SCANIA ANNUAL REPORT 1998


Castrol
HONDA


Round-the-clock transport solutions for a demanding world

CONTENTS

The Report of the Directors encompasses pages 3–50. Numbers in brackets after 1998 figures refer to the corresponding 1997 figures.

Swedish corporate identity number:
Scania AB (publ)
556184-8564

ANNUAL GENERAL MEETING

The Annual General Meeting of Shareholders (AGM) will be held at 5.30 pm on Wednesday, 28 April 1999 at Scaniarinken, Södertälje, Sweden.

Participation

Shareholders who wish to participate in the AGM must:

be recorded in the shareholder list maintained by Värdepapperscentralen VPC AB (the Swedish Securities Register Centre) no later than Friday, 16 April 1999,

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, 23 April 1999 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 reregister their shares in their own name with VPC. To ensure that this registration is recorded in the share register by no later than Friday, 16 April 1999, shareholders who wish to re-register their shares in this way must inform their nominees accordingly *well before* this date.

Dividend

The Board of Directors proposes Monday, 3 May 1999 as the record date for the 1998 dividend. The last day for trading shares that include this dividend is Wednesday, 28 April 1999. Provided that the AGM approves this proposal, the dividend is expected to be sent from Värdepapperscentralen VPC AB on Monday, 10 May 1999.

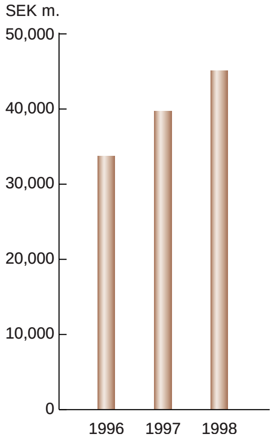
Reports from Scania in 1999

Year-End Report, January-December 1998	
Annual Report 1998	Early April
Environmental Report 1998	Early April
Interim Report, January–March	28 April
Interim Report, January–June	6 August
Interim Report, January–September	2 November

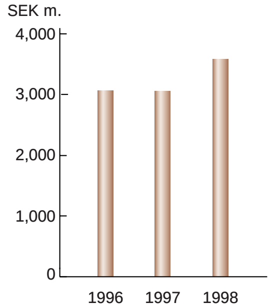
These reports may be ordered from:
Scania AB, SE-151 87 Södertälje, Sweden.
Phone: +46 8 55 38 10 00
Fax: +46 8 55 38 55 59
Internet: www.scania.com

HIGHLIGHTS

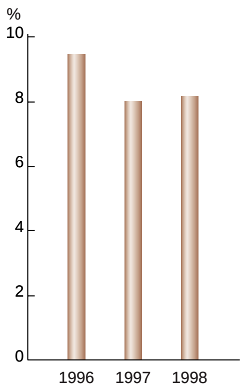
Sales



Operating income



Operating margin



	1996	1997	1998
Sales, units			
Trucks	39,028	42,392	**45,553**
Buses	3,963	4,584	**4,117**
Total	42,991	46,976	**49,670**
Sales, SEK m.			
Scania products	29,954	35,087	**39,675**
Svenska Volkswagen products	3,776	4,632	**5,637**
Total	33,730	39,719	**45,312**
Operating income, SEK m.			
Scania products	2,842	2,789	**3,342**
Svenska Volkswagen products	215	258	**250**
Total	3,057	3,047	**3,592**
Operating margin, %			
Scania products	9.5	7.9	**8.4**
Svenska Volkswagen products	5.7	5.6	**4.4**
Total	9.1	7.7	**7.9**
Income after financial items, SEK m.	2,706	2,751	**3,214**
Net income, SEK m.	1,974	1,943	**2,250**
Earnings per share, SEK	9.90	9.70	**11.25**
Earnings per share according to U.S. GAAP, SEK	10.30	11.10	**11.20**
Operating cash flows excluding customer finance operations, SEK m.	1,625	(55)	**1,797**
Return, %			
on shareholders' equity	22.7	20.2	**20.7**
on capital employed[1)]	18.5	16.2	**17.4**
Debt/equity ratio[1)]	0.64	0.69	**0.55**
Equity/assets ratio, %	28.1	27.0	**26.5**
Capital expenditures for property, plant and equipment, SEK m.	2,579	2,566	**2,026**
Research and development expenses, SEK m.	1,084	1,169	**1,085**
Number of employees at year-end	22,206	23,763	**23,537**

1) With customer finance operations reported according to the equity method.

SCANIA TODAY

Scania is one of the world's leading manufacturers of trucks and buses. It is the fifth largest heavy truck make in the world market. In Europe, Scania is the second largest heavy truck make. In Latin America, Scania has a leading position. Scania is the world's third largest bus make in the heavy segment.

Aside from heavy vehicles, Scania markets service products that may include everything from parts, maintenance and financing to a fixed price per kilometre. During 1998, Scania completed the production changeover to its new generation of trucks and buses, the 4-series. Scania is thus entering the 21st century with a new global product range.

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 dealerships with 1,500 service workshops.

There are production facilities in eight countries of Europe and Latin America: Sweden, Denmark, France, the Netherlands, Poland, Brazil, Argentina and Mexico. In addition, there are assembly plants in a number of other countries.

Research and development work is concentrated in Sweden.

At the close of 1998, Scania had 23,500 employees worldwide, of whom 17,000 in production and development facilities and more than 6,000 in the company's own sales and service companies.

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 as well as construction haulage.

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

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

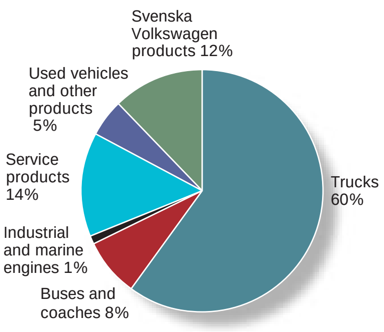
Scania and Volkswagen each own 50 percent of Svenska Volkswagen, which is the Swedish importer of Volkswagen, Audi, Seat, Skoda and Porsche. Scania also owns the Swedish passenger car distributor Din Bil, which accounts for 40 percent of Svenska Volkswagen's deliveries.

Scania's strengths

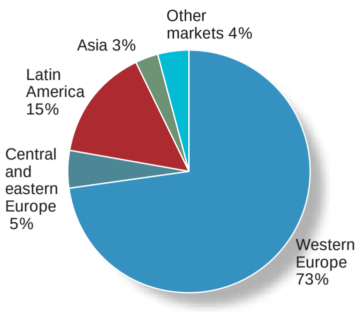
Scania vehicles can be tailored to each customer need. These vehicles have a long service life and low operating costs. Scania's success is based on:

- Its concentration on vehicles designed for customers working with heavy transport of goods and passengers.
- A modular product system and a global production system.
- A service organisation that offers various repair and maintenance packages.
- A focus on growth markets.

Sales by product area, 1998



Sales by market area, 1998 Scania products



Scania's production sites

Sweden	
Södertälje	Head office, research and development, component and engine manufacture, truck assembly.
Oskarshamn	Cab manufacture.
Katrineholm	Bus and bus chassis development and manufacture.
Luleå	Manufacture of side and cross members as well as rear axle housings.
Sibbhult	Gearbox manufacture.
Falun	Axle manufacture.
The Netherlands	
Zwolle/Meppel	Engine and cab assembly, truck assembly.
France	
Angers	Truck and bus assembly.
Denmark	
Silkeborg	Bus assembly.
Poland	
Slupsk	Truck and bus assembly.
Brazil	
São Paulo	Engine and cab manufacture, truck and bus assembly.
Argentina	
Tucumán	Gearbox and axle manufacture, truck assembly.
Mexico	
San Luís Potosí	Truck assembly.

Scania's ten largest truck markets

	Heavy truck registrations			Market share in %		
	1998	1997	1996	**1998**	1997	1996
Great Britain	**5,705**	5,403	5,591	**18.8**	20.5	18.6
Brazil	**5,268**	7,050	5,226	**33.4**	39.5	38.2
Germany	**4,438**	3,227	2,990	**8.9**	7.9	7.7
France	**3,635**	2,854	3,276	**9.4**	9.3	9.6
The Netherlands	**3,348**	2,333	2,878	**22.7**	20.1	23.1
Spain	**2,850**	2,050	1,285	**16.1**	14.9	12.1
Italy	**2,252**	1,880	2,257	**12.5**	13.4	15.0
Sweden	**1,705**	1,429	2,181	**46.1**	43.0	48.6
Argentina	**1,595**	1,728	1,509	**28.6**	34.8	42.0
Belgium	**1,356**	1,274	1,242	**17.8**	18.0	20.0

Scania's five largest bus markets

	Bus registrations			Market share in %		
	1998	1997	1996	**1998**	1997	1996
Brazil	**1,209**	1,351	1,369	**9.0**	10.1	9.1
Spain	**372**	363	335	**15.2**	16.8	17.3
Great Britain	**323**	231	272	**12.1**	10.4	11.0
Egypt[1]	**268**	438	–	**–**	–	–
Sweden	**242**	262	325	**30.3**	27.6	38.0

[1] Sales

STATEMENT OF THE CHAIRMAN

I see Scania's earnings during 1998 as proof of its strength. Earnings increased significantly, despite a weakening trend in certain markets.

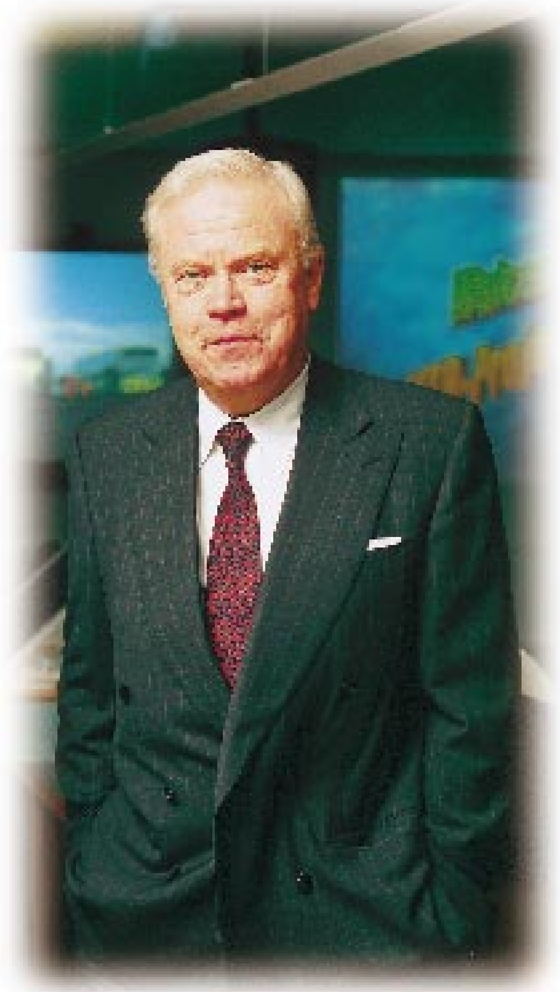
The most important factors behind the earnings improvement were high volume in western Europe and the completion of the task of changing generations in Scania's entire product range.

Long-term growth

For many years, Scania has grown on its own power. It is now the world's fifth largest heavy truck make. In the world market for heavy buses and coaches, Scania is the third largest make. The company has managed to implement this growth while showing profitability over business cycles clearly in excess of the industry average.

Another factor behind this success is Scania's unique modular product system, which enables us to tailor our products to the specific needs of every customer at a competitive cost.

Other factors behind Scania's strong position are concentration on heavy vehicles, a presence in growth markets and an increasingly broad range of services to support our customers.



Anders Scharp

Higher earnings capacity

At the same time as Scania has introduced a whole new generation of trucks, buses and industrial and marine engines, we have invested heavily to create a more efficient production system with a higher capacity. This period of capital expenditures is now largely completed. Changeover effects will thus disappear, while our production investments diminish.

In our sales and service organisation, however, aggressive investments will continue. This is why Scania has good prospects of achieving higher earnings.

Scania will continue to grow

The investments that Scania has made during the 1990s have equipped the company to compete more effectively in the world market. Through their extremely good reputation in the market, Scania's new range of vehicles and service products, plus an efficient distribution and service network, have given the company an extra position of strength as we face the coming decade.

The Board of Directors is therefore convinced that Scania has good prospects of continuing to grow organically as an independent market actor.

Open to partnerships

In the heavy vehicle industry, various types of alliances have existed for many years. For example, Scania pursues the development and manufacture of an advanced fuel injection system in partnership with an American engine manufacturer.

In the future, Scania will remain open to various forms of partnerships with other companies, provided these are industrially and commercially sound and are consistent with our long-term strategy.

Scania's dividend policy

The Board of Directors intends to recommend that future dividends reflect the longer-term performance of the company's business rather than the year-to-year fluctuations of Scania's earnings due to the cyclical nature of the heavy vehicle industry.

The Board has decided to propose that the Annual General Meeting raise the dividend for 1998 by SEK 1 to SEK 6.50 per share.

Finally, on behalf of the Board, I would like to express our sincere gratitude to the Executive Management and to all employees worldwide for their efforts to ensure that Scania remains a strong and profitable company.

Anders Scharp
Chairman

The work of the Board
According to the work schedule adopted by the Board of Directors, it holds seven regular meetings per year. Beyond this, the Board may meet when circumstances so warrant.

The February, April, August and October meetings are devoted primarily to financial reporting. The statutory meeting after the Annual General Meeting focuses chiefly on the Board's work schedule, instructions to the President and compensation issues.

In June, the Board discusses capital expenditure issues. The December meeting focuses especially on operational planning and future-oriented issues. Beyond this, all meetings deal with matters of a more current nature as well as capital expenditures.

The Board's instructions to the President specify his duties and powers. Board policy documents on capital expenditures, financing, communication and reporting are also appended to the instructions.

With one exception, the Board has refrained from appointing sub-committees. As decided at the Board's December 1998 meeting, compensation issues for the President and certain other senior executives will be handled by a committee consisting of Anders Scharp, Rolf Stomberg and Marcus Wallenberg.

Owing to its limited number of members, the Board achieves efficiency, while all members receive complete information on all matters that are dealt with by the Board.

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 these 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). In Stockholm, both A shares and B shares are quoted on the SSE's A list. A round lot consists of 100 shares. Since 1 July 1997, B shares have been included in the OMX Index (the 30 most active stocks on the SSE in terms of trading volume, measured in SEK). On the NYSE, Scania shares are traded in the form of American Depositary Receipts (ADRs), consisting of 10 shares. Citibank is the depositary bank. Scania shares are also traded on the London Stock Exchange Automated Quotations system for non-UK equities (SEAQ International).

Share prices and trading

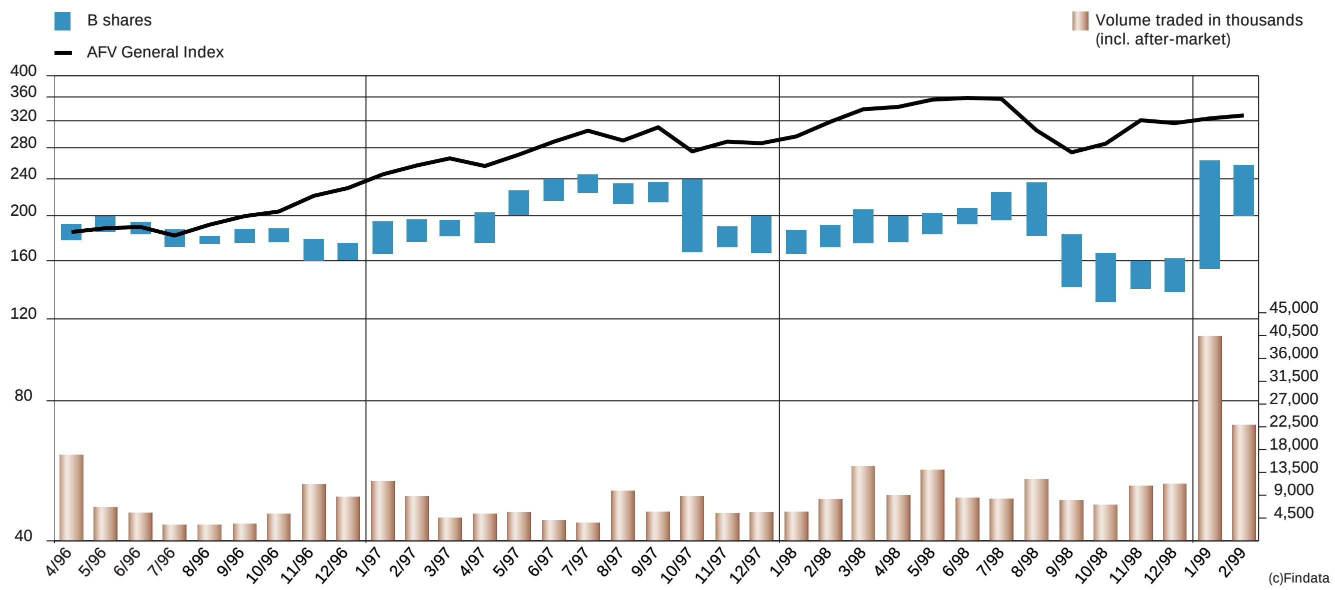
B shares – the more heavily traded of Scania's two series – fell by 16 percent during 1998. Including the dividend, the downturn was 13 percent. Swedish engineering companies rose by an average of 4 percent and the SSE General Index by 10 percent. At year-end, B shares were quoted at a market value of SEK 150 apiece. This was equivalent to a market capitalization of SEK 29,900 m. The highest price paid for B shares during the year was SEK 235.50 apiece on 4 August. The lowest, SEK 130, was paid on 8 October.

One way of measuring the fluctuations of a specific share in relation to an entire stock exchange is its beta coefficient. According to calculations by the Stockholm Stock Exchange, the beta coefficient of Scania B shares was 1.04 at the end of 1998. This means that on average, Scania shares fluctuated 4 percent more than the whole Exchange on average. The explanatory value for Scania shares was 0.55, which means the 55 percent of share price changes can be explained by overall changes on the SSE.

On average, about 690,000 shares changed hands each trading day in Stockholm, for a turnover rate of 86 (60) percent, compared to 76 (66) percent on the SSE as a whole.

In New York, an average of about 700 Scania ADRs were traded per day, down about 4,100 from the year before. At year-

Share price, Stockholm Stock Exchange, Scania B shares



end there were 77,060 ADRs outstanding, compared to 1,720,460 at the beginning of 1998.

Ownership structure

On 29 January 1999, Scania had 39,000 shareholders, down by 6,000 since the beginning of 1998. During the first half of 1998, the FöreningsSparbanken (Swedbank) mutual funds sold most of their holdings. The Nordbanken mutual funds also significantly reduced their holdings during 1998. During January 1999, the Svenska Handelsbanken mutual funds, Skandia and the National Pension Insurance Fund, Fourth and Sixth Fund Boards, were among those that sold their shareholdings to AB Volvo. Ownership by non-Swedish investors rose from 9.0 percent at the beginning of 1998 to 9.5 percent.

