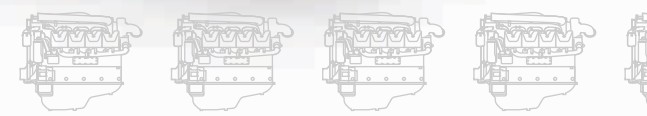


ANNUAL REPORT

SCANIA 1996





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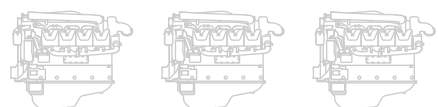
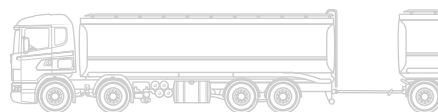
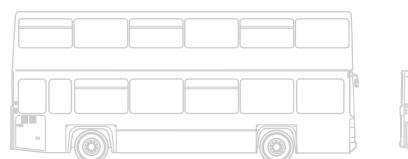
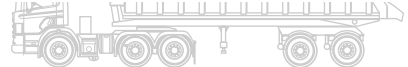
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# HIGHLIGHTS

Numbers in parentheses after 1996 figures refer to the corresponding 1995 figures.

Amounts in SEK m. unless otherwise indicated	1996	1995	1994
<b>Sales, units</b>			
Trucks	39,028	40,467	30,835
Buses	3,963	4,170	2,687
<b>Total</b>	<b>42,991</b>	<b>44,637</b>	<b>33,522</b>
<b>Sales</b>			
Scania products	29,954	31,716	24,088
Svenska Volkswagen products	3,776	3,124	2,560
<b>Total</b>	<b>33,730</b>	<b>34,840</b>	<b>26,648</b>
<b>Operating income</b>			
Scania products	2,842	5,109	3,736
Svenska Volkswagen products	215	243	173
<b>Total</b>	<b>3,057</b>	<b>5,352</b>	<b>3,909</b>
<b>Operating margin</b>			
Scania products	9.5%	16.1%	15.5%
Svenska Volkswagen products	5.7%	7.8%	6.8%
<b>Total</b>	<b>9.1%</b>	<b>15.4%</b>	<b>14.7%</b>
<b>Income after financial items</b>	<b>2,706</b>	<b>4,847</b>	<b>3,686</b>
<b>Net income</b>	<b>1,981</b>	<b>3,280</b>	<b>2,556</b>
Earnings per share, SEK	9.90	16.40	12.80
Earnings per share according to U.S. GAAP	10.30	15.75	12.70
<b>Return</b>			
on shareholders' equity	23.1%	60.1%	98.2%
on capital employed	16.2%	31.0%	27.2%
on capital employed excluding customer finance operations	19.4%	36.4%	32.2%
<b>Debt/equity ratio</b>	<b>0.65</b>	<b>0.76</b>	<b>1.12</b>
<b>Equity/assets ratio</b>	<b>27.7%</b>	<b>28.2%</b>	<b>10.3%</b>
<b>Capital expenditures for property, plant and equipment</b>	<b>2,522</b>	<b>2,056</b>	<b>2,344</b>
<b>Research and development expenses</b>	<b>1,065</b>	<b>904</b>	<b>790</b>
<b>Number of employees at year-end</b>	<b>22,206</b>	<b>23,024</b>	<b>20,650</b>



# SCANIA TODAY

Scania is the fourth-largest heavy truck make in the global market, and the third largest in Europe. Scania is the fourth-largest bus make in the world. Scania is thus one of the world's leading manufacturers of trucks and buses for heavy transport work. Some 95 percent of the company's output is sold outside Sweden.

## Scania operates worldwide

Scania is represented in about 100 countries at 1,000 distribution points and 1,500 service points. The company has production facilities in six countries: Sweden, the Netherlands, France, Denmark, Brazil and Argentina. In addition, there are assembly plants in about a dozen more countries in Europe, Asia, Africa and Latin America.

The number of employees at the close of 1996 was 22,206, down 4 percent from a year earlier. Women represented about 10 percent of the total. Scania has employees in more than 40 countries, about half of them in Sweden.

## Scania's mission statement

Scania's operations are focused principally on the field of heavy vehicles designed for the transport of goods and passengers. Its products shall lead the market in terms of quality, performance and environmental characteristics, enabling the company to assure its customers of the best possible transport economy.

Scania's strategy is to grow with sustained profitability by means of high cost-effectiveness in product development, production and marketing, as well as by maintaining a strong global market position.

## Products

Heavy trucks:

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

Buses:

City buses, inter-city buses and tourist coaches for more than 30 passengers.

Industrial and marine engines:

Engines with power outputs ranging from 225 to 750 horsepower for use as a power source in generator sets, earth-moving and agricultural machinery, ships and pleasure craft.

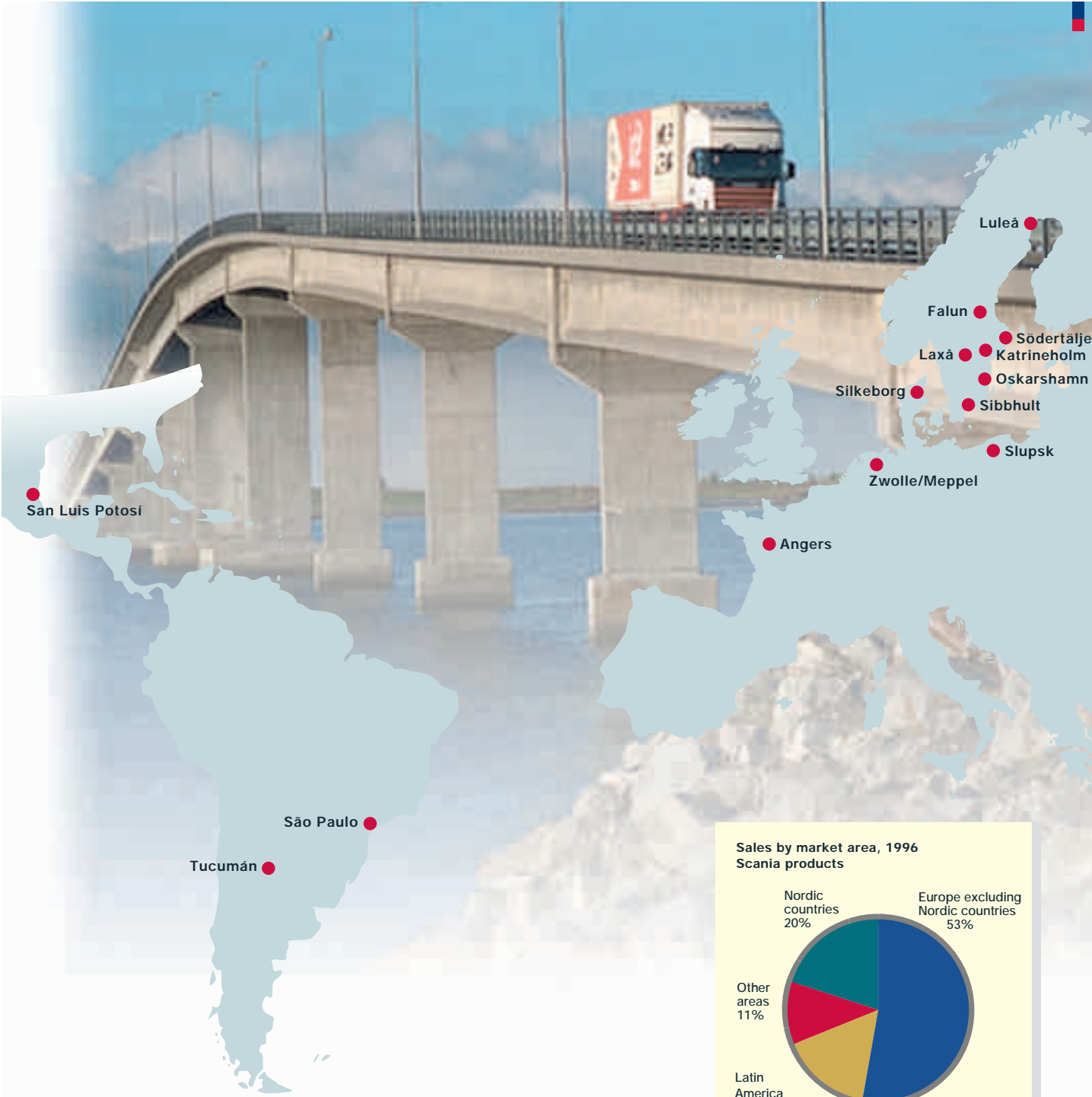
## Half-owner of Svenska Volkswagen

Scania and Volkswagen AG each own 50 percent of Svenska Volkswagen AB, which markets Volkswagen, Audi, Seat, Skoda and Porsche cars and light commercial vehicles in Sweden.

## 1996 stock market listing

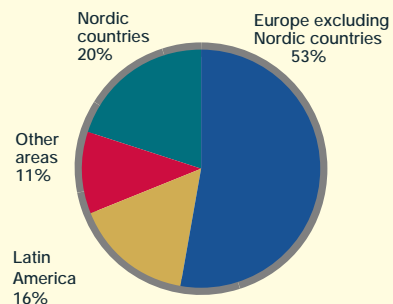
On 1 April 1996, Scania's shares were floated on the Stockholm Stock Exchange and also became the first Swedish shares to gain a listing on the New York Stock Exchange. The listings were a natural consequence of the fact that in May 1995, Scania once again became an independent company after having been part of Saab-Scania for 26 years.

At the close of 1996, Scania had about 50,000 shareholders. The ten largest shareholders accounted for 67 percent of voting power and 66 percent of share capital. The largest shareholder is Investor AB, a listed Swedish investment company in the Wallenberg sphere, with 45 percent of share capital and 45 percent of voting power. Of Scania's share capital, about 16 percent is owned by investors outside Sweden.

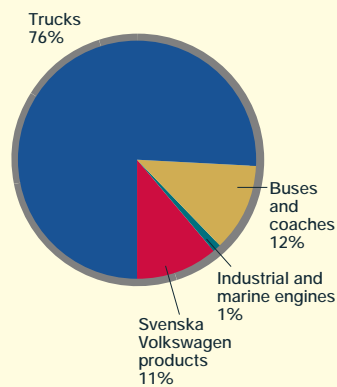


Scania is represented in about 100 countries. Its assembly and production plants are located in eight countries in Europe and Latin America.

Sales by market area, 1996  
Scania products



Sales by product category, 1996



# STATEMENT OF THE CHAIRMAN

During 1996, Scania's shares were floated on the stock exchanges in Stockholm and New York. This makes it easier to project a clear image of the company and its products. During the year Scania also implemented the largest production changeover in its history – a whole new product generation of trucks, buses and engines was introduced to meet the challenges of the future.

## A proactive reform process

The reforms under way at Scania are preparing the company to proactively face the new conditions that are taking shape in virtually all our main markets in the world. During 1996, the company's internal restructuring work was characterised by measures to achieve higher efficiency, strengthen the distribution network and convert the entire European production system to Scania's new generation of trucks, the 4-series. Around year-end 1997, a corresponding changeover will begin at the Latin American production plants. In addition, we unveiled a new generation of buses, which in 1997 will gradually be introduced into Scania's global production system.

## Economic uncertainty in Europe

Western Europe is Scania's largest market, accounting for more than 70 percent of the company's invoiced sales. Demand for heavy trucks remained at a stable, high level during 1996, with a slight slowdown towards the end of the year. The accelerated economic growth that many observers had expected in Germany never came about. Continued economic uncertainty and low GDP growth in western Europe have presumably been affected by the restrictive economic policies that key European Union (EU) member countries have adopted in order to fulfil the

Maastricht Treaty's requirements for a common currency and the convergence criteria for membership in the Economic and Monetary Union (EMU).

## EMU process good for business community

The adaptation to the EMU criteria is continuing in the European countries. Although it is cutting into GDP growth in the short term, it is good for the business environment. The low-inflation economy now taking shape is, among other things, forcing companies to improve their productivity and efficiency. No company can resolve its cost problems relying on temporary currency effects and exchange rate adjustments to give it competitive advantages.

Regardless of when Sweden joins EMU, export companies – if they want to remain competitive – must work under these conditions even today. The internal reform process at Scania should be viewed, among other things, against this backdrop.

The integration of the central and eastern European economies is creating new opportunities. As cross-border trade increases, the demand for truck transport is rising. Meanwhile, trade is providing the countries of central and eastern Europe with capital, making it easier for them to buy high-quality vehicles.

## More free trade in South America

In Scania's other "domestic" market, South America, economic growth has now stabilised after a decade of turbulence. A transformation to low-inflation economies is now under way in such key countries as Brazil, Argentina and Chile.

One of the driving factors behind continued positive growth is cooperation among the members of the Mercosur free trade organisation. In 1996 Chile became part of Mercosur. As a result, its Pacific coast ports have seen an increasing volume of industrial and agricultural



exports from Argentina and Brazil, primarily destined for Asia. Road haulage over the Andes has been made easier. Most haulage within and between these countries goes by truck.

### **Growing haulage needs in Asia**

In Asia, transport needs are keeping pace with rapid economic growth. Meanwhile the region is characterised by sharp economic fluctuations, due to such factors as social conflicts and domestic or political unrest – for example the tense situation between China and Taiwan early in the year. The road network in the region is gradually being expanded in order to handle heavy truck haulage. Scania is one of the leading European heavy truck makes in the Far East.

### **Stock flotation increases opportunities**

In 1996 Scania shares were floated on the Stockholm Stock Exchange and also became the first Swedish company to obtain a listing on the New York Stock Exchange. This meant, among other things, that Scania gained a new ownership structure with a substantial contingent of foreign shareholders, while Investor AB remains the largest single shareholder. As part of its efforts during 1996 to adapt

to the stock market environment, Scania upgraded its accounting and finance units and brought additional expertise into its communications and public affairs unit.

The stock market listings have made Scania a far more public company than before. This provides greater opportunities to build up the Scania brand name, thereby giving the company and its products a clearer public image. Meanwhile Scania is being closely watched by the outside world in a different, though no less stimulating way.

### **Stable platform for the future**

With its new range of trucks and buses, a continued strong marketing focus, an efficient production system and the philosophy of specialisation that distinguishes Scania, I am convinced that our customers and shareholders alike will have good reason in the long term to feel pleased with the company's progress.

Scania is in a strong position and has implemented the largest production changeover in its history. The company is highly confident about the future. The Board of Directors has decided to propose that the Annual Meeting approve a dividend of SEK 5.50 per share for 1996.

This past year involved heavy strains and a great deal of work, but at the same time it gave Scania a stable platform to meet the challenges ahead. On behalf of the Board, I would like to express our sincere gratitude to the employees, executive management and president of Scania, whose good efforts have been of decisive importance to Scania's development.

*Anders Scharp*  
Chairman

# STATEMENT OF THE PRESIDENT AND CEO

During 1996, Scania implemented a far-reaching changeover of its entire European production system to the new truck generation. It thereby laid a solid foundation for more competitive production. During the year, new generations of buses and engines were also unveiled. All these new products were well received by customers and the market.

## Scania's profitability

In 1996, Scania implemented major changes. An extensive overhaul of our production facilities enabled all our European plants to start producing Scania's new generation of trucks, the 4-series. A production changeover of this magnitude occurs approximately every fifteen years; in other words, when a completely new generation of trucks is introduced.

While we were overhauling our European production system, we increased our market shares and maintained our position as the most profitable truck company.

## Changeover to the 4-series

The production changeover is now complete in Europe. Since December 1996, the 4-series is being manufactured at the rate and in all the versions that customers are requesting.

The changeover from the 3- to the 4-series was not without problems, however. Although we tried to forestall an expected production shortfall by building approximately 1,500 extra trucks early in the year for delivery later in 1996, we experienced delivery problems during the third quarter. We were unable to increase the assembly rate for the 4-series as

quickly as planned. Given the strains resulting from the large-scale production changeover, in reality Scania had one production month less during 1996 than during a normal year. This had repercussions on our organisation, the market and our earnings.

Nonetheless, with the benefit of hindsight, I believe that the changeover to the new 4-series has been successful. We have restructured and modernised our European assembly plants, thereby reducing their environmental impact. We have invested to meet future demands and needs. Today the cab plant in Oskarshamn, Sweden, is a highly efficient facility that supplies cabs to all our assembly plants in Europe. The new range of engines is being produced in a highly automated plant in Södertälje, Sweden. We have laid a foundation for higher productivity and more efficient production.

## Well-received by customers

The 4-series was well received by customers in our European markets. Among other things, the 4-series was named 1996 "Truck of the Year". In 1997, 4-series introductions are continuing in Asian and African markets. Signals from customers indicate as positive a response in these markets as in Europe. In Latin America, we will switch over the production system to the 4-series starting around year-end 1997. We will launch the new generation of trucks in the Latin American market during early 1998.

## Higher price, lower production costs

The greater customer benefits of the 4-series have made possible a somewhat higher price. Although the new trucks only accounted for just over 30 percent of last year's sales, they still had a positive effect on 1996 earnings. There



is good reason to expect this trend to continue.

Our experience indicates that production costs will decline compared with the outgoing 3-series. The 4-series is simpler and faster to assemble. It requires fewer parts. Production is more highly automated, and new equipment is providing further savings potential. The effects of these cost reductions will gradually have an impact during 1997 and 1998.

Integration between Scania's truck and bus ranges progressed further during 1996, with the launch of an entirely new generation of buses that is co-modularised with our trucks. When the new bus range has been completely phased in, there will be approximately 85 percent integration between truck and bus chassis.

### **Environmental work continues**

Scania's customers demand constant improvements. Our goal is to fulfil the environmental criteria that our customers and the general public are demanding. The development of the 4-series has resulted, among other things, in vehicles with lower fuel consumption as well as lower emission levels. During 1996, we systematised our environmental work. In connection with this, Scania adopted a new environmental policy. For the first time, we are issuing a separate environmental report.

### **Stiff competition in Europe**

Demand for heavy trucks in Europe, which is our main market, was essentially stable in 1996, despite growing uncertainty during the latter part of the year. Competition intensified in all markets.

The labour dispute that blocked the French transport network late in 1996 temporarily resulted in lower demand for new trucks both from French hauliers and from other transport companies engaged in international traffic. This led to greater

uncertainty about 1997 market prospects. The expected GDP increase in the German economy, which plays a crucial role in European demand for heavy transport services, has not yet materialised.

Several of our competitors introduced new generations of trucks during 1996. This, together with the existing overcapacity in the European truck industry, may put further pressure on the market during 1997. However, Scania's exclusive focus on heavy trucks and buses, and our new product generations, will provide



good opportunities to consolidate and strengthen our position.

Our systematic investments in a stronger marketing organisation paid off during 1996. The efforts in the first half of the 1990s to ensure financially stronger distribution companies, particularly in Great Britain, led to a neardoubling of Scania's share of the British market. This experience serves as a model for similar measures initiated in Germany and France during 1996. Today Scania is realigning its distribution system in Europe towards larger, financially stronger distribution and service companies.

### **Tough year in Latin America**

Scania's 1996 earnings were affected by the loss of virtually its entire margins in Latin American operations. In Brazil, 1995 was a record year with a total market of 19,000 heavy trucks. Early in 1996, demand was weak and price competition was keen. The market stabilised at around 14,000 units, however, which was also a high level for Brazil.

