

Address by Leif Östling, President and CEO, at the Scania Annual General Meeting, 3 May 2004

Ladies and gentlemen, shareholders, AGM participants,

A warm welcome to our Annual General Meeting here at Scania Syd. Let me also take this opportunity to welcome all the new owners of the large block of B shares that were sold during March.

Since we met last year, Scania has completed another successful year in its 113-year history.

First I would like to tell about our new trucks, which we launched a month ago under the R-series name. These trucks are standing outside the hall. If you didn't have the time to look at them when you arrived, you are welcome to take a look on your way out.

The R-series has been very well received in our sales organisation, and now we have a large number of customers who visit Södertälje to familiarise themselves with the new trucks.

The new R-series is based on the experience we have gathered through the 4-series and on all the ideas we have received from our customers during extensive tests.

With the R-series, our demanding customers are getting the best truck Scania ever built.

During the next few years, we will gradually replace our entire current product range with new products.

Now let us turn to the year 2003.

During the first part of the year, our customers were still having a tough time.

The American economy, which has a major impact on economies around the world, was recovering. However, the outbreak of war in Iraq made customers more cautious. The economic outlook in several of our main markets in western Europe was subdued. In spite of this, the total market in western Europe ended up largely unchanged.

The economies and markets in central and eastern Europe performed well, as did those in the Far East and the Middle East. Latin America also recovered.

Overall, 2003 thus turned out to be a rather good year.

Sales revenue exceeded SEK 50 billion, an increase of more than 7 percent.

Scania's operating income rose by more than 30 percent, with an operating margin of 10 percent. Scania was again one of the best-performing companies in its industry.

This year has started better than expected. Markets are on their way up. During the first quarter of 2004, revenue rose by 7 percent. Operating income was SEK 1.4 billion, an improvement of 8 percent. The operating margin was slightly below 11 percent.

One interesting development is that Europe as a whole is becoming an increasingly integrated market. In recent years, exports of used trucks to central and eastern Europe have risen sharply, and they will increase at the same pace over the next few years.

The flow of used vehicles has meant that the demand for new trucks in western Europe has smoothed out over the business cycle. This trend will most likely persist over the coming decade, during the massive build-up that central and eastern Europe are in the midst of.

In addition, the manufacturing sector is moving production at an ever faster pace from western Europe to central and eastern Europe. This is generating a demand for fast, flexible transport services. The recent eastward enlargement of the EU will accelerate this trend.

Consequently, the demand for high-quality trucks is increasing all the time. Local manufacturers cannot keep pace technologically. We have seen this in countries like Poland, the Czech Republic and Russia – countries where Scania has a strong position today.

The flow of used trucks is also contributing to rapid growth for our service business in the new EU member countries and elsewhere in eastern Europe.

Now a few words about East Asia – a very expansive region, especially China.

Demand for our type of vehicles is limited, however. The reason is that logistics systems and road networks are not yet as developed as in Europe and the United States. The market for western European heavy vehicles is no larger than 4,000–5,000 units per year.

In China, we are now building up a sales and service organisation, with the aim of making it a long-term, profitable business. When the time is ripe and the volume is sufficiently large, we may conceivably establish vehicle manufacturing there. Our objective is to become a major player in China over time.

Our alliance with Japan's leading truck company, Hino, is continuing. In partnership with Hino, Scania was the first non-Japanese make to receive type approval for the Japanese market. We can now intensify our efforts in Japan.

Our co-operation with the Japanese marine engine manufacturer Yanmar developed well, and the first engines have been delivered.

During 2003 we initiated an alliance with the German-based MAN which covers development and manufacture of certain types of axles and gearboxes.

Out in the markets, we are continuing to expand our vehicle and service business. In mature markets in western Europe, Scania owns a sizeable proportion of the sales and service organisation. In this way, we have direct contact with our demanding customers, who today not only buy a vehicle but also service and financing over a period of three to five years. This direct contact is important to our product development work, both when it comes to vehicles and various services.

In other markets, an independent sales and service network handles customer contact.

Today we actually have more employees in our own service organisation than we have in our manufacturing network. And looking ahead, this is where we will mainly be expanding our organisation.

Our strategy is to give customers high revenues and low operating costs. This is the basis for good margins for us as suppliers of both vehicles and service.

In recent years, we have also built up a significant customer financing network. Financial services are an important element of Scania's complete product range. We have our own finance companies in most important markets.

Now a few words about our production.

