ANNUAL REPORT 2005

ROAD SAFETY QUALITY UPTIME DRIVER APPEAL FUEL ECONOMY RELIABILITY

SCANIA

SCANIA'S MISSION is to supply its customers with high-quality vehicles and services related to the transport of goods and passengers by road. By focusing on customer needs, high-quality products and services, as well as respect for the individual, Scania shall create value-added for the customer and grow with sustained profitability.

DRIVER ENVIRONMENT MODULAR SYSTEM BUSINESS PARTNER RESEARCH PERFORMANCE

CONTENTS 2005

OPERATIONS

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“We strengthen the competitiveness of our customers”.

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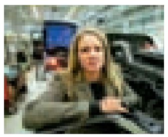

“Scania’s trainee programme was my first choice”.

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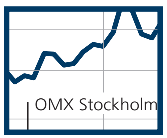

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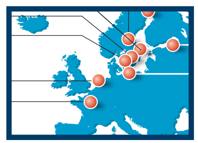


The English version of Scania’s Annual Report is a translation of the Swedish-language original, which is the binding version and shall prevail in case of discrepancies. Translation: Victor Kayfetz, Scan Edit. The Financial Report encompasses pages 52–91 and was prepared in compliance with International Financial Reporting Standards. The Report of the Directors and accompanying financial reports also fulfil the requirements of the Swedish Companies Act. It encompasses pages 4–41 and 48–91 and has been audited by Scania’s elected auditors.

Scania’s Swedish corporate identity number: Scania AB (publ) 556184-8564.

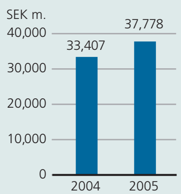
Unless otherwise stated, all comparisons in this Annual Report refer to the same period of the preceding year.

Scania develops and manufactures trucks and buses for heavy road transport as well as industrial and marine engines. A growing proportion of its operations consists of service-related products and customer finance, which guarantee Scania's customers cost-effective transport solutions and high uptime. Scania operates in about a hundred countries and has more than 30,000 employees.

VEHICLES AND SERVICE

Trucks

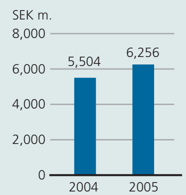
Sales revenue



Scania develops, manufactures and markets trucks with a gross vehicle weight of more than 16 tonnes (Class 8), intended for long-distance, construction and distribution haulage.

Buses

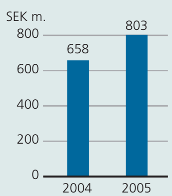
Sales revenue



Scania's bus and coach operations focus on buses with high passenger capacity for use as tourist coaches and in intercity and urban traffic. Operations focus on close collaboration with selected bodybuilding companies in order to offer the customers complete vehicles. Scania carries out bodybuilding of city buses in its own subsidiary Scania Omni.

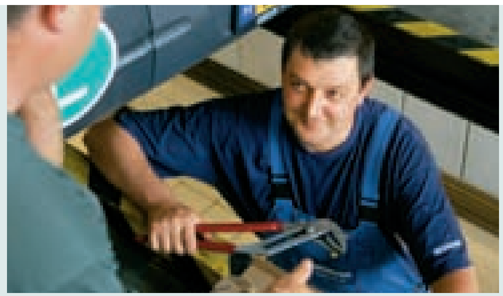
Industrial and marine engines

Sales revenue

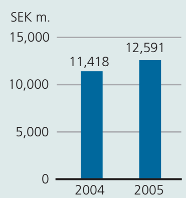


Scania's industrial and marine engines are used in a variety of applications at sea and on land. Their starting point is always Scania's basic engines, which are adapted to customer requirements and needs.

Service-related products



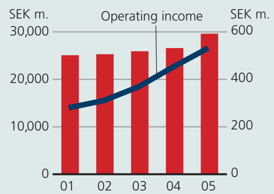
Sales revenue



By continuously expanding its range of service-related products, Scania guarantees its customers high uptime and cost-effective transport solutions.

CUSTOMER FINANCE

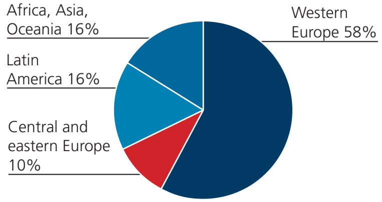
Size of portfolio



Customer Finance

Financial services are an important part of Scania's complete product range. For customers, financing is often one element of cost-effective comprehensive solutions for their transport business. Customers can choose between loan financing, various forms of leases and insurance solutions.