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 its 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.

Since 5 June 1996, these warrants have been listed on the Stockholm Stock Exchange and are traded in lots of 500. A total of 141 million Scania warrants changed hands on the Stockholm Stock Exchange during 1998 and their price fell to SEK 1.70 from SEK 6.50 at the beginning of the year.

Scania on the Internet

Scania's website includes information about the company and provides a way to contact Scania's Investor Relations department. The address is www.scania.com

The ten largest shareholders
29 January 1999

	% of voting power	% of shares
Investor	45.5	45.5
Volvo	13.5	12.9
SPP	4.7	3.9
SEB/Trygg/ABB mutual funds	3.7	2.5
The SEB sphere	3.3	2.4
Länsförsäkr-Wasa sphere	1.4	1.2
AMF Sjukförsäkring AB	1.4	1.1
Nordbanken mutual funds	1.3	1.4
National Pension Insurance Fund, Fifth Fund Board	0.9	0.5
Swedish consumer cooperatives	0.9	0.9
Total	76.6	72.3

Ownership structure
29 January 1999

Number of shares	% of shareholders	% of shares
1– 500	86.0	2.8
501– 2,000	10.4	2.1
2,001– 10,000	2.4	2.1
10,001– 50,000	0.8	3.3
50,001–100,000	0.1	1.9
> 100,000	0.3	87.8
Total	100.0	100.0

Per share data

SEK (unless otherwise indicated)	**1998**	1997	1996
Earnings	**11.25**	9.70	9.90
Shareholders' equity	**59.30**	51.80	45.70
Dividend (1998 proposed)	**6.50**	5.50	5.50
Market prices, B shares (closing price)			
Highest for the year	**230.00**	240.00	199.50
Lowest for the year	**132.50**	166.50	161.50
Year-end	**150.00**	179.00	170.50
Price/earnings ratio, B shares	**13.3**	18.5	17.2
Dividend payout ratio, %	**57.8**	56.6	55.6
Dividend yield, % (B shares)[1]	**4.3**	3.1	3.2
Annual turnover rate, %	**86**	60	92
Approx. number of shareholders	**39,000**[2]	45,000	50,000

Average daily number of shares traded 1998

– Stockholm Stock Exchange	A	219,000
	B	471,000
	Total	**690,000**
– New York Stock Exchange	A-ADRs	365
	B-ADRs	340
	Total	**705**

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

[2]) As of 29 January 1999.

STATEMENT OF THE PRESIDENT AND CEO

During 1998, Scania's unit sales rose six percent to a historically high level of nearly 50,000 vehicles.

In monetary terms, sales rose 14 percent, and operating income increased by 18 percent. During the year, Scania completed the changeover to the 4-series in Latin America. The new product range has thus been introduced on a global basis.

Scania's investments in the European marketing organisation culminated with the purchase of its Italian distributor, Italscandia. Our aggressive marketing-related investments are continuing.

Consolidated operating income rose from somewhat above SEK 3 billion to SEK 3.6 billion.

Demand was strong in western Europe, while markets in Latin America as well as central and eastern Europe weakened. The Far East market has bottomed out at a low level.

Strong increase in European earnings

In European operations, operating income rose by 70 percent to SEK 3.9 billion, and the operating margin climbed from 7.9 percent to 11.2 percent. The main factors behind this sharp improvement in earnings were high volume, a better product mix plus an improved currency situation.

In western Europe, for the first time Scania became the second largest heavy truck make, with a 15.2 percent market share.

Weak economic conditions in Latin America

In Latin America, operating income deteriorated by more than SEK 1 billion. This was due to the changeover to the 4-series as well as the sharp economic decline during the second half, especially in Brazil. To adapt production to the lower volume in Latin America, Scania implemented a number of adjustment measures, which also reduced earnings in the short term.

Heavy vehicle industry continuing to grow

The market trend for heavy vehicles has a clear correlation with gross domestic product. In highly developed markets like western Europe and North America, the demand for heavy trucks is increasing at a pace close to GDP growth.

In growth markets like Brazil and Argentina, the heavy truck market is growing substantially faster than GDP. In central and eastern Europe, we see the same tendency.

Scania growing twice as fast as the overall market

For a number of years, Scania sales in western Europe – its largest market – have grown twice as fast as the overall market. Over the past decade, Scania's market share has increased from 11.4 percent to 15.2 percent. Scania's increasingly strong market position is based on its steady product development work and vigorous investment in service products.

During the 1990s, Scania has broadened its commercial base, especially in Europe. First, its network of dealers and service workshops has expanded in developed western European markets. Second, it has established new locations in central and eastern Europe. Scania is thus one of the few manufacturers with a network covering all of Europe. This enables Scania to provide good service to the pan-European transport companies that account for an increasing share of the transport market.

Modular system provides economies of scale

The Scania modular product system allows customers to specify their own vehicles using a low number of components from Scania's production system. The changeover to the 4-series and continued fine-tuning of new products have lowered the number of components in the production system by 40 percent to about 13,000 components.

Leif Östling

This product system provides major economies of scale. When the Scania engine range becomes entirely modularised starting from the year 2001, in terms of units manufactured, the Scania engine family will be one of the most widely produced diesel engines in its size category in the world. The Scania cab is already one of the most widely produced heavy truck cabs in the world.

Continued growth potential

Of the largest European heavy truck markets, Scania has its strongest position in Great Britain. During the 1990s, our market share has risen from about 10 percent to nearly 20 percent.

On the other hand, our share is lower in the three other largest markets in Europe: Germany, France and Italy. Scania has made and is continuing to make large-scale aggressive efforts to increase its market share in these countries. Its goal is to increase its market share to about the same level as in Great Britain.

Central and eastern Europe also offer major potential for Scania. As the economies of these countries grow, the role of heavy trucks in their logistic systems will grow. In western Europe today, heavy truck sales are 600 units per million inhabitants each year. In central and eastern Europe, the corresponding number is 50.

In our judgement, rapid economic growth will occur in the region, and heavy truck sales compared to population may approach the level in western Europe.

Service and financing a growing part of the business

While Scania's vehicle sales have grown by an average of four percent annually for the past decade, our service-related sales are growing by nearly 15 percent annually. Service-related sales are less sensitive to economic cycles than vehicle sales and have higher margins. In recent years, our customer finance operations have expanded even faster, by 30 to 40 percent annually.

There are several reasons for the rapid increase in service sales. The ever-greater technical complexity of vehicles requires the expertise that only authorised workshops can offer. In addition, the higher number of Scania vehicles on the roads creates a larger customer base.

Scania's active focus on the service market is enabling us to satisfy the growing interest of transport companies in outsourcing their vehicle service and maintenance to us. More and more customers wish to buy access to transport vehicles using a time-based contract with a fixed per-kilometre price.

Service products that includes repairs, maintenance and financing account for a growing proportion of sales, especially in the most sophisticated markets such as Great Britain and the Netherlands.

Outlook for 1999

The completion of its investment programme will enable Scania to improve its earnings further. Material costs are falling and productivity is rising, while the impact of the changeover to the 4-series is no longer affecting earnings. Scania has hedged portions of its planned 1999 net currency flows. The impact of the "maxi-devaluation" in Brazil is difficult to assess, however.

On the whole, and assuming unchanged volume in European operations, we believe there is good potential for an improvement in operating income.

Leif Östling
President and CEO

MISSION AND STRATEGY

Mission statement

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 services, thereby providing maximum operating time at minimum cost over the service life of their vehicles.

Strategy

Focus on heavy transport vehicles

Scania's operations concentrate on heavy transport vehicles. The demand for heavy trucks and buses increases with GDP growth as well as improved infrastructure in developing countries.

Heavy vehicles are specialised products. Scania's trucks, buses and industrial and marine engines have established a reputation as quality products, both in terms of performance and price.

Modular product system and global production system

Buyers of heavy transport vehicles demand customer-specific solutions. The more closely a vehicle is adapted to its transport task, the better the operating economy.

Scania's modular system makes it possible to specify vehicles individually. The modular system allows considerably longer production runs than a conventional product system.

Scania has a global product range that features standardised, interchangeable components and a global quality standard.

Integrating vehicles with services

Hauliers need rapid, continuous round-the-clock access to servicing and repairs. Scania has improved, and is continuing to improve, its distribution and service network to ensure its customers the greatest possible service backup.

A growing proportion of Scania's sales consists of various kinds of service-related products, such as repair, maintenance and full service contracts. Scania's Vehicle Management concept responds to this demand, resulting in a larger business volume.

Focus on growth markets

Scania's main markets – Europe, Latin America and Asia – have good potential for long-term growth.

A borderless Europe is offering major opportunities to those manufacturers that have a well developed distribution and service network. In central and eastern Europe, the transport sector is expanding rapidly, and a growing proportion of demand is targeting western European makes.

In Latin America, an increasing share of both goods and passenger traffic is employing heavy vehicles. Scania's very strong market position in the region's largest countries is a solid base for further expansion.

Asia is also an important growth market. As infrastructure improves, streamlining of the transport sector will become possible, increasing the demand for heavy vehicles. Scania is the leading European make in the region, with a well-functioning distribution and service organisation.

MARKET

Scania operates in the markets of Europe, Latin America, Asia (except Japan), Africa as well as Oceania.

The world market for heavy trucks and buses is usually measured on the basis of global production, since reliable world market statistics are not available.

In 1998, world production of heavy trucks (excluding the former East bloc countries) rose by 10 percent to 595,000 vehicles (545,000). Western European and North American truck manufacturers increased their production, while a number of Asian manufacturers, especially Japanese manufacturers, cut their production. Scania was the fifth largest heavy truck make in the world.

In 1998, world production of buses in Scania's segment – city and intercity buses and tourist coaches for more than 30 passengers – was 65,000 vehicles (69,000). Scania was the world's third largest bus make in the heavy segment.

VEHICLES

Latin American markets are supplied mainly from Scania's production plants in that region, while other markets are supplied from European production plants.

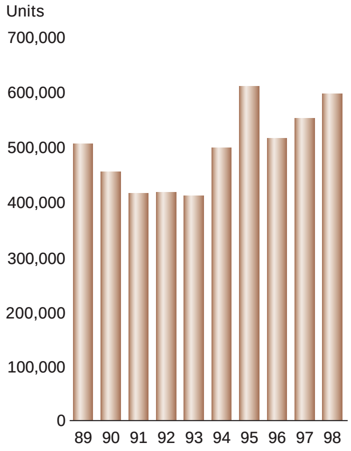
SERVICE

Scania provides service through its own dealers as well as independent dealers at about 1,500 service points worldwide.

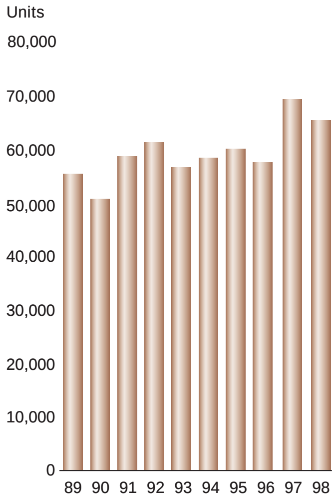
CUSTOMER FINANCE

Scania's customer finance operations are an important support for marketing and sales of the company's products and thereby contribute to the Group's earnings and future growth.

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
The ten largest makes

Units	1998*	1997	1996
Freightliner	**83,000**	64,000	55,000
Volvo	**79,000**	63,000	56,000
Mercedes	**66,000**	63,000	47,000
International	**48,000**	41,000	32,000
Scania	**45,000**	44,000	38,000
MAN	**34,000**	26,000	24,000
Mack	**33,000**	28,000	24,000
Iveco	**32,000**	25,000	24,000
RVI	**31,000**	23,000	22,000
Kenworth	**28,000**	22,000	20,000

* Preliminary figures

MARKET

The European market

Trucks in western Europe

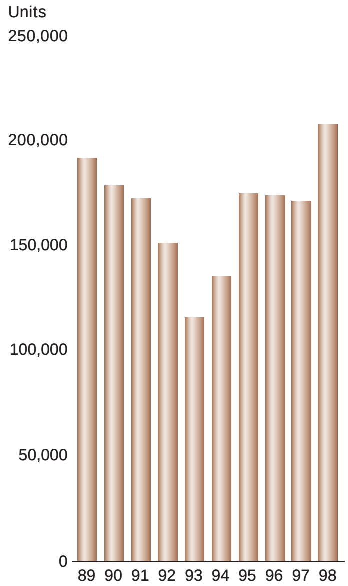
The western European market for heavy trucks was strong in 1998. The number of registrations reached the highest level to date. A total of 207,000 heavy trucks were registered during 1998, compared to 170,000 trucks in 1997, an increase of 22 percent. In 1996, 172,000 heavy trucks were registered.

After a strong market early in the year, order bookings flattened out at a high level during the fourth quarter. Of the largest markets in western Europe, Germany, Spain, the Netherlands and France showed the strongest growth.

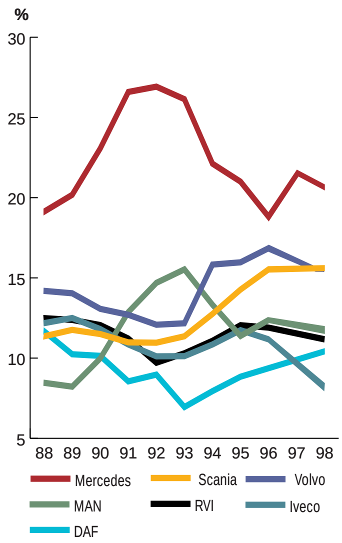
Scania's share of the western European market for heavy trucks was 15.2 (15.1) percent.

Scania's order bookings from the western European heavy truck market rose by 13 percent to 33,300 (29,400) units.

Registrations of heavy trucks in western Europe



Market share, western Europe



A Dutch Scania R124 Topline with a refrigerated trailer for transporting fresh foods.

Scania's unit sales to the western European market rose by 22 percent to 32,700 trucks.

Price levels in the European truck market stabilised in 1998. Scania's average revenue per truck in local currencies rose by more than 2 percent, thanks to a change in the product and market mix.

Scania's most important competitors are Mercedes-Benz and Volvo. Mercedes-Benz reduced its share of the European heavy truck market to 20.5 percent (21.5). Volvo's share of the European heavy truck market declined slightly to 15.1 percent (15.2).

In the German market, the number of heavy truck registrations rose by 22 percent to 50,100. Scania increased its market share to 8.9 percent (7.9) and consolidated its position as the third largest make and the leading importer of heavy trucks.

A Scania R124 Topline at the Brandenburger Gate in Berlin.

"During my 25 years in the profession, I have always noted that Scania engines consume less fuel. Today everyone is trying to save fuel, but Scania is maintaining its lead by consuming less than 28 liters per 100 km. And my confidence in Scania is unchanged."

Jean-Christophe Voiron, Transports Voiron, France

The number of heavy truck registrations in the British market rose by 15 percent to 30,400 units during 1998 (26,400). The market weakened late in the year. Scania remained the leader with a share of 18.8 percent (20.5).

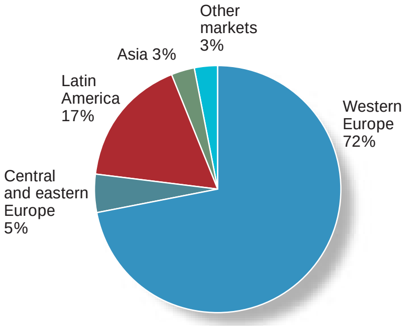
In France, registrations rose by 25 percent to 38,500 heavy trucks, which was above the 1989 record of 37,200 vehicles. The main sales increase was to large hauliers with international traffic. Scania's market share was 9.4 percent (9.3).

In Spain, registrations rose by nearly 30 percent to 17,700 heavy trucks, which was a record. With a registration increase of 40 percent, Scania grew faster than the market. Its market share rose to 16.1 percent (14.9).

The Italian market was influenced by continued deregulation, and the number of registrations amounted to 18,000. Scania's market share was 12.5 percent (13.4).

In the Netherlands, the number of heavy truck registrations rose by 27 percent to 14,800. The country's large harbours and many multinational companies contribute to its large-scale haulage industry. Scania's share of the heavy truck market rose to 22.7 percent (20.1).

Unit truck sales by market area, 1998



In the Nordic countries, the market grew by 10 percent to 14,100 vehicles. Scania increased its share of all the Nordic markets except Denmark. Scania's market share in the Nordic countries rose to 34.9 percent (34.0).

Trucks in central and eastern Europe

In central and eastern Europe, the market for western European truck makes, which had showed strong growth in previous years, weakened during the second half of 1998 due to economic instability in Russia. International transports to Russia declined, affecting transit traffic in the three Baltic states and eastern Poland. This increased uncertainty among hauliers in the region.

The number of new heavy trucks of western European origin registered in the region declined by more than 10 percent to 15,000 during 1998 (17,000). In this falling market, Scania increased its deliveries by 22 percent to 2,200 trucks (1,800).

However, Scania sees these countries as important growth markets and Scania's long-term efforts to build up its dealer and service network in the region continued throughout 1998. During the year, Scania established wholly owned importing companies in Ukraine, Lithuania, Croatia and Bulgaria as well as new dealer facilities in Poland, Russia and Estonia.

The growing number of trucks in operation means steadily growing service needs and provides a customer base for expanding the organisation in the region.

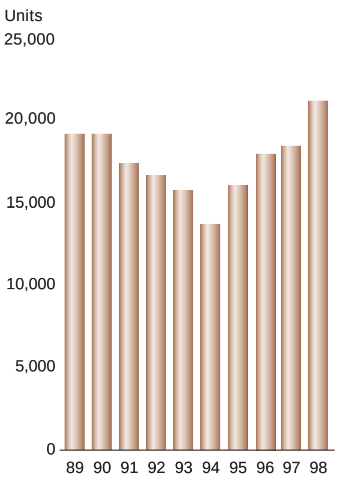
The market for used trucks from western Europe was about ten times larger than the new truck market.

A Scania P94 compressed gas tanker in the city of Spychowo, Poland.

Buses in Europe
The market for heavy buses and coaches in western Europe was strong in 1998. Registrations totalled 21,000 buses (18,300). Scania was unable to maintain its share of this growing market. This was partly due to limited production capacity during the first half of 1998 owing to the changeover to the new generation of buses.

The markets in Spain, Great Britain, France and Germany grew the most.

Registrations of heavy buses in western Europe



Scania started selling buses in Germany and Austria during the second half of 1998.

The deregulation of city and intercity bus traffic in western Europe continued. This process is creating opportunities for Scania to enter markets that were previously dominated by domestic makes, for example Germany and France. In Great Britain, the deregulation of the market is almost completed.