For a number of years, we have been developing our own production concept, which is based on Scania's core values: putting the customer first, respect for the individual and quality in products and services.

In the Scania Production System – SPS – the focus is on people, not machines or computers. We have made good progress in implementing this system, and we are seeing great dedication from our employees. We also see in our statistics that absences due to illness have declined sharply. In addition, the number of accidents has fallen substantially. And employee turnover remains low. Quality and productivity have also improved. We can speak of a win-win situation for all of us.

Since we work in the same way and with the same quality standards throughout our organisation, we have now been able to fully integrate our production network in Latin America with the one in Europe. A Scania always maintains the same high quality, regardless of where it is built.

Last year more than 4,000 vehicles - half of production volume - were delivered from São Paulo to markets outside Latin America.

In recent years we have gradually restructured our European production network. Component manufacturing, which requires heavy investments, has been concentrated at one site per component.

Scania's component manufacturing in Europe now takes place in Sweden. Engine manufacturing is now gathered in Södertälje, axles in Falun, gearboxes in Sibbhult, frame members in Luleå and cabs in Oskarshamn. This means that about a thousand skilled industrial jobs have moved to Sweden.

Final assembly, in which the logistics cost is high, should be located as close to the customer as possible. This is why the expansion of our assembly operations has occurred in Zwolle, the Netherlands and in Angers, France.

Seven months ago, we inaugurated the expanded and modernised assembly plant in Zwolle. There we have expanded our technical assembly capacity by 50 percent, to more than 150 trucks per day. This expansion is an important step to ensure that we can supply the higher volume needed in the next economic upturn.

Now a few words about buses and coaches.

Sales of bus chassis during 2003 were the highest in Scania's history. The total market for heavy buses in Europe declined, but Scania increased its sales in several of the major markets. In Latin America, too, bus and coach deliveries rose.

Scania was also awarded the prestigious "Coach of the Year 2004" prize.

A large proportion of a bus chassis consists of truck components, and with our new bus and coach business structure, today we can take advantage of all the synergies that exist with trucks when it comes to development and production but also when it comes to service.

As a result of the restructuring of bus and coach operations that we have implemented, these operations are well on their way towards achieving the same profitability as trucks.

Ladies and gentlemen,

Scania focuses on heavy trucks and buses with a modular product concept - a toolbox - which enables the customer to specify exactly the vehicle he or she needs.

To Scania, this means few components, which makes our product development more efficient and yields considerable economies of scale in both production and parts management.

We manufacture most of our own main components – cabs, engines, gearboxes, axles and frames – thereby gaining good control of our quality and service business. But we are open at all times to strategic alliances and component co-operation.

Honoured AGM participants,

We also play an active role in environmental work. The paintshop in Oskarshamn, Sweden is a good example of the environmental investments we have made in recent years. At the same time, we are working methodically to decrease the fuel consumption and the environmental impact of our engines. We have now launched our first Euro 4 engine, which meets the emission requirements that go into force in 2006.

For a number of years, we have also focused on road safety. In Brussels, we again organised a well-publicised road safety seminar, where we discussed road safety together with EU politicians, commissioners, industry representatives and the academic community. Among other things, we presented the idea of a deformable, energy-absorbing crash-zone for trucks, which would save many lives per year on roads.

As part of our efforts to improve road safety, last year we organised the Young European Truck Driver road safety competition, in partnership with the European Commission and others. Six thousand young drivers from 20 European countries competed, thereby generating publicity for road safety issues in most EU countries. At the same time, we emphasised the importance of drivers in ensuring road safety and helped raise the status of their profession.

Ladies and gentlemen,

We are in the launch phase of a new truck range. During the next few years, we will successively replace our current range with a new truck and bus range.

Looking ahead, we will be working with continuous introductions of new products. This means that new and improved components can continue to be introduced when they are ready, instead of waiting for major changes of model. For customers, this means that every new Scania will be an even better Scania.

Scania's strong brand name is also a guarantee of quality. We are always striving to meet the standards that our customers demand. We know that Scania has the most loyal customers in the industry. Eight out of ten always come back.

Relationships are the foundation of the undisputed prestige enjoyed by the Scania brand among customers. This trust is something that we at Scania do everything we can to live up to. We can only do this with the help of dedicated employees.

I would like to take this opportunity to express my sincere gratitude to all of our employees for their very fine contributions during this past year. Given the good atmosphere and fighting spirit that exist throughout the organisation, I am convinced that Scania faces a bright future.

Ladies and gentlemen, shareholders – thank you for your attention.