Brazil's transition in 1995 from a turbulent high-inflation economy to a low-inflation economy creates good opportunities for higher long-term demand for heavy trucks, provided that economic growth remains stable. To enable Scania to fully benefit from the growing potential of the Mercosur free trade area, which includes the key countries in the region, national marketing activities were coordinated under the Brazilian-based company Scania Latin America.

### **Krona instability costly**

The strengthening of the Swedish krona against Scania's export currencies pulled down 1996 earnings by about SEK 900 million. Scania's policy is to hedge its currency risks between the order date and the date when the customer pays for a vehicle, normally between 3 and 4

months. Because of this, exchange rates movements have a fairly direct impact on earnings. Scania's earnings essentially reflect current spot rates during the year. The advantage of this policy is that pressure for changes that improve productivity becomes clearer and more immediate within the organisation.

### **Lower personnel requirements**

During most of 1996, Scania manufactured both the old and new product ranges in parallel in its European production system. This necessitated a larger workforce than normal. Personnel requirements decreased once we were producing only the 4-series by the end of the year. Structural overstaffing was estimated at 1,500 persons, all of whom are expected to have left Scania by the end of June 1997.

### **Solid foundation laid in 1996**

In 1996, we introduced a complete new generation of trucks and new generations of buses and engines, which were received well. We implemented a total changeover in our European production system, while trimming our production organisation. We have invested in a stronger marketing organisation, a task that is continuing during 1997.

Thanks to the fine efforts of all our employees, we stand well positioned for the future.



*Leif Östling*  
President and CEO

## FOCUS ON VEHICLES FOR HEAVY TRANSPORT WORK

**Scania is the only major European truck manufacturer with operations that focus on heavy vehicles.**

Since the 1940s, Scania has specialised in the production of heavy trucks designed for long-distance haulage, construction and civil engineering haulage and distribution work.

In the same way, Scania's bus and coach operations concentrate on the heavy segment of the market. Scania manufactures bus chassis and buses designed for more than 30 passengers. The product range comprises urban and intercity buses as well as tourist coaches.

### Heavy vehicles in greater demand

Economic growth is leading to greater demand for transport services. This trend

often results in infrastructure improvements (roads and bridges are upgraded for higher load capacities), which are a prerequisite for heavy vehicles. As a result, larger transport enterprises become possible as well as financially advantageous. The demand for heavy trucks and buses consequently increases as a proportion of total demand for commercial vehicles.

### Specialised production

Heavy vehicle technology and production systems are specialised. They are completely different from those used in lighter weight segments, which share most of their components with the passenger car industry.

Individually-specified products facilitate individualised pricing. Scania's trucks and buses are established as quality products in terms of both performance and price.

*One heavy truck is more economical than two medium-weight trucks, but requires roads and bridges with a higher load capacity. In Brazil, improved infrastructure and better logistics have thus strengthened the heavy truck market.*



## MODULAR SYSTEM MAXIMISES FREEDOM, MINIMISES PROBLEMS

Scania's modular product system, which was developed over several decades, gives customers great freedom of choice. It also contributes to lower development and production costs as well as easier service and maintenance. The new truck and bus ranges offer a wider variety of combinations, using fewer components.

### Tailor-made solutions for individual customer needs

For decades, buyers of heavy transport vehicles have demanded increasingly individualised solutions. The more closely a vehicle is adapted for a specific purpose, the more economically it will operate. In the future, it will be fully possible for every order to be unique.

Production of individually tailored vehicles can be very costly, however. If they contain more components, this increases the complexity of development work, production and logistics.

To avoid this, Scania has gradually developed a modular product range. This makes it possible to design products that meet customers' needs and can meanwhile be developed, manufactured and distributed cost-effectively.

### Advantages of the modular system

Scania's modular system is based on the use of the same components in numerous different specifications, providing a nearly unlimited number of possible combinations. This enables customers, in consultation with a Scania sales representative, to specify the vehicle that best suits their needs. The total number of components in Scania's product range is limited,

thereby reducing the risk of faults, both during production and operation of the vehicle.

The limited number of parts and components makes it easier for Scania's distribution and service network to keep all vital parts in stock, thus providing customers with a high level of service. In addition, it facilitates the training of mechanics, maintenance, trouble-shooting and repairs by reducing the number of possible faults.

The modular product system allows considerably longer production runs than a conventional system. Scania can thereby benefit from the same economies of scale in its production system as competitors that manufacture more vehicles.

The guiding principle in Scania's product development work is to avoid increasing the number of parts, and if possible reduce the existing number. The goal is to allow each new part to replace several old ones.

### Ahead of the competition

For many years, this approach to product development has permeated Scania's entire organisation. Ever since the 1950s, when Scania began to develop its modularised product system, this has kept it ahead of the competition. It achieves this by maximising the number of possible combinations while minimising the number of parts and components.

### The 4-series — a big step forward

Scania's new 4-series comprises a new engine platform, a new cab series and a new range of chassis that offer greater flexibility than previous ranges. At the same time as the number of possible customer specifications has risen, the number of components in the product range has decreased.

The changeover to the 4-series will make Scania the first truck manufacturer

to offer its customers the same product range worldwide.

### New modular bus range

In September 1996, a new modular generation of buses and bus chassis was introduced. The seven main modules in

the bus range provide customers with significantly more choices than the older range's 45 different complete chassis. As a result, Scania can cost-effectively meet the changing needs of its various bus customers while achieving extensive integration of its bus and truck ranges.

### The modular system is based on customer needs



The principle of Scania's modular system is to give the customer a tailor-made vehicle while using as few parts and components as possible.

*Scania manufactures its vehicles on the basis of customer orders. Customer needs determine the details of each vehicle's specification.*



# SCANIA OFFERS A TOTAL PRODUCT CONCEPT

In addition to vehicles and engines, Scania offers other products and services, such as parts, maintenance, repairs and financing. Continuous efforts to strengthen the distribution and service organisation enjoy high priority.

During the economic life of a Scania vehicle, the customer spends about as much on parts, maintenance and repairs as the vehicle's original price. The Scania organisation's share of this market is estimated at 50 percent.

## High availability essential to customers' revenues

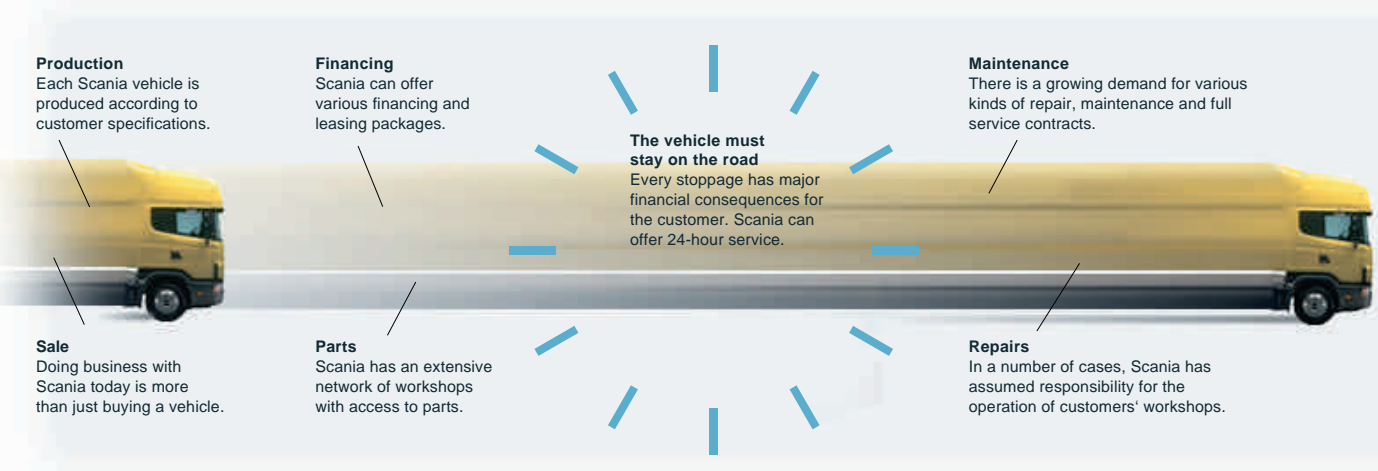
In today's competition to sell heavy transport vehicles, a distributor's ability to offer a comprehensive solution tailored to the needs of each customer is crucial.

The transport sector is distinguished by far-reaching efforts to improve efficiency. Since industrial companies demand "just-in-time" deliveries, many hauliers have slim time margins. Scania's customers work with these sophisticated transport systems. Every stoppage or delay has major financial consequences. That is why it is essential to give customers the highest possible vehicle availability.

Various types of repair, maintenance and full service contracts are therefore becoming more common. A rising share of sales involves special agreements in which the customer leases his vehicles for a fixed kilometre-based price, including service and repairs. In some cases, Scania has assumed responsibility for the operation of customers' service workshops.

Customer financing is provided mainly by independent parties such as banks and finance companies. In some countries, Scania's own customer financing companies offer various types of financing and leasing packages.

## After sales services represent a large proportion of vehicle value



*“Right from the product development stage, we lay the foundation that enables us to offer our customers a Scania vehicle with the best possible performance and reliability.”*

Håkan Samuelsson  
Chief Technical Officer



### **Represented in 100 countries**

Heavy vehicles often travel over vast territories. This requires an extensive network of workshops with access to service and parts. Scania has a strong distribution and service organisation, represented in 100 countries and serving customers via some 1,000 sales locations and 1,500 workshops. About 20,000 people are employed in these operations.

A majority of these sales and service facilities are owned by large dealers, and most importers have had long-time business relationships with Scania. This fos-

ters continuity, technical know-how and market expertise.

### **Quality being improved further**

To further strengthen its position in the market, Scania is implementing a large-scale program to bolster resources and improve quality within its sales and service organisation.

## FOCUS ON GROWTH MARKETS

**Scania's principal strategy is to strengthen its position in its main markets. Parallel with this, it invests in markets that are distinguished by high growth potential.**

A large portion of long-term growth in demand for heavy trucks is expected to come from Scania's three main markets: Europe, South America and Asia.

Aside from working to strengthen its position in traditional markets, Scania focuses on markets with sizeable growth potential, such as central and eastern Europe and certain parts of Asia.

### Europe

A number of factors indicate that Europe will continue to be a market with growth potential:

- Before the year 2000 there will be substantial replacement needs in western Europe as the generation of trucks purchased during the demand peak of the late 1980s approaches the end of its service life.
- New production methods that employ just-in-time concepts are requiring more reliable, flexible and efficient deliveries, which means more road haulage. In a competitive transport market there are also strong incentives to replace medium-weight vehicles with heavy ones because these are more efficient.
- Increased trade in Europe and economic growth both in the former Eastern bloc and elsewhere in the region are generating greater demand for transport work.
- Throughout Europe, there is good long-term potential demand for modern trucks and buses.

### South America

In the South American market, there is an upward trend in demand for heavy vehicles. Economic growth in the Mercosur free trade area has been very strong during the 1990s, which has increased the demand for haulage services. Now that Chile has also become an associate member of Mercosur, industrial companies in Brazil and Argentina have gained direct access to ports on the Pacific Ocean. This is also increasing the volume of road haulage.

The continued increase in trade expected among South American countries and with other regions will lead to more transport work on the highway network and thus a greater need for heavy trucks. This trend is accentuated by the fact that both cargo and passenger traffic in the region are handled almost exclusively by road, due to inadequate railway networks.

A restructuring is underway in the South American bus market, from smaller buses to Scania's segment, i.e. buses for more than 30 passengers.

### Asia

As industrialisation increases in Asia, so do transport needs. This is accelerating the expansion of infrastructure. Medium-weight trucks can then be replaced by heavy vehicles.

Such countries as China and India have ambitious plans to expand their highway networks. As these plans are realised, the market for heavy trucks will grow.

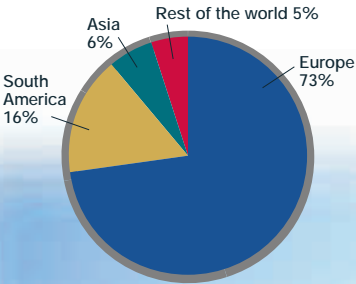
The Asian market is dominated today by Japanese makes. Demand for European makes, among which Scania has a leading position, is gradually increasing, however. Scania is well-prepared to meet this demand.



Throughout Europe, there is good long-term demand for modern buses. During 1996, Scania's share of the bus market increased from 8.8 to 9.9 percent.



Sales by market area, 1996  
Scania products



Europe is Scania's largest market, accounting for 73 percent of 1996 sales. South America, Scania's other main market, accounted for 16 percent of the year's sales.



# NEW PRODUCT RANGE — CHANGEOVER COMPLETED IN EUROPE

The new 4-series product range is distinguished primarily by a newly developed chassis range, a new 12-litre engine series, a new cab range and more extensive modularisation.

## 1996 International Truck of the Year

Late in 1995, Scania began the introduction of its new generation of trucks, the 4-series. The first to be launched were the most advanced models, designed for long-haulage. A jury of leading European trade press journalists named them the 1996 International Truck of the Year.



Class L trucks are intended for heavy-payload, high-mileage transport work on normal high-ways, for example international long-distance haulage.



Class C trucks are intended for demanding low-mileage transport work on sub-standard roads or off-road, for example construction haulage or heavy specialised haulage.



Class D trucks are built for urban and regional distribution, in other words low-mileage operation on normal roads. These trucks are robust and have high load capacities.



Class G trucks comprise a wide variety of vehicles for heavy haulage, including everything from low- to high-mileage transport tasks on sub-standard roads.

During 1996, the entire new product range was launched in Europe.

## New 12-litre engine offers low operating costs

In the versions that have been launched to date, the new six-cylinder, 12-litre engine develops between 360 and 400 horsepower. This engine is designed to provide maximum combustion efficiency and, as a result, low fuel consumption and reduced environmental impact. Other features include greater ease of service for scheduled maintenance and repairs, as well as lower engine noise.

## Good working environment in new cabs

For Scania's customers, it is essential to recruit skilled drivers, since they greatly influence operating costs. Their working environment is important in this context and has therefore enjoyed high priority in Scania's development work.

A new vibration-absorbing suspension system, better noise insulation and climate controls have improved the standard of comfort. The use of a vertical windscreen, among other things, creates more room for the driver. In addition, there is ample storage and living space.

The design of the new cabs produces very low aerodynamic drag, which contributes to low fuel consumption and good operating economy.

## Far-reaching changeover in the production system

Production of the 4-series began in Sweden late in 1995. The assembly plant in Angers, France, switched over to the new range in May 1996. The plant in Zwolle, the Netherlands, which accounts for about half of European assembly, shifted ranges in August. By the end of 1996, the chassis assembly shop in Södertälje – and

*“Safety has been further improved by integrated seat belts with belt tensioners. Optional equipment includes airbags and electronically controlled disc brakes.”*

Ulf Parkvall  
Crash testing and driver  
safety manager



thus all of Scania's European production facilities – had been converted to the 4-series.

This extensive upgrading of both products and production equipment caused a great deal of strain during the changeover. The production shortfall in the second half of 1996 was therefore larger than planned. In addition, there was a temporary build-up in Scania's inventory of unfinished vehicles. As of December, production was running as planned.

### **Investments in greater efficiency and automation**

In order to implement the changeover in product generations, Scania invested more than SEK 2 billion in new equipment at its production facilities in Europe. The new equipment is distinguished by a higher degree of automation, employs production methods with less impact on the environment and also has a larger production capacity.

Investments in the engine shops have resulted in a higher concentration of

engine assembly in Södertälje. European cab production has been concentrated in Oskarshamn.

### **Standardised assembly methods in Europe**

As part of the production changeover to the 4-series, Scania introduced new, uniform assembly methods. Significantly more components are preassembled, which improves production efficiency and raises quality. This will make it possible to reduce assembly time by 10 to 15 percent.

### **Model changeover in Latin America**

The lessons learned from the production changeover in Europe led to a decision to delay the planned changeover in Latin America until the year-end 1997 holiday period. Once it is completed, Scania will be the first truck manufacturer with production on more than one continent to have a global product range featuring interchangeable products and components.

# RISING SHARE OF THE TRUCK MARKET

**Scania raised its market share in practically every country of Europe and maintained its position as the market leader in Brazil and Argentina.**

## Stable European market

The western European market remained stable at a high level, with new registrations of more than 172,000 (173,000) heavy trucks. Market statistics were affected during the third quarter by the fact that several manufacturers registered vehicles fulfilling the EU's old Euro 1 emission standards, which were replaced effective October 1 by the stricter Euro 2 standards. Towards the end of the year, the market was characterised by increased uncertainty.

Competition intensified in all markets. Aside from the continued introduction of Scania's 4-series, both Mercedes-Benz and Renault introduced new truck ranges in the heavy segment.

## Larger market share in Europe

Scania's market share in western Europe, measured as the number of registered trucks with a gross weight exceeding 16 tonnes (Class 8), rose from 14.3 to 15.5 percent. Order bookings declined by 7 percent.

Great Britain became Scania's largest market in 1996, measured in the number of new truck registrations. Scania's market share rose from 16.6 to 18.6 percent.

In Germany, Scania improved its market share slightly. The total market declined, however, due to economic uncertainty and deregulation in the transport sector.

Scania's market share was stable in France. The transport strikes of late 1996 affected both French and international

hauliers financially and led to increased uncertainty about the prospects for the truck market.

In Germany and France, Scania is pursuing a business development effort modelled on its operations in Great Britain. There is a shift of emphasis towards larger distribution units with the know-how to implement large, complex business transactions and the resources to cover the market better. Scania is also reviewing its network of service workshops for the purpose of adapting their geographic locations to current customer needs.

In Belgium and the Netherlands, Scania has a network of very strong distributors, with a high degree of integration between the importer and distributor levels. This is reflected in Scania's market shares, which in both cases are more than 20 percent. At the same time, a number of major European long-distance hauliers are based in these two countries. National borders are of declining importance in Europe. Scania's importer in the Netherlands, Beers — which is 49 percent owned by Scania — is now assuming a significant share of distribution responsibility in northwestern Germany.

Scania's overall market share in the Nordic countries rose from 33.3 to 37.2 percent. In Sweden, Scania regained its position as the market leader. In Denmark, its marketing organisation was strengthened through the acquisition of the largest Scania distributor.

Scania's sales in the countries of central and eastern Europe rose from 950 to 1,000 trucks. The largest market was Poland, where Scania has been assembling vehicles, primarily for the domestic market though also for export, since 1993.

The company initiated significant investments during the year in distribution and service facilities in Hungary, the Czech Republic and Poland.

## From order to registration



1. The customer specifies a tailor-made vehicle, in consultation with a Scania sales representative



2. The distributor submits a chassis order to the Scania factory



3. The chassis is produced according to customer specifications



4. The chassis is delivered from the factory



5. The distributor receives the chassis and sends it to be equipped and bodyworked



6. The finished vehicle is invoiced



7. The vehicle is registered

The whole chain from order to registration takes 2 to 6 months.

