

**Address by Leif Östling, President and CEO, at the Scania Annual General Meeting at the Victoria Hall, Stockholm, 29 April 2005.**

Ladies and gentlemen, shareholders, AGM participants,

I would like to take this opportunity to welcome all our new shareholders. At the end of 2004 Scania had just above 40,000 shareholders. Now, after the acquisition of Ainax, we are over 110,000.

As you all know, more than 96 percent of Ainax' shareholders accepted the offer from Scania. This means that as of 22 February 2005, Ainax is a subsidiary of Scania. We plan to liquidate Ainax during 2006, since as a former shareholder in Ainax you can participate in this AGM and are furthermore entitled to a dividend.

Much has happened during this past year. One year ago, our new truck range had its premiere. First to be launched was the R-series for long-haul traffic. During late spring and summer, more than 10,000 customers visited us in Södertälje. After the summer, it was time for the next introduction: distribution and construction trucks.

At the Hanover commercial vehicle exhibition in September, the R-series was named "Truck of the Year". Driver comfort, ergonomics and driver appeal were characteristics specially cited by the prize jury.

It is also a great pleasure to note that the changeover to the new truck range has proceeded without disruptions, thanks to very extensive preparations.

The customers who have the new trucks think their quality is even better than previous trucks.

In Latin America, the 4-series will be produced for another couple of years for the domestic and certain Asian and African markets.

We had good demand for heavy vehicles in Western Europe, with a sizeable replacement need. Many used vehicles are also being exported to Central and Eastern Europe.

Markets in South America grew substantially after the difficult years of the early 21<sup>st</sup> century. In Brazil, Scania was named the most admired commercial vehicle company by a leading business periodical. In Argentina, Scania was selected as having the strongest quality image of any brand in the country.

Far Eastern economies grew rapidly, especially their industrial investments. In South Korea, growth cooled after several years of strong expansion. Deliveries to Taiwan rose significantly.

In China, we took over our own sales from the previous distributor. In the Chinese market, we are laying the groundwork for a long-term venture. Markets in the Middle East and Africa showed good growth.

Bus and coach sales developed strongly in all markets. We achieved a record volume of 5,500 units delivered. Marine and industrial engine operations also performed very well. We delivered a record volume of about 5,000 engines.

Overall, last year was successful. Earnings were the best in Scania's history. Net income rose by 34 percent to just above SEK 4 billion. This was equivalent to earnings per share of more than SEK 20.

This year has begun well. Scania's net income in the first quarter was above SEK 1.1 billion, or up 19 percent. Order bookings were largely unchanged, while deliveries rose by seven percent.

Ladies and gentlemen,

A long-term philosophy is behind Scania's successes. Scania's philosophy is based on the following core values:

- Customer first
- Respect for the individual
- Quality and environment

Customer first: What is happening? Demands for faster, more reliable and cheaper deliveries are forcing our customers to continuously streamline their operations.

Meanwhile we are seeing a growing shortage of trained drivers.

We have to think about road safety, the environment and the economic situation of transport companies.

Here, through the Young European Truck Driver competition, Scania is helping attract more young people into the transport industry. The goal is to get 20,000 young drivers throughout Europe to participate. Our focus is on road safety and the environment.

Our customers choose Scania because they are seeking quality, an area where Scania sets the standard in its industry. Quality implies a promise of meeting and living up to customer expectations, both when it comes to our products and the way we deal with people.

Scania's success will depend on how well we are able to further develop our technology and service organisation in order to give our customers reliable transport equipment with a good earning capacity.

Through consistent work, we achieve good profitability and strong competitiveness. You don't need to be the biggest to be the best. And we intend to remain the best – in all areas.

Hasse Johansson, who is in charge of Scania's research and development, will now tell you about our product development.

Welcome, Hasse.

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Thank you.

Scania's research and development work is strongly tied to our customers. My job thus consists of looking ahead and understanding what customers will be demanding.

The top priority is reduced fuel consumption and low emissions from our vehicles, a balance that is actually not so easy to achieve.

Fuel accounts for one third of the cost of transport today. Considering the trend of oil prices, its share of cost is likely to rise. Alternative fuels will become competitive when oil prices are sufficiently high.

By 2010 the EU's ambition is to replace six percent of today's diesel and petrol consumption with biofuels. All fuels could be replaced with biofuels, but this would cost incredible sums. It would also drive food producers out of business and devastate animal life and the natural environment.

Hydrogen and natural gas are not suitable fuels for heavy vehicles. Gas must be transported in bulky and heavy tanks. A gas-powered engine is also less efficient than a diesel engine. It adds at least 20 percent more carbon dioxide to the atmosphere. Natural gas is also a fossil fuel.

Emission legislation is becoming increasingly tough. Next year a new EU standard for diesel engines is coming: Euro 4. In 2009, standards are being tightened further, when we get Euro 5. We are participating very actively in the work on this standard.

Today trucks that meet the tougher new emission rules already receive discounts on highway tolls in certain countries. The legislation focuses on nitrogen oxide and particulate emissions, but today carbon dioxide emissions draw increasing attention. Trade in emission allowances may be considered for road transport services.

