effectively at simpler workshops.

Dealer Operating Standard ensures uniform quality

For years, it has been the goal of Scania's marketing organisation to offer the best on-the-spot aftersales support. As the European economy becomes increasingly integrated, however, customers are demanding more homogeneous service. For this reason, Scania must ensure high and uniform quality in all contacts with each customer. In Latin America, too, customers are beginning to make similar demands.

Scania is implementing a large-scale programme to improve its European organisation and achieve a common high standard of knowledge, quality and productivity. This includes choice of working methods, time required to complete servicing tasks and prices for specific tasks. Scania is integrating its vehicle and customer databases, invoicing and credit management practices. Similar projects are being planned in markets outside Europe.

Greater vehicle availability

To ensure maximum vehicle availability, Scania offers its customers Plus24 Emergency Assistance. This service provides customers with assistance around the clock, every day of the year. Scania is now strengthening its existing operations by establishing regional emergency centres in a number of locations around Europe. The aim is to achieve more efficient coordination of the Scania organisation's overall response to unplanned stoppages.

Delivery precision and shorter distribution lead times

One traditional problem for truck and bus buyers has been the difficulty of getting a guaranteed delivery date. By streamlining and process orientation, Scania has succeeded in reducing lead times in its own production system, achieving greater ex-factory delivery assurance. However, delivery from factory to customer has not improved to the same extent.

Scania Plus24 Emergency Assistance means that customers can get assistance round the clock, every day of the week.

The situation is complicated by the fact that many trucks must pass through another company that fits customised bodywork or other equipment on the chassis, while bus chassis generally pass through independent bodybuilders. In addition, cross-border deliveries have been proved an intricate process.

Scania is changing its distribution system and turning the factory-to-customer delivery chain into a single process.

Increased coordination between Scania and bodybuilders is also vital in order to achieve better delivery precision and shorter lead times. Coordinating the production processes at Scania and these companies more closely can greatly improve efficiency and precision of delivery. There is also a more intensive exchange of technical information than previously, so that vehicle chassis are as well-prepared as possible for installation of bodywork. The Scania 4-series represents a major step in this technical adaptation.

CUSTOMER-DRIVEN PRODUCTION

Buyers of heavy vehicles demand the most cost-effective transport solution. The vehicles that Scania builds are specified in detail to fit the needs of its customers, usually on an individual basis.

Compared to the earlier 3-series, Scania's 4-series enables customers to increase the number of possible specifications. Meanwhile Scania will reduce the number of parts and components in its production system by about 40 percent.

To a growing extent, Scania uses shared components in its trucks, buses and industrial engines. This streamlines production, simplifies the task of supplying parts and allows easier servicing and maintenance.

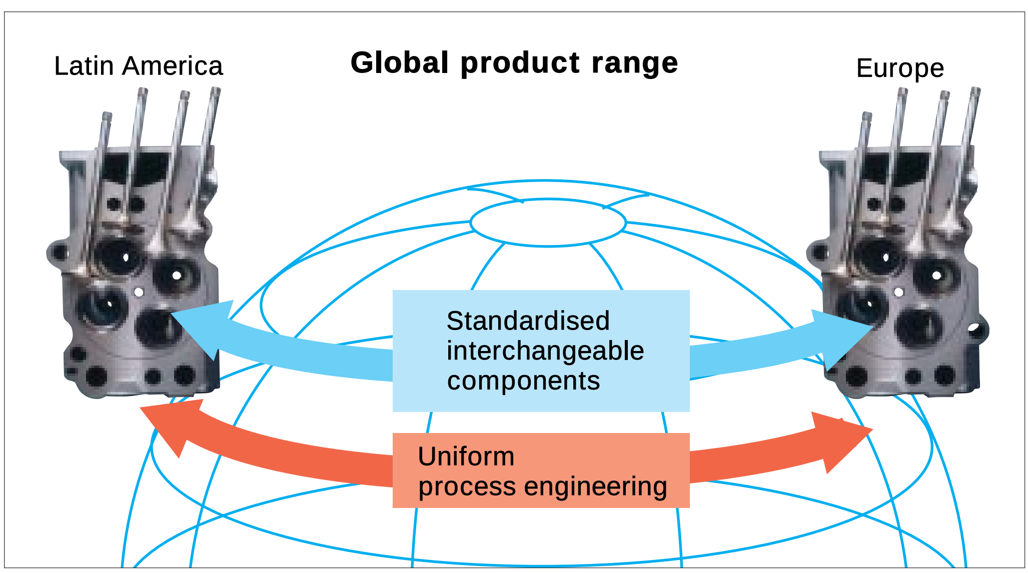
In its new generation of buses, Scania achieves up to 85 percent integration between truck and bus chassis. In the new engine range, Scania today uses the same cylinder block and identical cylinders to build two different engines, one 11-litre and one 12-litre. Continual modularisation will result in a new V8-engine and a 9-litre engine. By using one identical cylinder and a common fuel injection system Scania achieves economies of scale in development as well as production. Scania develops its industrial and marine engines using truck engines as a base.