## Recovery in the South American market

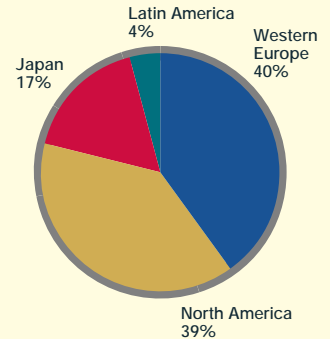
Scania strengthened its position as the market leader in both Brazil and Argentina. Order bookings declined by 5 percent from the record-breaking year 1995. However, the South American market for heavy trucks turned upward during 1996 following its sharp decline during the second half of 1995.

Trade within the region continued to grow. There is great potential for local manufacturers of modern long-distance vehicles, such as Scania.

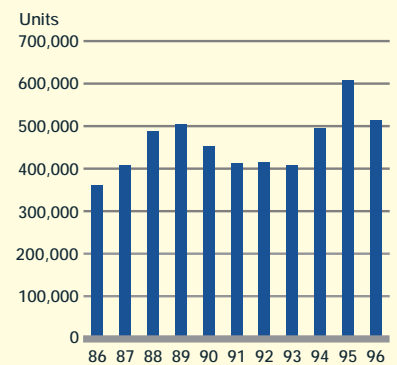
*"There is growing integration between the countries of Europe. This is why we are strengthening our networks of distributors and service workshops to meet the needs of our customers, regardless of national boundaries."*

Urban Erdtman  
Senior Vice President, Sales and Marketing Europe

World production of heavy trucks, 1996



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



*During 1996 a bonneted T cab was added to the 4-series. The T cab is available in both truck and tractor models and is suitable for all transport work where the total length of the vehicle is not crucial.*



In the Brazilian market, deliveries declined. Around mid-year, however, delivery figures began to rise again on a monthly basis, a trend that continued for the remainder of the year.

Increasing optimism was evident in Argentina, following several years of economic downturn. The total market increased from 2,700 to 3,600 trucks.

In Chile, Scania inaugurated a new importer facility in March, partly in

response to demand stemming from increased traffic across the Andes to Pacific coast ports.

The Mexican market, where demand was very low in 1995, improved during the first half of 1996. Scania delivered nearly 100 trucks during the year from its Mexican plant.

### Continued large deliveries to Asia

Scania's sales to markets in Asia continued at about the same level as in 1995. Order bookings decreased slightly, however. Deliveries to South Korea and Malaysia more than doubled, while deliveries to Taiwan and Indonesia declined sharply.

The 4-series was gradually introduced in these markets during late 1996 and the first several months of 1997. The new trucks have attracted a great deal of attention and have been well received.

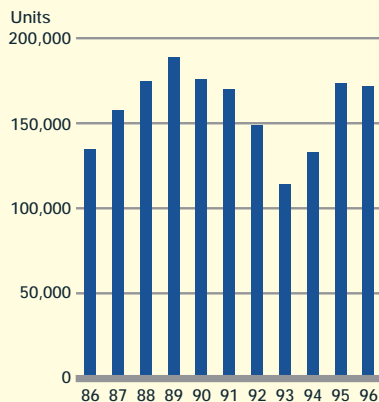
### Rest of the world

A number of trucks from the 4-series were delivered to Turkey, where Scania is

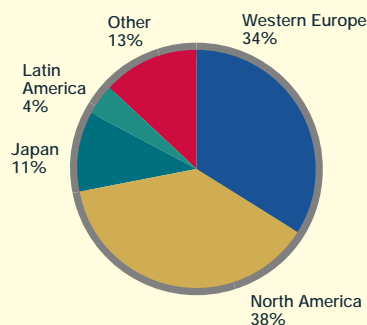
#### Scania's ten largest truck markets

	Unit sales			Market share in %		
	1996	1995	1994	1996	1995	1994
Brazil	5,442	6,603	6,802	38.2	33.9	36.2
Great Britain	5,396	5,473	3,852	18.6	16.6	14.3
France	3,042	3,345	2,368	9.6	9.8	9.4
Germany	3,032	3,044	2,332	7.7	7.4	6.4
The Netherlands	2,813	2,512	1,959	23.1	20.8	20.2
Italy	2,249	2,302	1,313	15.0	14.0	14.1
Sweden	2,042	1,548	891	48.6	43.6	44.2
Argentina	1,508	1,025	1,699	42.0	39.3	35.0
Denmark	1,370	1,343	818	31.1	30.4	26.5
Spain	1,332	1,735	816	12.2	13.2	11.0

## New registrations of heavy trucks in western Europe



## New registration of heavy trucks worldwide, 1996



represented by a new importer. These vehicles are being used primarily for long-haulage to and from Europe.

Due to continued political uncertainty in the Middle East, the market for heavy trucks remained at a low level. Scania's sales in the region fell below the 1995 level and amounted to 931 vehicles. The 4-series was introduced in several of these markets during the latter part of 1996.

The Australian market declined by around one fourth. Scania's share rose. The 4-series was introduced in Australia in early 1997. At the same time, local assembly of Scania vehicles is ceasing, and Australia is becoming an export market that can utilise the entire European product range. Scania's Australian customers will thus be able to choose from a significantly wider selection of specifications than before.

The markets in Africa, with the exception of South Africa, were weak during 1996 and sales declined. Scania started its own assembly plant in South Africa. The marketing organisation was strengthened by establishing Scania-owned importing and distribution companies, which led to significantly higher sales. South Africa became Scania's largest African market, followed by Tunisia and Egypt.

*"In developing engines for our vehicles, the challenge is to offer our customers around the world the best possible efficiency and reliability for varying road and climate conditions. Meanwhile we are working systematically to reduce fuel consumption and minimise emissions."*

Göran Hammarberg  
Head of Engine Design



## BUS SALES REMAIN AT A HIGH LEVEL

Scania's bus and coach sales rose in European and Asian markets and declined in South America. During 1996 a new modularised generation of buses was unveiled. As a result, Scania achieves up to 85 percent integration between its truck and bus ranges.

### New modularised bus generation

In September, Scania introduced the OmniCity city bus, the first model in a new modularised generation of buses and bus chassis. The new range offers customers considerably more choices than they have had to date. This enables Scania to meet the demand for urban and intercity bus chassis as well as tourist coach chassis.

The standardisation of this new chassis range enables Scania to achieve up to 85 percent integration between its truck and bus ranges.

### Sales remain at a high level

The world market for urban and intercity buses and tourist coaches in Scania's segment — buses and coaches for more than 30 passengers — amounted to about 57,000 units in 1996, a decrease of 3 percent compared to 1995. Scania's sales rose in Europe and Asia but declined in South America. Overall, Scania's bus and coach sales in 1996 were high by historical standards, albeit 5 percent below the record year of 1995. Order bookings declined by 22 percent.

Most of Scania's bus production consists of chassis, which are then bodyworked by specialised bodybuilding companies. In Europe, Scania currently bodyworks slightly over 12 percent of its pro-

duction at its own plants in Katrineholm, Sweden, and Silkeborg, Denmark. In Latin America, production consists entirely of bus chassis.

### Increased market share in Europe

The total heavy bus and coach market in Europe rose by 4.7 percent to 16,400 units. Scania's market share increased from 8.8 to 9.9 percent.

Scania consolidated its position in Spain, which remained its largest market in Europe. In a shrinking total market in Portugal, Scania doubled its sales and became the market leader.

To further strengthen its bus operations in Great Britain, Scania established a separate company in this field. In Great Britain, Scania received its largest single order ever, for 144 city and intercity buses.

In the Nordic markets, demand increased. In Sweden, Scania continued to regain market share. In Denmark, Scania, including its subsidiary DAB Silkeborg, strengthened its market-leading role.

Sales in central and eastern Europe rose. Scania has gradually built up its sales organisation in the region. Scania assembles buses in Poland and Estonia.

In Europe, deregulation has resulted in a trend towards fewer but larger bus companies, which has also affected market conditions for bus manufacturers. As a result, Scania has added service and maintenance agreements to its business concept.

An increasing number of bus companies prefer to buy fully built buses from a single supplier. Approximately 60 percent of European bus sales are now made this way. In response, Scania has decided to begin bodyworking buses at its plant in Angers, France. In addition, agreements have been reached with local bodybuilding companies, thereby significantly rais-



ing Scania's capacity to offer fully-built buses.

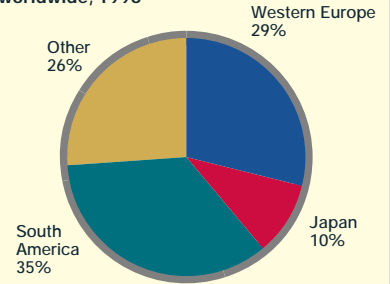
### Consolidated position in South America

In Brazil, which is Scania's largest single bus market, total sales in Scania's segment declined by 11 percent to 15,000 buses. Scania consolidated its market position even though it delivered fewer chassis than in 1995.

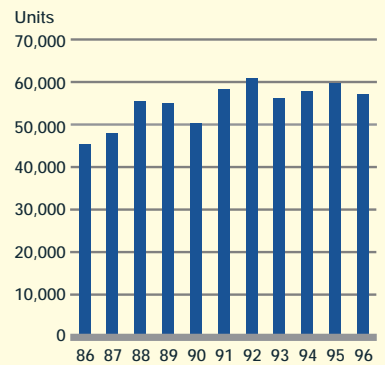
*The new city bus, the Scania OmniCity, was unveiled in September 1996. As far as possible, Scania has used components from its trucks. This results in savings to customers because of easier service and maintenance.*

Scania has primarily competed in the long-distance bus segment. The company's new generation of buses

New registrations of heavy buses worldwide, 1996



World production of heavy buses



*By locating its bus production in different parts of the world, Scania can stay close to its customers and easily adapt its products to their wishes and national regulations.*



increases its chances of also competing in the city bus market, which accounts for approximately two thirds of Brazilian heavy bus and coach sales.

The Argentine market for heavy buses noted an upswing during 1996, following a substantial decline in the two previous years. The overall market for heavy buses increased by 25 percent.

South American bus markets are expected to have good long-term growth potential. To raise its production capa-

city, Scania inaugurated a new assembly line for buses at the company's São Paulo factory during 1996. The new facility doubles Scania's bus production capacity in Latin America.

### Rest of the world

During the year, Scania delivered a larger number of buses in Asia. This included Malaysia, Hong Kong and Taiwan.

Deliveries to Australia rose significantly, which helped Scania to strengthen its market-leading position in a shrinking total market.

Scania's bus and coach deliveries to African markets remained at a low level.

To more actively cultivate the South African market, a separate bus organisation was formed at the beginning of 1996 within the subsidiary Scania South Africa.

#### Scania's five largest bus markets

	Unit sales			Market share in %		
	1996	1995	1994	1996	1995	1994
Brazil	1,368	1,515	773	9.1	8.9	6.3
Spain	351	370	187	17.3	19.2	13.1
Sweden	295	275	191	38.0	36.5	35.8
Great Britain	265	279	171	11.0	12.5	12.3
Denmark	228	147	109	48.1	45.4	41.2

# INDUSTRIAL AND MARINE ENGINES

Scania's industrial and marine engines are developed from its truck engines. They are sold in a global market, in which Scania's share is approximately 5 percent.

## Products

Industrial and marine engines are used as power sources in earth-moving, forestry and agricultural machines, in generator sets and in commercial vessels and pleasure craft. These engines are manufactured internationally by both dedicated engine producers and vehicle manufacturers and are used by other manufacturers in their end products.

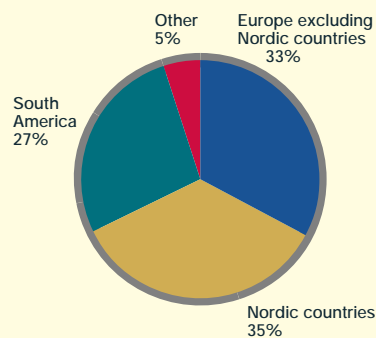
Scania's industrial and marine engines are developed on the basis of its truck engines. The engine range comprises 9-, 11- and 14-litre models with outputs of 225 to 750 horsepower.

The manufacture of industrial and marine engines is of strategic significance, subjecting Scania's engines to direct market comparison in terms of quality and performance as well as price.

*Scania's industrial and marine engines are manufactured in Södertälje and São Paulo for sale worldwide.*



Sales by market area, 1996  
Scania industrial and marine engines



The European production range was completely updated in 1996. The engines in the new range feature improved performance, including lower fuel consumption, lower emissions and higher outputs. Scania thereby offers the customer a modern product range while taking advantage of economies of scale in production.

## Markets

Scania markets its engines throughout the world with the exception of North America. This means a total market of 40,000–50,000 units. Scania's share of this is slightly more than 5 percent.

Norway is Scania's largest European market. In the Nordic countries, most engines are sold for use in materials handling and earth-moving machines. In the rest of Europe, engines are primarily sold for power generation. In Latin America, where Brazil is the largest market, most engines are also used for power generation or marine applications.

## Mixed market picture in 1996

Scania sold 2,725 industrial and marine engines during the year. Sales in the important Nordic market rose. Total sales in Europe declined. Scania made a strategic breakthrough in the Spanish market, selling 700 engines for military use as part of a five-year agreement. In the Latin American market, sales declined.

# SCANIA AND THE ENVIRONMENT

Scania pursues its environmental work systematically and purposefully as an integral part of its operations, with the objective of reducing the environmental impact of Scania products throughout their life cycle.

## Caring for the environment crucial to long-term growth

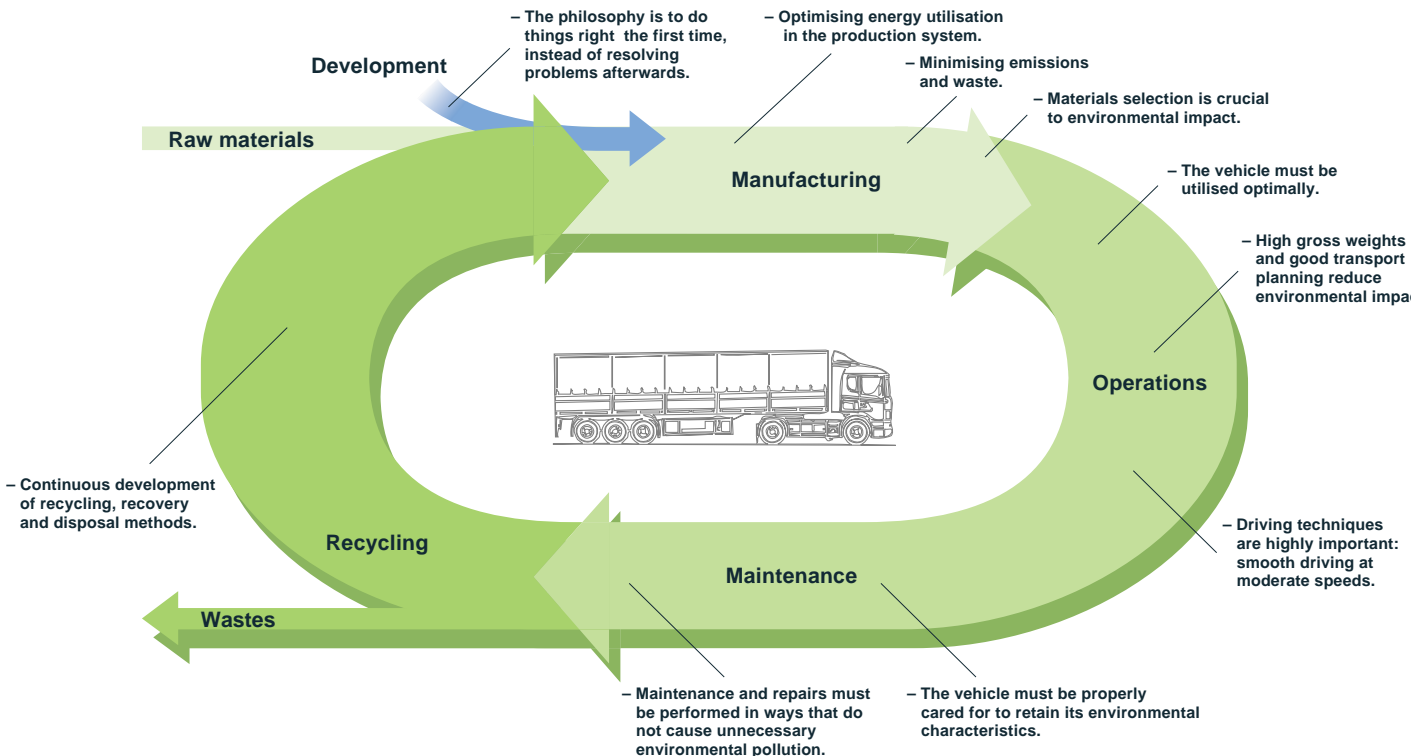
Caring for the environment and active environmental work are crucial to Scania's long-term growth and profitability. There are increasing demands for environmental improvements, not only from government authorities and the general public, but also from customers and shareholders. Reducing the environmental impact of heavy freight and passenger transport work is thus an important goal for Scania.

The task of improving the efficiency of production processes, engines and vehicles is a continuous process at Scania. The intensifying trend towards more productive manufacturing techniques has not only yielded competitive advantages, but has also generated major environmentally-related advances.

In recent years, Scania has pursued its environmental work more systematically and purposefully. The introduction of environmental management systems is under way. Scania has updated its environmental policy. Starting this year, continuous environmental reports will become a matter of course.

## Scania's environmental work – an integral part of operations

The objective of Scania's environmental work is to reduce the effect of its products on the environment throughout their life cycle. This is especially important since more than 90 percent of a heavy



vehicle's total environmental impact occurs during its service life, not during manufacture.

Environmental aspects are included all the way from the drawing board through the production process to service and maintenance, and eventually to the time when a vehicle is no longer usable and must be disassembled in such a way as to maximise recycling.

Integrated environmental work also means that the heads of all Scania companies and units have environmental responsibility in their respective operations.

### Research and development – basis of Scania's development work

Research and development can bring about the biggest environmental gains in both production processes and products. During 1996, Scania invested more than SEK 1 billion in research and development, most of it directly related to the environment.

In 1996, Scania also established an industrial research programme for the purpose of broadening its cooperation with institutes of technology and universities. It includes research on product development, production engineering and the environment.

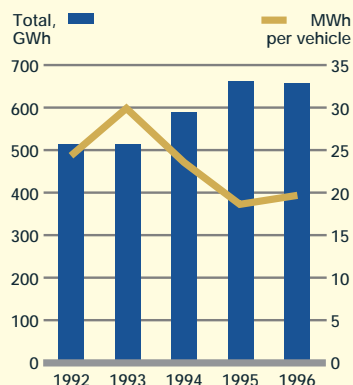
### Emissions — a major challenge

Scania is working systematically to reduce fuel consumption and emissions of such substances as nitrogen oxides, carbon monoxide, hydrocarbons and particulates.

During the past 25 years, the quantity of fuel required to perform a given transport task has fallen by about 60 percent. As a result, carbon dioxide emissions have decreased correspondingly. Meanwhile nitrogen oxide emissions have dropped by about 90 percent. These reductions have been achieved by improving engine technology and reduc-

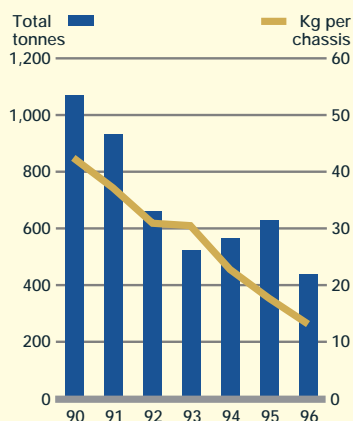
More information on Scania's environmental work during 1996 can be found in a separate environmental report.