The concentration in the number of bus operators continued. Fewer and larger international operators are handling a growing proportion of traffic. These companies demand a high degree of vehicle utilisation, which increases the demand for various agreements covering service, repairs and financing. Operators increasingly also want to pay a fixed per-kilometre price for their buses.

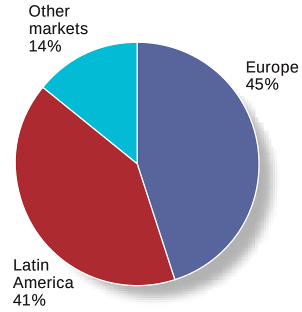
Sales of Scania buses and bus chassis in Europe rose by 9 percent to 1,840 units, compared to 1,690 in 1997. Scania's market share in Europe was 7.6 percent (7.9).

Scania's order bookings in Europe were l,840 buses and bus chassis (1,850).

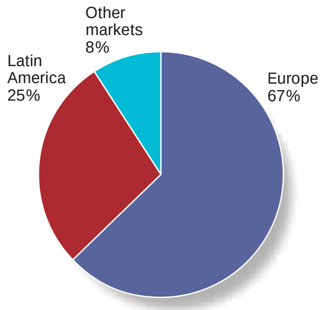
Spain was again the company's foremost bus market in Europe, with 372 new Scania buses registered (363). Despite

Scania is the world's largest manufacturer of environmentally adapted ethanol-powered buses. During 1998, Scania delivered 40 ethanol city buses from its new-generation OmniCity range to AB Storstockholms Lokaltrafik (SL).

Unit bus sales by market area, 1998



Unit sales of industrial and marine engines by market area, 1998



record sales, Scania lost market share in the rapidly growing Spanish market. During the first half of 1998, Scania had difficulty meeting heavier demand due to lower capacity during the production changeover.

Scania more than doubled its bus sales in the French market.

Scania's new bus generation, which is manufactured according to the same modular principles as its trucks, was well received in the market. The modular system offers customers a broader range of choices while simplifying service and maintenance due to the smaller number of components. Up to 85 percent of the components in a Scania bus chassis are shared with the company's truck range.

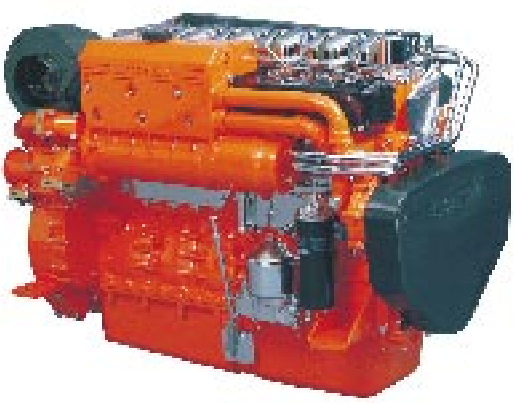
Industrial and marine engines

Scania's total unit sales of industrial and marine engines declined by 7 percent during 1998 to 2,840 engines (3,060). In Europe, sales fell to 1,910 engines (1,920). One important reason was lower sales to OEM customers in Europe whose exports to Asia had declined due to the economic situation there.

However, sales rose in monetary terms due to a larger proportion of marine engines in the total product mix.

During 1998, Scania introduced its new 12-litre marine engine. It has been well received in the market. The 12-litre engine for industrial use was introduced in 1997 and went into production during 1998.

Scania's new 12-litre marine engine has a compact design, enabling it to fit more easily into small engine compartments.



The service market in Europe

Scania's sales of services and parts in Europe rose by 17 percent to SEK 5,013 m. (4,300).

During 1998, efforts to expand Scania's sales and service organisation continued. Especially in Germany and France, expansion is taking place in the same way as occurred earlier in Great Britain and the Netherlands. In Germany, for example, Scania inaugurated eight new or renovated facilities during the year.

Scania is making three main types of investments: mergers of small dealer facilities into larger ones, placement of dealerships at strategic logistic points and continued human resource development programmes.

The service market is becoming a more important element of Scania's operations. This is due, among other things, to a change in customer structure. The shift towards larger international operators means heavier capacity utilisation of vehicles. Longer annual mileages result in greater demand for service, despite the improved quality of vehicles.

The deregulated and increasingly integrated transport market in Europe is also leading to keener competition among transport companies. They are demanding service solutions that include varying degrees of total responsibility for the vehicle, financing, service and maintenance. This is why Scania is prioritising its Vehicle Management concept and the Dealer Operating Standards project.

In the Scania Vehicle Management concept, Scania offers individual contracts adapted to the transport needs of customers. During the contract period, for example, Scania may assume total responsibility for the customer's access to transport capacity. Scania owns the vehicle and

For a haulier, every stoppage means lost revenue. Scania is steadily improving its network to cover customer service needs quickly and flexibly.

"My vehicle fleet has to operate continuously. But with 60 Scania trucks and my Scania workshop, this is no problem."

Jürgen Albrecht,
Kaiser's Kaffee Geschäft AG,
Berlin, Germany

makes it available to the customer according to the latter's requirements. In Great Britain and the Netherlands, which were the first to deregulate in Europe, the development of the Scania Vehicle Management concept has progressed furthest. Now the concept is being implemented throughout Europe.

The Dealer Operating Standards project is all about creating a high common level of knowledge, quality and productivity at all Scania sales and service points in Europe. This encompasses such areas as uniform working methods and delivery times. Customers must receive the same high level of service from Scania no matter where they are. The project is scheduled for completion in Scania's European organisation during 1999.

During 1998, total net investments (acquisitions and new facilities) in the European marketing organisation amounted to SEK 400 m. In January 1999, Scania acquired the Italian distributor Italscandia.

Markets in Asia, Africa and Australia

Trucks

Demand varied strongly between markets during 1998. Scania's order bookings declined to 2,800 vehicles, compared to 4,300 during 1997. In most markets, there was increased pressure on prices due to weak demand, the yen exchange rate trend and the Japanese vehicle industry's need to offset a sagging domestic market with export sales.

Sales in Asia declined by 54 percent to 1,410 trucks (3,100), while sales increased in other markets by 51 percent to 1,600 trucks (1,060).

In East Asia, Scania's deliveries were mainly to Hong Kong and Taiwan. The limited demand in most other markets was met by deliveries from inventories. The market in Korea remained weak. Scania organised its own importing company and began to build up its own dealership network.

In the Middle East, demand was relatively weak. Scania increased its deliveries sharply. In most countries, Scania doubled its deliveries, albeit from low levels. The Turkish market became saturated toward year-end.

The Australia/New Zealand/Oceania market remained good, and Scania sold 420 trucks (380). In Australia, one of the world's most competitive truck markets, Scania increased its penetration of the large customer segment.

The markets in North Africa grew. In Morocco, new dealer facilities opened, and Scania's market share rose to 28 percent (17). Scania's deliveries to Egypt, Morocco and Tunisia rose sharply.

Order bookings from other parts of Africa were weak. The dominant market is South Africa, where Scania increased its share of a weakened market. Expansion of the dealer network continued.

Timber transport in South Africa with a V8-powered Scania R144.

Scania airport coach in Hong Kong.

Buses

The bus and coach markets in Asia, Africa and Australia were characterised by weak demand. Sales totalled 580 (1,060) bus chassis. Large orders received from Egypt in 1997 were partially invoiced in 1998.

Sales in South East Asia declined due to the economic situation in the region.

In Egypt, demand was good, albeit lower than in 1997. In Morocco, Scania broke into the city bus market for delivery during 1999.

Industrial and marine engines

Deliveries of industrial and marine engines to the markets in Asia, Africa and Australia decreased.

The service market

Sales of service products amounted to SEK 599 m. (633). Owing to low utilisation of fleets in South East Asia, parts consumption declined. However, sales in most other markets rose.

The service network was expanded and upgraded in several markets. In larger markets, preparations were made for the introduction of the Scania Vehicle Management concept.

The Latin American market

Trucks

Early in the year, demand in the Latin American market was at the same high level as during the latter part of 1997. However, the economy was affected by developments in Asia and the market deteriorated during the second half of 1998. Late in the year, developments in Russia also had a negative psychological impact, even though they affect the Latin American economies to only a minor extent. Financing expenses for transport companies climbed to a peak late in 1998, which also slowed demand.

The Brazilian economy deteriorated during 1998, and GDP grew only insignificantly. Early in 1999, the Brazilian currency was devalued sharply. In the long term, there are prospects for good economic growth.

The Brazilian market for heavy trucks declined from its high 1997 level of 17,900 vehicles to 15,800.

Scania's sales in Latin American markets fell by 21 percent to 7,600 trucks (9,600). Order bookings declined by 18 percent to 8,100 trucks (9,900).

The changeover in production to the 4-series, which occurred during the first half of 1998, resulted in substantially lower deliveries during this period.

The year included major market campaigns for Scania due to the introduction of the 4-series. Launch activities in São Paulo during February and March attracted 9,000 people. In March, customer activities on the same day in 54 Brazilian cities drew 29,000 visitors. In other Latin American markets, Scania carried out local activities for about 10,000 invited guests.

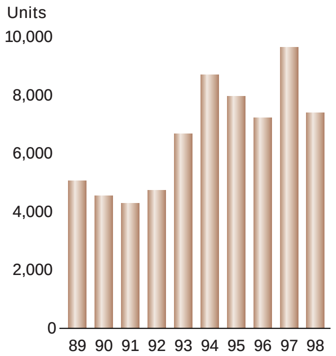
Scania retained its position as the market leader in Brazil, despite limited production during the first half of 1998. Towards the end of the year, its market share rose, resulting in a cumulative market share of 33.4 percent (39.5). The number of Scania trucks delivered was 5,500 (7,300), a decline of 25 percent.

Scania's main competitors introduced upgraded products during the year. Price competition was keen, which depressed margins.

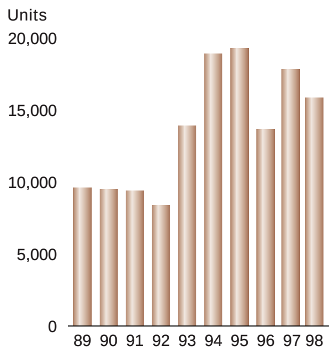
In Argentina, too, economic growth slowed during 1998. GDP growth was nevertheless high, at 4.2 percent. Thanks to a very strong first few months, the market for heavy trucks grew by 12 percent on an annual basis. During the final months of the year, however, sales fell to the same level as during the corresponding period of 1997.

The first 4-series truck produced in Latin America being unveiled at the Scania factory in São Paulo, Brazil.

Scania trucks sold in Latin America



The heavy truck market in Brazil



"Scania's idea of a 'total concept' is sound. I no longer need to have my own workshop. I also believe that Scania's 4-series can be very successful in this market."

Antonio Elola Salas,
haulier in Mexico.

Scania was the market leader in Argentina, with a 28.6 percent share (34.8) despite greatly limited delivery capacity during the first half of 1998. Scania delivered 1,600 trucks (1,700).

In other parts of Latin America, an economic downturn occurred. Chile was more severely affected than other countries due to its extensive dependence on Asia and low copper prices. Scania retained its 7.3 percent share of the highly competitive Chilean market.

The Peruvian market grew, primarily as a result of a sharp upturn during the first half of 1998. Scania's market share climbed appreciably. In Mexico, the truck market increased by about 35 percent. Due to the production changeover, Scania could only deliver a limited number of vehicles. However, the long-term prospects are good in this market, which is dominated by North American makes.

Buses

In Latin America, the bus and coach market developed favourably in a number of countries during most of 1998. A slight levelling off occurred towards year-end, however. Scania's deliveries of bus chassis fell by 7 percent to 1,700.

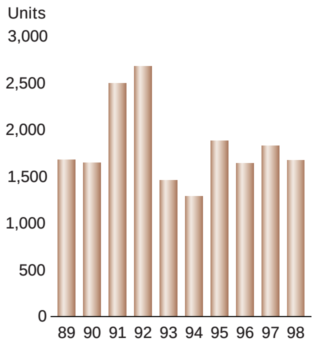
The new generation of 4-series city buses was introduced in May, and in September the new highway buses were introduced. City buses, including low-floor models, increase Scania's sales potential in this segment.

The Brazilian bus market grew at first during 1998 but slowed towards the end of the year. Scania's deliveries in Brazil fell by 10 percent to 1,200 buses. Its market share was 9.0 percent (10.1).

The bus market in Argentina grew sharply during the year, although it slowed somewhat during the final months. In Scania's traditional segment, intercity buses, its market share was nearly 50 percent.

In Bolivia and Peru, deliveries rose, while a decline occurred in Venezuela and Chile. In Santiago, tests of gas-powered buses from Scania began.

Unit sales of buses and coaches in Latin America



Scania engines are used as power sources for sugar cane harvesting machines in Brazil.

Industrial and marine engines

Deliveries of industrial and marine engines in Latin America were largely unchanged at about 700 units (750).

The service market

The service market in Latin America is less developed than elsewhere. As economic development in Latin America proceeds, it is becoming more like the European market in terms of customer and market structure.

There is thus significant potential, which has also gained an extra reinforcement through the introduction of the 4-series. Scania is investing in further development of its service network in these markets as well.

Svenska Volkswagen

The 1998 income after financial items of the importing operations of the Svenska Volkswagen Group was SEK 272 m. (290). 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 1998 rose to 24.4 percent (20.4). Its share of the light truck market was 43.7 percent (43.1).

The new Volkswagen Beetle went on sale in Sweden during the year.

PRODUCTION

Production in Europe

Due to good order bookings, the pace of production increased gradually during the year. Late in 1998, it reached its highest level ever. European operations produced a total of 41,700 vehicles (35,900), of which 38,900 trucks (33,100) and 2,800 buses (2,800).

Productivity, measured on a rolling 12-month basis as the number of vehicles manufactured divided by hours worked, rose by 9 percent. The increase in productivity was a result of the more efficient production of the 4-series as well as higher volume and continued streamlining measures.

To make the higher pace of truck production possible, staffing was increased by more than 200 persons during the year, in many cases on time-limited contracts. The fast pace of production, especially during the autumn, also led to substantial overtime hours.

The changeover to production of 4-series buses began during the second half of 1997. During the first half of 1998, the production rate remained lower than normal. Production did not keep up with demand. During the second half, however, the pace of bus production normalised.

In the Netherlands and France, the percentage of production personnel employed on time-limited contracts increased. Together with the Swedish agreement on flexible working hours that went into effect late in 1996, this increases Scania's ability to respond cost-effectively and flexibly to variations in demand.

Automated welding of cabs at the factory in Oskarshamn, Sweden.

Assembling of trucks at the Zwolle factory in the Netherlands.

The pay level in Sweden rose by about 3 percent, compared to about 4 percent in the Netherlands and 2 percent in France, expressed in local currency.

Material costs per truck produced, expressed in local currency and with an unchanged specification level, declined and was about 2 percent lower at year-end than at the start of 1998. This was due to optimisation of components in vehicle design and lower purchasing costs.

Warranty costs for trucks at factory level remained higher than for the previous product range. The trucks that left the production system during the latter part of 1998 were at the same quality level as the earlier product range.

Depreciation was largely unchanged from 1997. Since capital expenditures for the 4-series have been largely completed, the year's investments in the production system were lower than depreciation.

Steps toward greater specialisation at production units continued. The European production system is being coordinated to an increasing extent. The transfer of engine and axle assembly from Zwolle, the Netherlands to Södertälje and Falun, Sweden, respectively, is proceeding as planned. Streamlining work continued during the year. It focused primarily on fine-tuning of final assembly work and achieving higher quality and delivery assurance.

Production in Latin America

The changeover to the 4-series, which began in January with the truck range, dominated 1998. It represented a larger technological step than in Europe and required extensive training and running-in efforts. To take advantage of the productivity gains that are possible in the new product range, the workforce shrank by about 300 persons during the first quarter.

The supplier structure also changed substantially. During the period until June, production was limited by delays in component deliveries. Certain components were supplied on a back-up basis from Europe. During the second half of 1998, the share of local suppliers increased, leading to a better cost situation.

During the second and third quarter, the production system switched over to the new bus range. During this period, delivery capabilities were limited. Toward year-end, production reached the level of demand.

Provisions are being made for higher warranty costs, in the same way as in European operations. Two years after the change of model, warranty costs are expected to revert to previous levels.

During the fourth quarter of 1998, the organisation was gradually adapted to weaker demand.

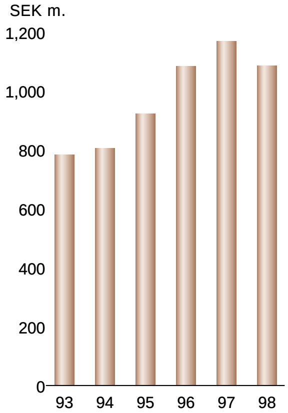
Research and development

Scania's research and development expenses during 1998 totalled SEK 1,085 m. (1,169). Operations are concentrated at the Scania Technical Centre in Södertälje. R&D expenses are distributed relatively uniformly over the years.

An essential element of work during 1998 consisted of further refining the 4-series in response to increasingly diversified customer demands. During the year, Scania launched a modification of the truck cab specially intended for drivers who work alone. Meanwhile a preliminary study was underway on the potential for supplementing the product range at the lighter end of Scania's traditional segment.

Meanwhile Scania intensified efforts to further refine its vehicle range to meet customer demands well into the 21st century. There is a long-term focus, among other things, on consolidating core competency in Scania-specific electronic and information systems, which will improve customers' day-to-day work in the future.

Research and development expenses



The task of further refining Scania's engines focused on additional improvements in environmental characteristics and performance, in preparation for future environmental standards. Scania's added new models to its new modularised engine range, based on a single combustion chamber. The advantage of this range is that Scania's development work can concentrate on the same combustion process. During January 1999, low-emission engines for urban environments were also launched.

During 1998, Scania launched a refinement of its truck cab, specially adapted for drivers who work alone.

CUSTOMER FINANCE

Scania's customer finance operations are an important form of marketing and sales support for the company's products, which contribute to the Group's earnings and growth.

In Europe, customer finance is mainly carried out by Scania-owned finance companies that cover Great Britain, France, Germany, Belgium, Poland, the Czech Republic and the Nordic countries, plus other countries in central and eastern Europe.

In those countries where Scania operates finance companies, trucks financed via these companies accounted for a total of 36 percent (31) of sales.

Lending volume continued to increase during 1998. The year-end loan portfolio amounted to SEK 13,032 m. (8,537). Of this total, 38 percent consisted of operating leases and 25 percent of financial leases. The remaining 37 percent represented loan financing.

In-house customer financing is largely a prerequisite for sales in central and eastern Europe. Total lending in these countries (excluding Poland and the Czech Republic) was around SEK 520 m. at year-end.