A global product range

After the changeover to the 4-series at its Latin American production plants, Scania has a global product range that features standardised, interchangeable components and global quality standards.

Scania continuously updates its product range, modular systems and manufacturing techniques in response to demands by various customers and market segments for vehicles tailored to specific uses, as well as to enhance cost-effectiveness for its customers and itself and improve the environmental characteristics of its vehicles.

Given its global product range, Scania can use the same process engineering worldwide. It can select best practices in the various production stages and apply them to the Group as a whole. Standardisation of products and components also means that production plants in different countries and on different continents can supplement and support each other in case of uneven capacity utilization.



The standardisation of Scania's products and components enables production plants in different countries and on different continents to supplement and support each other in case of uneven capacity utilisation in different markets.

Production structure

Scania is continuing to increase the level of specialisation at its component and assembly workshops. Manufacture of main components is being concentrated at one factory per continent. This is already the case in Latin American operations but will also be true in Europe.

The factory in Oskarshamn, Sweden, already supplies cabs to all assembly plants in Europe. European axle production is being concentrated in Falun and engine production in Södertälje, both in Sweden. During 1997 Scania thus began moving its axle and engine assembly operations at Zwolle, the Netherlands, to Falun and Södertälje, respectively.

Zwolle is becoming a pure assembly plant for the British, German, Benelux and central European markets. The Södertälje assembly plant is currently delivering to the Nordic, Russian, Baltic, Asian and African markets, and the factory at Angers, France to markets in southern Europe.

Production of the new bus and coach range began in Europe during 1997. Scania builds both chassis and full-bodied buses in Katrineholm, Sweden, while the plant in Silkeborg, Denmark works exclusively with bodybuilding. The plant in Slupsk, Poland, assembles chassis and bodies. During the year, Scania established an assembly line for the production of complete city buses in Angers.

In Latin America, Scania manufactures bus chassis and the transition to the new bus generation will take place during 1998. Industrial and marine engines are built in Södertälje and in São Paulo, Brazil.

To increase the degree of specialisation at its manufacturing units, Scania is concentrating European axle production in Falun and engine production in Södertälje, Sweden.

Product development

The task of product development is being concentrated at Södertälje to allow easier communications and faster development cycles. The purpose of this concentration is to ensure that product improvements that are highly valued by customers will reach the market more quickly.

The product development process requires teamwork between many players – customers, suppliers and various departments and experts at Scania. Customer benefit drives the company's development work. This is why Scania uses "customer clinics" to test new products and applications.

The Scania 2000 development project

Scania 2000 is the collective label for an ongoing process of change that encompasses both the Group's own operations and those of its supplier and distribution networks.

Scania develops best practices in its various production phases and procedures, then applies them to the Group as a whole.

The established goals of the Scania production system are to achieve one hundred percent delivery precision, at least a five percent annual cost reduction at constant volume and a halving of the working capital tied up in the manufacturing process.