We have chosen to attack emissions directly at source. We minimise the formation of harmful exhaust gases in the combustion chamber itself, instead of using aftertreatment methods in the exhaust pipe. This poses major challenges for our engine developers, since the reduction of carbon dioxide and particulate emissions leads to increased fuel consumption.

Scania has succeeded in lowering emissions while maintaining fuel economy. We have done this through proprietary solutions for the combustion chamber, exhaust gas recirculation, turbocompounding and high fuel injection pressure. We are also hoping for global harmonisation of emission legislation and are actively pursuing this issue.

We believe that around 2010, it will be time for the next technological leap from the classic diesel engine to a new technology we are working with right now in our laboratories. We call it homogeneous combustion. This technology combines the advantages of the diesel engine and the petrol engine.

If the new technology delivers what it promises, we will have very fuel-efficient engines with extremely low emissions. There is a long way to go before all the technical challenges are solved.

But there is potential to make further improvements.

We can reduce emissions by mixing five percent biofuel in diesel oil and we can reduce emissions ten percent by means of more efficient vehicles.

Well-trained drivers can reduce both fuel consumption and emissions by a further ten percent.

More efficient utilisation of cargo capacity in existing vehicles could spare the environment further. Today a third of them drive empty. Hundred percent utilisation is impossible to achieve, but ten percent could be saved by more efficient loading.

If longer, heavier vehicles - such as those we have in Sweden and Finland - were allowed throughout Europe, this would represent a major step.

Aside from our more long-term research and development work, the new truck range has drawn extensive resources in recent years.

In the new truck range, we have succeeded in lowering fuel consumption by means of smarter electronic control systems and improved aerodynamics. We have reduced weight by 275 kilos, thereby boosting cargo capacity. We have designed components and systems for higher availability.

Availability, the uptime when a truck is actually in operation and not standing in a workshop for service and maintenance, is of vital importance to a haulier's economic situation.

Another field is road safety. Improved road safety is a guiding principle for Scania. Our work is based on making vehicles as safe as possible. It is a matter of collision zones and underrun protection, but also of designing controls and functions that help drivers to continuously maintain full control of their vehicles.

Today we are working with a new development concept: constant introductions - or continuous improvements. We constantly introduce changes and improvements at production units, and each new Scania is a little better than the preceding one.

We will continue to invest heavily in research and development, and the needs of customers will determine its direction at all times.

These were a few examples.

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Thank you, Hasse Johansson.

Throughout Scania, we work with continuous improvements - not only of our products, but also in our production and service organisation.

In Europe, we have concentrated our component production in Sweden. Component production should occur in one place so that production and development units can collaborate in the best way.

Engines are now manufactured in Södertälje, gearboxes in Sibbhult, axles in Falun, frame members in Luleå and cabs in Oskarshamn.

We actually believe in Sweden as a manufacturing country. We have boosted the number of vehicles manufactured per employee from 2.3 in 1990 to 5.3 today.

But vehicle assembly is done near the market, in order to reduce transport costs. At the same time, we are continuing our integration closer to customers.

In Europe, we ourselves own a large proportion of the sales and service organisation. In that way, we gain direct contact with our customers.

Aside from vehicles, we sell services, repairs, maintenance, roadside assistance, driver training, insurance and financing.

Service sales have become a significant source of revenue for Scania's long-term profitability.

We are also continuing to build strategic alliances with various partners, in order to ensure expertise in various fields of technology and to share development costs.

For 15 years we have worked together with Cummins on fuel injection systems, and for the past several years with MAN when it comes to axles and gearboxes. We also have alliances with the Japanese manufacturers Hino and Yanmar.

A few words about our future.

A major economic expansion is under way in Central and Eastern Europe. New roads, maintenance of buildings, water supply and wastewater systems, new factories.

We will see higher average growth there than in Europe as a whole during the next ten to fifteen years.

In the Far East and the Middle East, we foresee good future growth. There, too, construction is booming. Demand for technically advanced heavy trucks is still limited in certain markets, for example China and India.

For many years, most markets will demand increasingly sophisticated transport equipment, and here our market will increase.

To meet a growth in demand of between five and six percent annually, we are continuing to invest in our production network. We are methodically eliminating bottlenecks in order to successively increase our capacity, but it is not enough to invest only in machinery. Systematic development of employee skills and leadership are necessary preconditions for our expansions.

Ladies and gentlemen, Scania is a successful company. We have every reason to be proud.

Scania is a premium brand - a strong brand that enjoys the highest prestige in the market. The only way of earning this prestige is by always putting the customer first.

“There are two kinds of truck drivers, those who drive a Scania and those who wish they did....”

Our customers have to feel security and pride in their investment. They know they have access to the collective knowledge of 30,000 dedicated Scania employees.

Scania is like a gigantic football team, where all the players are equally important to the final outcome.

I would thus like to extend my sincere gratitude to all employees for their dedicated contributions during the past year. Given the fine team spirit and passion that exists in our organisation, I am convinced that we face a bright future.

Thank you for your attention.