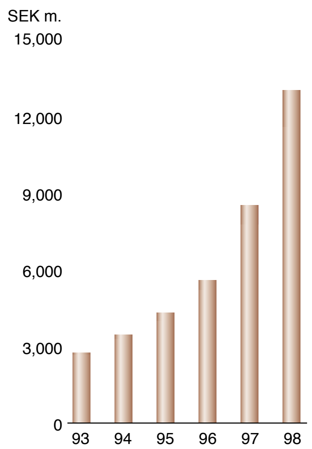
The volume increase was due to higher sales plus the establishment of Scania-owned finance operations in a number of new markets. In addition, customers are increasingly seeking solutions that combine leasing with various types of maintenance and repair agreements. This has resulted in a larger proportion of Scania-financed sales.

Earnings from customer finance operations totalled SEK 91 m. (73). Provisions for bad debts increased by SEK 38 m. during the year. Actual credit losses amounted to SEK 6 m. Total reserves at year-end were SEK 205 m., equivalent to 1.7 percent of the customer finance portfolio. Of this, SEK 80 m. was directly set aside for central and eastern Europe (excluding Poland and the Czech Republic).

In Latin America, Scania offers financing in collaboration with international lenders. Scania assumes a limited portion of the credit risk. In addition, Scania offers a customer-financed savings program, where customers are organised into consortia. Through regular savings in the consortium, the customer is guaranteed allocation of a vehicle within a certain predetermined period. During 1998, 48 percent of sales in Latin America occurred via this type of financing.

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

Total loan portfolio, finance companies



FINANCIAL REVIEW

Sales by product

SEK m.	**1998**	1997	1996
Trucks	**27,092**	24,005	20,636
Buses	**3,548**	3,251	2,852
Engines	**398**	392	344
Service products	**6,282**	5,649	4,616
Used vehicles and other products	**2,355**	1,790	1,506
Total Scania products	**39,675**	35,087	29,954
Svenska Volkswagen products	**5,637**	4,632	3,776
Total	**45,312**	39,719	33,730

Sales by market area

SEK m.	**1998**	1997	1996
Western Europe	**28,962**	23,102	21,009
Central and eastern Europe	**1,814**	1,398	827
Europe	**30,776**	24,500	21,836
Latin America	**5,974**	6,798	4,800
Asia	**1,018**	1,932	1,740
Other markets	**1,907**	1,857	1,578
Total Scania products	**39,675**	35,087	29,954

Number of vehicles sold by market area

Units	**1998**	1997	1996
Trucks			
Western Europe	**32,686**	26,756	26,249
Central and eastern Europe	**2,237**	1,833	1,030
Europe	**34,923**	28,589	27,279
Latin America	**7,621**	9,649	7,377
Asia	**1,410**	3,096	2,997
Other markets	**1,599**	1,058	1,375
Total trucks	**45,553**	42,392	39,028
Buses			
Western Europe	**1,731**	1,595	1,655
Central and eastern Europe	**106**	95	83
Europe	**1,837**	1,690	1,738
Latin America	**1,697**	1,829	1,641
Asia	**78**	308	309
Other markets	**505**	757	275
Total buses	**4,117**	4,584	3,963

Sales

The Scania Group sold 49,670 (46,976) trucks and buses, an increase of 6 percent. In monetary terms, sales rose by 14 percent to SEK 45,312 m. (39,719). Sales of Scania products rose by 13 percent. Excluding currency rate effects, the increase was about 10 percent.

Operating income

The Scania Group's operating income amounted to SEK 3,592 m. (3,047), an increase of 18 percent.

Operating income in **European operations** (which encompass all markets outside Latin America) climbed by about 70 percent to SEK 3,913 m. (2,309). Earnings were positively affected by 14 percent higher unit sales of trucks and buses and positive currency rate effects of SEK 350 m. Sales of service-related products rose by 12 percent.

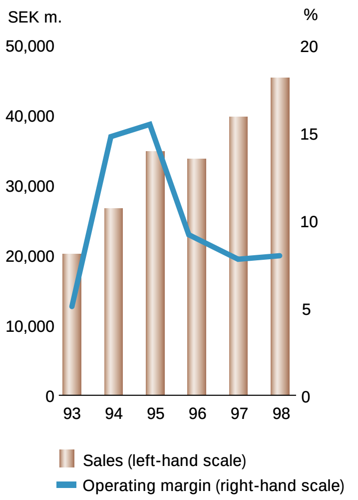
On the cost side, warranty and material expenses were reduced while increased volume contributed to higher capacity utilisation. Larger investments in the sales and distribution organisation resulted in higher costs. During 1998, higher warranty expenses as well as changeover effects related to the new bus and coach range lowered the earnings of European operations.

The level of warranty expenses remained higher than for the previous product range. The trucks that left the production system late in 1998 were at the same quality level as the previous 3-series.

The operating margin in European operations increased to 11.2 (7.9) percent. During the year, the higher proportion of operational leasing increased the net amount of deferred income recognition by SEK 360 m. (200). Taking this into account, the underlying operating margin was about 1 percentage point higher than reported.

Investments in the sales and distribution network continued during 1998.

Scania Group sales and operating margin



Together with higher volume, this resulted in an increase of 20 percent or SEK 944 m. in total selling and distribution expenses. Of the increase, SEK 200 m. was attributable to the continued integration and strengthening of the distribution network in Europe by means of acquisitions. The additional cost from acquired companies was offset by corresponding gross income from their business. Outside of Scania's European operations, product launches in Latin America increased selling expenses by SEK 150 m. The continued expansion of Svenska Volkswagen operations resulted in SEK 120 m. in higher selling expenses.

Operating income in **Latin American operations** amounted to SEK –662 m. (407). The changeover to the new product range, as well as adjustments to the new market situation, had an estimated negative impact of SEK 500 m. on operating income. The production changeover resulted in a substantially lower delivery capacity, especially during the first half. During the second half, the market situation deteriorated and this had a negative impact on volume. A cost adjustment programme

Sales and earnings by area of operations

Sales

Number of vehicles	**1998**	1997	1996
European operations	**40,375**	35,521	33,986
Latin American operations	**9,295**	11,455	9,005
Total Scania vehicles sold	**49,670**	46,976	42,991

Sales value

SEK m.	**1998**	1997	1996
European operations	**35,072**	29,061	25,656
Latin American operations	**6,151**	6,973	4,754
Internal sales	**(1,548)**	(947)	(456)
Total Scania products	**39,675**	35,087	29,954
Svenska Volkswagen products	**5,637**	4,632	3,776
Total	**45,312**	39,719	33,730

Operating income

SEK m.	**1998**	1997	1996
European operations	**3,913**	2,309	2,276
Latin American operations	**(662)**	407	511
Customer finance operations	**91**	73	55
Total Scania products	**3,342**	2,789	2,842
Svenska Volkswagen products	**250**	258	215
Total	**3,592**	3,047	3,057

Operating margin

%	**1998**	1997	1996
European operations	**11.2**	7.9	8.9
Latin American operations	**(10.8)**	5.8	10.7
Total Scania products	**8.4**	7.9	9.5
Svenska Volkswagen products	**4.4**	5.6	5.7
Total	**7.9**	7.7	9.1

was initiated. Operating income during 1997 had been favourably influenced by SEK 170 m. in nonrecurring effects related to indirect taxes. The remaining deterioration in operating income is explained primarily by a volume decline totalling more than 2,000 trucks and buses.

Operating income in **European customer finance operations** rose to SEK 91 m. (73), mainly as a consequence of higher financing volume.

Operating income for Svenska Volkswagen products amounted to SEK 250 m. (258), which was attributable to Scania's share of income in Svenska Volkswagen AB and the earnings of Din Bil Group, a car dealership chain wholly owned by Scania. Higher volume was offset by a less favourable currency rate situation and resulting lower margins.

Financial income and expenses

Net financial items totalled SEK –378 m. (–296). This was at about the same level as last year, after taking into account a positive nonrecurring effect of SEK 71 m. from the sale of securities in Latin America.

Taxes

The Scania Group's tax expenses were equivalent to 30 (29) percent of income after financial items.

Scania will appeal a decision by the local tax authority that would increase its taxes by about SEK 100 m. for the income years 1994 to 1996. The dispute concerns the distribution of research and development expenses between European and Latin American operations. Scania has not made a corresponding provision in its accounts.

Cash flows

Operating cash flows excluding customer finance operations for the full year 1998 amounted to SEK 1,797 m. (–55).

Cash flows from operating activities rose by SEK 857 m. due to improved income before depreciation.

Tied-up working capital increased by SEK 725 m. (742). The increase was attributable to both Europe and Latin America. In European operations, tied-up capital increased both in the form of inventories and receivables, due to higher volumes. This was partly offset by higher operating liabilities. In Latin American operations, tied-up capital could not be fully adjusted to the decline in demand before the end of 1998.

Capital expenditures

Net capital expenditures declined by SEK 978 m. due to the completion of investments for production of the 4-series and for other capacity increases.

Net indebtedness and refinancing

Net indebtedness, excluding net borrowings of customer finance operations, decreased by SEK 621 m. to SEK 6,522 m. (7,143). Net indebtedness as a ratio of shareholders' equity fell to 0.55 (0.69). Net indebtedness including customer finance operations totalled SEK 17,505 m. (14,054).

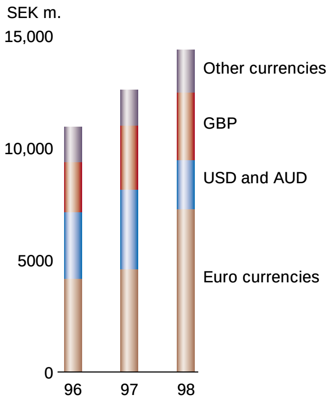
Scania has a committed revolving credit facility of USD 1,850 m. from an international banking syndicate that expires in December 2004. At year-end 1998, USD 340 m. (425) of this facility was utilised.

The Group has a medium-term note programme, under which Scania can issue notes and bonds with maturities ranging from one to ten years. At year-end, SEK 4,130 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 6 months but that maturities may be allowed to vary from 0 to 24 months. One exception is Scania's finance companies, in which the fixed interest period on loans is matched with the fixed interest period on assets.

Transaction exposure



During 1998, the average funding cost was 5.5 percent (5.5). The average fixed interest period on Scania's loan portfolio (excluding finance companies) was between 5 and 8 months. At year-end, 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.

Management of credit risks that arise in Scania's treasury unit, among other things when investing liquid assets and engaging in derivatives trading, is regulated in Scania's finance policy. Transactions take place only within established limits and with carefully selected, creditworthy counterparties.

Forward contracts outstanding at year-end (millions)

Maturation period		Euro currencies Volume	Rate[1]	GBP Volume	Rate	USD Volume	Rate	Other Volume[2]
Q1	1999	204	9.06	45	13.11	45	8.17	242
Q2	1999	210	8.93	45	12.97	45	8.17	91
Q3	1999	120	9.29	30	13.20	30	7.99	44
Q4	1999	107	9.55	14	13.17	15	7.97	0
Total		641		134		135		377

[1] Average forward price and strike price for currency options.
[2] Hedging of other currencies translated to SEK based on forward price.

Currencies

Net currency transaction exposure during 1998 was SEK 14.2 billion. The largest inflow currencies were Euro currencies along with USD and GBP. Based on the 1998 geographic breakdown of revenues and expenses, a one percent change in the Swedish krona would change operating income by about SEK 140 m. on a full-year basis. Currency exposure in operating income by region is presented in Note 26 on page 47.

Scania's policy is to hedge its net currency transaction exposure during a period of time equivalent to the projected orderbook until the date of payment. This normally means a hedging period of three to four months. However, the hedging period is allowed to vary between zero and twelve months. Scania took advantage of the favourable currency rate situation during the second half of 1998 by hedging a large portion of 1999 net currency flows.

The net assets of foreign subsidiaries are not hedged under normal circumstances. To the extent a subsidiary is overcapitalised or if there is surplus liquidity in a subsidiary, it should be hedged, however (see Note 25). As of 31 December 1998, SEK 827 m. (1,173) of the net assets of foreign subsidiaries were hedged, which was equivalent to 10 percent of the Group's net foreign assets.

Insurance

Scania's global insurance procurement is coordinated by the insurance department. Most of Scania's insurance coverage is obtained in the international insurance market, at a cost of SEK 48 m. in 1998. A large proportion of premium volume is placed in Scania's own insurance company, Vabis Försäkrings AB, which in turn manages risks by means of reinsurance in the international reinsurance market.

Human resources

At year-end, the number of employees – including contract employees – totalled

23,537, a decrease of 226 persons since the beginning of 1998.

The number of production company employees in European operations increased by 288 to 13,485 (13,197). Expansion of the European marketing organisation resulted in an increase in the number of employees by about 370 persons. Divestment of Swedish passenger car dealerships resulted in a decrease of about 330 persons. The total number of employees in sales companies was 6,194 (6,160). In customer finance operations, the number of employees rose by 37 to 144.

The number of employees in Latin American operations decreased by 585 persons to 3,714 (4,299).

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, shares in the Latin American subsidiaries and a 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, including customer finance companies, outside Latin America.

The net income of Scania AB amounted to SEK 1,905 m. (851).

YEAR 2000 READINESS DISCLOSURE

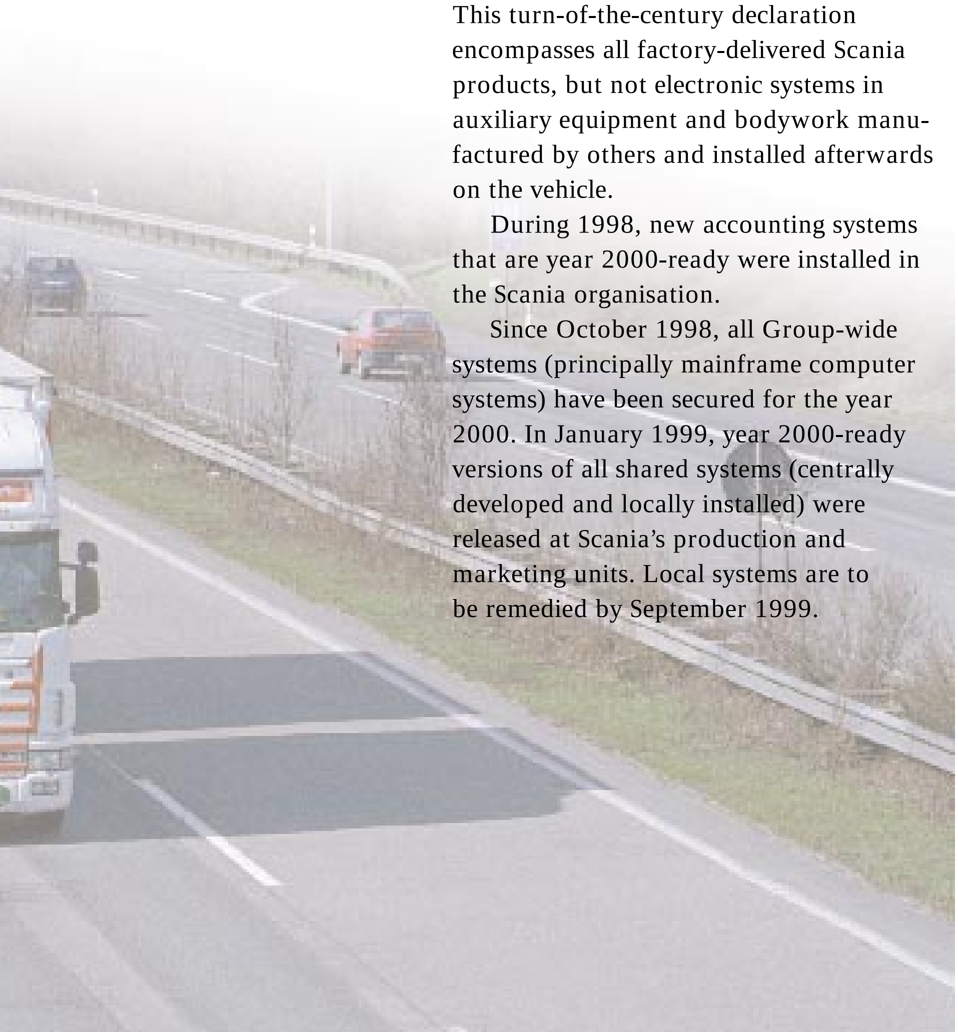
In light of the approaching turn of the century, in December 1996 the Executive Management of Scania decided to initiate a coordination project to ensure that Scania's global operations are not endangered by faulty date handling in its information technology systems due to the "millennium bug" or Y2K problem. About 50 project teams at Scania are working with this. During the second half of 1998, an external audit was made of the project and of all actions taken and planned for the turn of the century.

These actions involve all types of computer applications. By September 1999, Scania will be year 2000-ready in all respects. Both Scania's products and the company's computer systems can successfully deal with the turn of the century.

In July 1998, Scania announced that all its products (trucks, buses and industrial and marine engines) can successfully handle the transition to the 21st century. This turn-of-the-century declaration encompasses all factory-delivered Scania products, but not electronic systems in auxiliary equipment and bodywork manufactured by others and installed afterwards on the vehicle.

During 1998, new accounting systems that are year 2000-ready were installed in the Scania organisation.

Since October 1998, all Group-wide systems (principally mainframe computer systems) have been secured for the year 2000. In January 1999, year 2000-ready versions of all shared systems (centrally developed and locally installed) were released at Scania's production and marketing units. Local systems are to be remedied by September 1999.



Guidelines for IT infrastructure are available to the staff on the Scania intranet, and project actions must be implemented no later than September 1999.

As for Scania's production system and factories, about 10,000 embedded systems have been identified. The analysis was completed in September 1998. The current task of analysing and repairing or replacing them will continue until September 1999. By that time, administrative, order and parts handling systems will also be year 2000-ready.

It is important that Scania's network of importers and dealers, in other words its wholesale and retail organisation, can also successfully deal with the turn of the century. For this reason, Scania's year 2000 project and the corresponding projects in the wholesale and retail organisation are currently working together. The status of this collaboration is the same as for Scania's internal projects.

Scania has required all suppliers to confirm that they are year 2000-ready. By the end of 1998, Scania had received 85 percent positive replies. A project team is verifying the situation at the company's more important suppliers.

As for outside suppliers of electricity, telecommunications and computer services, transport and banking services etc., each individual project team will go through the situation in the geographic area in question.

The responsibility for preparedness in case of any unforeseen Y2K problems rests with Scania's regular emergency response team.

The total resources used for year 2000 date handling activities in the global Scania organisation are estimated at SEK 120 m., of which SEK 30 m. in 1997, SEK 50 m. in 1998 and SEK 40 m. in 1999. Most of these expenses are attributable to internal resources and are part of regular budgets. The company's annual Information Services/Information Technology (IS/IT) costs are about SEK 800 m.

