

**Address by Leif Östling, President and CEO, at the Scania Annual General Meeting, 7 May 2002**

Ladies and gentlemen, shareholders and AGM participants,

A warm welcome to our Annual General Meeting here at the former Folkets Hus community centre in Södertälje.

Scania has completed another turbulent year in its now more than 110-year history.

The transport industry had a difficult year in 2001, both in western Europe and the United States. This adversely affected the demand for heavy trucks. In Latin America, an important Scania market, conditions were extremely troublesome.

In spite of this, Scania showed good earnings – best in class, with an operating income of SEK 2.5 billion.

We continued our systematic investments in development work, production and our sales and service network.

As one element of our increased focus on heavy trucks and buses, we have sold our car operations – our 50 percent holding in Svenska Volkswagen and the entire dealership group Din Bil – to Volkswagen AG in Germany.

Given the separation of brands that Volkswagen is now carrying out for cars in Europe, we would have needed to invest several hundred million kronor in Svenska Volkswagen's operations. This investment is completely necessary for Volkswagen, but from Scania's standpoint is impossible to defend. Our divestments must now be approved by the relevant authorities.

We have also taken the first step in a business alliance with Japan's leading truck manufacturer, Hino – an alliance that offers many positive opportunities.

After Brussels rejected the proposed Volvo-Scania merger, Volkswagen became the leading industrial owner of Scania. This has provided Scania's Management and organisation with a calm working situation.

We have now been able to focus our energies on our core business. And our customers have regained their confidence in Scania as a long-term supplier of heavy trucks, buses and engines. We are now concentrating on developing Scania's business throughout the value chain all the way to the customer. Today we have more employees in our service workshops, with direct customer contacts, than we have in our component and assembly workshops.

We are focusing on creating value-added for our customers and for Scania, and thus for all of you shareholders. Running a successful heavy truck, bus and engine business is all about providing the right product with the right back-up, with availability as a key concept. Our objective is to give our customers – professional transport operators – the highest revenue at the lowest cost possible.

This, in turn, also creates the potential for us to earn high revenues and good margins as a supplier. Our basic philosophy is to develop and manufacture trucks, buses and engines and build a first-class service organisation around these products, while offering high availability. This provides major advantages as we integrate our operations to work even closer to the customer.

What, then, happened at Scania during 2001? We worked intensively again to find the right future path after a turbulent ownership period during 1999 and 2000.

Last year we bought the remaining shares in Beers – our sales and service business in the Netherlands. During the next few years we will gradually be introducing Beers' profitable concept for taking care of the customer and providing comprehensive service throughout our European organisation.

In product development work, costs have risen. This represents our investment to ensure future revenues. During the ownership turbulence, we lost a great deal of momentum. In spite of everything, we learned a great deal from Volvo during this period.

But since then, we have had to devote sizeable resources, both human and monetary, to catching up again and meeting the new requirements. We have many interesting products in the pipeline, which will be presented in a few years.

We have also taken a major step in restructuring our European production system. Component production has been concentrated in Sweden. Meanwhile, assembly operations have expanded in Zwolle, the Netherlands, and Angers, France.

Engine manufacturing is now gathered in Södertälje, axle manufacture in Falun, gearboxes in Sibbhult and cabs – after this year's summer holiday period – in Oskarshamn. All this means that we will have moved some thousands of industrial jobs to Sweden.

The next step will be assembly of bus chassis, which we will co-ordinate with truck operations in Södertälje during the second half of 2002.

Since the mid-90s we have had a close exchange of information with Toyota, when it comes to production philosophy. As far as I can judge, Toyota is by far the most efficient car company in the world. We have tried to understand their production philosophy and have applied it to our production of trucks, which occurs in short series, tailor-made for a specific customer.

For the past couple of years we have had a massive programme underway, with our own Scania Production System – a way of thinking that results in substantial gains in

terms of efficiency and flexibility. In the Scania Production System, the focus is on people, not machines and computers. We have made progress in implementing this system, and we are seeing great dedication from our employees. Quality is improving step by step, and thereby also productivity.

Two years ago, we saw that this way of thinking and working is efficient. Throughout the strong upturn in the western European market to a rate of 250,000 heavy trucks per year, our production units had such flexibility that we were able to maintain a short delivery time of three to four months. In addition, the new way of working increased job satisfaction among our employees, which led to reduced absenteeism and fewer accidents in our workshops. A win-win situation for everyone.

Ladies and gentlemen,

Last year was, in many respects, a troublesome year. By late 2000, with crude oil prices exceeding USD 35 per barrel, we were convinced that the demand for heavy trucks would fall dramatically. The transport industry is sensitive to higher oil prices, since fuel accounts for more than 30 percent of costs.

In October 2000, we therefore decided to accelerate the delivery of the trucks in our orderbook, something that was possible thanks to our flexible production system. We followed the simple rule that it is better to have an invoiced truck in hand than one that is on order and that can be cancelled. This meant that we entered 2001 with a very small order backlog.

The western European market also shrank during 2001, but not quite as quickly as we had estimated. Due to our strategy of invoicing our orderbook as fast as possible late in 2000, we also lost market share in western Europe in 2001. During the fourth quarter of 2001, we made a comeback and regained market share, a trend that continued during the first quarter of 2002. And today we are back at a 15 percent share. Meanwhile our order bookings have risen somewhat.

In central and eastern Europe, sales developed nicely in 2001, with Russia providing the biggest surprise. We have a good sales and service organisation in most of these markets. And there are plans for further improvements. In my judgement, we stand very well equipped to handle the volume of western European type heavy trucks and buses that these markets will be demanding to an ever-growing extent.