#### Energy consumption



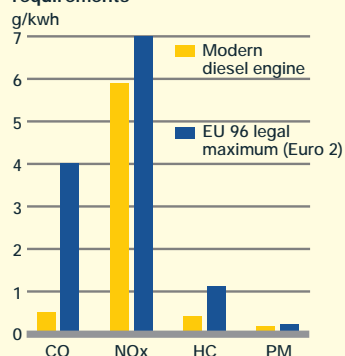
Energy consumption at Scania's plants in Europe totalled about 650 GWh in 1996, or about 20 MWh per vehicle produced.

#### Use of solvents



By reducing material use and investing in new paint shops, some using powder paints, use of solvents and thus emissions per vehicle produced has so far been reduced by 75 percent.

#### Emissions from Scania trucks and buses, compared to current legal requirements



Even today, Scania vehicles are far below maximum legal exhaust emissions.

*The need for transport services will keep growing, and railways have limited flexibility. Scania is therefore continuing to develop vehicles designed to function more smoothly in the environmentally sounder transport system of the future.*



ing aerodynamic drag and rolling resistance, and also by improving road standards and increasing the payload capacity of trucks.

In recent years, the task of developing Scania's new 12-litre engine and upgrading its 14-litre engine have concentrated on reducing exhaust emissions and improving fuel economy.

With the help of new techniques, carbon monoxide, hydrocarbon, nitrogen oxides and particulate levels have been reduced far below current legal requirements. Scania's engines meet the EU's Euro 2 standards for both trucks and buses.

Today Scania's engine development efforts are focused on meeting future standards, primarily Euro 3.

### **Use of alternative fuels**

Alternative fuels are being discussed today mainly as a way of reducing the net increase in carbon dioxide in the atmosphere. Scania's engines are primarily made for use with diesel fuel. With

minor modifications, their design also allows them to be powered by alternative fuels such as ethanol.

The demand for vehicles powered by alternative fuels remains low. They account for only 0.2 percent of Scania's total sales during the period 1991 to 1996. One contributing factor is that most Scania vehicles are used for long-haul traffic, which requires an alternative fuel infrastructure that does not yet exist.

Demand for city buses that can be powered by alternative fuels is significantly higher, accounting for 8 percent of total city bus sales. Scania today is Europe's largest manufacturer of ethanol-powered buses.

### **Manufacturing**

Scania is working to fulfil equally stringent environmental standards in all the countries where it is active. In Sweden, all Scania facilities are tested to comply with the Environment Protection Act. In 1996 there were no violations of licensing conditions.

The objective of environmental protection work at Scania's production plants is to continuously minimise emissions into the water, air and soil and to create a good working environment. This is accomplished through continuous development work aimed at making production, waste management and recycling more resource-efficient and cost-effective. During 1996, Scania invested SEK 2.5 billion in property, plant and equipment.

The production of vehicles and engines is energy-intensive. For reasons of cost as well as the environment, Scania for years has thus attempted to reduce total energy consumption per unit produced. In 1996 it amounted to 19.6 MWh. Scania's goal is to have reduced this figure another 10 percent by the year 2000.

### **Modular system — competitive and environmentally designed**

Scania's unique modular system helps the company maintain its leading position on environmental issues in the truck and bus industry. It leads to lower energy consumption, better management of raw materials and less waste. In addition, the modular system reduces transport work and warehousing as part of after sales services.

### **Certification and training**

During 1996 Scania continued its efforts to introduce an environmental management system that will comply with ISO 14001 international quality standards and meet the requirements of the EU's Eco-Management and Audit Scheme (EMAS) at its facilities and in its business operations. According to plans, ISO 14001 will go into effect in Latin America during 1998 and in Sweden during 1999. Parallel with the introduction of the environmental management system, during 1996 Scania began an environmental training programme for all Group employees.

## **Scania's environmental policy**

- *Scania shall achieve and maintain a leading position in efforts to promote a better environment within its field of know-how.*
- *Scania shall continuously reduce the environmental impact of its production processes, products and services by pursuing forward-looking research and development work.*
- *Scania shall actively strive towards the establishment of internationally harmonised and effective environmental laws – for Scania, existing legislation represents a minimum standard.*
- *Scania shall build greater confidence in its own environmental work by means of openness and regular publication of environmental reports.*

# RESPONSIBILITY, KNOW-HOW AND PARTICIPATION

Scania's management philosophy implies far-reaching delegation of responsibility and authority. Investments in training and human resource development provide employees with opportunities for professional growth. In keeping with this, during 1996 Scania introduced systems for flexible working hours and earnings-based bonuses.

## Continuous human resource development

Scania's management philosophy of "coordinated independence" implies far-reaching delegation of responsibility and authority with respect to both organisational units and individuals.

Production employees have been assigned greater responsibility for quality, logistics, delivery assurance and costs. This makes their work more rich and varied, but also more demanding, which leads to a need for continuous training.

Each manager is responsible, together with each employee, for formulating individual career plans. In addition, managers are responsible for identifying and developing potential management candidates and specialists.

## Internal management recruitment

Most management positions are filled internally, thereby providing employees with opportunities for professional development while safeguarding the company's core know-how and supply of management candidates. Each year, the company performs an extensive review of key positions in order to identify potential successors for current managers. Job rotation is encouraged at Scania, as is international working experience.

## Scania invests in training and research

Scania has had its own technical upper secondary school for decades. In addition, there are trainee programmes for university-level graduates in engineering, marketing, systems technology and economics/business administration. Interest in these programmes was very high during 1996, with 400 applicants for around 30 openings in the technical upper secondary school and 1,300 applicants for some 50 openings in the trainee programmes.

During the year, Scania launched an industrial research programme entitled "A High-Technology Challenge". This included providing jobs to seven highly qualified graduate engineers, with the aim of enabling them to perform doctoral degree research in fields of strategic importance to Scania.

Scania also works closely with Sweden's institutes of technology, where it has donated SEK 28 m. for research projects of interest to the company.

## Flexible working hours introduced

During 1996, flexible working hours were introduced for most employees in Scania's European operations.

### Flexible working hours

Flexible working hours enable Scania to respond better to fluctuations in demand in a cost-effective manner. Scheduled weekly work times may vary between 35 and 45 hours without affecting wages. Differences in hours are stored in a "time bank". This allows Scania to increase the rate of production more rapidly when demand rises and retain experienced employees to a greater extent when demand falls.





*Assigning greater responsibility to employees makes their work more rich and varied, but also more demanding. This creates a need for continuous further training and human resource development.*

#### Earnings-based bonus

Various forms of earnings-based bonuses exist in Sweden, the Netherlands and France. They have in common that they reward delivery assurance and productivity. For each Scania employee, this system may result in an annual bonus ranging from SEK 3,000 up to SEK 15,000.

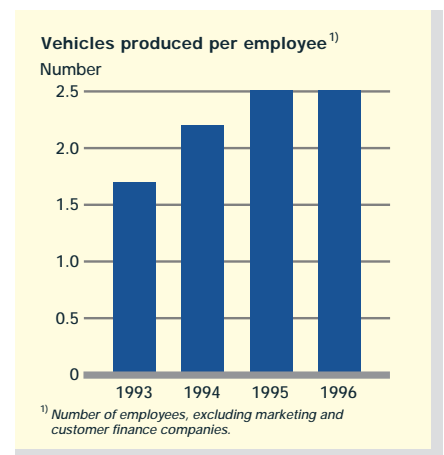
#### Lower personnel requirement

The changeover to the 4-series reduced the personnel requirement in the European production system by 1,500. The workforce was reduced in part through the expiration of temporary employment contracts.

In addition, 280 persons accepted early retirement packages and 170 accepted severance payment packages. The remaining persons will leave the company during the first half of 1997.

For the Scania Group as a whole, the number of employees at year-end 1996 was 22,206, a decrease of 818 from the previous year. Women represented just

over 10 percent of the total. Scania has employees in approximately 40 countries, of whom about half work in Sweden. Total wage and salary costs, including employer social insurance contributions, amounted to SEK 6,548 (6,507) m. in 1996.



# SVENSKA VOLKSWAGEN

Svenska Volkswagen is the general agent in Sweden for Volkswagen, Audi, Seat, Skoda and Porsche passenger cars. The product range also includes light trucks. Svenska Volkswagen AB, in which Scania AB and Volkswagen AG each own 50 percent, is an associated company of the Scania Group.

The 1996 income after financial items of the Svenska Volkswagen Group was SEK 286 m. (318). Half this amount is included in the Scania Group's consolidated income as its share of income of associated companies.

Svenska Volkswagen's share of the Swedish passenger car market in 1996 was 19.2 percent, an increase of 4.1 percentage points compared to the previous year. Its share of the light truck market was 39.8 percent (28.1).

Marketing and distribution are handled largely through a dealer network that also sells Scania's own products in

*During 1996, Audi introduced the Audi A3, a premium car in the compact class.*



the Swedish market. Some thirty of these dealers are wholly owned by Scania. Their sales of products from Svenska Volkswagen amounted to SEK 3,776 m. Their corresponding operating income totalled SEK 68 m.

Altogether, Svenska Volkswagen's products accounted for SEK 215 m. of the Scania Group's operating income.

## Highlights of the year

- During 1996 the name of the company was changed from V.A.G Sverige AB to Svenska Volkswagen AB.
- The Volkswagen Golf remained Sweden's largest-selling imported model.
- Audi introduced the A4 Avant sports-wagon and the A3 compact in Sweden.
- The Audi A6/Audi 100 was named "Sweden's safest car" in a major safety test conducted by the Folksam insurance company.
- Seat introduced two new models in Sweden: the Alhambra MPV and the Córdoba SX.

### New car registrations in Sweden

	1996	1995	1994	Change in %
Total market	183,820	169,756	156,375	8
Audi	9,547	7,800	7,205	22
Volkswagen	20,878	15,545	13,459	34
Seat	2,127	1,808	1,573	18
Skoda	2,630	425		-
Porsche	60	36	43	67
Svenska Volkswagen total	35,242	25,614	22,280	38
Market share	19.2%	15.1%	14.2%	

### New registrations of light commercial vehicles (up to 6 tonnes) in Sweden

	1996	1995	1994	Change in %
Total market	16,604	12,796	8,877	30
Volkswagen	5,014	3,601	3,054	39
Market share	39.8%	28.1%	34.4%	

# FINANCIAL REVIEW

Net income for the year amounted to nearly SEK 2 billion, which corresponds to just under SEK 10 per share. Expenses for the changeover to the 4-series in the European production system and the stronger Swedish krona contributed to lower earnings than in the previous year.

## Sales

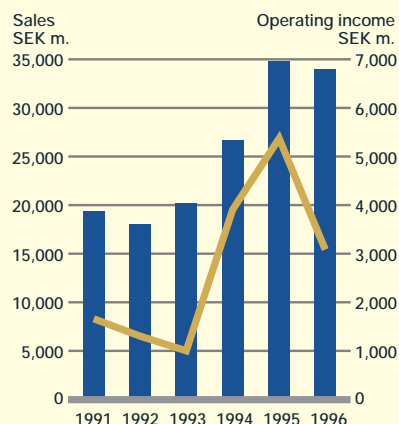
Scania sold 42,991 (44,637) trucks and buses during 1996, a decrease of 4 percent. In monetary terms, Group sales amounted to SEK 33,730 m. (34,840), a decrease of 3 percent. Sales of Scania products amounted to SEK 29,954 m. (31,716), a decrease of 6 percent. The effect of currency rate fluctuations – measured as the difference between average spot rates for each year – amounted to approximately SEK 2,200 m., or 7 percent. Adjusted for the stronger Swedish krona, sales rose by 1 percent. Sales of Svenska Volkswagen products rose to SEK 3,776 m. (3,124).

## Europe

During 1996, the demand for heavy trucks declined slightly in western Europe. Scania sold a total of 26,249 (26,596) trucks. Deliveries remained unchanged in Great Britain and Germany, but declined slightly in France. In the Nordic markets and the Netherlands sales rose, while they declined in southern Europe. In central and eastern Europe, the number of trucks sold climbed to 1,030 (951). The largest increases were in the Czech Republic, Hungary and Slovakia, while deliveries to Poland declined. In Europe, Scania sold a total of 27,279 (27,547) trucks.

The number of buses sold in Europe remained largely unchanged at 1,738 (1,687). Deliveries rose in the Nordic markets as well as in central and eastern

Sales and operating income



Sales by market area

SEK m.	1996	1995	1994
<b>Scania products</b>			
Nordic countries	5,983	5,560	3,775
Western Europe	15,076	16,021	11,079
Central and eastern Europe	827	732	266
<b>Europe</b>	<b>21,886</b>	<b>22,313</b>	<b>15,120</b>
Latin America	4,800	5,742	6,109
Asia	1,740	1,904	1,504
Africa	617	726	482
Other markets	911	1,031	873
<b>Total Scania products</b>	<b>29,954</b>	<b>31,716</b>	<b>24,088</b>

Number of vehicles sold by market

	1996	1995	1994
<b>Trucks</b>			
Western Europe	26,249	26,596	17,814
Central and eastern Europe	1,030	951	312
<b>Europe</b>	<b>27,279</b>	<b>27,547</b>	<b>18,126</b>
Latin America	7,377	7,964	8,713
Asia	2,997	3,329	2,818
Africa	937	1,177	803
Other markets	438	450	375
<b>Total</b>	<b>39,028</b>	<b>40,467</b>	<b>30,835</b>
<b>Buses</b>			
Western Europe	1,655	1,642	983
Central and eastern Europe	83	45	40
<b>Europe</b>	<b>1,738</b>	<b>1,687</b>	<b>1,023</b>
Latin America	1,641	1,878	1,287
Asia	309	304	140
Africa	122	181	109
Other markets	153	120	128
<b>Total</b>	<b>3,963</b>	<b>4,170</b>	<b>2,687</b>

Europe, but declined slightly in other parts of Europe.

#### Latin America

The number of trucks sold in Latin America declined to 7,377 (7,964).

In Brazil, demand fell but was historically at a relatively high level. As a result, the number of trucks sold declined to 5,442 (6,603). In other Latin American markets, the number of trucks delivered rose to 1,935 (1,361). The largest increase was in Argentina, where the number of trucks delivered increased to 1,508 (1,025).

The number of buses sold in Latin America declined to 1,641 (1,878). An increase in deliveries in Argentina, Chile and Peru did not fully offset the decline in Brazil.

#### East Asia

The number of trucks sold in East Asia reached 2,066 (2,317). Deliveries to South Korea and Malaysia more than doubled, while deliveries to Taiwan and Indonesia declined. The number of buses sold was 303 (263).

#### Rest of the world

Sales in the Middle East amounted to 931 (1,012) trucks. The number of buses sold was 6 (41). The number of trucks sold in the Pacific region (Oceania) declined to 438 (450) as a result of lower demand in Australia. The number of buses sold was 153 (120). The African market remained weak during the year. Scania sold 937 (1,177) trucks, while sales of buses declined to 122 (181).

### Earnings

#### Operating income

Operating income amounted to SEK 3,057 m. (5,352), corresponding to an operating margin of 9.1 percent (15.4).

Operating income for Scania products declined to SEK 2,842 m. (5,109), corresponding to an operating margin of 9.5 percent (16.1).

Operating income in Europe decreased to SEK 2,276 m. (4,598). The stronger Swedish currency adversely affected earnings by SEK 900 m. Earnings essentially reflect the prevailing exchange rates during the year. Operating income was also affected

#### Sales and earning by area of operations

SEK m. unless otherwise stated	1996	1995	1994
<b>Number of trucks and buses sold</b>			
European operations	33,986	34,809	23,752
Latin American operations	9,005	9,828	9,770
Total Scania products	42,991	44,637	33,522
<b>Sales</b>			
European operations	25,200	25,783	17,931
Latin American operations	4,754	5,933	6,157
Total Scania products	29,954	31,716	24,088
Svenska Volkswagen products	3,776	3,124	2,560
Scania Group total	33,730	34,840	26,648
<b>Operating income</b>			
European operations	2,276	4,598	2,816
Latin American operations	511	413	915
Customer finance operations	55	98	5
Total Scania products	2,842	5,109	3,736
Svenska Volkswagen products	215	243	173
Scania Group total	3,057	5,352	3,909
<b>Operating margin in %</b>			
European operations <sup>1)</sup>	9.3	18.2	15.7
Latin American operations	10.7	7.0	14.9
Total Scania products	9.5	16.1	15.5
Svenska Volkswagen products	5.7	7.8	6.8
Scania Group total	9.1	15.4	14.7

<sup>1)</sup> Including customer finance operations.

by expenses of about SEK 650 m. for the changeover to the 4-series in the European production system and by expenses of about SEK 290 m. for personnel reductions. Lower capacity utilisation, the costs of the continued expansion of the marketing organisation and higher product development costs also affected income.

The operating income attributable to Latin American operations totalled SEK 511 m. (413). Late in December, the Supreme Court of Argentina handed down a ruling in favour of Scania's Argentine subsidiary in a case concerning value-added tax that had been under way for some years. This had a positive effect of SEK 400 m. on income, since the company was able to reverse a previous provision. Earnings in Scania's Latin American operations were also favourably affected by SEK 180 m. (120) worth of reversals of provisions related to disputes settled during the year, mainly concerning indirect taxes. Taking the above-mentioned items into account, the operating income of Latin American operations was substantially lower than the preceding year. During 1995, earnings were at a high level during the first half, then deteriorated successively during the second half. During 1996, the profitability situation gradually improved compared to the fourth quarter of 1995.

Income from customer finance operations amounted to SEK 55 m. (98) during the year. The change in income was attributable to the fact that recoveries of credit losses in 1995 were not repeated during 1996.

Operating income for Svenska Volkswagen products amounted to SEK 215 m. (243).

#### Financial income and expenses

Consolidated net financial items improved to SEK -351 m. (-505). Lower

#### Summary of operations

SEK m. unless otherwise stated	1996	1995	1994
Order bookings	32,191	34,516	30,971
Order backlog	6,717	8,578	8,208
Sales	33,730	34,840	26,648
Operating income	3,057	5,352	3,909
Income after financial items	2,706	4,847	3,686
Operating cash flows excluding customer finance operations	1,815	537	2,099
Capital expenditures	2,522	2,056	2,344
Research and development expenses	1,065	904	790
Number of employees	22,206	23,024	20,650

#### Key financial ratios

SEK m. unless otherwise stated	1996	1995	1994
<b>Net income</b>	<b>1,981</b>	3,280	2,556
Earnings per share, SEK	9.90	16.40	12.80
Earnings per share according to U.S. GAAP	10.30	15.75	12.70
<b>Return</b>			
on shareholders' equity	23.1%	60.1%	98.2%
on capital employed	16.2%	31.0%	27.2%
on capital employed, excluding customer finance operations	19.4%	36.4%	32.2%
<b>Debt/equity ratio</b>	<b>0.65</b>	0.76	1.12
<b>Equity/assets ratio</b>	<b>27.7%</b>	28.2%	10.3%
<b>Interest coverage</b>	<b>4.1</b>	4.9	4.3

net indebtedness, along with lower interest rates, led to an improvement in net financial items. Return on net liquid assets in Latin America was lower than during 1995. Income after financial items amounted to SEK 2,706 m. (4,847).