CONSOLIDATED INCOME STATEMENT[1)]

January–December, SEK m.	Note	**1998**	1997	1996
Sales	1	**45,312**	39,719	33,730
Cost of goods sold		**(34,630)**	(30,407)	(25,539)
Gross income		**10,682**	9,312	8,191
Research and development expenses		**(1,085)**	(1,169)	(1,084)
Selling expenses		**(5,730)**	(4,786)	(3,794)
Administrative expenses		**(679)**	(668)	(611)
Income from customer finance operations	2	**91**	73	55
Share of income in associated companies	3	**313**	285	300
Operating income	4	**3,592**	3,047	3,057
Financial income and expenses	5			
Interest income		**259**	416	526
Interest expenses		**(627)**	(689)	(869)
Other financial income and expenses		**(10)**	(23)	(8)
Net financial items		**(378)**	(296)	(351)
Income after financial items		**3,214**	2,751	2,706
Taxes	6	**(959)**	(806)	(732)
Minority interests		**(5)**	(2)	0
Net income		**2,250**	1,943	1,974
Depreciation included in operating income		*(1 883)*	*(1 672)*	*(1 328)*

1) Figures for previous years have been adjusted due to a change in principle for reporting of taxes. See “Accounting principles”.

CONSOLIDATED BALANCE SHEET[1)]

31 December, SEK m.	Note	**1998**	1997	1996	**1998**	1997	1996
					including customer finance companies according to the equity method of accounting, pro forma		
ASSETS							
Fixed assets							
Intangible fixed assets	7	**113**	134	53	**113**	134	53
Tangible fixed assets	8	**17,445**	16,258	13,908	**12,824**	13,012	11,839
Financial fixed assets							
Shares in associated companies etc	9	**1,411**	1,230	1,128	**2,258**	1,952	1,637
Interest-bearing receivables	10	**5,800**	3,294	2,190	**747**	603	398
Deferred tax assets	16	**288**	164	189	**268**	164	189
Total fixed assets		**25,057**	21,080	17,468	**16,210**	15,865	14,116
Current assets							
Inventories	11	**7,571**	6,902	5,848	**7,456**	6,803	5,811
Receivables	12						
Interest-bearing receivables		**3,480**	2,950	2,271	**796**	817	748
Trade receivables		**5,004**	3,715	3,047	**4,894**	3,691	3,035
Other receivables		**1,916**	1,616	1,085	**1,660**	1,418	988
Total receivables		**10,400**	8,281	6,403	**7,350**	5,926	4,771
Short-term investments	13	**929**	1,429	1,825	**929**	1,420	1,825
Cash and bank balances		**845**	704	1,012	**781**	644	963
Total current assets		**19,745**	17,316	15,088	**16,516**	14,793	13,370
Total assets		**44,802**	38,396	32,556	**32,726**	30,658	27,486
SHAREHOLDERS' EQUITY AND LIABILITIES							
Shareholders' equity							
Share capital		**2,000**	2,000	2,000	**2,000**	2,000	2,000
Restricted reserves		**3,677**	2,800	2 041	**3,677**	2,800	2,041
Total restricted equity		**5,677**	4,800	4,041	**5,677**	4,800	4,041
Unrestricted reserves		**3,924**	3,610	3,125	**3,924**	3,610	3,125
Net income		**2,250**	1,943	1,974	**2,250**	1,943	1,974
Total unrestricted equity		**6,174**	5,553	5,099	**6,174**	5,553	5,099
Total shareholders' equity	14	**11,851**	10,353	9,140	**11,851**	10,353	9,140
Minority interests in subsidiaries		**21**	15	16	**21**	15	16
Provisions							
Provisions for pensions	15	**1,913**	1,889	1,764	**1,910**	1,887	1,762
Provisions for deferred taxes	16	**1,735**	1,567	1,611	**1,295**	1,281	1,362
Other provisions	17	**1,933**	1,667	1,614	**1,926**	1,662	1,599
Total provisions		**5,581**	5,123	4,989	**5,131**	4,830	4,723
Liabilities							
Long-term borrowings	18	**6,620**	7,003	8,046	**6,504**	6,834	7,883
Short-term borrowings	18	**12,659**	9,184	5,095	**1,735**	2,373	764
Advance payments from customers		**618**	466	406	**515**	408	364
Trade accounts payable		**2,767**	2,375	1,808	**2,550**	2,262	1,766
Tax liabilities		**1,047**	598	399	**1,047**	592	399
Other liabilities		**1,186**	1,022	802	**1,039**	854	655
Accrued expenses and prepaid income	19	**2,452**	2,257	1,855	**2,333**	2,137	1,776
Total liabilities		**27,349**	22,905	18,411	**15,723**	15,460	13,607
Total shareholders' equity and liabilities		**44,802**	38,396	32,556	**32,726**	30,658	27,486
Assets pledged and contingent liabilities							
Assets pledged	20	**187**	223	158			
Contingent liabilities	21	**529**	522	789			

1) Figures for previous years have been adjusted due to a change in principle for reporting of taxes. See "Accounting principles".

CONSOLIDATED STATEMENT OF CASH FLOWS[1)]

January–December, SEK m.	Note	**1998**	1997	1996
Cash flows from operating activities				
Net income, excluding customer finance operations		**2,194**	1,880	1,995
Items not affecting cash flows	22	**2,140**	1,597	1,277
Cash from operating activities		**4,334**	3,477	3,272
Change in working capital etc				
Inventories		**(611)**	(549)	(30)
Receivables		**(1,284)**	(1,016)	935
Provisions for pensions		**41**	97	256
Non-interest-bearing liabilities and provisions		**1,129**	726	(285)
Total change in working capital etc	22	**(725)**	(742)	876
Total cash flows provided by operating activities		**3,609**	2,735	4,148
Net cash used by investing activities	22	**(1,812)**	(2,790)	(2,523)
Operating cash flows excluding customer finance operations		**1,797**	(55)	1,625
Customer finance operations				
Funds generated internally		**212**	208	85
Increase in operating lease assets		**(1,211)**	(1,031)	(627)
Increase in financial receivables		**(2,668)**	(1,418)	(473)
Change in other assets and liabilities		**(25)**	(78)	(45)
Expansion in customer finance operations		**(3,692)**	(2,319)	(1,060)
Change in financial position including customer finance operations		**(1,895)**	(2,374)	565
Change in net indebtedness from financing activities	22	**2,586**	2,527	2,280
Dividend to shareholders		**(1,100)**	(1,100)	(1,100)
Net change in liquid assets and short-term investments		**(409)**	(947)	1,745
Effect of exchange rate fluctuations on liquid assets and short-term investments		**50**	243	45
Liquid assets and short-term investments at beginning of year		**2,133**	2,837	1,047
Liquid assets and short-term investments at end of year		**1,774**	2,133	2,837

1) Figures for previous years have been adjusted due to a change in principle for reporting of taxes. See “Accounting principles”.

PARENT COMPANY FINANCIAL STATEMENTS

Income statement

January–December, SEK m.	Note	**1998**	1997	1996
Operating income		**–**	–	–
Financial income and expenses	1	**(81)**	(180)	(250)
Dividends and Group contributions received	1	**3,320**	1,650	1,305
Transfer to tax allocation reserve		**(637)**	(284)	(250)
Taxes		**(697)**	(335)	(210)
Net income		**1,905**	851	595

Balance sheet

31 December, SEK m.	Note	**1998**	1997	1996
ASSETS				
Financial fixed assets				
Shares	2	**11,269**	11,269	11,269
Current assets				
Due from subsidiaries		**1,581**	–	–
Total assets		**12,850**	11,269	11,269
SHAREHOLDERS' EQUITY AND LIABILITIES				
Shareholders' equity	3	**10,363**	9,558	9,807
Untaxed reserves	4	**1,771**	1,134	850
Current liabilities				
Due to subsidiaries		**–**	234	400
Tax liabilities		**714**	335	210
Accrued expenses and prepaid income		**2**	8	2
Total current liabilities		**716**	577	612
Total shareholders' equity and liabilities		**12,850**	11,269	11,269
Assets pledged and contingent liabilities				
Assets pledged		**None**	None	None
Contingent liabilities	5	**11,960**	8,816	9,021

Statement of cash flows

January–December, SEK m.	**1998**	1997	1996
Cash flows from operating activities			
Net income	**1,905**	851	595
Items not affecting cash flows			
Group contributions received	**(3,268)**	(1,600)	(1,250)
Allocation to untaxed reserves	**637**	284	250
Cash from operating activities	**(726)**	(465)	(405)
Change in working capital			
Current liabilities	**373**	131	(318)
Total cash flows from operating activities	**(353)**	(334)	(723)
Change in net indebtedness from financing activities			
Change in liabilities to subsidiaries	**1,453**	1,434	1,823
Dividend	**(1,100)**	(1,100)	(1,100)
Net cash provided by financing activities	**353**	334	723
Liquid assets and short-term investments at end of year	–	–	–

ACCOUNTING PRINCIPLES

Change in accounting principle

The 1998 financial statements apply the draft recommendation of the Swedish Financial Accounting Standards Council concerning the reporting of income taxes, which complies in all material respects with IAS 12. Figures for previous periods have been adjusted accordingly. The effect of the new accounting principle was an increase of SEK 159 m. in shareholders' equity at the beginning of 1997. The effect on shareholders' equity at the beginning of 1998 was SEK 117 m. and at the end of 1998 it was SEK 234 m.

Consolidated accounts

The Scania Group follows the recommendations issued by the Swedish Financial Accounting Standards Council. These recommendations 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 can be found on page 48.

The consolidated financial statements encompass Scania AB 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. The goodwill depreciation period is decided from case to case and was 5 years during 1998. 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

Latin American operations, which are predominantly industrial in nature, are an integral part of Scania's industrial system, with common product development, common products and a common production structure. Their financial statements are thus translated to Swedish kronor using the monetary/non-monetary method of accounting. The financial statements of Scania's other foreign subsidiaries are translated using the current method.

In 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. With the exception of consumption of goods 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 interest-bearing items is included 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.

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. Other leasing contracts are accounted for as operating leases.

Revenue recognition

Sales revenues are recognised upon delivery of the products and services, on the date when substantially all the risks and rewards of ownership pass to the buyer. In the case of "operating leases", Scania recognises income as it receives principal payments over the life of the lease. A profit reserve equivalent to a fair valuation of residual value risk remains at the end of the contract period.

Depreciation

Depreciation is based on an asset's historical cost and estimated economic life. The estimated economic 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 operating income as it arises.

Warranty expenses

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

Selling expenses

Selling expenses are defined as costs of central marketing resources, distribution costs for parts as well as all overhead in marketing companies, including goodwill and warranty provisions.

Administrative expenses

Administrative expenses are defined as Group-wide costs of corporate management plus corporate staff units in European and Latin American operations.

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

Taxes are reported according to the draft recommendation of the Swedish Financial Accounting Standards Council concerning the reporting of income taxes. The Group's total tax consists of current tax and deferred tax. Deferred tax is the tax on the difference between the book value of assets and liabilities and their tax value. Deferred tax assets are recognised to the extent they are considered likely to be realised in the future.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

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

Note 1 Sales

	1998	1997	1996
Trucks	**27,092**	24,005	20,636
Buses	**3,548**	3,251	2,852
Engines	**398**	392	344
Service products	**6,282**	5,649	4,616
Used vehicles and other products	**2,355**	1,790	1,506
Total Scania products	**39,675**	35 087	29,954
Svenska Volkswagen products[1)]	**5,637**	4,632	3,776
Total	**45,312**	39,719	33,730

[1)] *Refers to Scania's sales through the Group's wholly owned 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	**1998**	1997	1996
Interest income	**480**	308	280
Leasing income	**942**	628	418
Interest expenses	**(486)**	(318)	(252)
Depreciation	**(668)**	(436)	(297)
Bad debts	**(44)**	(25)	(16)
Other expenses	**(133)**	(84)	(78)
Income of the customer finance operations	**91**	73	55

Balance sheet	**1998**	1997	1996
ASSETS			
Leasing assets	**4,605**	3,230	2,063
Financial receivables	**7,737**	4,870	3,323
Other assets	**690**	437	201
Total	**13,032**	8,537	5,587
SHAREHOLDERS' EQUITY AND LIABILITIES			
Shareholders' equity	**848**	722	509
Borrowings	**11,047**	7,022	4,500
Other liabilities	**1,137**	793	578
Total	**13,032**	8,537	5,587

The statement of cash flows below describes the expansion in customer finance operations.

Statement of cash flows	**1998**	1997	1996
Net income	**56**	63	(21)
Items not affecting cash flows	**156**	145	106
Cash from operating activities	**212**	208	85
Increase in operating lease assets	**(1,211)**	(1,031)	(627)
Increase in financial receivables	**(2,668)**	(1,418)	(473)
Change in other assets and liabilities	**(25)**	(78)	(45)
Expansion in customer finance operations	**(3,692)**	(2,319)	(1,060)

Leasing assets	**1998**	1997	1996
Acquisition cost	**5,868**	4,043	2,626
Accumulated depreciation	**(1,263)**	(813)	(563)
Book value at year-end[2)]	**4,605**	3,230	2,063

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

Net investments in financial leases	**1998**	1997	1996
Minimum lease payments receivable	**5,431**	2,905	2,137
Less:			
Executory costs and reserve for doubtful receivables	**(138)**	(68)	(69)
Imputed interest	**(658)**	(299)	(281)
Net investment[3)]	**4,635**	2,538	1,787

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

Future payments	Operating leases	Financial leases
1999	1,026	1,923
2000	787	1,513
2001	543	1,063
2002	265	632
2003	114	227
2004 and thereafter	33	73
Total	2,768	5,431

Note 3 Share of income in associated companies

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

	1998	1997	1996
Scania products	**183**	146	162
Svenska Volkswagen products	**130**	139	138
Total	**313**	285	300

Note 4 Depreciation

Distribution of depreciation by function, excluding depreciation in customer finance operations. See Note 2. "Selling expenses" include SEK 30 m. in depreciation of goodwill.

	1998	1997	1996
Cost of goods sold	**1,474**	1,356	1,085
Research and development expenses	**85**	80	71
Selling expenses	**284**	212	155
Administrative expenses	**40**	24	17
Total	**1,883**	1,672	1,328

Note 5 Financial income and expenses

	1998	1997	1996
Interest income			
Short-term investments	**122**	221	328
Long-term receivables	**93**	66	49
Interest portion of forward exchange contracts used to hedge net assets	**13**	(6)	58
Other	**31**	135	91
Total interest income	**259**	416	526
Interest expenses			
Borrowings	**(559)**	(637)	(800)
Interest on pension liability (PRI)	**(68)**	(52)	(69)
Total interest expenses	**(627)**	(689)	(869)
Other	**(10)**	(23)	(8)
Net financial items	**(378)**	(296)	(351)

Note 6 Taxes

	1998	1997	1996
Income tax	**(811)**	(794)	(487)
Withholding taxes on dividends and interest	**–**	2	–
Taxes paid	**(811)**	(792)	(487)
Deferred tax	**(39)**	78	(147)
Share of tax of associated companies	**(109)**	(92)	(98)
Total	**(959)**	(806)	(732)

Geographic distribution of income before taxes and minority interests:

	1998	1997	1996
Sweden	**3,247**	1,820	1,703
Rest of the world	**(33)**	931	1,003
Total	**3,214**	2,751	2,706

Geographic distribution of income tax expense:

	1998	1997	1996
Income tax			
Sweden	**(766)**	(571)	(295)
Rest of the world	**(45)**	(221)	(192)
Total	**(811)**	(792)	(487)
Deferred income tax			
Sweden	**(56)**	93	(145)
Rest of the world	**17**	(15)	(2)
Total	**(39)**	78	(147)
Tax of associated companies	**(109)**	(92)	(98)
Total	**(959)**	(806)	(732)

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:

	1998	1997	1996
	%	%	%
Swedish statutory income tax rate	**28**	28	28
Valuation of tax loss carry-forwards	**1**	1	(2)
Difference between Swedish and foreign tax rates	**1**	1	1
Tax-exempt income	**(1)**	(2)	(3)
Non-deductible expenses	**2**	2	3
Adjustment for taxes pertaining to previous years	**(1)**	–	–
Other	**0**	(1)	–
Effective income tax rate	**30**	29	27

Note 7 Intangible fixed assets

Goodwill	1998	1997	1996
Accumulated cost			
Opening balance	**161**	60	16
Additions during the year	**5**	102	45
Translation differences for the year	**7**	(1)	(1)
Total	**173**	161	60
Accumulated depreciation			
Opening balance	**27**	7	4
Depreciation for the year	**30**	20	3
Translation differences for the year	**3**	–	–
Total	**60**	27	7
Book value on 31 December	**113**	134	53

Note 8 Tangible fixed assets

	Buildings and land	Machinery and equipment	Construction in progress and advance payments
Book value, 1 January 1996	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
Change in accumulated cost, 1997	799	2,508	685
Change in accumulated depreciation, 1997	(378)	(1,264)	–
Book value, 31 December 1997	5,584	9,392	1,282
1998			
Accumulated cost			
Opening balance	7,700	17,527	1,282
Additions	317	3,339	504
Acquisitions/divestments of subsidiaries	(187)	(82)	(1)
Disposals	(198)	(1,144)	–
Reclassifications	107	924	(1,031)
Translation differences for the year	207	305	30
Total	7,946	20,869	784
Accumulated depreciation			
Opening balance	2,148	8,112	–
Acquisitions/divestment of subsidiaries	(127)	(55)	–
Disposals	(66)	(631)	–
Reclassifications	14	(14)	–
Depreciation for the year on cost:			
– industrial and sales operations	298	1,555	–
– customer finance operations	–	674	–
Translation differences for the year	60	190	–
Total	2,327	9,831	–
Accumulated revaluations			
Opening balance	32	–	–
Translation differences for the year	2	–	–
Total	34	–	–
Accumulated write-downs			
Opening balance	–	23	–
Write-downs for the year	–	7	–
Total	–	30	–
Book value on 31 December	**5,653**	**11,008**	**784**
of which "Machinery"		6,478	
of which "Equipment"		676	
of which "Leasing assets"[1)]		3,854	
Tax assessment value, buildings (in Sweden)	1,201		
equivalent book value	2,817		
Tax assessment value, land (in Sweden)	359		
equivalent book value	434		

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

	1998	1999	2000	2001	2002	2003	2004
Rent payment	**45**	44	36	34	32	24	22

[1)] *After subtracting intra-Group profits.*

Note 9 Shares in associated companies, etc

Shares in associated companies	**1998**	1997	1996
Acquisition cost	**796**	796	796
Accumulated share of income	**605**	425	318
Book value	**1,401**	1,221	1,114

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 **1998**	1997	1996
Beers’ N.V., NL003779439B01, the Netherlands	50	483	**730**	601	558
Oy Scan-Auto Ab, FI0202014-4, Finland	50	82	**114**	107	105
Svenska Volkswagen AB, 556084-0968, Sweden	50	298	**524**	490	439
WM-Data Scania AB, 556084-1206, Sweden	50	7	**33**	23	12
Shares in associated companies			**1,401**	1,221	1,114
Shares in other companies			**10**	9	14
Total			**1,411**	1,230	1,128

The shares in Beers’ N.V. are publicly listed and the market value of the investment was SEK 1,286 m. (824 and 741, 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 1,401 m.) and the Group’s ownership stake in the shareholders’ equity of associated companies (SEK 1,454 m.) amounted to SEK 53 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 605 m. (425 and 318, respectively).