Purchasing structure

Scania's aim is to turn its purchasing structure into a global sourcing network, based on partnerships with a limited number of highly qualified sub-contractors. Since the introduction of the 4-series, Scania has trimmed the number of sub-contractors by 30 percent to some 850. Of these, 600 are in Europe and 250 in Latin America.

Scania is decentralising portions of its development work to sub-contractors and increasing the level of specialisation. The company asks highly qualified sub-contractors to pursue independent work related to both development and production of Scania components. This enables Scania to focus its own development work directly on functional requirements and customer benefit.

Shorter delivery time

To shorten lead times from order to delivery, Scania is working to increase the share of completely equipped factory-built vehicles in its sales mix. As much of the final vehicle customisation process as possible, including the installation of auxiliary equipment, should take place during assembly or immediately afterward.

SCANIA AND THE ENVIRONMENT

Scania's environmental work is an integral part of its operations and follows the environmental policy adopted in 1996. Its overall aim is to achieve a step-by-step reduction in the environmental impact of Scania products throughout their life cycle.

More detailed information on Scania's environmental work during 1997 is provided in a separate Environmental Report.

Meeting the demands of tomorrow

Scania's strategy for meeting future demands from customers and legislative bodies is to gradually improve and streamline traditional diesel technology for heavy vehicles. At the same time Scania is developing vehicles powered by alternative fuels, especially gases and ethanol, intended for urban operation in the city bus and distribution truck segments.

In recent years, the task of developing new Scania vehicles has focused on reducing exhaust emissions and improving fuel economy. Scania engines fulfil the EU's requirements on exhaust emissions, Euro 2, for both trucks and buses. These engines are in growing demand in the Latin American market. During 1997, Scania delivered 30 city buses with Euro 2 engines to Argentina. Fulfilling future legal requirements, especially Euro 3, is the next step in adapting and improving Scania vehicles.

Environmental declarations in demand

A vehicle's environmental characteristics and performance are becoming increasingly important in the competition between different transport solutions. During 1997, Scania noted increasing demand from both its own customers and their customers for information on the environmental characteristics of vehicles, especially engine emissions and recycling of vehicles at the end of their service life. Together with suppliers, Scania intensified its efforts to compile documentation for environmental product declarations on all its products.

Both in Europe and Latin America, there is a growing interest in vehicles intended for urban operation that are powered by alternative fuels. In quantitative terms, however, the demand for vehicles of this type is still relatively small, mainly because the alternative fuel supply infrastructure in most markets is poorly developed.

In Brazil and Argentina, where there are ample supplies of ethanol and gaseous fuels, respectively, and where environmental standards have been tightened, there is already potential for vehicles powered by alternative fuels. During 1997, Scania's ethanol-powered buses were being test-driven in Brazil. During the year Scania also delivered 145 gas-powered buses and 40 ethanol-powered buses, mainly to European markets.

Environmental management

Scania's efforts to systematise environmental issues by implementing an environmental management system to be certified according to ISO 14001 have proved to be a good complement to its other improvement work.

Scania's Environmental Policy

Environmental concern is of vital importance to Scania's long-term development and profitability.

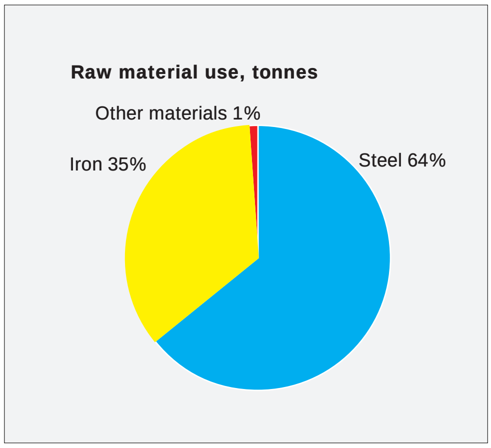
1. *Scania shall achieve and maintain leadership within its field of competence in order to promote a better environment.*