#### Taxes

Tax expenses amounted to SEK -725 m. (-1,566), equivalent to 27 (32) percent of income after financial items. During the fourth quarter, the tax rate amounted to only 20 percent because it was possible to utilise loss carry-forwards in Argentina thanks to the favourable judgement of

the Argentine Supreme Court in a case concerning value-added tax.

#### Net income

Net income amounted to SEK 1,981 m. (3,280). Earnings per share were SEK 9.90 (16.40). Earnings per share according to U.S. GAAP amounted to SEK 10.30 (15.75). Return on shareholders' equity was 23.1 (60.1) percent. Return on capital employed, excluding customer finance operations, was 19.4 (36.4) percent. Return on capital employed amounted to 16.2 (31.0) percent.

#### Capital expenditures

Capital expenditures for property, plant and equipment, excluding leasing assets, amounted to SEK 2,522 m. (2,056). Capital spending in Sweden was SEK 1,697 m. (1,439). A substantial proportion of capital spending in Sweden consisted of equipment for the new product range and for increasing the manufacturing capacity of transmission and engine shops. Scania also completed an extensive restructuring of chassis assembly in Södertälje and axle assembly in Falun. New equipment with a far higher degree of mechanisation and improved working environment was installed at the press shop in Luleå and the foundry in Södertälje, among others.

In Brazil, capital expenditures were related to preparations for the manufacturing start-up of the new product range. There, too, the chassis assembly plant was restructured by dividing into separate assembly lines for trucks and bus chassis, respectively.

#### Financing and liquidity

Cash flows, excluding customer finance operations, amounted to SEK 1,815 m. (537). Cash from operating activities decreased to SEK 3,098 m. (4,789).

Working capital decreased by SEK 876 m. compared to a substantial 1995 increase of SEK 2,364 m. Net capital expenditures rose to SEK 2,159 m. (1,888).

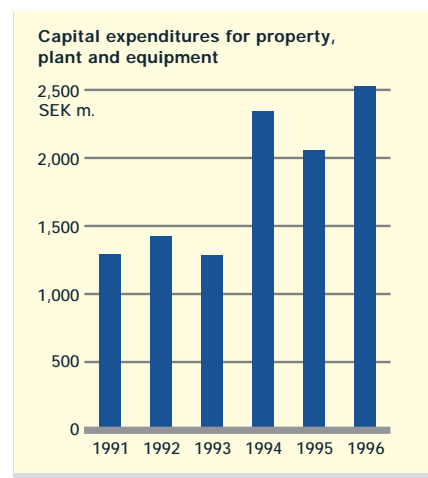
Customer finance operations expanded during the year, resulting in a cash flow for these operations of SEK -1,060 m. (-507). Including customer finance operations, cash flows amounted to SEK 755 m. (30).

Net indebtedness, excluding pension liabilities and net borrowings of customer finance operations, amounted to SEK 5,859 m. (6,168) at year-end. Net indebtedness as a ratio of shareholders' equity amounted to 0.65 (0.76). The equity/-assets ratio was 27.7 percent (28.2), and the interest coverage ratio was 4.1 (4.9).

#### Personnel

At year-end, the number of employees – including contract employees – totalled 22,206, a decrease of 818 persons since the beginning of 1996.

The number of production employees in Europe decreased by 1,250. Of these, 200 ceased to be Scania Group employees because the subsidiary Scania Data AB became an associated company when 50 percent of its shares were sold to WM-data AB. The continued expansion



of the marketing organisation led to an increase in the number of its employees by 700 persons, of whom 360 worked at distribution companies acquired by Scania.

The number of employees in Latin American operations decreased by 270 persons.

The Scania Board of Directors decided on 18 February 1997 to introduce an incentive programme for about 70 high-level executives and managers. The incentives will be payable in equity related instruments such as options and share index bonds and are based on the change in Scania Group net income between 1997 and 1996 after subtracting expenses for shareholders' equity. The expense for 1997 is not expected to exceed SEK 10 m. Payments will be based on existing shares and will therefore not result in any dilution that affects existing shareholders.

## Parent Company

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

Scania CV AB is a public company and the parent company of the Scania Group's European operations, comprising European production and marketing companies as well as Scania's other companies outside Latin America. The net income of Scania AB amounted to SEK 595 m. (2,351).

## Finance and treasury operation

The finance and treasury operation has global responsibility for managing the

Scania Group's funding needs and its financial exposure, as well as for supporting the sale of Scania products in such a way as to promote the long-term earnings growth of the Group. Operations are stipulated in a financial policy established by the Board of Directors of Scania AB late in 1996.

<b>Transaction exposure</b>			
<b>Country/region</b>	<b>1996 SEK m.</b>	<b>1995 SEK m.</b>	<b>1994 SEK m.</b>
Great Britain & Ireland	2,624	2,507	2,001
Nordic countries excl. Sweden	1,386	1,852	1,014
Italy	1,341	1,244	750
France	274	959	694
Spain & Portugal	1,217	1,391	611
	<b>6,842</b>	<b>7,953</b>	<b>5,070</b>
Germany	-1,036	-892	-292
Belgium	511	985	611
The Netherlands	163	-96	349
Austria	271	356	259
Switzerland	303	317	203
	<b>212</b>	<b>670</b>	<b>1,130</b>
Central and eastern Europe	809	786	298
<b>Europe</b>	<b>7,863</b>	<b>9,409</b>	<b>6,498</b>
Asia & Pacific	2,181	2,416	2,019
Latin America	1,154	543	1,027
Africa	521	688	482
<b>Total</b>	<b>11,719</b>	<b>13,056</b>	<b>10,026</b>

<b>Net assets outside Sweden</b>			
<b>Currency</b>	<b>31 Dec 1996 SEK m.</b>	<b>31 Dec 1995 SEK m.</b>	<b>31 Dec 1994 SEK m.</b>
<b>Europe</b>			
NLG	704	1 070	845
FRF	447	743	442
Other European currencies	1,538	1,722	1,886
<b>Latin America</b>			
USD	2,062	835	2,437
Real, peso and other local currencies	709	727	878
<b>Other areas</b>			
USD	23	37	39
Other currencies	354	346	233
<b>Total</b>	<b>5,837</b>	<b>5,480</b>	<b>6,760</b>

The introduction of this policy has resulted in certain changes in Scania's financial risk management, which are described below.

#### Interest rate exposure

Scania's policy is to have relatively short maturities on loans and investments. A neutral period is 6 months, although maturities may vary from 0 to 24 months.

During 1996, the average fixed interest period on Scania's loan portfolio (excluding finance companies) was between 1 and 3 months. As of 31 December 1996, the average fixed interest period was about 2 months. The average funding expense during 1996, excluding customer finance operations, was 6.7 percent. Given unchanged net indebtedness and a 2 month fixed interest period, a one percentage point change in interest rates affects net financial items by about SEK 50 m. on a full year basis.

Derivative instruments are used to manage interest rate risks within the Group.

#### Currency exposure

Scania's policy is to invoice customers and pay suppliers in local currency. In countries where this is not practical, for example due to currency regulations, another acceptable currency is chosen. For example, DEM is used in central and eastern Europe and USD for invoicing in parts of Asia.

The transaction exposure table shows the net amount of revenues and operating expenses by country or region. Net exposure in 1996 amounted to SEK 11,719 m. The largest incoming currencies were USD, GBP and ITL. The Group had an outflow of DEM. Given the 1996 geographic distribution of revenues and expenses, a change of one percent in the Swedish krona against Scania's currency mix affects operating income by SEK 120 m. on a full-year basis.

Scania's policy is to hedge its currency transaction exposure from the time an order is placed until delivery is paid for. Normally this is a period of 3–4 months, but hedging periods are allowed to vary between 0–12 months. Movements in exchange rates are therefore quickly reflected in the Group's earnings. At year-end, approximately two months of estimated net flows were hedged in all currencies.

Translation exposure refers to the fact that the value in Swedish kronor of net assets of foreign subsidiaries are affected by exchange rate movements. The bottom table on page 37 shows the Group's net assets in foreign currencies as of 31 December 1996.

Scania's policy is not to hedge the net assets of foreign subsidiaries. To the extent a subsidiary is overcapitalised or if there is surplus liquidity in a subsidiary, it should be hedged. As of 31 December 1996, SEK 1,020 m. of the net assets of foreign subsidiaries were hedged.

#### Refinancing

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

Scania has a revolving credit facility of USD 1,700 m. from an international banking syndicate that expires in December 2000. At year-end 1996, USD 985 m. of the facility was being utilised.



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In December 1996, a Swedish medium-term note programme of SEK 3,000 m. was established, under which Scania can issue notes and bonds with terms of 1 to 10 years. At year-end, SEK 1,000 m. worth of notes had been issued under the programme.

#### Customer financing

Customer financing operations are an important form of marketing support for the company's products. These operations are carried on by Scania-owned finance companies in a number of major markets in Europe (Sweden, Great Britain, France, Germany and Belgium). In addition, Scania offers financing in cooperation with international lenders in a number of countries.

The increased focus on financing packages that promote sales, such as various types of repair and maintenance contracts combined with leasing, contributed to a total increase of SEK 1,253 m. in lending volume during 1996 to a total of SEK 5,391 m. as of 31 December 1996.

The Group's customer finance operations mainly assume three forms: operating leases, financial leases and lending. As of 31 December 1996, the total volume financed consisted of SEK 2,063 m. in operating leases, SEK 1,787 m. in financial leases and SEK 1,541 m. in lending. Great Britain and Sweden are the two largest markets, accounting for just over 30 percent and 40 percent of the year-end total, respectively.

As of 31 December 1996, 24.4 percent of trucks sold were financed through Scania-owned finance companies in the markets where Scania runs such companies.

Operations are growing quickly in central and eastern Europe, where Scania offers customer financing in selected markets. Scania established a finance company in Poland during February 1997.

In Latin America, Scania mainly offers customer financing in cooperation with international lenders, and to a lesser extent under its own auspices.

Given its increased customer financing exposure, Scania must devote considerable efforts to continuous credit evaluations and monitoring of financed contracts. Lending by finance companies is based on carefully designed, Group-wide creditworthiness evaluation procedures. Scania's total commitments are monitored at the Group level and risks are limited by establishing risk limits per country and customer.

Credit losses attributable to finance companies operations amounted to SEK 16 m. in 1996. As a percentage of total assets, these losses amounted to 0.3 percent.

#### Insurance operations

Through its insurance operations, Scania coordinates its insurance purchases on a global basis. Part of its coverage is obtained in the international insurance market, part within the Group from Scania's own captive insurance company. Premiums for global insurance programmes amounted to SEK 40 m. during 1996. Scania's insurance operations minimise their credit risks by obtaining policies only from insurance companies with sound creditworthiness.

# SALES AND INCOME BY QUARTER

## Sales and income by quarter

	January– March			April – June		
	1996	1995	1994	1996	1995	1994
Sales, units						
Trucks	10,658	10,056	6,379	10,028	10,773	7,960
Buses	1,033	784	548	1,293	1,198	640
Total	11,691	10,840	6,927	11,321	11,971	8,600
Sales, SEK m.						
Scania products	7,873	7,807	5,098	7,594	8,628	5,922
Svenska Volkswagen products	853	718	609	1,056	862	744
Total	8,726	8,525	5,707	8,650	9,490	6,666
Operating income, SEK m.						
Scania products	1,189	1,484	620	1,001	1,477	992
Svenska Volkswagen products	40	37	19	63	56	54
Total	1,229	1,521	639	1,064	1,533	1,046
Operating margin, %						
Scania products	15.1	19.0	12.2	13.2	17.1	16.7
Svenska Volkswagen products	4.7	5.2	3.1	5.5	6.5	7.3
Total	14.1	17.8	11.2	12.3	16.2	15.7
Income after financial items, SEK m.						
	1,113	1,401	517	989	1,405	917

## KEY FINANCIAL RATIOS

	1996	1995	1994
Earnings per share, SEK	9.90	16.40	12.80
Earnings per share according to U.S. GAAP	10.30	15.75	12.70
Return on shareholders' equity	23.1%	60.1%	98.2%
Profit margin	10.5	17.2	18.0
Capital turnover	1.85	2.11	1.79
Return on capital employed, excluding customer finance companies	19.4%	36.4%	32.2%
Return on capital employed	16.2%	31.0%	27.2%
Debt/equity ratio	0.65	0.76	1.12
Interest coverage	4.1	4.9	4.3
Equity/assets ratio	27.7%	28.2%	10.3%

July– September			October – December		
1996	1995	1994	1996	1995	1994
8,113	8,327	7,158	10,229	11,311	9,338
747	1,161	796	890	1,027	703
8,860	9,488	7,954	11,119	12,338	10,041
6,372	6,725	5,851	8,115	8,556	7,217
818	702	567	1,049	842	640
7,190	7,427	6,418	9,164	9,398	7,857
82	781	787	570	1,367	1,337
54	53	26	58	97	74
136	834	813	628	1,464	1,411
1.3	11.6	13.5	7.0	16.0	18.5
6.6	7.5	4.6	5.5	11.5	11.6
1.9	11.2	12.7	6.9	15.6	18.0
40	706	876	564	1,335	1,376



## DEFINITIONS, KEY FINANCIAL RATIOS <sup>1)</sup>

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

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

Profit margin  
Income after depreciation plus financial income as a percentage of sales.

Capital turnover  
Sales divided by average capital employed.

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

Return on capital employed excluding customer finance companies  
Income after depreciation plus financial income less the income of the customer finance

operations. This is calculated as a percentage of average total assets less non-interest-bearing liabilities with customer finance companies reported according to the equity accounting method.

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

Interest coverage  
Income after depreciation plus financial income divided by financial expenses.

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

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

# CONSOLIDATED INCOME STATEMENT

SEK m.	1996	1995	1994
Sales (Note 1)	33,730	34,840	26,648
Operating expenses (Note 2)	(29,700)	(28,793)	(21,868)
Income from customer finance operations (Note 3)	55	98	5
Depreciation (Note 4)	(1,328)	(1,136)	(1,085)
Share of income of associated companies (Note 5)	300	343	209
Operating income	3,057	5,352	3,909
Financial income and expenses (Note 6)			
Interest income	526	746	896
Interest expenses	(869)	(1,256)	(1,077)
Other financial income and expenses	(8)	5	(42)
Net financial income and expenses	(351)	(505)	(223)
Income after financial income and expenses	2,706	4,847	3,686
Taxes (Note 7)	(725)	(1,566)	(1,125)
Minority interests	0	(1)	(5)
Net income	1,981	3,280	2,556



# CONSOLIDATED BALANCE SHEET

SEK m.	1996	1995	1994	Customer finance companies according to the equity method of accounting		
				1996	1995	1994
<b>ASSETS</b>						
Current assets						
Cash and short-term investments (Note 8)	2,837	1,047	3,187	2,788	1,032	3,148
Receivables						
Interest-bearing (Note 9)	2,271	2,002	2,056	748	547	658
Trade	3,047	3,811	2,682	3,035	3,781	2,682
Other	812	1,102	1,271	739	1,027	1,210
Total receivables (Note 10)	6,130	6,915	6,009	4,522	5,355	4,550
Prepaid expenses and accrued income	273	227	164	249	191	130
Inventories (Note 11)	5,848	5,656	4,413	5,811	5,632	4,375
	15,088	13,845	13,773	13,370	12,210	12,203
Fixed assets						
Interest-bearing long-term receivables (Notes 9 and 12)	2,190	1,671	1,738	398	323	488
Shares in associated companies, etc. (Note 13)	1,128	1,045	966	1,637	1,591	1,454
Property, plant and equipment (Notes 9 and 14)	13,961	12,128	10,861	11,892	10,817	10,047
	17,279	14,844	13,565	13,927	12,731	11,989
Total assets	32,367	28,689	27,338	27,297	24,941	24,192
<b>LIABILITIES AND SHAREHOLDERS' EQUITY</b>						
Current liabilities						
Short-term borrowings (Note 15)	5,095	3,119	1,614	764	1,659	862
Trade accounts payable	1,808	1,949	1,912	1,766	1,904	1,894
Accrued expenses and prepaid income	2,828	2,626	2,677	2,733	2,512	2,569
Other current liabilities (Note 17)	1,682	1,986	1,369	1,536	1,965	1,341
Advance payments from customers	406	246	411	364	185	401
	11,819	9,926	7,983	7,163	8,225	7,067
Long-term liabilities						
Long-term borrowings (Note 15)	8,046	7,458	11,014	7,883	5,541	8,812
Provisions for pensions (Note 16)	1,764	1,540	1,426	1,762	1,538	1,425
Deferred tax liability (Note 17)	1,741	1,652	1,074	1,492	1,524	1,047
	11,551	10,650	13,514	11,137	8,603	11,284
Minority interests in subsidiaries	16	17	13	16	17	13
Subordinated debenture loan (Note 18)	-	-	3,000	-	-	3,000
Shareholders' equity						
Restricted shareholders' equity						
Share capital	2,000	2,000	100	2,000	2,000	100
Restricted reserves	1,875	1,651	92	1,875	1,651	92
	3,875	3,651	192	3,875	3,651	192
Unrestricted shareholders' equity						
Unrestricted reserves	3,125	1,165	80	3,125	1,165	80
Net income	1,981	3,280	2,556	1,981	3,280	2,556
	5,106	4,445	2,636	5,106	4,445	2,636
Total shareholders' equity (Note 19)	8,981	8,096	2,828	8,981	8,096	2,828
Total liabilities and shareholders' equity	32,367	28,689	27,338	27,297	24,941	24,192
Assets pledged and contingent liabilities						
Assets pledged (Note 20)	158	321	345	158	321	345
Contingent liabilities (Note 21)	1,576	1,142	611	1,576	1,142	611

# CONSOLIDATED STATEMENT OF CASH FLOWS<sup>1)</sup>

SEK m.	1996	1995	1994
Cash flows from operating activities			
Net income	2,002	3,260	2,523
Items not affecting cash flows (Note 22)	1,096	1,529	940
Cash from operating activities	3,098	4,789	3,463
Change in working capital etc.			
Receivables	935	(1,028)	(583)
Inventories	(30)	(1,579)	(1,060)
Interest-free liabilities	(285)	102	1,964
Provisions for pensions	256	141	134
Total change in working capital etc. (Note 22)	876	(2,364)	455
Total cash flows provided by operating activities	3,974	2,425	3,918
Net cash used by investing activities (Note 22)	(2,159)	(1,888)	(1,819)
Operating cash flows excluding customer finance operations <sup>1)</sup>	1,815	537	2,099
Funds generated internally, customer finance operations	379	314	136
Change in working capital, customer finance operations	(516)	(152)	(754)
Net capital expenditures, customer finance operations	(923)	(669)	(517)
Operating cash flows, customer finance operations	(1,060)	(507)	(1,135)
Operating cash flows including customer finance operations	755	30	964
Change in net indebtedness from financing activities (Note 22)	2,090	(1,133)	309
Dividend to shareholders	(1,100)	(800)	–
Net change in cash and short-term investments	1,745	(1,903)	1,273
Effect of exchange rate fluctuations on cash and short-term investments	45	(237)	(246)
Cash and short-term investments at beginning of year	1,047	3,187	2,160
Cash and short-term investments at end of year	2,837	1,047	3,187

<sup>1)</sup> A cash flow analysis for customer finance operations is shown in Note 3.