Not 10 Interest-bearing receivables (long-term)

	1998	1997	1996
Receivables in customer finance operations	**5,053**	2,691	1,792
Other receivables	**747**	603	398
Total	**5,800**	3,294	2,190

Included in “Other receivables” were deposits of SEK 206 m. (136 and 114, respectively) with financial institutions which were restricted in their use by agreement with third-party lenders.

Not 11 Inventories

	1998	1997	1996
Raw materials	**1,183**	1,241	1,097
Work in progress	**452**	648	745
Finished goods	**5,936**	5,013	4,006
Total	**7,571**	6,902	5,848

Note 12 Receivables

	1998	1997	1996
Interest-bearing trade accounts receivable	**796**	817	748
Receivables in customer finance operations	**2,684**	2,133	1,523
Sub-total, interest-bearing trade accounts receivable	**3,480**	2,950	2,271
Trade accounts receivable	**5,004**	3,715	3,047
Other receivables	**1,471**	1,261	812
Pre-paid expenses and accrued income	**445**	355	273
Sub-total, other receivables	**1,916**	1,616	1,085
Total	**10,400**	8,281	6,403

As of 31 December 1998, receivables from associated companies related to products and services delivered were SEK 77 m. and receivables related to interest-bearing financing SEK 15 m. Trade accounts payable to associated companies related to services and products purchased were SEK 65 m.

Note 13 Short-term investments

	1998	1997	1996
Cash equivalents (maturities of less than 90 days)	**468**	571	1,165
Short-term investments	**461**	858	660
Total	**929**	1,429	1,825

Most of the Group’s short-term investments are found in the Latin American subsidiaries.

Investments totalling SEK 557 m. (502 and 223, 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:

1997	Share capital	Restricted reserves	Unrestricted shareholders’ equity	Total
Opening balance according to balance sheet adopted	2,000	1,875	5,106	8,981
Effect of change in accounting principle		166	(7)	159
Opening balance in accordance with new principle	2,000	2,041	5,099	9,140
Dividend			(1,100)	(1,100)
Net income for 1997			1,943	1,943
Translation differences 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	2,800	5,553	10,353
1998				
Opening balance	2,000	2,800	5,553	10,353
Dividend			(1,100)	(1,100)
Net income for 1998			2,250	2,250
Translation difference for the year			374	374
Exchange rate differences on forward contracts for the year			(24)	(24)
Transfer between restricted and unrestricted equity[1]		877	(877)	0
Other			(2)	(2)
Closing balance	**2,000**	**3,677**	**6,174**	**11,851**

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.

[1] *Transfers to restricted equity in 1998 are explained mainly by increased deferred tax receivables and tax allocations.*

Note 15 Provisions for pensions and similar commitments

	1998	1997	1996
Provisions for FPG/PRI pensions	**1,213**	1,168	1,063
Provisions for other pensions, vested	**316**	342	399
Special pension allocation	**116**	119	112
Provisions for medical care benefits	**268**	260	190
Total	**1,913**	1,889	1,764

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 multi-employer pension institute, the Pension Registration Institute (PRI). The level of benefits and actuarial assumptions are 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, which are 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 assets/liabilities

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

	1998	1997	1996
Deferred tax assets			
Provisions	**298**	234	184
Property, plant and equipment	**295**	160	112
Inventories	**233**	152	108
Tax loss carry-forwards	**198**	76	106
Other	**93**	114	68
Offset within tax units	**(829)**	(572)	(389)
Total	**288**	164	189
Deferred tax liabilities			
Property, plant and equipment	**1,908**	1,783	1,649
Tax allocation reserve	**524**	326	238
Other	**132**	30	113
Offset within tax units	**(829)**	(572)	(389)
Total	**1,735**	1,567	1,611
Net deferred tax liabilities	**1,447**	1,403	1,422

Tax loss carry-forwards stem from the Netherlands, France, Germany, England and Latin America 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

	1998	1997	1996
Warranty provisions	**1,312**	1,259	934
Other	**621**	408	680
Total	**1,933**	1,667	1,614

Note 18 Borrowings

Borrowings for customer financing are effectively matched against contracted payment flows with regard to currency and fixed-interest periods. Financing of industrial operations in Europe is mainly converted to Swedish currency, normally with a fixed-interest period of 6 months:

Short- and long-term borrowing distributed by currency[1]**:**	**1998**	1997	1996
SEK	**7,366**	5,189	1,214
USD	**4,600**	5,042	7,810
GBP	**2,249**	2,412	1,303
Other currencies	**5,064**	3,544	2,814
Total[2]	**19,279**	16,187	13,141

[1] *Does not take into account any currency hedging.*
[2] *These amounts include SEK 11,047 m. (7,022 and 4,500, respectively) in borrowings for customer finance operations. The average interest rate on borrowings, including borrowings for customer financing operations, was 5.5 percent (5.5 and 5.4, respectively) at year-end.*

The above loans fall due for repayment as follows:

1999	12,659
2000	1,049
2001	574
2002	204
2003	1,456
2004 and thereafter	3,337
Total	19,279

Scania has a committed credit facility of USD 1,850 m. from an international banking syndicate, which expires in December 2004. At year-end 1998, USD 340 m. of this facility was being utilised. This means that USD 1,510 m., equivalent to SEK 12,178 m. translated at the year-end exchange rate, was available under this credit facility on 31 December 1998.

Scania's medium term note programme enables the Group to issue notes and bonds with maturities of 1 to 10 years. At year-end, SEK 4,130 m. worth of such debt securities had been issued under the programme.

Scania also has commercial paper programmes in Sweden and Belgium, with limits of SEK 4,000 m. and BEF 10,000 m., respectively. At year-end, SEK 1,579 m. and BEF 4,944 m., respectively, were being utilised.

Net indebtedness

	1998	1997	1996
Cash and bank balances and short-term investments	**1,774**	2,133	2,837
Short-term borrowings	**(12,659)**	(9,184)	(5,095)
Long-term borrowings	**(6,620)**	(7,003)	(8,046)
Total	**(17,505)**	(14,054)	(10,304)
Of which, attributable to customer finance operations	**(10,983)**	(6,911)	(4,445)
Net indebtedness	**(6,522)**	(7,143)	(5,859)

Note 19 Accrued expenses and prepaid income

This item consisted mainly of the customary accrual items, of which about SEK 200 m. (300) were financial items.

Note 20 Assets pledged

	1998	1997	1996
Real estate mortgages	**47**	166	71
Chattel mortgages	**–**	16	17
Receivables	**140**	41	70
Total	**187**	223	158

All assets pledged consisted of collateral for the Group's own liabilities. In 1998, all collateral was pledged to credit institutions and amounted to SEK 40 m. for short-term borrowings and SEK 147 m. for long-term borrowings.

Note 21 Contingent liabilities

	1998	1997	1996
FPG/PRI pension guarantee obligations on behalf of Group companies	**23**	25	22
FPG/PRI pension guarantee obligations on behalf of associated companies	**125**	113	72
Loan guarantees	**89**	41	176
Discounted bills and contracts	**94**	75	208
Other guarantees	**198**	268	311
Total	**529**	522	789

In addition to the above contingent liabilities, the Group has issued vehicle repurchase guarantees worth SEK 650 m. (546) to customers' creditors. Furthermore, the Group issued SEK 510 m. (345) worth of pledges direct to customers to buy back vehicles after their period of possession at a pre-determined price. Repurchase obligations related to guaranteed residual values in operating leases under Scania's own auspices amounted to SEK 3,047 m. (2,218).

The Group has given repurchase commitments without risks related to future prices to Svenska Volkswagen Finans AB in an amount estimated at SEK 500 m. (450).

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

	1998	1997	1996
Items not affecting cash flows			
Depreciation	**1,883**	1,672	1,328
Unrealised exchange rate differences	**14**	(84)	(65)
Doubtful receivables	**72**	73	1
Retained associated company income	**(104)**	(108)	(93)
Deferred tax	**(50)**	(155)	44
Intra-Group profit, operating leases	**309**	173	110
Other	**16**	26	(48)
Total	**2,140**	1,597	1,277
Change in working capital			
Interest-bearing long-term receivables	**(112)**	(140)	10
Inventories	**(611)**	(549)	(30)
Current receivables	**(1,172)**	(876)	925
Provisions for pensions	**41**	97	256
Advance payments from customers	**94**	1	165
Trade accounts payable	**246**	223	(217)
Other liabilities and provisions	**789**	502	(233)
Total	**(725)**	(742)	876
Net investments			
Investments in tangible fixed assets	**(2,104)**	(2,615)	(2,565)
Divestments of tangible fixed assets	**287**	308	127
Proceeds from sale of shares	**12**	5	36
Acquisitions of subsidiaries	**(7)**	(488)	(121)
Total	**(1,812)**	(2,790)	(2,523)

Change in net indebtedness through financing activities

Net change in short-term borrowings	**3,051**	3,655	1,958
Repayment of long-term borrowings	**(457)**	(1,271)	(324)
Increase in long-term borrowings	**61**	147	7,673
Change in "Due to former Parent Company"	**–**	–	(6,948)
Net change in restricted deposits	**(69)**	(4)	(79)
Total	**2,586**	2,527	2,280

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

	1998	1997	1996
Wages, salaries and other remuneration			
Operations in Sweden:			
Boards of Directors, Presidents and Executive Vice Presidents	**30**	33	32
Of which, bonuses	**5**	4	6
Other employees	**2,884**	2,840	2,651
Operations outside Sweden:			
Boards of Directors, Presidents and Executive Vice Presidents	**107**	104	71
Of which, bonuses	**8**	5	6
Other employees	**2,554**	2,474	2,010
Total	**5,575**	5,451	4,764
Pension costs and mandatory payroll fees	**2,213**	1,919	1,762
Of which, pension costs[1)]	**390**	326	471
Total wages, salaries and remuneration, pension costs and mandatory payroll fees	**7,788**	7,370	6,526

	1998	1997	1996
Wages, salaries and other remuneration, pension costs and mandatory payroll fees by country			
Operations in Sweden:	**4,296**	4,077	3,889
Operations outside Sweden:			
Brazil	**924**	1,012	872
The Netherlands	**471**	465	478
France	**354**	310	229
Great Britain	**334**	222	132
Argentina	**302**	290	218
Denmark	**242**	224	193
Germany	**218**	185	127
Belgium	**145**	121	111
Switzerland	**111**	138	–
Austria	**110**	96	85
33 countries with <SEK 100 m.[2)]	**281**	230	192
Total	**3,492**	3,293	2,637
Group total	**7,788**	7,370	6,526

	1998	1997	1996
Average number of employees			
Operations in Sweden:			
Average number of employees	**10,380**	10,519	11,094
Operations outside Sweden:			
Number of countries	**43**	40	37
Average number of employees	**11,456**	11,759	10,248
Average total number of employees	**21,836**	22,278	21,342

[1)] *Of the pension expense in the consolidated financial statements, SEK 36 m. (38 and 19, respectively) was for Boards of Directors and Presidents in the Scania Group. At year-end, the total pension commitment was SEK 82 m.*

[2)] *In 1997, 32 countries had less than SEK 100 m. in wages, salaries and other remuneration. In 1996, the figure was 30 countries.*

	1998	1997	1996
Average number of employees			
Operations in Sweden:	**10,380**	10,519	11,094
– of whom men	**9,189**	9,055	9,698
– of whom women	**1,191**	1,464	1,396
Operations outside Sweden:			
Brazil	**2,489**	3,092	2,911
The Netherlands	**1,668**	1,773	1,820
Great Britain	**1,240**	1,247	705
Argentina	**1,112**	1,104	1,150
France	**954**	927	888
Denmark	**724**	737	642
Germany	**530**	493	295
Belgium	**438**	419	306
Austria	**342**	305	272
Poland	**332**	249	172
Australia	**295**	306	341
Tanzania	**246**	177	189
Switzerland	**244**	262	–
South Africa	**133**	117	88
29 countries with < 100 employees[3]	**709**	551	469
Total	**11,456**	11,759	10,248
– of whom men	**10,261**	10,379	9,293
– of whom women	**1,195**	1,380	955
Average total number of employees	**21,836**	22,278	21,342

	1998	1997	1996
Number of employees on 31 December 1998			
European operations			
Production operations and corporate staff units	**13,485**	13,197	13,004
Marketing companies	**6,194**	6,160	4,877
Customer finance companies	**144**	107	75
Total	**19,823**	19,464	17,956
Latin American operations	**3,714**	4,299	4,250
Total	**23,537**	23,763	22,206
– of whom, temporary contract-hire personnel	**770**	807	308

[3] *In 1997, 26 countries had fewer than 100 Scania employees. In 1996, the figure was 25.*

Note 24 Information regarding compensation to executive officers

According to the decision of the Annual Meeting, the 1998 compensation to the members of the Board of Directors elected by the Annual Meeting amounted to SEK 2,350,000. The Chairman received compensation of SEK 700,000. The President and CEO received a salary and bonus of SEK 4,805,000, of which SEK 725,600 was a bonus.

Scania's incentive program for high-level executives and managers, including the President and CEO, includes a bonus based on the operation's profitability, defined as Scania Group net income after subtracting expenses for shareholders' equity.

During 1998, the Board of Directors approved a far-reaching change in executive and management pensions by introducing a defined-contribution pension plan for executive officers. Unlike the earlier defined-benefit pension plan from the Saab-Scania period, benefits accrue by means of annual payment of age-determined premiums, 15–20 percent of fixed salary in the 20–30 base amount interval (as defined by Swedish social insurance legislation, basbelopp) and 25–30 percent of fixed salary above 30 base amounts. Added to this is the value of annual employee co-payments amounting to 2–5 percent of fixed salary.

The President is entitled – or if the company so demands, obliged – to retire with a pension upon reaching the age of 60 and with a full pension from the age of 65 according to the ITP plan and the national pension system. In 1998, the terms of employment for the president were renegotiated with regard to pension benefits. The conditions were changed from a purely defined-benefit pension plan into a promise corresponding to a defined-contribution pension plan:

• The pension cost for Scania AB consists of pension premiums amounting to 35 percent of fixed salary so long as the president remains employed by the company. In addition, there will be pension costs according to the so-called ITP-plan on the part of salary, which is below 30 base amounts.

• The future pension is based on the capital and related return built up through annual premiums as described above during the remaining employment period, and on pension entitlement earned up to year-end 1997.

According to calculations performed, the new defined-contribution pension plan will provide cost savings for the company and increased risk for the president since it is not a defined-benefit plan. In this connection, the new pension plan for the president has been supplemented with an employee stock option program, based on changes in the law according to the Government Bill 1997/98:133, "Taxation of employee stock options", which came into force on 1 July, 1998.

The president has, through this supplement, received a non transferable employee stock option without market value, entitling him after five years but not later than after seven years to purchase a maximum of 220,285 shares in Scania AB at the price of SEK 196 per share. The employee stock option has for Scania been secured financially in the market so that Scania's costs for this program are known. The employee stock option carries entitlement to acquire existing class B shares and thus will not lead to dilution for Scania's shareholders. The president did not participate in the Board's decision.

If terminated by the company, the President as well as the other four members of the Executive Board have severance agreements entitling them to a maximum of two years' salary.

Certain high-level executives and managers are entitled, or may be obliged, to retire with a pension at age 62.

Older benefit-based supplementary commitments have been renegotiated and the new defined-contribution pension 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.

Note 25 Net assets outside Sweden

	1998	1997	1996
Currency			
Europe			
Euro currencies	**2,601**	1,998	2,197
GBP	**465**	111	307
Other European currencies	**702**	643	185
Latin America			
USD	**1,092**	1,249	1,029
Real, Peso and other local currencies	**2,878**	2,589	1,742
Other countries			
USD	**117**	27	23
Other currencies	**258**	308	353
Total	**8,113**	6,925	5,836

Net assets in Real, Peso and other local currencies in Latin America consist primarily of fixed assets, which are translated at the exchange rate on the acquisition date.

Note 26 Currency exposure in operating income, by region

The table shows the net amount of the Group's operating revenues and operating expenses exposed to foreign currencies, by region/country.

	1998	1997	1996
European operations			
EMU countries (local currencies)	**5,463**	3,429	3,033
Great Britain (local currency)	**2,996**	2,864	2,373
Denmark/Norway (local currencies)	**1,510**	1,345	1,345
Switzerland (local currency)	**424**	270	303
Central and eastern Europe (local currencies, DEM)	**1,669**	985	809
Total Europe	**12,062**	8,893	7,863
Asia/Oceania (USD, AUD, DEM)	**1,029**	1,820	1,438
Africa (USD, ZAR, FRF, DEM)	**670**	629	437
Latin American operations (USD)	486	1,180	1,154
Total	**14,244**	12,522	10,892

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

Swedish accounting principles differ in certain respects from U.S. GAAP. The differences that have a material effect on the net income and shareholders' equity of the Scania Group 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 plus the tax effects of pre-1995 equity hedges is assigned to Scania operations. Goodwill is amortised over 40 years.

(b) Pension expenses

The pension commitment 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) 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 commitment. Forward contracts that do not meet these criteria are reported at fair market value and unrealised gains and losses are recognised as income.

Latin American operations are an integral part of Scania, and translation of their financial statements to Swedish kronor occurs according to the monetary/nonmonetary method of accounting. According to U.S. GAAP, from 1998 onward, translation from local currencies must occur according to the current method.

The Group utilises forward contracts in U.S. dollars to hedge the net capital expenditures of the Latin American companies, since their assets consist primarily of U.S. dollars. In the Swedish consolidated accounts, translation differences are transferred directly to shareholders' equity. Up to and including 1997, according to U.S. GAAP, these translation differences and the fair market value of these forward contracts should have been reported directly in the income statement.