2. *Scania shall by foresighted research and development continously reduce the environmental impact coming from its production, products and services.*

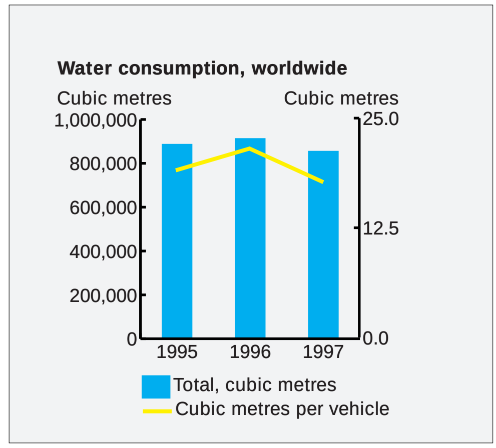
3. *Scania shall actively promote internationally harmonised and effective environmental legislation – for Scania current legislation is the minimum standard.*

4. *Scania shall increase the confidence in its environmental work through openness and environmental reporting.*

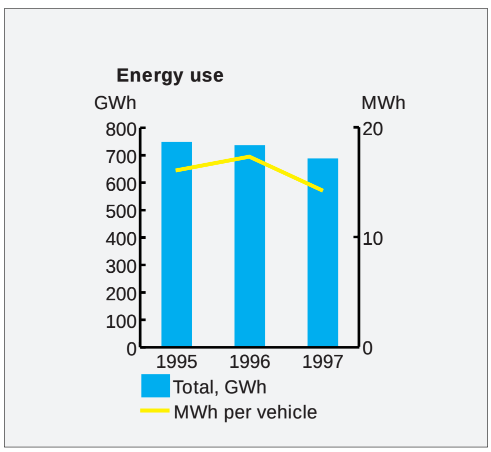
Environmental statistics, production plants



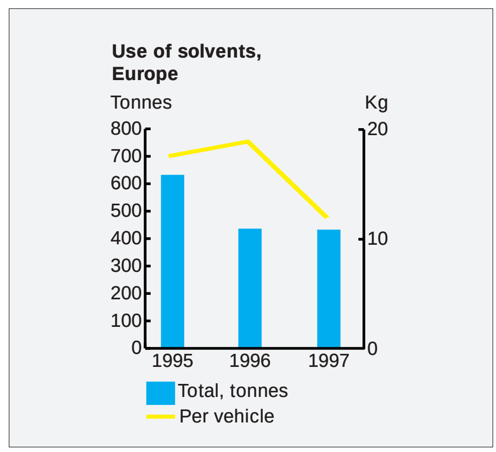
Raw material consumption during 1997 totalled about 200,000 tonnes, excluding finished components purchased.



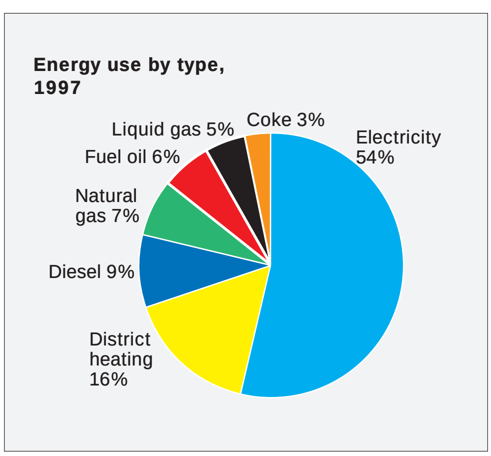
Water consumption in 1997 totalled 850,000 cubic metres, or 18 cubic metres per vehicle. The reduction since 1996 was mainly due to less leakage and less direct water-cooling.