# PARENT COMPANY FINANCIAL STATEMENTS

## Income statement

SEK m.	1996	1995	1994
Operating expenses	-	-	(4)
Operating income	-	-	(4)
Financial income and expenses (Note 1)	(250)	(451)	(182)
Dividend received (Note 1)	55	1,173	196
Group contribution received	1,250	2,900	3,700
Group contribution paid	-	-	(3,600)
Allocation to tax allocation reserve	(250)	(600)	-
Taxes (Note 2)	(210)	(671)	(29)
Net income	595	2,351	81

## Balance sheet

SEK m.	1996	1995	1994
<b>ASSETS</b>			
Due from subsidiaries	-	173	5,791
Shares (Note 3)	11,269	11,269	11,269
Total assets	11,269	11,442	17,060
<b>LIABILITIES AND SHAREHOLDERS' EQUITY</b>			
Due to former Parent Company	-	-	8,188
Due to subsidiaries	400	-	-
Accrued expenses and prepaid income	2	23	111
Other liabilities	210	507	-
Total current liabilities	612	530	8,299
Subordinated debenture loan (Note 4)	-	-	3,000
Untaxed reserves (Note 5)	850	600	-
Shareholders' equity (Note 6)	9,807	10,312	5,761
Total liabilities and shareholders' equity	11,269	11,442	17,060
<b>Assets pledged and contingent liabilities</b>			
Assets pledged	None	None	None
Contingent liabilities (Note 7)	1,204	1,191	922

## Statement of cash flows

SEK m.	1996	1995	1994
<b>Cash flows from operating activities</b>			
Net income	595	2,351	81
<b>Items not affecting cash flows</b>			
Group contributions received/paid	(1,250)	(2,900)	(100)
Allocation to untaxed reserves	250	600	-
Other	-	-	1
Cash from operating activities	(405)	51	(18)
<b>Change in working capital</b>			
Other current liabilities	(318)	419	111
Due to former Parent Company - 1994 taxes	-	(812)	812
Total cash flows from operating activities	(723)	(342)	905
<b>Cash flows from investing activities</b>			
Proceeds from sale of shares	-	-	98
Net cash flows from investing activities	-	-	98
Operating cash flows	(723)	(342)	1,003
<b>Cash flows from financing activities</b>			
Change in transactions with subsidiary	723	8,518	1,862
Change in transactions with former Parent Company	-	(8,176)	(2,865)
Net cash used (provided) by financing activities	723	342	(1,003)
Cash and short-term investments at end of year	0	0	0

## Consolidated accounts

The Scania Group applies accounting principles that comply in all material respects with the principles of the International Accounting Standards Committee (IASC). In the case of the Scania Group, there are no major differences compared to U.S. generally accepted accounting principles (GAAP). A description of U.S. GAAP can be found on page 55.

The consolidated accounts encompass Scania and all subsidiaries and associated companies in Sweden and abroad. Subsidiaries are companies in which Scania directly or indirectly owns more than 50 percent of the voting rights of the shares or in which Scania otherwise has a decisive influence and a significant share of the income generated from their operations. 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 purchase accounting method. This means that a subsidiary's assets and liabilities are accounted for at fair market value according to an analysis of the acquisition. If the acquisition cost of the shares in the subsidiary exceeds the estimated fair market value of the company's net assets according to the analysis, the difference is reported as goodwill and is amortised over the estimated useful life of the assets. 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.

Intra-Group profits and transactions are eliminated in consolidation.

## Foreign subsidiaries and associated companies

The financial statements of foreign subsidiaries and associated companies are translated to Swedish kronor in conformity with International Accounting Standard No. 21 (IAS 21). This means that the income statements and balance sheets of these companies are translated to Swedish kronor using the current method, with the exception of subsidiaries in countries with hyper-inflationary economies, primarily Brazil, which are translated using the temporal method.

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

Under the temporal method, monetary items are translated at the year-end rate, while non-monetary items are translated at the rate in effect on the acquisition date. Inventories, property, plant and equipment and shareholders' equity are translated at the acquisition date rate and other assets and liabilities at the year-end rate. Non-monetary items reported by subsidiaries at their year-end value are translated at the year-end rate.



With the exception of the cost of goods sold and depreciation of property, plant and equipment, which are translated at the acquisition date rate, income and expenses are translated at their average exchange rate for the year.

The exchange rate difference (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 accounts receivable and payable, is included in operating income. The portion of the translation difference attributable to financial items is included as interest in financial income and expenses.

### **Receivables and liabilities in foreign currency**

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

### **Short-term investments**

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

### **Inventories**

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

### **Property, plant and equipment**

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

### **Revenue recognition**

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

### **Leasing contracts**

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

### **Depreciation**

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

### **Research and development expenditures**

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

### **Warranty expenses**

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

### **Exchange rate differences**

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

Exchange rate differences attributable to loans and forward exchange contracts in foreign currencies that are designated

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

### Taxes

The Group's total tax expense consists of current tax and deferred tax. Deferred tax consists primarily of the estimated tax on the year's change in untaxed reserves and the tax effect of unutilised tax losses carried forward to the extent they are expected to be utilised in the foreseeable future.

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

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

### Exchange rates, SEK per unit of foreign currency

Country	Currency		Year-end rate			Average rate		
			1996	1995	1994	1996	1995	1994
Australia	AUD	1	5.48	4.97	5.79	5.25	5.29	5.64
Belgium	BEF	1	0.21	0.23	0.24	0.22	0.24	0.23
Denmark	DKK	1	1.16	1.20	1.23	1.16	1.27	1.21
France	FRF	1	1.31	1.36	1.40	1.31	1.43	1.39
The Netherlands	NLG	1	3.94	4.15	4.30	3.98	4.45	4.24
Spain	ESP	1	0.05	0.05	0.06	0.05	0.06	0.06
Great Britain	GBP	1	11.60	10.33	11.65	10.47	11.27	11.81
Germany	DEM	1	4.42	4.64	4.82	4.46	4.98	4.76
United States	USD	1	6.87	6.67	7.46	6.71	7.14	7.27
Austria	ATS	1	0.63	0.66	0.69	0.63	0.71	0.68

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

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

## Note 1 Sales

	1996	1995	1994
Trucks	25,611	27,180	20,948
Buses	3,871	4,030	2,700
Industrial and marine engines	472	506	440
Total Scania products	29,954	31,716	24,088
Svenska Volkswagen products	3,776	3,124	2,560
Total	33,730	34,840	26,648

The item "Svenska Volkswagen products" refers to Scania's sales of Svenska Volkswagen products through the Group's wholly owned Swedish dealership companies.

## Note 2 Operating expenses

	1996	1995	1994
Cost of goods sold	24,677	24,200	17,900
Research and development expenses	1,065	904	790
Selling and administrative expenses	3,958	3,689	3,178
Total	29,700	28,793	21,868

## Note 3 Income from customer finance operations

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

Income statement	1996	1995	1994
Interest income	280	306	346
Leasing income	418	382	187
Interest expenses	(252)	(247)	(285)
Depreciation	(297)	(223)	(140)
Bad debts	(16)	11	(18)
Other expenses	(78)	(131)	(85)
Income of the customer finance operations	55	98	5

## Balance sheet

	1996	1995	1994
<b>ASSETS</b>			
Liquid assets	49	15	39
Current receivables	1,535	1,485	1,398
Current receivables from Group companies	8	34	117
Other current assets	133	135	134
Long-term receivables	1,792	1,348	1,250
Leasing assets	2,063	1,304	807
Other fixed assets	7	7	7
Total	5,587	4,328	3,752

## LIABILITIES AND SHAREHOLDERS' EQUITY

Short-term borrowings	227	1,460	752
Short-term borrowings from Group companies	4,211	1,597	1,829
Current liabilities	209	241	164
Long-term borrowings	163	205	158
Long-term borrowings from Group companies	17	149	332
Other long-term liabilities	251	130	29
Shareholders' equity	509	546	488
Total	5,587	4,328	3,752

## Statement of cash flows

	1996	1995	1994
<b>Cash flows from operating activities</b>			
Net income	(21)	20	33
Items not affecting cash flows	400	294	103
Cash from operating activities	379	314	136
Change in working capital			
Current receivables	756	(119)	(934)
Inventories	(15)	14	(4)
Trade accounts payable	(1)	26	1
Long-term receivables	(1,210)	(128)	219
Other current liabilities	(45)	55	(37)
Provisions for pensions	-	-	1
Change in working capital	(515)	(152)	(754)
Total cash flows from operating activities	(136)	162	(618)

<b>Cash flows from investing activities</b>			
Purchases of leasing assets, machinery and equipment	(1,084)	(848)	(574)
Proceeds from sale of leasing assets, machinery and equipment	160	179	57
Net cash flows from investing activities	(924)	(669)	(517)
Operating cash flows	(1,060)	(507)	(1,135)

<b>Cash flows from financing activities</b>			
Net change in short-term borrowings	(1,245)	821	481
Net change in long-term borrowings	(48)	31	(865)
Change in due to Parent Company	2,385	(370)	1,522
Other	-	-	(2)
Net cash provided by financing activities	1,092	482	1,136
Net decrease (increase) in cash and short-term investments	32	(25)	1
Effect of exchange rate fluctuations on cash and short-term investments	2	1	1
Cash and cash equivalents at beginning of year	15	39	37
Cash and cash equivalents at end of year	49	15	39

## Note 4 Depreciation

	1996	1995	1994
Machinery and equipment	1,063	881	834
Buildings	253	246	237
Land and other real estate	12	9	14
Total	1,328	1,136	1,085

## Note 5 Share of income of associated companies

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

	1996	1995	1994
Scania products	162	179	125
Svenska Volkswagen products	138	164	84
Total	300	343	209

**Note 6 Financial income and expenses**

	1996	1995	1994
Interest income			
Financial investments	328	466	616
Long-term receivables	49	60	40
Interest portion of forward exchange contracts used for hedging net assets	58	97	117
Other	91	123	123
<b>Total interest income</b>	<b>526</b>	<b>746</b>	<b>896</b>
Interest expenses			
Borrowings	(800)	(1,189)	(999)
Interest on pension liability (PRI)	(69)	(67)	(78)
<b>Total interest expense</b>	<b>(869)</b>	<b>(1,256)</b>	<b>(1,077)</b>
Other	(8)	5	(42)
<b>Net financial items</b>	<b>(351)</b>	<b>(505)</b>	<b>(223)</b>

**Note 7 Taxes**

	1996	1995	1994
Income tax	(487)	(743)	(972)
Withholding taxes on dividends and interest	-	(164)	(29)
<b>Total current tax expense</b>	<b>(487)</b>	<b>(907)</b>	<b>(1,001)</b>
Deferred tax	(140)	(551)	(72)
Share of tax of associated companies	(98)	(108)	(52)
<b>Total</b>	<b>(725)</b>	<b>(1,566)</b>	<b>(1,125)</b>
Geographic distribution of income before taxes and minority interests:	1996	1995	1994
Sweden	1,703	3,396	2,334
Rest of world	1,003	1,451	1,352
<b>Total</b>	<b>2,706</b>	<b>4,847</b>	<b>3,686</b>
Geographic distribution of income tax expense:	1996	1995	1994
Current income tax			
Sweden	(295)	(552)	(721)
Rest of world	(192)	(355)	(280)
<b>Total</b>	<b>(487)</b>	<b>(907)</b>	<b>(1,001)</b>
Deferred income tax			
Sweden	(145)	(468)	(66)
Rest of world	5	(83)	(6)
<b>Total</b>	<b>(140)</b>	<b>(551)</b>	<b>(72)</b>
Share of tax in associated companies	(98)	(108)	(52)
<b>Total</b>	<b>(725)</b>	<b>(1,566)</b>	<b>(1,125)</b>

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

	1996	1995	1994
	%	%	%
Swedish statutory income tax rate	28	28	28
Utilisation of tax loss carry-forwards	(2)	-	(3)
Difference between Swedish and foreign tax rates	1	3	5
Foreign withholding taxes	-	4	1
Taxes attributable to currency hedging transactions	-	-	2
Adjustment for taxes pertaining to previous years	-	(3)	-
Other	-	-	(2)
<b>Effective income tax rate</b>	<b>27</b>	<b>32</b>	<b>31</b>

**Note 8 Cash and short-term investments**

	1996	1995	1994
Cash	1,012	286	438
Cash equivalents (terms of less than 90 days)	1,165	521	984
Short-term investments	660	240	1,765
<b>Total</b>	<b>2,837</b>	<b>1,047</b>	<b>3,187</b>

Investments totalling SEK 223 m. (42 and 121 respectively) were restricted by agreement with outside parties. See also Note 12.

Short-term investments included SEK 284 m. formally pledged to the Government of Argentina. This pledge is expected to cease early in 1997 as a consequence of a court ruling in Scania's favour concerning value-added tax.

**Note 9 Leases**

The Group leases assets to others, primarily through its customer finance operations. Leasing contracts are classified as financial or operating leases depending on the content and nature of the contracts. The amounts of the leasing contracts are specified below.

	1996	1995	1994
Assets in operating leases			
Cost	2,202	1,236	795
Accumulated depreciation	(478)	(239)	(178)
<b>Book value<sup>1)</sup></b>	<b>1,724</b>	<b>997</b>	<b>617</b>

<sup>1)</sup> Included in "Property, plant and equipment etc."

	1996	1995	1994
Net investments in financial leases			
Minimum lease payments receivable	2,137	1,331	1,344

Less:

Executory cost and provisions for doubtful receivables	(69)	(62)	(60)
Imputed interest	(281)	(165)	(178)
<b>Net investment<sup>1)</sup></b>	<b>1,787</b>	<b>1,104</b>	<b>1,106</b>

<sup>1)</sup> Included in "Current interest-bearing trade accounts payable" and "Interest-bearing long-term receivables".

	Operating leases	Financial leases
Future payments		
1997	435	841
1998	366	585
1999	228	413
2000	117	223
2001	49	60
2002 and thereafter	20	15
	<b>1,215</b>	<b>2,137</b>

**Note 10 Receivables**

	1996	1995	1994
Interest-bearing trade accounts receivable	748	547	658
Receivables in customer finance operations	1,523	1,455	1,398
<b>Total interest-bearing receivables</b>	<b>2,271</b>	<b>2,002</b>	<b>2,056</b>
Trade accounts receivable	3,047	3,811	2,682
Other receivables	783	1,072	1,245
Advance payments to suppliers	29	30	26
<b>Total non-interest bearing receivables</b>	<b>3,859</b>	<b>4,913</b>	<b>3,953</b>
<b>Total</b>	<b>6,130</b>	<b>6,915</b>	<b>6,009</b>

## Note 11 Inventories

	1996	1995	1994
Raw materials	1,097	1,407	1,171
Work in progress	745	625	565
Finished goods	4,006	3,624	2,677
Total	5,848	5,656	4,413

## Note 12 Long-term receivables

	1996	1995	1994
Receivables in customer finance operations	1,792	1,348	1,250
Other receivables	398	323	488
Total	2,190	1,671	1,738

Included in other receivables are deposits with financial institutions of SEK 114 m. (33 and 120, respectively) which were restricted in their use by agreement with third-party lenders.

## Note 13 Shares in associated companies, etc.

	1996			Book value SEK	1995	Book value SEK	1994	Book value SEK
	% ownership	Number of shares in thousands	Par value					
Associated companies								
Beers' N.V., the Netherlands	50	3 060	NLG 6	558	497	462		
Oy Scan-Auto Ab, Finland	50	350	FIM 35	105	140	125		
Svenska Volkswagen AB, Sweden	50	420	SEK 42	439	397	369		
WM-data Scania AB, Sweden	50	25	SEK 3	12	-	-		
Other				-	-	5		
Shares in associated companies				1,114	1,034	961		
Other companies				14	11	5		
Total				1,128	1,045	966		

The shares in Beers' N.V. are publicly listed and the market value of the investment was SEK 741 m. (577 and 511, respectively) at year-end.

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 Accounting and Reporting.

## Note 14 Property, plant and equipment

	1996	1995	1994
Advance payments to suppliers	348	292	165
Construction in progress	250	81	152
Machinery, equipment and leasing assets	8,148	6,554	5,239
Buildings	4,219	4,293	4,424
Land and other real estate	996	908	881
Total	13,961	12,128	10,861

Machinery, equipment and leasing assets	1996	1995	1994
Cost	14,996	12,705	10,874
Less: accumulated depreciation	(6,848)	(6,151)	(5,635)

Net book value after accumulated depreciation	8,148	6,554	5,239
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Buildings	1996	1995	1994
Cost	5,902	5,735	5,686
Less: accumulated depreciation	(1,683)	(1,442)	(1,262)

Net book value after accumulated depreciation	4,219	4,293	4,424
Tax assessment value <sup>1)</sup>	1,510	1,585	1,555

<sup>1)</sup> Includes only the Group's Swedish companies.

Land, other real estate and other items	1996	1995	1994
Cost	1,072	971	946
Less: accumulated depreciation	(76)	(63)	(65)

Net book value after accumulated depreciation	966	908	881
Tax assessment value <sup>1)</sup>	381	390	386

<sup>1)</sup> Includes only the Group's Swedish companies.

Gross capital expenditures for fixed assets	1996	1995	1994
Machinery and equipment	2,099	1,881	1,994
Buildings	366	125	328

Land, other real estate and other items	101	50	26
Total	2,566	2,056	2,348

Net investments	1996	1995	1994
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Gross capital expenditures, as above	2,566	2,056	2,348
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Gross capital expenditures, leasing assets	1,082	786	511
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Other changes:

Advance payments to suppliers	56	126	(196)
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Foreign currency effects on costs from previous years	31	(209)	(130)
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Sales and disposals of fixed assets	(288)	(133)	(136)
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Total	3,447	2,626	2,397
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## Note 15 Borrowings

Short-term borrowings	1996	1995	1994
Short-term borrowings	4,949	2,975	1,469
Short-term portion of long-term borrowings	146	144	145
Total <sup>1)</sup>	5,095	3,119	1,614
Long-term borrowings	1996	1995	1994
Unsecured loans			
Loans in SEK	1,009	5	14
Loans in foreign currencies	6,792	287	465
Guaranteed loans	–	227	119
Secured loans			
Loans in SEK	21	23	55
Loans in foreign currencies	224	84	62
Total borrowings from sources other than the former Parent Company <sup>1)</sup>	8,046	626	715
Due to the former Parent Company	–	6,832	10,299
Total <sup>1)</sup>	8,046	7,458	11,014

<sup>1)</sup> Included in these amounts are borrowings for customer finance operations amounting to SEK 4,618 m. (3,411 and 3,071, respectively).

Short- and long-term borrowing from sources other than the former Parent Company, distributed by currency:

	1996	1995	1994
USD	7,810	670	271
GBP	1,303	1,112	410
SEK	1,214	178	81
DEM	981	384	349
FRF	853	359	562
BEF	382	358	244
ATS	214	181	21
DKK	149	57	61
AUD	126	210	119
Other currencies	109	236	211
Total <sup>1)</sup>	13,141	3,745	2,329

<sup>1)</sup> Long-term borrowings not attributable to customer finance operations have mainly been transformed into SEK-denominated loans through swap agreements.