(d) Capitalisation of expenses

In accordance with Swedish accounting principles, the company has capitalised pre-operating expenses related to production facilities. 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	**1998**	1997	1996
Net income according to Swedish GAAP	**2,250**	1,943	1,974
Goodwill (a)	**(12)**	(12)	(12)
Pension expenses (b)	**(2)**	12	21
Transactions in foreign currencies (c)	**(17)**	338	59
Capitalisation of expenses (d)	**12**	12	10
Tax effect of U.S. GAAP adjustments	**11**	(78)	11
Change in net income	**(8)**	272	89
Net income according to U.S. GAAP	**2,242**	2,215	2,063
Earnings per share according to U.S. GAAP	**11.20**	11.10	10.30

Shareholders' equity	**1998**	1997	1996
Shareholders' equity according to Swedish GAAP	**11,851**	10,353	9,140
Reporting of goodwill etc (a)	**336**	348	360
Pension expenses (b)	**243**	245	233
Transactions in foreign currencies (c)	**(220)**	–	(2)
Capitalisation of expenses (d)	**(10)**	(22)	(34)
Tax effect of U.S. GAAP adjustments	**(50)**	(60)	17
Change in shareholders' equity	**299**	511	574
Shareholders' equity according to U.S. GAAP	**12,150**	10,864	9,714

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

	1998	1997	1996
Interest income			
Interest portion of forward exchange contracts used for hedging net assets	**–**	–	18
Sub-total	**–**	–	18
Interest expenses			
To subsidiaries	**(67)**	(64)	(239)
Interest portion of forward exchange contracts used for hedging net assets	**(7)**	(13)	–
Sub-total	**(74)**	(77)	(239)
Exchange rate differences on forward exchange contracts for hedging net assets of foreign subsidiaries	**(7)**	(103)	(29)
Total financial income and expenses	**(81)**	(180)	(250)
Dividends and Group contributions			
Group contributions	**3,268**	1,600	1,250
Dividends from associated companies	**52**	50	55
Sub-total	**3,320**	1,650	1,305
Total	**3,239**	1,470	1,055

Note 2 Shares

Subsidiary/ corporate ID number/ country of registration	% owner-ship	**1998** **Book value**	1997 Book value	1996 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 acquisition value of these shares for tax purposes is 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 3 Shareholders' equity

	Share capital	Statutory reserve	Unrestricted share-holders' equity	Total
Balance on 1 January 1997	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
Dividend to shareholders			(1,100)	(1,100)
Net income for 1998			1,905	1,905
Balance on 31 December 1998	**2,000**	**1,120**	**7,243**	**10,363**

Note 4 Untaxed reserves

	1998	1997	1996
Tax allocation reserve	**1,771**	1,134	850
Total	**1,771**	1,134	850

SEK 496 m. (318 and 238, respectively) of "Untaxed reserves" consists of deferred taxes. Deferred taxes are not included in the Parent Company balance sheet, but are included in the consolidated balance sheet.

Note 5 Contingent liabilities

	1998	1997	1996
FPG/PRI pension guarantees in behalf of Group companies	**1,239**	1,192	1,083
FPG/PRI pension guarantees on behalf of associated companies	**125**	113	123
Loan guarantees on behalf of Group companies[3]	**10,596**	7,511	7,815
Total	**11,960**	8,816	9,021

[3] *Most of this is related to loan guarantees on behalf of borrowings by Scania CV AB.*

Note 6 Information regarding compensation to executive officers

The President of Scania AB and the other members of the executive management hold identical positions in Scania CV AB. Wages, salaries and other remuneration are paid by Scania CV AB. The reader is therefore referred to Notes 23 and 24 in the consolidated financial statements.

PROPOSED DISTRIBUTION OF EARNINGS

The Scania Group's unrestricted shareholders' equity according to the consolidated balance sheet amounts to SEK 6,174 m., of which net income for the year is SEK 2,250 m. The Board of Directors and the President propose that the following amounts at the disposal of the Annual Meeting:

SEK m.	
Retained earnings	5,338
Net income for the year	1,905
Total	7,243
be distributed as follows:	
To the shareholders, a dividend of SEK 6.50 per share	1,300
To be carried forward	5,943
Total	7,243

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
Statutory reserve	1,120
Retained earnings	5,943
Total	9,063

Södertälje, 17 February 1999

Anders Scharp
Chairman

Peggy Bruzelius — Clas Åke Hedström

Claes von Post — Mauritz Sahlin

Rolf Stomberg — Marcus Wallenberg

Kjell Wallin — Jan Westberg

Leif Östling
President and CEO

Our auditors' report was submitted on 23 February 1999.

Caj Nackstad
Authorised Public Accountant

Gunnar Widhagen
Authorised Public Accountant

AUDITORS' REPORT

We have examined the Parent Company and consolidated financial statements, the accounts and the administration of the Board of Directors and the President of Scania AB (publ) for 1998. 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 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.

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

Södertälje, 23 February 1999

Caj Nackstad
Authorised Public Accountant
KPMG

Gunnar Widhagen
Authorised Public Accountant
Ernst & Young AB

SALES AND INCOME BY QUARTER

	January–March				April–June			
	1998	1997	1996	1995	**1998**	1997	1996	1995
Sales, units								
Trucks	**10,679**	9,190	10,658	10,056	**11,881**	11,023	10,028	10,773
Buses	**990**	969	1,033	784	**1,160**	1,251	1,293	1,198
Total	**11,669**	10,159	11,691	10,840	**13,041**	12,274	11,321	11,971
Sales, SEK m.								
Scania products	**9,101**	7,717	7,873	7,807	**10,066**	8,921	7,594	8,628
Svenska Volkswagen products	**1,322**	1,087	853	718	**1,538**	1,216	1,056	862
Total	**10,423**	8,804	8,726	8,525	**11,604**	10,137	8,650	9,490
Operating income, SEK m.								
Scania products	**568**	585	1,189	1,484	**938**	722	1,006	1,477
Svenska Volkswagen products	**61**	57	40	37	**72**	59	58	56
Total	**629**	642	1,229	1,521	**1,010**	781	1,064	1,533
Income after financial items, SEK m.	**552**	577	1,113	1,401	**937**	771	989	1,405
Net income	**390**	409	792	930	**664**	571	720	930
Earnings per share, SEK	**1.95**	2.05	3.95	4.65	**3.30**	2.85	3.60	4.65
Operating margin, %								
Scania products	**6.2**	7.6	15.1	19.0	**9.3**	8.1	13.2	17.1
Svenska Volkswagen products	**4.6**	5.2	4.7	5.2	**4.7**	4.9	5.5	6.5
Total	**6.0**	7.3	14.1	17.8	**8.7**	7.7	12.3	16.2

KEY FINANCIAL RATIOS[1] AND DEFINITIONS

	1998	1997	1996	1995
Earnings per share, SEK	**11.25**	9.70	9.90	16.40
Earnings per share according to U.S. GAAP, SEK	**11.20**	11.10	10.30	15.75
Return on shareholders' equity, %	**20.7**	20.2	22.7	60.1
Profit margin, %	**8.3**	8.6	10.5	17.2
Capital turnover, times	**2.09**	1.89	1.76	2.11
Return on capital employed, %	**17.4**	16.2	18.5	36.4
Debt/equity ratio	**0.55**	0.69	0.64	0.75
Interest coverage, times	**6.1**	4.8	4.1	4.9
Equity/assets ratio, %	**26.5**	27.0	28.1	28.2

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

July–September				October–December			
1998	1997	1996	1995	**1998**	1997	1996	1995
10,080	9,441	8,113	8,327	**12,913**	12,738	10,229	11,311
958	1,160	747	1,161	**1,009**	1,204	890	1,027
11,038	10,601	8,860	9,488	**13,922**	13,942	11,119	12,338
8,991	8,168	6,372	6,725	**11,517**	10,281	8,115	8,556
1,394	1,079	818	702	**1,383**	1,250	1,049	842
10,385	9,247	7,190	7,427	**12,900**	11,531	9,164	9,398
789	553	77	781	**1,047**	929	570	1,367
62	67	59	53	**55**	75	58	97
851	620	136	834	**1,102**	1,004	628	1,464
753	503	40	706	**972**	900	564	1,335
526	339	18	453	**670**	624	444	967
2.65	1.70	0.10	2.25	**3.35**	3.10	2.20	4.85
8.8	6.8	1.2	11.6	**9.1**	9.0	7.0	16.0
4.4	6.2	7.2	7.5	**4.0**	6.0	5.5	11.5
8.2	6.7	1.9	11.2	**8.5**	8.7	6.9	15.6

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

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

Profit margin
Operating income excluding customer finance operations plus financial income as a percentage of sales.

Capital turnover
Sales divided by capital employed (total assets less non-interest-bearing liabilities), with customer finance operations reported according to the equity method.

Return on capital employed
Operating income excluding customer finance operations plus financial income as a percentage of capital employed, with customer finance operations reported according to the equity method.

Debt/equity ratio
Short- and long-term borrowings (excluding pension liabilities and net indebtedness in customer finance operations) 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, including customer finance operations, on each respective balance sheet date.

MULTI-YEAR STATISTICAL REVIEW

SEK m. unless otherwise indicated	1998	1997	1996	1995	1994	1993	1992	1991	1990	1989	1988
Sales by market area											
Western Europe	**28,962**	23,102	21,009	21,715	14,880	10,920	11,424	12,218	12,838	12,612	10,822
Central and eastern Europe	**1,814**	1,398	827	732	266	195	289	133	114	34	17
Europe	**30,776**	24,500	21,836	22,447	15,146	11,115	11,713	12,351	12,952	12,646	10,839
Latin America	**5,974**	6,798	4,800	5,742	6,109	4,619	3,040	2,566	2,920	2,982	2,599
Asia	**1,018**	1,932	1,740	1,904	1,504	1,171	1,084	2,286	863	1,257	786
Other markets	**1,907**	1,857	1,578	1,623	1,329	1,062	715	787	936	1,046	1,136
Total, Scania products	**39,675**	35,087	29,954	31,716	24,088	17,967	16,552	17,990	17,671	17,931	15,360
Sales by area of operations											
European operations	**35,072**	29,061	25,656	26,547	18,542	13,651	13,682	15,626	14,914	15,088	12,879
Latin American operations	**6,151**	6,973	4,754	5,933	6,108	4,619	3,040	2,566	2,920	2,982	2,599
Intra-Group sales	**(1,548)**	(947)	(456)	(764)	(562)	(303)	(170)	(202)	(163)	(139)	(118)
Total, Scania products	**39,675**	35,087	29,954	31,716	24,088	17,967	16,552	17,990	17,671	17,931	15,360
Svenska Volkswagen products	**5,637**	4,632	3,776	3,124	2,560	2,222	1,470	1,399	1,377	1,602	1,561
Total	**45,312**	39,719	33,730	34,840	26,648	20,189	18,022	19,389	19,048	19,533	16,921
Operating income											
European operations	**3,913**	2,309	2,276	4,598	2,816	488	1,069	1,452	2,072	2,526	2,325
Latin American operations	**(662)**	407	511	413	915	483	242	136	441	501	493
Customer finance operations	**91**	73	55	98	5	(91)	(38)	(23)	–	–	–
Total, Scania products	**3,342**	2,789	2,842	5,109	3,736	880	1,273	1,565	2,513	3,027	2,818
Svenska Volkswagen products	**250**	258	215	243	173	121	33	86	17	155	193
Total	**3,592**	3,047	3,057	5,352	3,909	1,001	1,306	1,651	2,530	3,182	3,011
Operating margin, %											
European operations	**11.2**	7.9	8.9	17.3	15.2	3.6	7.8	9.3	13.9	16.7	18.1
Latin American operations	**(10.8)**	5.8	10.7	7.0	15.0	10.5	8.0	5.3	15.1	16.8	19.0
Total, Scania products	**8.4**	7.9	9.5	16.1	15.5	4.9	7.7	8.7	14.2	16.9	18.3
Svenska Volkswagen products	**4.4**	5.6	5.7	7.8	6.8	5.4	2.2	6.1	1.2	9.7	12.4
Total	**7.9**	7.7	9.1	15.4	14.7	5.0	7.2	8.5	13.3	16.3	17.8
Gross capital expenditures for property, plant and equipment, excluding leasing assets											
European operations	**1,582**	1,592	1,908	1,727	1,851	1,209	1,319	1,201	1,380	967	1,083
Latin American operations	**444**	974	671	455	298	276	182	107	154	157	109
Total	**2,026**	2,566	2,579	2,182	2,149	1,485	1,501	1,308	1,534	1,124	1,192
Research and development expenses											
Research and development	**1,085**	1,169	1,084	923	805	783	738	761	619	466	420
Inventory turnover rate, times[1]											
	6.3	6.3	5.7	6.7	6.5	4.9	4.3	4.4	4.2	4.6	4.2

1) Calculated as sales divided by average inventory.

	1998	1997	1996	1995	1994	1993	1992	1991	1990	1989	1988
Number of vehicles produced											
European operations											
Trucks	**38,886**	33,092	31,316	33,459	23,367	16,014	19,893	23,721	23,853	26,616	23,134
Buses	**2,818**	2,817	2,326	2,373	1,542	1,176	1,557	1,321	1,462	2,119	2,187
Latin American operations											
Trucks	**6,660**	10,463	7,139	8,515	8,570	6,610	4,587	4,234	4,765	5,744	4,792
Buses	**1,697**	1,769	1,575	2,091	1,303	1,393	2,533	2,626	1,688	1,771	1,731
Total	**50,061**	48,141	42,356	46,438	34,782	25,193	28,570	31,902	31,768	36,250	31,844
Number of trucks sold, by market area											
Western Europe	**32,686**	26,756	26,249	26,596	17,814	13,052	16,366	18,463	20,749	22,912	20,298
Central and eastern Europe	**2,237**	1,833	1,030	951	312	248	507	260	254	80	32
Latin America	**7,621**	9,649	7,377	7,964	8,713	6,678	4,734	4,293	4,558	5,067	4,660
Asia	**1,410**	3,096	2,997	3,329	2,818	2,256	2,440	5,530	1,731	2,549	1,583
Other markets	**1,599**	1,058	1,375	1,627	1,178	851	611	587	991	1,110	1,272
Total	**45,553**	42,392	39,028	40,467	30,835	23,085	24,658	29,133	28,283	31,718	27,845
Number of buses and coaches sold, by market area											
Western Europe	**1,731**	1,595	1,655	1,642	983	835	879	1,067	1,199	1,448	1,447
Central and eastern Europe	**106**	95	83	45	40	35	16	2	2	0	2
Latin America	**1,697**	1,829	1,641	1,878	1,287	1,459	2,677	2,493	1,645	1,676	1,639
Asia	**78**	308	309	304	140	133	249	144	224	499	364
Other markets	**505**	757	275	301	237	215	355	276	233	261	252
Total	**4,117**	4,584	3,963	4,170	2,687	2,677	4,176	3,982	3,303	3,884	3,704
Total market, number of heavy trucks and buses											
Western Europe											
Trucks	**207,300**	170,300	172,000	173,300	133,300	114,100	149,000	170,000	176,000	189,000	175,000
Buses	**21,000**	18,300	17,800	15,900	13,600	15,600	16,500	17,200	19,000	19,000	18,900
Brazil											
Trucks	**15,763**	17,861	13,682	19,299	18,931	13,938	8,402	9,389	9,524	9,606	10,071
Buses	**13,438**	13,424	15,087	16,969	12,266	11,073	13,222	16,220	9,730	8,994	12,315
Number of employees[2)]											
European operations											
Production companies	**13,485**	13,197	13,004	14,364	12,374	10,493	11,417	12,736	13,218	13,830	13,215
Marketing companies	**6,194**	6,160	4,877	4,050	3,694	3,823	4,278	4,043	4,219	4,332	4,036
Customer finance companies	**144**	107	75	90	72	60	65	52	34	33	13
Total, European operations	**19,823**	19,464	17,956	18,504	16,140	14,376	15,760	16,831	17,471	18,195	17,264
Latin American operations	**3,714**	4,299	4,250	4,520	4,285	4,217	4,433	4,941	4,767	4,713	4,419
Total	**23,537**	23,763	22,206	23,024	20,425	18,593	20,193	21,772	22,238	22,908	21,683

2) Including temporary contract-hire personnel.

VALUE-ADDED

Amounts in SEK m. per employee in SEK thousands	**Total 1998**		**Per employee 1998**	Total 1997		Per employee 1997	Total 1996		Per employee 1996
Sales including income from customer finance operations	**45,403**		**2,079**	39,792		1,786	33,785		1,614
Cost of purchased goods and services	**(32,448)**		**(1,486)**	(27,986)		(1,256)	(23,166)		(1,107)
Value-added	**12,955**		**593**	11,806		530	10,619		507
BREAKDOWN OF VALUE-ADDED									
Employees									
Wages and salaries	**5,575**	**43%**	**255**	5,451	46%	245	4,786	45%	229
Pensions and mandatory payroll fees	**2,213**	**17%**	**101**	1,919	16%	86	1,762	17%	84
Total	**7,788**	**60%**	**356**	7,370	62%	331	6,548	62%	313
National and local governments									
Corporate income taxes	**850**	**7%**	**39**	672	6%	30	627	6%	30
Lenders									
Cost of net borrowing	**378**	**3%**	**18**	296	3%	13	352	3%	17
Shareholders									
Dividend paid	**1,100**	**8%**	**50**	1,100	9%	49	1,100	10%	53
Returned to operations									
For wear and tear to fixed assets (depreciation)	**1,860**	**14%**	**85**	1,654	14%	75	1,325	13%	62
For continued expansion	**979**	**8%**	**45**	714	6%	32	667	6%	32
Total retained in operations	**2,839**	**22%**	**130**	2,368	20%	107	1,992	19%	94
Value-added	**12,955**	**100%**	**593**	11,806	100%	530	10,619	100%	507

SCANIA AND THE ENVIRONMENT

Scania's environmental strategy is to be a market leader as regards the environmental characteristics of its products and to lower resource consumption and raise efficiency in its production system as much as possible.

Environmental Policy

As a global manufacturer and distributor of heavy commercial vehicles, engines and related services, Scania is committed to develop products that pollute less and consume less energy, raw materials and chemicals during their life cycle.

In order to achieve this:

- we strive to maintain a lead in commercially applicable technologies
- we work well within legal demands and promote internationally harmonised, effective environmental requirements
- we prevent and continuously reduce the environmental impact through development of products, services and production processes
- we take the environmental aspects and objectives into account in our daily work
- we have an open and regular communication with our interest groups regarding our environmental work

By this we contribute to economical and ecological advantages for our customers and for society. Proactive environmental work is therefore of vital importance to Scania.

More detailed information on Scania's environmental work during 1998 is provided in a separate Environmental Report.

Scania works on the basis of an established Environmental Policy, which states the direction of its environmental work. This document provides the basis for environmental goals, which are revised annually.

Environmental management system

Scania is introducing an environmental management system in its industrial operations that complies with ISO 14001 international standards, with one certificate per country. Operations in Argentina, Brazil and Mexico have been certified since 1997.

In its Swedish operations, Scania expects the certification process to be completed during the first half of 1999.

During the spring of 1999, Scania also expects certificates to be issued for its operations in France and the Netherlands.

Research and development

Scania pursues goal-oriented research and development for the purpose of reducing the environmental impact of its products throughout their life cycle.

This work focuses mainly on reducing fuel consumption and emissions and designing vehicles to facilitate recycling

R&D work is concentrated in Södertälje, Sweden. During 1998, R&D costs were SEK 1,085 m. about half of which was environmentally related.