Markets in the Far East also developed nicely. We have a presence in most of these markets, but logistics systems and equipment requirements are different compared to Europe. And our market niche represents no more than about 25 percent of the total market.

For this reason, it has been natural for us to find a business partner in the region. Through the contacts we have had with Hino in Japan since the early 1990s, we have now signed an agreement on close co-operation. Our companies complement each other well. Both Scania and Hino are premium brands. Hino is very good at light and medium-sized trucks, while we know heavy trucks. Geographically, we also complement each other.

Another element of our co-operation is a 7 to 8-litre engine family, which we can use for certain bus models and our smallest trucks. In the long term, our co-operation will provide other opportunities, but we will return to these when the time comes.

In the Middle East and Africa, demand was at a stable but low level.

Developments in Latin America during 2001 were very dramatic. The Argentine economy collapsed and the market died completely. It will probably be another year or so before the contours of a new economic policy become clear. During this period we will see a weak market for heavy trucks and buses.

Brazil suffered both energy rationing and a steadily weaker currency. The situation stabilised only late in the year. Developments in these two countries contributed to the worst year of losses for Scania since we began our Latin American operations.

Ladies and gentlemen,

What steps have we taken, then, to decrease our costs in Latin America and Europe?

In Argentina we have reduced wages and salaries by 20 percent and have trimmed the workforce by an equal percentage. We have also been helped by the currency, which has moved from one peso per dollar to 3 pesos per dollar. Today our Argentine factory has a cost level per gearbox 20 percent below the European level, compared to 45 percent above it six months ago.

In Brazil we had both a cost and a price problem. Directly or indirectly, 60 percent of our costs are in dollars. Given a sliding depreciation of the Brazilian currency – the real – our margins rapidly shrank. In November we decided to impose sharp price increases in order to restore our margins.

We are now beginning to see decent gross margins, and our break-even level has halved. In the short term, we have paid for this with a lower market share. But as you know, you do not live on market share, but instead on healthy gross margins. In my judgement, our Latin American operations are now moving towards positive earnings.

In Europe, we are restructuring our bus and coach operations. They had shown significant losses during the past year, nearly SEK 400 million for chassis and body-building operations.

We are not alone in this regard. Instead our competitors, such as Volvo and MAN, are also experiencing loss levels on their bus operations in the SEK 500 m. range.

In particular, the price levels for city buses are far too low and are the main source of losses in the industry. It is naturally unreasonable for the shareholders of vehicle companies to be paying billions of kronor to subsidise European public transport systems.

In October we decided to carry out a radical restructuring of Scania's bus and coach operations. During this year's summer holiday period, bus chassis production will move from Katrineholm to Södertälje. We will thus be following the same concept that we apply in São Paulo, that is, bus and truck chassis production occurs in the same place. This enables us to double the productivity per employee.

A bus chassis is largely the same as a truck, though it has no cab. Bus bodybuilding, on the other hand, is something completely different. It is a craft requiring an entirely different set of skills. For this reason, we have gathered our European bus bodybuilding operations in a separate company, Omni, with its main centre of operations in Katrineholm. Our bodybuilding operations in Silkeborg, Denmark have been sold.

During this year, and especially during 2003, we will see the full effect of this restructuring. Our bus and coach operations will then generate the same margin as our trucks.

We are continuing to expand our service-related operations in western Europe and we have set in motion an important project to utilise economies of scale in our service organisation.

We are systematically going through the methods in our service workshops and standardising these, according to the same successful philosophy as in our production. We estimate that the potential annual cost and efficiency gains here will amount to billions of kronor. This programme will have its full effect a number of years from now.

Ladies and gentlemen,

I would also like to take this opportunity to summarise the first quarter of 2002 in the following key words: Order bookings rose in Europe, sales were unchanged and – compared to the fourth quarter of 2001 – earnings rose.

I am often asked what Scania's strategy actually is. In the simplest terms, it can be formulated as follows: to earn enough money, in good harmony with our customers, employees, shareholders and other stakeholders; with a long-term profitable growth.

Scania has chosen to concentrate on heavy trucks and buses, using a modular product concept that gives each customer the opportunity to choose exactly the vehicle he wants. To Scania, it means having few components. This makes our product development work more efficient, and it leads to significant economies of scale, both in production and parts management. We manufacture most major components ourselves and thereby gain good control of our quality and our service-related business.

Scania's identity is based on the people who work in our global organisation – on the technology and quality they build into our products and into our customer service.

This is the foundation for the prestige enjoyed by the Scania brand among customers: a prestige that we at Scania do everything we can to live up to. Preferably, we should surpass customer expectations. And we can only do so with the help of dedi-

cated employees who – with a warmly beating Scania heart – develop our products, services and financing in the best interest of our customers.

A number of surveys show that Scania is the world's strongest brand name in heavy trucks. The Scania brand name has emerged organically, and naturally it reflects a strong corporate culture. But a strong brand name is also an implicit guarantee of quality – a guarantee that says we are always striving to meet the standards that our customers demand.

In conclusion, ladies and gentlemen,

Despite frequent speculations about its ownership situation, Scania has performed well.

There is a strong feeling of solidarity within the organisation and a tradition of doing the absolute best for our customers. I would like to take this opportunity to express my sincere gratitude to all our employees for their very fine contributions during this difficult past year.

Given the sense of unity that exists today throughout the organisation, I am convinced that Scania faces a bright future.

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