The above loans fall due for repayment as follows:

1997	5,095
1998	119
1999	916
2000	6,665
2001	215
2002 and thereafter	131
Total	13,141

The weighted average interest rate on total borrowings from sources other than the former Parent Company was 6.7 (8.4 and 7.3, respectively) percent.

Liabilities to the former Parent Company, Investor AB, were repaid at the beginning of 1996 when the external overdraft facility established in 1995 was utilised. The average liability in 1995 was SEK 8,643 m. and in 1994 it was SEK 7,648 m. Of total liabilities to Investor AB, in 1994, SEK 795 m. was interest-free and mainly related to income tax.

## Net indebtedness

The components of the Group's net indebtedness are as follows:

	1996	1995	1994
Cash, cash equivalents and short-term investments	2,837	1,047	3,187
Short-term borrowings	(5,095)	(3,119)	(1,614)
Long-term borrowings	(8,046)	(626)	(715)
Due to former Parent Company	–	(6,832)	(10,299)
Total	(10,304)	(9,530)	(9,441)
Of which, attributable to customer finance operations	(4,445)	(3,362)	(2,915)
Net indebtedness	(5,859)	(6,168)	(6,526)

## Note 16 Provisions for pensions

	1996	1995	1994
FPG/PRI pensions	1,063	988	910
Other pensions, vested	399	265	248
Special pension allocation	112	88	54
Medical care benefits	190	199	214
Total	1,764	1,540	1,426

The amount under "Provisions for pensions" corresponds to the actuarial projections of all mandatory and voluntary pension obligations. The Group participates in several pension plans which in principle cover all employees in Sweden and most employees of foreign subsidiaries.

The Swedish plan for salaried employees is administered by a Swedish secured multiemployer 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 obligations 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 commitments related to medical care benefits attributable to the operations in Brazil, Scania applies SFAS 106, "Employers' Accounting for Postretirement Benefits." This means that medical care benefits, etc. that are earned by the employees but not utilised until after retirement are expensed as they arise.

## Note 17 Deferred tax liabilities

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

	1996	1995	1994
Deferred tax assets:			
Tax loss carry-forwards	106	97	196
Other	33	10	–
Net deferred tax assets	139	107	196
Deferred tax liabilities:			
Property, plant and equipment	1,612	1,492	1,197
Inventories	8	84	56
Tax allocation reserve	238	168	–
Other	22	15	17
Deferred tax liabilities	1,880	1,759	1,270
Net deferred tax liabilities	1,741	1,652	1,074

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

In Sweden, tax laws permit allocations to an untaxed reserve called a tax allocation reserve. Deductions for allocations to this reserve are allowed to a maximum of 25 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.

The Group's tax liability related to actual tax amounts to SEK 239 m., which is reported among "Other current liabilities".

## Note 18 Subordinated debenture loan

The subordinated debenture loan carried an average interest rate of 9.4 percent and 9.2 percent in 1995 and 1994, respectively. At year-end 1995, the subordinated debenture loan of SEK 3,000 m. was converted by Investor AB, to shareholders' equity in Scania AB through a shareholders' contribution.

## Note 19 Shareholders' equity

Shareholders' equity in the Group has changed as follows:

	Share capital	Restricted reserves	Unrestricted shareholders' equity	Total
1995				
Balance on 1 January	100	92	2,636	2,828
Stock dividend	1,900		(1,900)	
Dividend			(800)	(800)
Transfer between restricted and unrestricted equity		459	(459)	
Shareholders' contribution		1,100	1,900	3,000
Net income for 1995			3,280	3,280
Translation differences for the year			(356)	(356)
Exchange rate differences on forward contracts for the year			167	167
Other			(23)	(23)
Balance on 31 December 1995	2,000	1,651	4,445	8,096
1996				
Balance on 1 January	2,000	1,651	4,445	8,096
Dividend			(1,100)	(1,100)
Transfer between restricted and unrestricted equity		224	(224)	
Net income for 1996			1,981	1,981
Translation differences for the year			1	1
Exchange rate differences on forward contracts for the year			18	18
Other			(15)	(15)
Balance on 31 December 1996	2,000	1,875	5,106	8,981

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

## Note 20 Assets pledged

	1996	1995	1994
Real estate mortgages	86	261	277
Chattel mortgages	2	-	1
Receivables	70	60	67
Total	158	321	345

## Note 21 Contingent liabilities

	1996	1995	1994
Discounted bills and contracts	208	232	110
Other guarantees	1,368	910	501
Total	1,576	1,142	611

Other guarantees relate primarily to guarantees issued in connection with customer financing.

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

## Note 22 Consolidated statement of cash flows

Items not affecting cash flows	1996	1995	1994
Depreciation	1,328	1,136	1,085
Unrealised exchange rate differences	(39)	(10)	(33)
Doubtful receivables	1	59	(25)
Retained associated company income	(93)	(100)	(137)
Deferred tax	37	468	64
Other	(138)	(24)	(14)
Total	1,096	1,529	940
Change in working capital			
Current receivables	925	(1,105)	(441)
Inventories	(30)	(1,579)	(1,060)
Trade accounts payable	(217)	70	723
Long-term receivables	10	77	(142)
Other current liabilities	(233)	985	217
Due to former Parent Company			
- 1994 taxes	0	(812)	812
Advance payments received from customers	165	(141)	212
Provisions for pensions	256	141	134
Total	876	(2,364)	455
Net investments			
Purchases of property, plant and equipment	(2,363)	(2,077)	(2,088)
Sales of property, plant and equipment	99	173	171
Proceeds from sale of shares	36	-	98
Other	69	16	
Total	(2,159)	(1,888)	(1,819)
Change in net indebtedness through financing activities			
Net change in short-term borrowings	1,958	1,593	368
Repayment of long-term borrowings	(324)	(303)	(1,094)
Increase in long-term borrowings	7,483	355	161
Change in "Due to former Parent Company"	(6,948)	(2,857)	998
Net change in restricted deposits	(79)	79	(124)
Total	2,090	(1,133)	309

**Note 23 Wages, salaries and other remuneration; average number of employees<sup>1)</sup> and number of employees**

	1996	1995	1994
Wages, salaries and other remuneration			
<i>Operations in Sweden:</i>			
Boards of Directors, Presidents and Executive Vice Presidents	32	26	23
Other employees	2,651	2,430	2,050
<i>Operations outside Sweden:</i>			
Boards of Directors, Presidents and Executive Vice Presidents	71	67	49
Other employees	2,010	2,119	1,896
Total	4,764	4,642	4,018
Pension costs and mandatory payroll fees	1,762	1,865	1,258
Total wages, salaries and remuneration, pension costs and mandatory payroll fees	6,526	6,507	5,276
Average number of employees			
<i>Operations in Sweden:</i>			
Number of municipalities	41	38	43
Average number of employees	11,094	10,815	9,580
<i>Operations outside Sweden:</i>			
Number of countries	38	36	31
Average number of employees	10,248	10,115	9,584
Average total number of employees	21,342	20,930	19,164
Average number of employees			
<i>Operations in Sweden:</i>			
Södertälje	5,482	5,492	5,020
Oskarshamn	1,588	1,576	1,086
Katrineholm	788	729	684
Falun	668	646	509
Luleå	560	530	437
Östra Göinge	398	389	313
Stockholm	334	337	370
Göteborg (Gothenburg)	204	197	192
Malmö	140	135	134
Helsingborg	108	101	94
Örebro	102	94	91
30 municipalities with < 100 employees <sup>2)</sup>	722	589	650
Total	11,094	10,815	9,580
- of whom men	9,698	9,112	8,274
- of whom women	1,396	1,703	1,306
<i>Operations outside Sweden:</i>			
Brazil	2,911	3,485	3,430
The Netherlands <sup>1)</sup>	1,820	1,784	1,858
Argentina	1,150	1,156	1 083
France	888	757	484
Great Britain	705	552	485
Denmark	642	479	494
Australia	341	331	311
Belgium	306	314	342
Germany	295	284	225
Austria	272	246	226
Tanzania	189	196	209
Poland	172	102	80
25 countries with < 100 employees <sup>3)</sup>	557	429	357
Total	10,248	10,115	9,584
- of whom men	9,293	9,247	8,684
- of whom women	955	868	900
Total number of employees	21,342	20,930	19,164

<sup>1)</sup> Excludes 308 (776 and 225, respectively) temporary contract-hire personnel at year-end.

<sup>2)</sup> In 1995, 28 municipalities had fewer than 100 Scania employees. In 1994, the figure was 34.

<sup>3)</sup> In 1995, 24 countries had fewer than 100 Scania employees. In 1994, the figure was 19.

Number of employees, 31 December

<i>Production and central staff units:</i>	1996	1995	1994
Europe	13,126	14,364	12,599
Latin America	4,111	4,403	4,226
Total	17,237	18,767	16,825
Sales and customer financing companies	4,969	4,257	3,825
Total	22,206	23,024	20,650
- of whom, temporary contract-hire personnel	308	782	225

**Note 24 Information regarding compensation to executive officers**

According to the decision of the Annual Meeting, the compensation to the members of the Board of Directors elected by the Annual Meeting amounted to SEK 2,100,000. Anders Scharp, Chairman, received compensation of SEK 700,000. Leif Östling, President and CEO, received a salary and bonuses of SEK 4,442,715, of which SEK 969,400 was a bonus. The President is entitled – or if the company so demands, obliged – to retire upon reaching the age of 60 with a pension of 65–70 percent of his pensionable salary, including ITP pension and national pension.

Similar pension conditions apply to certain executive officers, although most of them may retire no earlier than age 62. All executive officers are offered company car benefits.

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

On 18 February 1997, the Scania Board of Directors decided to introduce an incentive programme for about 70 high-level executives and managers. The incentives will be payable in equity related instruments such as options and share index bonds and are based on the change in Scania Group net income between 1997 and 1996 after subtracting expenses for shareholders' equity. The expense for 1997 is not expected to exceed SEK 10 m. Payments will be based on existing shares and will therefore not result in any dilution that affects existing shareholders.

**Note 25 Holdings of shares and options by Board of Directors and Executive Management**

Board of Directors	Shares	Options
Anders Scharp	2,000	3,896
Lars V Kylberg	-	42,300
Leif Östling	50,000	245,000
Claes von Post	-	5,000
Mauritz Sahlin	400	-
Tom Wachtmeister	12,200	40,000
Marcus Wallenberg	-	168,000
Executive Management	Shares	Options
Göran Löfgren	600	10,000
Lars Ohlsson-Leijon	700	29,000
Alf Bexell	1,000	-
Åke Brännström	1,000	1,500
Lars Christiansson	566	1,000
Urban Erdtman	166	20,000
Kaj Holmelius	891	11,000
Arne Karlsson	166	-
Åke Norrman	166	-
Lars Orehall	200	-
Bertil Persson	-	2,000



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

Swedish accounting principles differ in certain respects from U.S. GAAP. The differences that have a material effect on 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 is assigned to the Scania operations and subsequently 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) Taxes

The Group reports deferred tax on certain differences between financial reporting values and tax values. According to U.S. GAAP, deferred tax is established on all differences between financial reporting values and tax values.

## (d) Transactions in foreign currencies

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

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

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

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

## (e) 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	1996	1995	1994
Net income according to Swedish GAAP	1,981	3,280	2,556
Goodwill (a)	(12)	(12)	(12)
Pension expenses (b)	21	23	13
Taxes (c)	13	24	37
Transactions in foreign currencies (d)	59	(169)	(62)
Capitalisation of expenses (e)	10	10	10
Tax effect of U.S. GAAP adjustments	(9)	(7)	(4)
Change in net income	82	(131)	(18)
Net income according to U.S. GAAP	2,063	3,149	2,538
Earnings per share according to U.S. GAAP	10.30	15.75	12.70

Shareholders' equity	1996	1995	1994
Shareholders' equity according to Swedish GAAP	8,981	8,096	2,828
Reporting of goodwill (a)	412	424	436
Pension expenses (b)	233	212	189
Taxes (c)	177	164	165
Transactions in foreign currencies (d)	(2)	-	4
Capitalisation of expenses (e)	(34)	(44)	(54)
Tax effect of U.S. GAAP adjustments	(53)	(44)	(37)
Change in shareholders' equity	733	712	703
Shareholders' equity according to U.S. GAAP	9,714	8,808	3,531

**Note 23 Wages, salaries and other remuneration; average number of employees<sup>1)</sup> and number of employees**

	1996	1995	1994
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<i>Operations in Sweden:</i>			
Boards of Directors, Presidents and Executive Vice Presidents	32	26	23
Other employees	2,651	2,430	2,050
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Arne Karlsson	166	-
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The pension commitment reported in the consolidated financial statements has been based on actuarial calculations in accordance with Swedish accounting principles.

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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.

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Transactions in foreign currencies (d)	59	(169)	(62)
Capitalisation of expenses (e)	10	10	10
Tax effect of U.S. GAAP adjustments	(9)	(7)	(4)
Change in net income	82	(131)	(18)
Net income according to U.S. GAAP	2,063	3,149	2,538
Earnings per share according to U.S. GAAP	10.30	15.75	12.70

Shareholders' equity	1996	1995	1994
Shareholders' equity according to Swedish GAAP	8,981	8,096	2,828
Reporting of goodwill (a)	412	424	436
Pension expenses (b)	233	212	189
Taxes (c)	177	164	165
Transactions in foreign currencies (d)	(2)	-	4
Capitalisation of expenses (e)	(34)	(44)	(54)
Tax effect of U.S. GAAP adjustments	(53)	(44)	(37)
Change in shareholders' equity	733	712	703
Shareholders' equity according to U.S. GAAP	9,714	8,808	3,531

# AUDITORS' REPORT

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We have examined the annual report, the consolidated financial statements, the accounting records and the administration of the Board of Directors and the President for 1996.

Parent Company    The annual report has been prepared in accordance with the Swedish Companies Act.

We recommend

that    the income statement and the balance sheet be approved,

that    unappropriated earnings be dealt with as proposed in the report of the directors, and

that    the Board of Directors and the President be discharged from liability for 1996.

Group                The consolidated financial accounts have been prepared in accordance with the Swedish Companies Act.

We recommend

that    the consolidated income statement and the consolidated balance sheet be approved.

*Södertälje, 26 February 1997*

Caj Nackstad  
*Authorised Public Accountant  
KPMG Bohlins AB*

Gunnar Widhagen  
*Authorised Public Accountant  
Ernst & Young AB*

# VALUE-ADDED

Amounts in SEK m., per employee in SEK thousands	Total		Per employee		Total		Per employee	
	1996	1996	1995	1995	1994	1994	1994	1994
Sales and income of customer finance operations	33,785	1,614	34,938	1,669	26,653			1,391
Cost of purchased goods and services	(23,166)	(1,107)	(22,286)	(1,065)	(16,592)			(866)
Value-added	10,619	507	12,652	604	10,061			525

## BREAKDOWN OF VALUE-ADDED

Employees									
Wages and salaries	4,786	45%	229	4,642	37%	222	4,018	40%	210
Pensions and mandatory payroll fees	1,762	17%	84	1,865	15%	89	1,258	13%	66
Total	6,548	62%	313	6,507	51%	311	5,276	52%	275
National and local governments									
Corporate income taxes	627	6%	30	1,458	12%	70	1,073	11%	56
Lenders									
Cost of net borrowing	352	3%	17	505	4%	24	223	2%	12
Shareholders									
Dividend paid	1,100	10%	53	800	6%	38	-		-
Returned to operations									
For wear and tear to fixed assets (depreciation)	1,325	12%	63	1,136	9%	54	1,085	11%	57
For continued expansion	667	6%	32	2,246	18%	107	2,404	24%	125
Total returned to operations	1,992	19%	95	3,382	27%	162	3,489	35%	182
Value-added	10,619	100%	507	12,652	100%	604	10,061	100%	525

# TEN-YEAR STATISTICAL REVIEW

## Sales

SEK m.	1987	1988	1989	1990	1991	1992	1993	1994	1995	1996
<i>Scania products</i>										
European operations	11,161	12,160	13,936	14,411	15,176	13,435	13,260	17,931	25,783	25,200
Latin American operations	2,543	3,200	3,995	3,260	2,814	3,117	4,707	6,157	5,933	4,754
Total, Scania products	13,704	15,360	17,931	17,671	17,990	16,552	17,967	24,088	31,716	29,954
<i>Svenska Volkswagen products</i>										
Total	1,294	1,561	1,602	1,377	1,399	1,470	2,222	2,560	3,124	3,776
Total	14,998	16,921	19,533	19,048	19,389	18,022	20,189	26,648	34,840	33,730

## Sales by market area

SEK m.	1987	1988	1989	1990	1991	1992	1993	1994	1995	1996
<i>Scania products</i>										
Sweden	1,818	1,950	2,357	2,413	1,790	1,614	1,566	1,907	2,662	3,236
Other Nordic countries	1,573	1,249	1,369	1,408	1,145	1,237	1,171	1,868	2,898	2,747
Europa, excl. Nordic countries	6,739	7,631	8,908	9,121	9,407	8,847	8,751	11,345	16,753	15,903
Europe	10,130	10,830	12,634	12,942	12,342	11,698	11,488	15,120	22,313	21,886
Latin America	2,060	2,599	2,982	2,920	2,566	3,040	4,619	6,108	5,742	4,800
Asia	501	786	1,257	863	2,286	1,084	1,171	1,504	1,904	1,740
Africa	463	473	354	340	290	311	385	482	726	617
Other	550	672	704	606	506	419	304	874	1,031	911
Total, Scania products	13,704	15,360	17,931	17,671	17,990	16,552	17,967	24,088	31,716	29,954
<i>Svenska Volkswagen products</i>										
Sweden	1,294	1,561	1,602	1,377	1,399	1,470	2,222	2,560	3,124	3,776
Total	14,998	16,921	19,533	19,048	19,389	18,022	20,189	26,648	34,840	33,730

## Operating income

SEK m.	1987	1988	1989	1990	1991	1992	1993	1994	1995	1996
<i>Scania products</i>										
European operations	2,239	2,325	2,526	2,072	1,452	1,069	488	2,816	4,598	2,276
Customer finance operations in Europe					-23	-38	-91	5	98	55
Europe	2,239	2,325	2,526	2,072	1,430	1,031	397	2,821	4,696	2,331
Latin American operations	157	493	501	441	136	242	483	915	413	511
Total, Scania products	2,396	2,818	3,027	2,513	1,565	1,273	880	3,736	5,109	2,842
<i>Svenska Volkswagen products</i>										
Total	133	193	155	17	86	33	121	173	243	215
Total	2,529	3,011	3,182	2,530	1,651	1,306	1,001	3,909	5,352	3,057

## Operating margin

<i>Scania products</i>										
European operations	20.1%	19.1%	18.1%	14.4%	9.4%	7.7%	3.0%	15.7%	18.2%	9.3%
Latin American operations	6.2%	15.4%	12.5%	13.5%	4.8%	7.8%	10.3%	14.9%	7.0%	10.7%
Total, Scania products	17.5%	18.3%	16.9%	14.2%	8.7%	7.7%	4.9%	15.5%	16.1%	9.5%
<i>Svenska Volkswagen products</i>										
Total	10.3%	12.4%	9.7%	1.2%	6.1%	2.2%	5.4%	6.8%	7.8%	5.7%
Total	16.9%	17.8%	16.3%	13.3%	8.5%	7.2%	5.0%	14.7%	15.4%	9.1%