Euro 3

During 1998, Scania developed three new low-emission engines that fulfil the future European standard for emissions, Euro 3.

One of these is a 9-litre low-emission engine intended for vehicles that operate in city traffic and other sensitive environments. During 1998, this engine was introduced in buses. During 1999, together with the other two engines, it will also be introduced in Scania trucks.

The Euro 3 rules are intended to apply to new truck models and types of engines starting on 1 October 2000 and to all new vehicles and engines from 1 October 2001 onward.

Environmental declaration

Scania has compiled an environmental declaration for its trucks, in order to satisfy customer demands for environmentally related information when making purchases. The declaration is being introduced in the Swedish market during 1999.

Alternative fuels in cities and towns

Today Scania is the world's largest supplier of ethanol-powered buses. Nearly 15 percent of the city buses Scania sold during 1998 are powered by alternative fuels, mainly ethanol and compressed gas. This is a 7 percentage point increase since 1996.

More than 70 ethanol buses were delivered during the year, of which 50 to the Swedish market. During 1998, 125 gas-powered buses were also delivered in Denmark.

Development of gaseous-fuel engines for trucks continued during the year. The goal is to be able to offer the market gas-powered trucks to a greater extent than today by late 1999.

New industrial and marine engines

During 1998, Scania began production of a new 12-litre industrial engine with low fuel consumption and the lowest lubricating oil consumption in the market. Scania's industrial and marine engines already meet the forthcoming standards in both the European Union and the United States.

The environment in figures

Scania has a global production system. Among other things, this means that its manufacturing operations apply the same environmental standards at production units in Europe and Latin America. The environmental work at Scania's production plants is based on ambitious goals for efficient use of raw materials and energy, as well as reduced emissions into air and water.

The adjacent charts summarise the results of the environmental work at Scania's production units. The reduction in energy and water consumption, as well as solvent emissions, are mainly due to streamlining of the production process and the shift to powder painting as well as water-based paints. The reduction in wastes sent to landfills is mainly due to improved methods for handling at-source waste separation. Several of the environmental goals have already been reached through these measures.

During 1998, Scania began an inventory of its industrial sites. The goal is to inventory all its facilities no later than 2001.

Operating permits

In Sweden, Scania's operations at all six of its production units require permits under the Environmental Code. Production chiefly affects the external environment in the form of emissions into the air and water, wastes and noise. In recent years, all Swedish plants have been examined under the provisions of the Environmental Protection Act in order to receive new permits.

Scania's other operations in Europe and in Brazil are also required to have permits. The plants in Argentina and Mexico operate according to the respective environmental legislation of these countries.

During 1998, no serious incidents were reported which caused any significant environmental impact or led to higher operating expenses.

Environmental economics

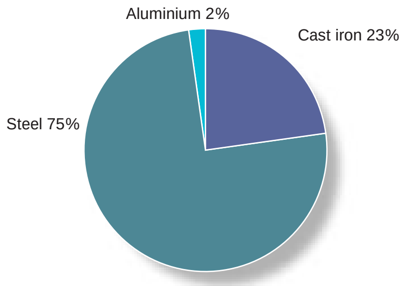
During 1998, total costs for raw material, chemical, energy and water use were about SEK 2,300 m., which is equivalent to about 5 percent of total sales. The income that Scania receives from recycling of cast iron and scrap covers its waste management expenses.

During 1998, Scania invested SEK 1,300 m. in its industrial operations, of which SEK 28 m. comprised environmental investments. The single largest investment was the construction of a new briquetting facility at the Södertälje production unit, which cost SEK 7 m.

Scania Partner was awarded the 1998 EKO Energy Prize of the Swedish National Board for Industrial and Technical Development (NUTEK) for energy-saving efforts at Scania's Södertälje facilities. Sweden's energy authority presented the prize.

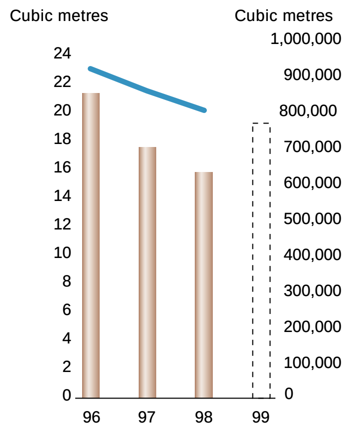
The environment in figures

Raw material use



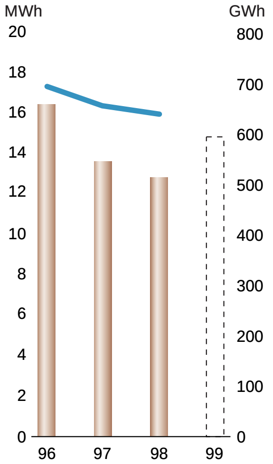
Raw material consumption during 1998 totalled about 4,000 kg per vehicle, or about 200,000 tonnes altogether, excluding finished components purchased.

Water consumption



Water consumption in 1998 was about 16 cubic metres per vehicle, or a total of some 800,000 cubic metres.

Energy use

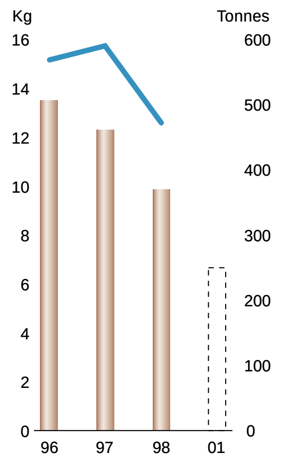


Energy use during 1998 totalled about 13 MWh per vehicle, or a total of some 640 GWh.

Carbon dioxide emissions

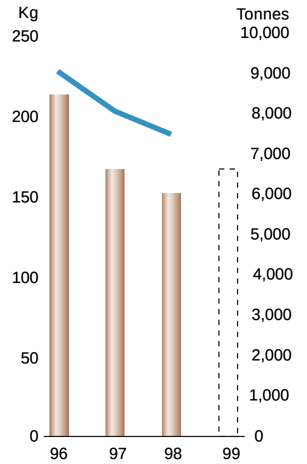
	Energy use, GWh		Carbon dioxide emissions, Ktonnes	
Type of energy	**1998**	1996	**1998**	1996
Electricity	**370**	360	**22**	23
District heat	**80**	130	**6**	9
Fossil fuels	**190**	200	**49**	51
Total	**640**	690	**77**	83
Per vehicle	**13 MWh**		**1.6 tonnes**	

Solvent emissions



Solvent emissions in 1998 were below 10 kg per vehicle, or a total of some 470 tonnes.

Wastes sent to landfills



Wastes sent to landfills during 1998 amounted to about 150 kg per vehicle, or a total of just above 7,500 tonnes.

HUMAN RESOURCES IN THE WORLD OF SCANIA

Continuous human resource development is critical if Scania is to remain a competitive and profitable company in the future.

Scania's global thinking also applies to personnel issues. There are regular exchanges of knowledge and experience between different parts of the Scania organisation. Now that the 4-series has also been launched in Latin America, Scania has a global product range. This makes human resources development even more vital.

Greater ambition

Scania is raising its level of ambition in human resource and management development. Scania has improved its management training, and investments in this field will increase compared to previous years. In the first half of 1999, the company is starting an updated management development program for first and second line managers and project managers. During the year, numerous managers will be given the opportunity to participate in the programme.

Chassis assembly at Scania's production unit in Angers, France.

Scania's regular management development programme, aimed at ensuring the company's future supply of managers and executives, is also being reviewed.

The Scania Marketing Academy is an academically accredited training programme developed and implemented in collaboration with the Stockholm School of Economics and other institutions. Its purpose is to strengthen the business skills of Scania's marketing organisation, develop the leadership talents of individuals and enhance Scania's corporate culture. Some fifty persons in the Scania organisation received certificates of completion from the Scania Marketing Academy during 1998.

Scania Professional trains dealership employees in marketing, parts management and workshop services. The programme includes courses on Dealer Operating Standards and Vehicle Management.
The purpose of the programme is to provide the requisite skills for developing and leading a profitable business operation that provides the most economical transport options and the highest availability to customers. A total of 130 persons were trained during 1998.

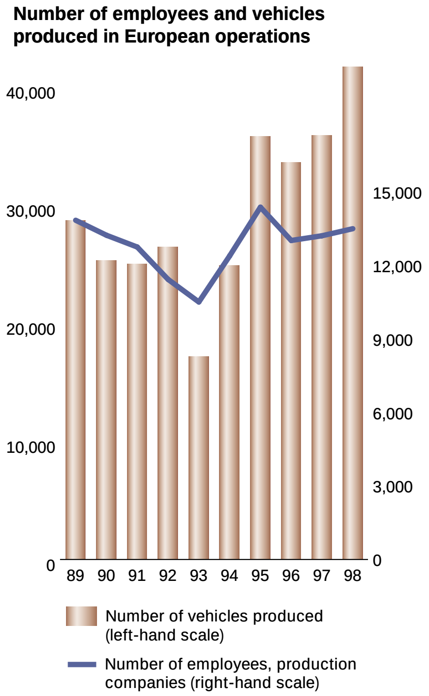
The Personal Exchange Programme, in which employees work in another country within the Scania organisation for up to one year, expanded during 1998. Scania now has a global product range, which makes such exchanges easier. Particularly during the launching of the 4-series in Latin America, this possibility was used.

Recruitment

In Scania's trainee programme, newly recruited business administration and engineering graduates work according to individual personal development plans, performing a variety of assignments in the Group for 15–20 months.

In a number of countries, Scania cooperates with university-level institutes of technology by providing students opportunities to pursue graduate thesis work at the company. Scania's industrial research pro-

Assembly of Scania's new 12-litre engine in São Paulo, Brazil.



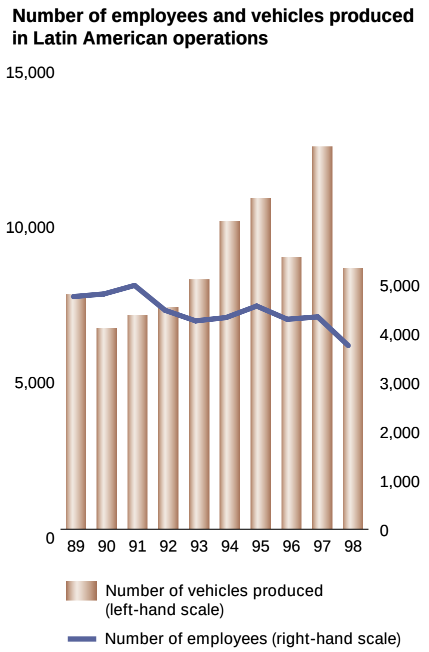
gramme enables graduate engineers to combine jobs at Scania with research at the doctoral level.

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.

Bonus systems

As a result of Scania's introduction of flexible working hours in 1996, there is an earnings-based bonus system. The amounts paid depend on predetermined delivery assurance and productivity targets. In Sweden, funds are transferred to a foundation in which all employees hold a share. The foundation owns 0.32 percent of Scania's shares.

Scania pays varying forms of earnings-based bonuses in different countries. In Sweden and France, they measure delivery assurance and productivity. In Latin America they measure production, absenteeism, market leadership, establishment of teamwork and improvement efforts. In the Netherlands, Scania pays an extra month's salary.



BOARD OF DIRECTORS

Anders Scharp Leif Östling Claes von Post Marcus Wallenberg Rolf Stomberg Mauritz Sahlin

Anders Scharp
Born 1934. Chairman since 1994.
Chairman of Atlas Copco AB, Saab AB, AB SKF 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: 17,000
Warrants: 3,896

Leif Östling
Born 1945. Member since 1994.
President and CEO of Scania AB.
Other directorships: BT Industries AB, Beers N V, Inexa Profil AB and Sabroe AS.
Shares in Scania: 50,000
Warrants: see note 24

Marcus Wallenberg
Born 1956. Member since 1994.
Vice Chairman of AB Astra, AB L M Ericsson and Saab AB.
Other directorships: Gambro AB, Investor AB, S-E-B AB, SAS, Stora Enso Oy and the Knut and Alice Wallenberg Foundation, among others.
Shares in Scania: –
Warrants: 255,500

Clas Åke Hedström
Born 1939. Member since 1995.
President and CEO of Sandvik AB.
Other directorships: Association of Swedish Engineering Industries and Federation of Swedish Industries.
Shares in Scania: 1,000
Warrants: –

Claes von Post
Born 1941. Member since 1996.
Managing Director of Investor AB.
Shares in Scania: –
Warrants: 5,000

Mauritz Sahlin
Born 1935. Member since 1996.
Chairman of Novare Kapital AB, Flexlink AB, Air Liquide AB, Champs (Chalmers) Imego AB and West Sweden Chamber of Commerce and Industry. Other directorships: Investor AB, Sandvik AB, AB SKF, Statoil Norge, Federation of Swedish Industries, Billes Tryckeri, IRO AB and Chalmers AB, among others.
Shares in Scania: 400
Warrants: –

Peggy Bruzelius   Clas Åke Hedström   Jan Westberg   Monica Torgrip   Kjell Wallin   Sören Westerholm

Rolf Stomberg
Born 1940. Member since 1998.
Chairman of John Mowlem & Co. PLC (United Kingdom), Deutsche BP Holding AG (Germany) and Unipoly SA (Luxembourg). Other directorships: Proudfoot Plc (UK), Reed International PLC (UK), Smith & Nephew plc (UK), Cordiant Communications plc (UK), Cordiant Communications Group Trustees Ltd, TPG Group (Netherlands), BP España (Spain), Stinnes AG (Germany), Ruhrgas AG (Germany), Dresdner Bank AG (Germany) and Gerling-Konzern (Germany), among others.
Shares in Scania: –
Warrants: –

Kjell Wallin
Born 1943. Member since 1998.
Employee Representative and Chairman of the Metal Workers' Union at Scania, Södertälje.
Shares in Scania: –
Warrants: –

Peggy Bruzelius
Born 1949. Member since 1998.
Chairman of Grand Hotel Holdings AB. Other directorships: Electrolux AB, Swedish Trade Council, Industry and Commerce Stock Exchange Committee, Securities Council, Axel Johnson AB, Förvaltnings AB Ratos, Statens Premiefond AB.
Shares in Scania: 2,000
Warrants: –

Jan Westberg
Born 1944. Member since 1996.
Employee Representative for the Federation of Salaried Employees in Industry and Services.
Shares in Scania: –
Warrants: –

Monica Torgrip
Born 1966. Deputy Member since 1998.
Employee Representative and Chairman of the Swedish Union of Professionals.
Shares in Scania: –
Warrants: –

Sören Westerholm
Born 1953. Deputy Member since 1994.
Employee Representative and Chairman of the Metal Workers' Union at Scania, Oskarshamn.
Shares in Scania: –
Warrants: –

Auditors

Caj Nackstad
Authorised Public Accountant,
KPMG

Gunnar Widhagen
Authorised Public Accountant,
Ernst & Young AB

Deputy Auditors

Tomas Thiel
Authorised Public Accountant,
KPMG

Björn Fernström
Authorised Public Accountant,
Ernst & Young AB

GROUP MANAGEMENT

Leif Östling Arne Karlsson Håkan Samuelsson Kaj Lindgren Urban Erdtman

Executive Board

Leif Östling

Born 1945. Joined Scania in 1972.
President and CEO
Shares in Scania: 50,000
Warrants: see note 24

Reporting to Leif Östling:
Buses
Industrial & Marine Engines

Arne Karlsson

Born 1944. Joined Scania in 1978.
Executive Vice President
Finance and Business Control
Shares in Scania: 166
Warrants: –

Reporting to Arne Karlsson:
Corporate Control
Corporate Finance
Latin American Operations

Håkan Samuelsson

Born 1951. Joined Scania in 1977.
Executive Vice President
Development and Production
Shares in Scania: 350
Warrants: 25,000

Reporting to Håkan Samuelsson:
Powertrain
Procurement & Industrial development
Truck Manufacturing
Research & Truck Development
Quality & Product Development

Kaj Lindgren

Born 1945. Joined Scania in 1977, employed until 1984. Rejoined Scania in 1989.
Senior Vice President
Corporate Development
Shares in Scania: –
Warrants: –

Reporting to Kaj Lindgren:
Corporate Communications
Corporate Human Resources

Urban Erdtman

Born 1945. Joined Scania in 1981.
Senior Vice President
Sales and Marketing
Shares in Scania: 166
Warrants: 15,300

Reporting to Urban Erdtman:
Sales & Marketing Europe
Sales & Marketing Overseas

Corporate Units

Peter Härnwall
Born 1955. Joined Scania in 1983.
Senior Vice President
Corporate Control
Shares in Scania: 166
Warrants: –

Jan Gurander
Born 1961. Joined Scania in 1995.
Senior Vice President
Corporate Finance
Shares in Scania: –
Warrants: 250

Louise Jarn Melander
Born 1954. Joined Scania in 1998.
Senior Vice President
Corporate Communications
Shares in Scania: 100
Warrants: 2,000

Margareta Lewin
Born 1951. Joined Scania in 1999.
Senior Vice President
Corporate Human Resources
Shares in Scania: –
Warrants: –

Carl Riben
Born 1950. Joined Scania in 1986.
Senior Vice President
General Counsel
Shares in Scania: 200
Warrants: 1,000

Jaap Bergema
Born 1948. Joined Scania in 1971.
Senior Vice President
Quality and Product Support
Shares in Scania: –
Warrants: –

Corporate Sectors

Lars Orehall
Born 1947. Joined Scania in 1974.
Senior Vice President
Powertrain
Shares in Scania: 1,000
Warrants: 5,000

P O Svedlund
Born 1955. Joined Scania in 1976.
Senior Vice President
Procurement and Industrial Development
Shares in Scania: 166
Warrants: –

Kaj Holmelius
Born 1940. Joined Scania in 1966.
Senior Vice President
Research and Truck Development
Shares in Scania: 891
Warrants: 6,000

Kjell Svensson
Born 1938. Joined Scania in 1972.
Senior Vice President
Truck Manufacturing
Shares in Scania: 25
Warrants: 500

Urban Erdtman
Born 1945. Joined Scania in 1981.
Senior Vice President
Sales and Marketing Europe
Shares in Scania: 166
Warrants: 15,300

Claes Torén
Born 1939. Joined Scania in 1962.
Senior Vice President
Sales and Marketing Overseas
Shares in Scania: 575
Warrants: 1,500

Business Units

Åke Brännström
Born 1938. Joined Scania in 1970.
Senior Vice President
Buses
Shares in Scania: 1,000
Warrants: 16,500

Lennart Hjelte
Born 1945. Joined Scania in 1966.
Senior Vice President
Industrial and Marine Engines
Shares in Scania: 2,000
Warrants: 10,500

Jorma Halonen
Born 1948. Joined Scania in 1996.
Senior Vice President
Latin American Operations
Shares in Scania: –
Warrants: –

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