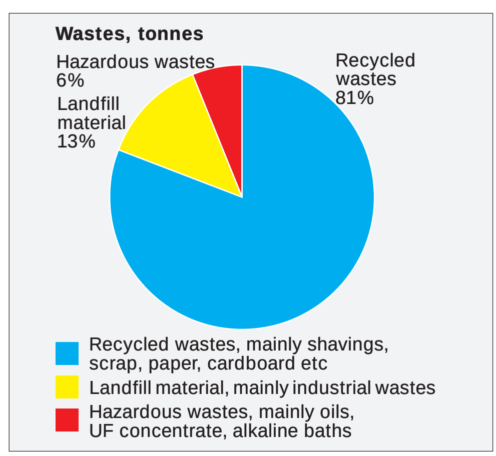
Energy use during 1997 totalled nearly 700 GWh, or 14 MWh per vehicle.



In 1997, Scania's use of solvents in Europe totalled 430 tonnes, or 12 kg per vehicle.



Most energy use consists of electricity and district heating. Diesel fuel is primarily used by laboratories and for acceptance testing of components.



The quantity of wastes in 1997 totalled 59,000 tonnes. More than 80 percent of wastes mainly shavings and scrap, is recycled.

The studies initially conducted in order to provide a clearer picture of the environmental aspects of company operations identified a number of potential improvements, among them more efficient use of energy and water as well as more efficient management of residual products.

All Scania units in Latin America received ISO 14001 certification during 1997. The goal is to obtain certification for the rest of the company's operations before the end of 1998.

Production

Minimising environmental impact and creating a good working environment are two strategic goals for Scania. This means that Scania continuously endeavours to reduce its consumption of raw materials, supplies and energy and switch to less environmentally hazardous substances.

Compared to 1996, energy use diminished, mainly due to increased energy recycling at production plants. The goal is to reduce energy use before the year 2000 by 10 percent, with 1996 as the base year. During 1997 Scania's Södertälje factory was awarded the EKO energy prize of the Swedish National Board for Industrial and Technical Development for its energy-saving efforts.

In its use of chemicals, substitution of more-hazardous for less hazardous substances is the guiding principle at Scania. The company is focusing especially on efforts to lower solvent emissions by reducing solvent use and switching to solvent-free paints.

During 1997, Swedish authorities renewed Scania's operating permit under the Environmental Protection Act for its manufacturing plant at Södertälje, which may now build 30,000 product units per year. This is approximately a 20 percent increase over the previous production ceiling.

The growing interest in the use of vehicles powered by gaseous fuels. Scania built its first biogas-powered truck for the City of Stockholm.

LEARNING AND PERSONAL DEVELOPMENT IN THE WORLD OF SCANIA

Scania's services and products must fulfil the same quality standards regardless of what country they are produced in. The same standards must therefore apply to the skills of Scania employees worldwide.

To ensure continuous human resource development, the Scania Group provides recurrent on-the-job training to its employees. Organised exchange of experience and knowledge between different units and with external partners enable the company to update its services, products and manufacturing processes continuously in response to market demands and in order to take advantage of new techniques.

Leadership and mobility

Scania offers regularly recurring management training programmes, aimed at ensuring the company's future supply of managers and executives. During 1997, nearly 700 managers from various countries participated in seminars on marketing and product development and on Scania's business strategies.

Leadership and training programmes during 1997 assigned high priority to topics and operations related to current trends in the transport sector and in the situation of customers.

The Scania Marketing Academy is an academically accredited training programme aimed at strengthening the business skills of Scania's marketing organisation, importers and dealers.

Scania Professional trains dealership employees in marketing, parts management and workshop services. In Great Britain, Scania provides training in business skills to its employees and to dealerships through the Scania Business School.

The Personal Exchange Programme enables employees to work in another country for six months to one year. Since the programme began in 1987, nearly 200 Scania employees have participated.

Recruitment

Since 1941, Scania has operated a technical upper secondary school next to its facility in Södertälje, Sweden. Scania-affiliated industrial schools are also found in the Netherlands and Brazil.

Scania's trainee programme gives newly recruited business administration and engineering graduates, as well as computer systems specialists, the opportunity to pursue individual personal development plans which involve performing a variety of assignments in the Group for 15–20 months. Today Scania trainees have assignments in Sweden, Brazil and Argentina, as well as in several of the marketing companies.