## Gross capital expenditures for property, plant and equipment, excluding leasing assets

SEK m.	1987	1988	1989	1990	1991	1992	1993	1994	1995	1996
European operations	918	934	850	1,400	1,200	1,232	1,091	2,025	1,696	1,992
Latin American operations	78	109	156	138	92	189	192	319	360	530
Total	996	1,043	1,006	1,538	1,292	1,421	1,283	2,344	2,056	2,522

Number of trucks sold by market

	1987	1988	1989	1990	1991	1992	1993	1994	1995	1996
Sweden	2,348	2,287	2,656	2,234	1,153	913	739	891	1,548	2,042
Other Nordic countries	3,180	2,205	2,483	2,435	1,727	1,752	1,303	2,047	3,163	2,979
Europe excl. Nordic countries	15,152	15,838	17,853	16,334	15,843	14,208	11,258	15,188	22,836	22,258
Europe	20,680	20,330	22,992	21,003	18,723	16,873	13,300	18,126	27,547	27,279
Latin America	4,336	4,660	5,067	4,558	4,293	4,734	6,678	8,713	7,964	7,377
Asia	1,122	1,583	2,549	1,731	5,530	2,440	2,256	2,818	3,329	2,997
Africa	593	684	472	440	240	382	510	803	1,177	937
Other	656	588	638	551	347	229	341	375	450	438
Total	27,387	27,845	31,718	28,283	29,133	24,658	23,085	30,835	40,467	39,028

Number of buses and coaches sold by market

	1987	1988	1989	1990	1991	1992	1993	1994	1995	1996
Sweden	198	173	246	256	185	141	157	191	275	295
Other Nordic countries	421	307	216	185	180	167	181	251	352	410
Europe excl. Nordic countries	851	969	986	760	704	587	532	581	1,060	1,033
Europe	1,470	1,449	1,448	1,201	1,069	895	870	1,023	1,687	1,738
Latin America	1,520	1,639	1,676	1,645	2,493	2,677	1,459	1,287	1,878	1,641
Asia	215	364	499	224	85	172	133	140	304	309
Africa	140	99	197	157	276	353	88	109	181	122
Other	141	153	64	76	59	79	127	128	120	153
Total	3,486	3,704	3,884	3,303	3,982	4,176	2,677	2,687	4,170	3,963

Number of trucks and buses produced by assembly site

	1987	1988	1989	1990	1991	1992	1993	1994	1995	1996
Södertälje and Katrineholm, Sweden	15,370	15,581	16,490	12,740	12,852	10,700	8,245	10,291	12,798	11,728
Zwolle, the Netherlands	9,091	9,740	12,245	12,575	12,190	10,272	7,612	11,114	14,792	13,830
Angers, France	-	-	-	-	-	478	1,333	3,441	8,100	7,887
Europe	24,461	25,321	28,735	25,315	25,042	21,450	17,190	24,846	35,690	33,445
Tucumán, Argentina	1,269	861	854	717	857	1,681	1,732	2,113	1,848	1,721
São Paulo, Brazil	4,987	5,662	6,661	5,736	6,003	5,439	6,271	7,760	8,758	6,993
Latin America	6,256	6,523	7,515	6,453	6,860	7,120	8,003	9,873	10,606	8,714
Total	30,717	31,844	36,250	31,768	31,902	28,570	25,193	34,719	46,296	42,159

Total market, heavy trucks and buses

	1987	1988	1989	1990	1991	1992	1993	1994	1995	1996
Western Europe										
Trucks	158,000	175,000	189,000	176,000	170,000	149,000	114,100	133,300	173,300	172,000
Buses	17,600	18,900	19,000	19,000	17,200	16,500	15,300	13,400	15,600	16,500
South America										
Trucks	13,900	16,000	17,500	18,200	13,700	15,000	19,100	26,100	28,200	20,500
Buses	9,300	12,400	10,100	13,300	22,000	23,900	21,300	22,900	23,500	20,000

Number of employees<sup>1)</sup>

	1987	1988	1989	1990	1991	1992	1993	1994	1995	1996
Production companies										
Europe	12,384	13,215	13,830	13,218	12,736	11,417	10,493	12,374	13,401	13,126
Latin America	3,982	4,317	4,608	4,668	4,860	4,360	4,155	4,226	4,461	4,111
Total, production companies	16,366	17,532	18,438	17,886	17,596	15,777	14,648	16,600	17,862	17,237
Marketing companies	4,140	4,138	4,437	4,318	4,124	4,351	3,885	3,753	4,109	4,894
Customer finance companies	7	13	33	34	52	65	60	72	90	75
Total	20,513	21,683	22,908	22,238	21,772	20,193	18,593	20,425	22,061	22,206

<sup>1)</sup> Including temporary contract-hire personnel.

## BOARD OF DIRECTORS



*Anders Scharp and Leif Östling*



*Leif Johansson, Marcus Wallenberg and Mauritz Sahlin*



*Claes von Post*

### **Anders Scharp**

*Born 1934. Chairman since 1994.*

Chairman of AB Electrolux, Incentive AB, Saab AB, AB SKF, Atlas Copco AB and the Swedish Employers' Confederation. Vice Chairman of Investor AB. Other directorships: Email Ltd (Australia) and the Federation of Swedish Industries, among others.

### **Lars V Kylberg**

*Born 1940. Vice Chairman since 1995.*

Chairman of ASG AB, Frigoscandia AB, Garphyttan and Securum AB. Other directorships: Akzo Nobel (Netherlands), Morgan Crucible plc (Great Britain), Saab Automobile AB and IBS AB.

### **Leif Östling**

*Born 1945. Member since 1994.*

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

### **Tommy Bäcklund**

*Born 1949. Member since 1994.*

Employee Representative and Chief Safety Officer for the Metal Workers' Union at Scania, Södertälje.

### **Clas Åke Hedström**

*Born 1939. Member since 1995.*

President and CEO of Sandvik AB. Other directorships: Sandvik AB, Association of Swedish Engineering Industries and the Federation of Swedish Industries.

### **Leif Johansson**

*Born 1951. Member since 1996.*

President and CEO of AB Electrolux. Chairman of Gränges AB. Other directorships: Association of Swedish Engineering Industries and the Federation of Swedish Industries. Resigned from the Board when appointed President and CEO of AB Volvo in January 1997.

### **Claes von Post**

*Born 1941. Member since 1996.*

Senior Vice President of Investor AB and President of Investor Asia Ltd., Hong Kong.

### **Mauritz Sahlin**

*Born 1935. Member since 1996.*

Chairman of Ovako Steel AB, Novare Kapital AB and Elga AB. Other directorships: Investor AB, Sandvik AB, AB SKF, Statoil Norge, the Swedish Employers' Confederation and the Federation of Swedish Industries, among others.





Tom Wachtmeister



Lars V. Kylberg and  
Clas Åke Hedström



Jan Westberg and  
Tommy Bäcklund



Sören Westerholm  
and Magnus Hahn

**Tom Wachtmeister**

*Born 1931. Member since 1994.*

Vice Chairman of Atlas Copco AB and of the General Export Association of Sweden. Other directorships: Investor AB, Norsk Hydro, SAS Sverige AB, STORA and the Taxpayers' Association, among others.

**Marcus Wallenberg**

*Born 1956. Member since 1994.*

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

**Jan Westberg**

*Born 1944. Member since 1996.*

Employee Representative of the Federation of Salaried Employees in Industry and Services.

**Magnus Hahn**

*Born 1955. Deputy Board Member since 1995.*

Employee representative of the Federation of Salaried Employees in Industry and Services.

**Sören Westerholm**

*Born 1953. Deputy Board Member since 1994.*

Chairman of the Metal Workers' Union at Scania, Oskarshamn.

**AUDITORS**

**Caj Nackstad**

Authorised Public Accountant,  
KPMG Bohlins AB

**Gunnar Widhagen**

Authorised Public Accountant,  
Ernst & Young AB

**DEPUTY AUDITORS**

**Thomas Thiel**

Authorised Public Accountant,  
KPMG Bohlins AB

**Björn Fernström**

Authorised Public Accountant,  
Ernst & Young AB

# EXECUTIVE MANAGEMENT



*Leif Östling*



*Göran Löfgren*



*Lars Ohlsson-Leijon*



*Håkan Samuelsson*



*Alf Bexell*



*Åke Brännström*



*Lars Christiansson*



*Urban Erdtman*



*Hans Hedlund*



*Kaj Holmelius*



*Arne Karlsson*



*Åke Norrman*



*Lars Orehall*



*Bertil Persson*

Leif Östling  
*Born 1945*

President and CEO

Göran Löfgren  
*Born 1936*

Executive Vice President  
Chief Administrative Officer

Lars Ohlsson-Leijon  
*Born 1939*

Executive Vice President  
Chief Financial Officer

Håkan Samuelsson  
*Born 1951*

Executive Vice President  
Chief Technical Officer

Alf Bexell  
*Born 1938*

Senior Vice President  
Industrial and Marine Engines

Åke Brännström <sup>1)</sup>  
*Born 1938*

Senior Vice President  
Marketing Support

Lars Christiansson  
*Born 1946*

Senior Vice President  
Communications and Public Affairs

Urban Erdtman  
*Born 1945*

Senior Vice President  
Sales and Marketing Europe

Hans Hedlund  
*Born 1936*

President  
Scania Latin America Ltda  
Directorship: Electrolux, Brazil

Kaj Holmélius  
*Born 1940*

Senior Vice President  
Chassis and Cabs, Development  
and Production

Arne Karlsson <sup>2)</sup>  
*Born 1944*

Senior Vice President  
Buses & Coaches, Development,  
Production, Sales & Marketing  
Directorships: Gränges AB, Skavsta  
Airport AB and Södra Timber AB

Åke Norrman <sup>3)</sup>  
*Born 1940*

Senior Vice President  
Sales and Marketing Overseas  
Directorship: Sweden China Trade  
Council

Lars Orehall  
*Born 1947*

Senior Vice President  
Powertrain Development and  
Production

Bertil Persson  
*Born 1961*

Senior Vice President  
Finance

<sup>1)</sup> Since 1 February 1997, Senior Vice President, Scania Buses & Coaches

<sup>2)</sup> Since 1 February 1997, Senior Vice President, Sales and Marketing Overseas

<sup>3)</sup> Since 1 February 1997, President of Svenska Volkswagen AB

## SCANIA SHARE DATA

On 1 April 1996, Scania was introduced on the Stockholm Stock Exchange and the New York Stock Exchange. At year-end, its market capitalisation was SEK 34 billion, which corresponds to 2.1 percent of the total capitalisation of the Stockholm Stock Exchange and makes Scania its twelfth largest company.

The share capital is distributed among 100 million A shares and 100 million B shares. The A shares carry one vote each and the B shares 1/10 of one vote each.

### Price trend in 1996

The B share fell by 5 percent during 1996 from its introductory price of SEK 180, while the Stockholm Stock Exchange's General Index rose by 27 percent. According to the Stockholm Stock Exchange, the beta value of Scania shares is 0.23. In other words, when the Stockholm Stock Exchanges moves by 1

percent, Scania shares move either up or down by 0.23 percent.

### Trading on foreign exchanges

In 1996 Scania became the first Swedish company to be listed on the New York Stock Exchange. Scania established an American Depository Receipts (ADR) programme that facilitates trading for non-Swedish investors. The depository is Citibank.

A total of 7,693,700 A ADRs and 7,686,800 B ADRs were traded in 1996, and at year-end 2,792,000 ADRs were outstanding.

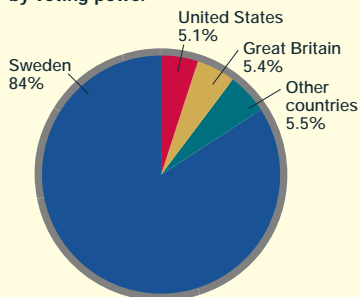
Scania shares are also traded on the London Stock Exchange Automated Quotations system for non-UK equities (SEAQ International).

### Ownership structure

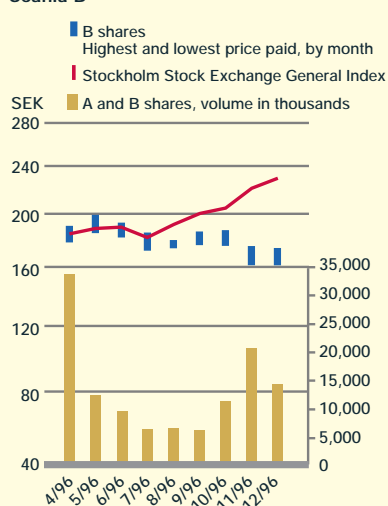
At year-end there were approximately 50,000 shareholders. The ten largest shareholders accounted for 67 percent of voting power and 66 percent of share



Geographic distribution of shareholders, by voting power



Share price, Stockholm Stock Exchange, Scania B



capital. Of share capital, about 16 per cent was held by non-Swedish investors.

### Dividend policy

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

### The largest shareholders in Scania AB (31 December 1996)

	% of voting power	% of the number of shares
Investor (investment company)	45.0	45.0
Sparbankernas Aktiefonder (savings bank mutual fund)	5.9	6.2
Nordbankens Aktiefonder (commercial bank mutual fund)	3.2	3.2
SPP (pension insurance company)	2.7	2.7
Folksam Gruppen incl. AMF-Sjukförs. (insurance company)	2.1	2.0
Svenska Handelsbanken Group (commercial bank)	2.0	1.7
S-E-B Aktiefonder & EB-stiftelsen (commercial bank mutual fund)	1.7	1.5
Trygg-Hansa Group (insurance company)	1.7	1.7
Skandia (insurance company)	1.4	1.2
Ratos (investment company)	1.2	1.0
	66.9	66.2
Other shareholders	33.1	33.8
Total	100.0	100.0

Per share data (SEK unless otherwise indicated)	1996	1995
Earnings	9.90	16.40
Shareholders' equity	44.90	40.50
Dividend (1996 proposed)	5.50	5.50
Market prices, B shares (closing price)		
Highest for the year	199.50	n/a
Lowest for the year	161.50	n/a
Year-end	170.50	n/a
Price/earnings ratio, B shares	17.2	
Dividend payout ratio, %	55.6	33.5
Dividend yield, % (B shares) <sup>1)</sup>	3.2	n/a
Average daily number of shares traded		
– Stockholm Stock Exchange	A 300,000 B 342,000 Total 642,000	
– New York Stock Exchange	A-ADRs 41,000 B-ADRs 42,000 Total 83,000	

Annual turnover rate<sup>2)</sup> 0.92  
Approximate number of shareholders 50,000

<sup>1)</sup> Dividend divided by market price of B shares at year-end.

<sup>2)</sup> Shares traded during the last quarter, recalculated to a full-year basis and divided by the number of shares outstanding.

### Ownership structure, 1996

	Number of shares	% of shareholders	% of shares
1 -	500	87.5	3.9
501 -	2000	9.8	2.5
2001 -	10000	2.0	2.1
10001 -	50000	0.4	2.6
50001 -	100000	0.1	1.6
>	100000	0.2	87.3
Total		100.0	100.0

# ADDRESSES

## Head Office and Technical Centre

Scania AB  
S-151 87 Södertälje, Sweden  
Tel: +46 8 55 38 10 00  
Fax: +46 8 55 38 10 37  
Internet: [www.scania.com](http://www.scania.com)

## Production plants Sweden

Scania  
Box 1906  
S-791 19 Falun, Sweden  
Tel: +46 23 477 00  
Fax: +46 23 71 13 79

Scania Buses & Coaches  
S-641 81 Katrineholm, Sweden  
Tel: +46 150 585 00  
Fax: +46 150 532 30

Scania  
Box 77  
S-695 22 Laxå, Sweden  
Tel: +46 584 108 20  
Fax: +46 584 102 01

Scania  
Box 815  
S-971 25 Luleå, Sweden  
Tel: +46 920 766 00  
Fax: +46 920 896 10

Scania  
Box 903  
S-572 29 Oskarshamn, Sweden  
Tel: +46 491 76 50 00  
Fax: +46 491 76 54 30

Scania  
S-280 63 Sibbhult, Sweden  
Tel: +46 44 495 00  
Fax: +46 44 481 08

Scania  
S-151 87 Södertälje, Sweden  
Tel: +46 8 55 38 10 00  
Fax: +46 8 55 38 10 37

## Production plants Other European countries

DAB Silkeborg A/S  
Postboks 309  
DK-8600 Silkeborg, Denmark  
Tel: +45 86 82 33 00  
Fax: +45 86 81 56 54

Scania Production Angers S.A.  
P.B. 846  
F-49008 Angers Cédex 01, France  
Tel: +33 2 41 41 20 00  
Fax: +33 2 41 41 20 48

Scania Nederland B.V.  
P.O. Box 618  
NL-8000 Al Zwolle,  
The Netherlands  
Tel: +31 38 497 76 11  
Fax: +31 38 497 79 11

Scania Kapena S.A.  
Grunwaldzka 12  
76-200 Slupsk, Poland  
Tel: +48 59 43 88 71  
Fax: +48 59 43 66 01

## Production plants Latin America

Scania Argentina S.A.  
Casilla de Correos Nro. 3  
Correo Central  
4000 San Miguel de Tucumán,  
Argentina  
Tel: +54 81 50 90 00  
Fax: +54 81 50 90 01

Scania Latin America Ltda  
Caixa Postal 188  
09810-902 São Bernardo  
do Campo-SP, Brazil  
Tel: +55 11 752 93 33  
Fax: +55 11 451 26 59

Scania de México S.A. de C.V.  
Prol Av Industrias No 4640  
Esq Eje 134, C P 78395  
San Luis de Potosí, SLP, Mexico  
Tel: +52 48 24 05 05  
Fax: +52 48 24 05 04

# ANNUAL GENERAL MEETING

The Annual General Meeting of Shareholders (AGM) will be held at 5.30 pm on Thursday, 24 April 1997 at Scaniarinken, Södertälje, Sweden.

## Participation

Shareholders who wish to participate in the AGM must:  
be recorded in the share register maintained by Värdepapperscentralen VPC AB (the Swedish Securities Register Centre) no later than Monday, 14 April 1997, and also register with the company by written notice to Scania AB, S-151 87 Södertälje, Sweden, or by telephone at +46 8 55 38 30 52 no later than 4 pm on Monday, 21 April 1997 that they intend to participate in the AGM. When doing so, shareholders shall state 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 for 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 re-register their shares in their own name with VPC. Shareholders who wish to re-register their shares in this way must inform their nominees to this effect well before 14 April 1997.

## Dividend

The Board of Directors proposes 29 April 1997 as the record date for the 1996 dividend. The last day for trading shares that include this dividend is Thursday, 24 April 1997. The dividend will be paid on Wednesday, 7 May 1997.

## Sources of information

In addition to the Annual Report, the following information material may be ordered from Scania AB, S-151 87 Södertälje, Sweden. It may also be ordered by telephone at +46 8 55 38 1000 or by fax at +46 8 55 38 55 59:

Year End Report January – December 1996  
Interim Reports, published quarterly  
Scania's Internet homepage is <http://www.scania.com>



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