SCANIA

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Address at the Annual Meeting of Investor
on May 16, 1995 by Leif Östling, President and CEO of Scania

Mr. Chairman, dear shareholders:

Nineteen ninety-four was a good year for Scania. We benefited from a strong economic recovery in our most important markets in Europe. We also benefited from continued strong demand in Latin America and the Far East. Scania's income after financial items rose from 450 million Swedish kronor in 1993 to SEK 3,783 m. in 1994.

Today I can also announce that 1995 has begun well for Scania.

During the first quarter, our income after financial items totalled SEK 1,401 m., compared to SEK 540 m. during the same period of 1994, or almost a tripling of our income. Order bookings also rose 25 percent during the first quarter. Meanwhile the number of trucks and buses that we invoiced rose by 56 percent to nearly 11,000 vehicles, compared to about 7,000 during the same period last year.

Because of the prolonged recession, our customers have had a large pent-up need to update their fleets.

In Europe this need was amplified by economic expansion in central and eastern Europe, which led to extensive purchases of 5-10 year old trucks from western Europe. Combined with the small number of new purchases there during the recession, this has meant a dramatic increase in demand for heavy trucks since late 1993.

Today Scania's position in western Europe, our "domestic" market, is strengthening. In 1993 our market share was 11.4 percent. It grew to 12.8 percent in 1994. After the first quarter of 1995, it is around 15 percent.

Deliveries to Germany, France and Great Britain totalled more than 3,100 trucks, or double the level of the same period last year.

The market picture during the first three months of 1995 was also favourable in other markets around Europe. We also expect the rest of the year to be good.

The situation in Latin America is more complicated. Brazil remains Scania's largest single market and is showing outstanding growth for trucks and buses, as well as for industrial and marine engines. This trend has continued since the early 1990s, resulting in more than a doubling in demand for heavy trucks.

However, the Mexican peso crisis has affected the continent. This is especially true of the important Argentine market, where our customers are now having a hard time finding opportunities for financing.

The heavy demand in Brazil and the rest of South America are offsetting the situation in Argentina, however. Our fundamental long-term faith in the Latin American market is unchanged.

Late in 1994 Scania opened a new assembly plant in San Luis Potosí, Mexico in order to build up a strong market position in that country and in Central America.

The economies of East Asia continue to be strong. Scania's main markets in the region – Taiwan, South Korea and Indonesia – are growing. We just produced our five thousandth truck for South Korea.

Turning to the market for buses and coaches, demand did not rebound last year as it did in the truck market. Towards the end of 1994 there was some improvement. Today we can confirm that this improvement also continued during the first quarter of 1995.

Bus building in Europe today is undergoing a major restructuring process. The producers of bus chassis – or the running gear of buses – are now rapidly buying up manufacturers of bus and coach bodies.

Today about 60 percent of buses and coaches in western Europe are being built in finished form by a single supplier. The number is rapidly approaching 70 percent. Scania's acquisition of DAB, a bodybuilding company in Denmark, is one example of this restructuring process.

In western Europe, the bus market is expected to show rather calm growth over the next few years, since local authorities are buying transport services to an increasing extent from private carriers. This is one result of the on-going deregulation of public transport.

We see especially large market potential for buses and coaches in central and eastern Europe, South East Asia and Latin America.

Aside from our vehicles, Scania's industrial and marine engine operations and aftersales services are also developing favourably.

Today our technical capacity is about 50,000 vehicles per year. The assembly plant we built in Angers, western France, during the depths of the recession gave us a great deal of flexibility, enabling us to rapidly increase production in Europe – once the economic recovery had begun.

We do not need to build any new factories to further increase our capacity in western Europe and Latin America. We are improving our productivity by streamlining production. We are intensifying our employee training, shortening production and distribution lead times, and utilising our equipment and floor space more efficiently. This enables us to raise our capacity gradually, with relatively small investments. Scania's technical capacity is not static, but is growing steadily.

The results of this work are measureable.

I can describe the trend of productivity at Scania as follows:

In 1989 Scania built 36,000 vehicles – a record number. This represented fewer than two vehicles per employee. By the end of 1994, production had risen to an annual rate of 2.7 vehicles per employee. During this five-year period, the number of production employees had meanwhile fallen by about 3,500. During 1995 there are many indications that we will reach 3 vehicles per employee. Towards the end of the 1990s, our goal is to turn out 4 vehicles per employee, with unchanged value-added. We will need to achieve this if we are to compete in the world market with sustained profitability.

To meet these challenges, it is crucial for us to continue developing and streamlining the work processes under way in our global marketing, production and development organisation. Scania has also integrated its quality-raising efforts into these processes, and in early 1994 was the first major engineering company in Sweden to be quality-certified according to ISO 9001 international standards.

After Saab-Scania has ceased to exist, Scania will move forward on its own. For those of us at Scania, this is a very exciting challenge. Our company and product will have the same name. This in itself will generate a positive dynamic effect.

In closing, I would like to thank Lars V Kylberg and the members of Saab-Scania's Board of Directors of Saab-Scania, who have always shown a genuine commitment to Scania. They made courageous decisions on our development programmes and our investments in capacity and marketing during the difficult years of the early 1990s. Today we are reaping the fruits of those decisions.

Thank you, Mr. Chairman.