Scania's industrial research programme enables graduate engineers to combine jobs at Scania with research at the doctoral level.

In a number of countries, Scania cooperates with university-level institutes of technology by providing students opportunities to pursue graduation thesis work at the company.

Employee relations

In its relations with employees and their labour market organisations, Scania follows the practices of major industrial corporations in each country where it operates.

The company pays varying forms of earnings-based bonuses in Argentina, Brazil, France and Sweden. Most of Scania's facilities in Europe and Latin America use flexible working hour systems.

Beginning in 1997, Scania is applying variable weekly work schedules at all its assembly plants in France, the Netherlands and Sweden. This enables the company to respond smoothly to fluctuations in demand.

BOARD OF DIRECTORS

Lars V Kylberg and Anders Scharp

Tom Wachtmeister and Leif Östling

Mauritz Sahlin and Marcus Wallenberg

Anders Scharp

Born 1934. Chairman since 1994.

Chairman of AB Electrolux, Incentive AB, Saab AB, AB SKF, Atlas Copco AB and the Swedish Employers' Confederation. Vice Chairman of Investor AB. Other directorships: Email Ltd (Australia) and the Federation of Swedish Industries, among others.
Shares in Scania: 4,600. Options: 8,000.

Lars V Kylberg

Born 1940. Vice Chairman since 1995.

Chairman of Haldex AB and Standardiseringen i Sverige (SIS). Vice Chairman of ASG AB, Vasakronan AB. Other directorships: IBS AB, Intrum Justitia, Morgan Crucible (Great Britain), The Generics Group (Great Britain), National Board for Industrial and Technical Development and the Federation of Swedish Industries.
Shares in Scania: 0. Options: 91,967.

Leif Östling

Born 1945. Member since 1994.

President and CEO of Scania AB. Other directorships: S-E-Banken Fonder, BT Industries AB, Inexa Profil AB and the Royal Institute of Technology.
Shares in Scania: 50,000. Options: 245,000.

Tommy Bäcklund

Born 1949. Member since 1994.

Employee Representative and Chief Safety Officer for the Metal Workers' Union at Scania, Södertälje.
Shares in Scania: 0. Options: 0.

Clas Åke Hedström

Born 1939. Member since 1995.

President and CEO of Sandvik AB. Other directorships: Sandvik AB, the Association of Swedish Engineering Industries and the Federation of Swedish Industries.
Shares in Scania: 800. Options: 0.

Claes von Post

Born 1941. Member since 1996.

Senior Vice President of Investor AB.
Shares in Scania: 0. Options: 5,000.

Mauritz Sahlin

Born 1935. Member since 1996.

Chairman of Ovako Steel AB, Novare Kapital AB, Flexlink AB, Air Liquide AB and Elga AB. Other directorships: Investor AB, Sandvik AB, AB SKF, Statoil Norge and the Federation of Swedish Industries, among others.
Shares in Scania: 400. Options: 0.

Tom Wachtmeister

Born 1931. Member since 1994.

Vice Chairman of Atlas Copco AB, the Taxpayers' Association and the General Export Association of Sweden.
Other directorships: Norsk Hydro and STORA, among others.
Shares in Scania: 12,200. Options: 40,000.

Claes von Post and Clas Åke Hedström

Jan Westberg and Tommy Bäcklund

Rolf Leek and Sören Westerholm

Marcus Wallenberg

Born 1956. Member since 1994.

Vice Chairman of AB Astra and Saab AB. Other directorships: Incentive AB, Investor AB, S-E-Banken, AB L M Ericsson, SAS Sverige AB and the Knut and Alice Wallenberg Foundation, among others. Shares in Scania: 0. Options: 255,500.

Jan Westberg

Born 1944. Member since 1996.

Employee Representative of the Federation of Salaried Employees in Industry and Services. Shares in Scania: 166. Options: 0.

Rolf Leek

Born 1956. Member since 1997.

Employee Representative of the Federation of Salaried Employees in Industry and Services. Shares in Scania: 166. Options: 0.

Sören Westerholm

Born 1953. Deputy Board Member since 1994.

Employee Representative and Chairman of the Metal Workers' Union at Scania, Oskarshamn.
Shares in Scania: 0. Options: 0.

Auditors

Caj Nackstad

Authorised Public Accountant, KPMG Bohlins AB

Gunnar Widhagen

Authorised Public Accountant, Ernst & Young AB

Deputy Auditors

Thomas Thiel

Authorised Public Accountant, KPMG Bohlins AB

Björn Fernström

Authorised Public Accountant, Ernst & Young AB

EXECUTIVE MANAGEMENT


Leif Östling


Göran Löfgren


Håkan Samuelsson


Jaap Bergema


Alf Bexell


Åke Brännström


Lars Christiansson


Urban Erdtman


Hans Hedlund


Kaj Holmelius


Peter Härnwall


Arne Karlsson


Lars Orehall


Bertil Persson

Leif Östling

Born 1945. Joined Scania in 1972.

President and CEO
Shares in Scania: 50,000. Options: 245,000.

Göran Löfgren*

Born 1936. Joined Scania in 1980.

Executive Vice President
Chief Administrative Officer
Shares in Scania: 690. Options: 10,000.

Håkan Samuelsson

Born 1951. Joined Scania in 1977.

Executive Vice President
Chief Technical Officer
Shares in Scania: 1,350. Options: 18,500.

Jaap Bergema

Born 1948. Joined Scania in 1971.

Senior Vice President
Truck Assembly
Shares in Scania: –. Options: –.

Alf Bexell*

Born 1938. Joined Scania in 1961.

Senior Vice President
Industrial and Marine Engines
Shares in Scania: 2,200. Options: –.

Åke Brännström

Born 1938. Joined Scania in 1970.

Senior Vice President
Scania Buses & Coaches
Shares in Scania: 1,000. Options: 1,500.

Lars Christiansson**

Born 1946. Joined Scania in 1995.

Senior Vice President
Communications and Public Affairs
Shares in Scania: 1,266. Options: 10,000.

Urban Erdtman

Born 1945. Joined Scania in 1981.

Senior Vice President
Sales and Marketing Europe
Shares in Scania: 166. Options: 33,000.

Hans Hedlund*

Born 1936. Joined Scania in 1991.

President Scania Latin America Ltda
Directorship: Electrolux do Brazil
Shares in Scania: –. Options: –.

Kaj Holmelius

Born 1940. Joined Scania in 1966.

Senior Vice President
Chassis and Cabs, Development and Production
Shares in Scania: 891. Options: 6,000.

Peter Härnwall

Born 1955. Joined Scania in 1983.

Senior Vice President
Accounting and Corporate Control
Shares in Scania: 166. Options: –.

Arne Karlsson***

Born 1944. Joined Scania in 1978.

Senior Vice President
Sales and Marketing Overseas
Directorships: Gränges AB, Skavsta Airport AB and Södra Timber AB
Shares in Scania: 166. Options: –.

Lars Orehall

Born 1947. Joined Scania in 1974.

Senior Vice President
Powertrain, Development and Production
Shares in Scania: 200. Options: –.

Bertil Persson**

Born 1961. Joined Scania in 1995.

Senior Vice President Finance
Shares in Scania: –. Options: –.

* Retiring on 30 June 1998.
** Leaving Scania in conjunction with the 1998 Annual General Meeting.
*** From 1 July 1998, Executive Vice President and head of the new Finanace and Business Control corporate staff unit.

A new staff unit, Corporate Planning and Communications, is being established from 1 July 1998. Mr Kaj Lindgren, currently President of Scania Argentina, has been appointed Senior Vice President and head of this new unit.

On 1 July 1998, the following appointments also go into effect:
- Mr Claes Torén becomes Senior Vice President, Sales and Marketing Overseas.
- Mr Lennart Hjelte becomes Senior Vice President, Industrial and Marine Engines.

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