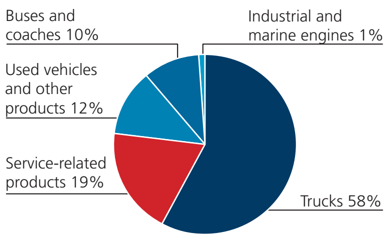
Vehicle deliveries by market area, 2005



Revenue in Scania's ten largest markets, Vehicles and Service

SEK m.	2005	2004	Change in %
Great Britain	7,787	7,744	1
Brazil	4,968	3,815	30
Sweden	3,947	3,499	13
Germany	3,928	3,816	3
France	3,901	3,545	10
The Netherlands	3,785	2,448	55
Italy	3,445	3,276	5
Spain	3,318	3,205	4
Norway	3,052	2,220	37
Finland	2,813	2,482	13

Sales revenue by product area, 2005



KEY FIGURES	2005	2004
Deliveries, units		
Trucks	**52,567**	50,563
Buses	**5,816**	5,519
Total	**58,383**	56,082
Sales revenue, SEK m.		
Vehicles and Service	**63,328**	56,788
Operating income, SEK m.		
Vehicles and Service	**6,330**	6,149
Customer Finance	**529**	450
Total	**6,859**	6,599
Operating margin, percent	**10.8**	11.6
Income before taxes, SEK m.	**6,765**	6,276
Net income, SEK m.	**4,665**	4,316
Earnings per share, SEK	**23.33**	21.57
Cash flow, Vehicles and Service, SEK m.	**3,865**	2,685
Return, percent		
on shareholders' equity	**20.8**	21.8
on capital employed, Vehicles and Service	**27.9**	29.0
Net debt/equity ratio, Vehicles and Service	**0.01**	0.05
Equity/assets ratio, percent	**30.3**	30.3
Net capital expenditures, Vehicles and Service, SEK m.	**3,597**	2,798
Research and development expenditures, SEK m.	**2,480**	2,219
Number of employees, 31 December	**30,765**	29,993

New customer demands create business opportunities

Road transport is a growth industry. At the same time, it is keenly competitive. Our task is to help our customers become competitive by increasing their revenue while lowering their costs.

Efficient transport and logistics systems are increasingly vital competitive factors for both trade and industry. This means that Scania's customers – a wide variety of transport companies – are playing an increasingly important role in how competitive their own customers are.

Scania also runs its business with a focus on the customer. Our new truck range, which received the "Truck of the Year 2005" award, was developed to provide uptime, cargo capacity and optimal fuel economy. This truck range has now been in the market for nearly two years, and we are very pleased that it is meeting the high expectations of customers. Better fuel consumption and high quality contribute to good operating economy. A vehicle's fuel economy is a matter of both the vehicle and the driver's skills. High uptime applies both to vehicle quality and to providing access to service at times that fit customer needs.

Scania was the first to sell vehicle engines that fulfil the tougher Euro 4 exhaust emission standards. With the engines that were introduced during 2005, Scania can now offer a complete engine range that fits the varying needs of customers. A new gearbox series was also launched.

During 2005, we introduced an entirely new bus and coach range for urban, intercity and tourist services in Europe.

Industrial and marine engines has yet another successful year behind it. Continued high order bookings show that Scania's engines are highly competitive. In this field, too, there are growing demands for environmentally efficient engines. The research that we pursue for trucks and buses is also put to good use in meeting the emission standards for industrial and marine engines. The entire product portfolio is thus new and has never been stronger.

The foundation of Scania's success is the company's long-term focus on the customers: The customer always comes first, and new products are developed on the basis of changing customer needs. Scania has evolved from a manufacturer of trucks and buses into an integrated supplier of vehicles, services and financing. Today we have about 50 percent of our assets in the sales and service organisation, compared to 20 percent only 15 years ago.

Our customers focus increasingly on their core businesses and on reliability. Meanwhile the technological complexity of their vehicles is increasing. This makes it unviable for many customers to run their own workshops

“By using our network and all our competence, Scania can do even more to strengthen the competitiveness of our customers”.

any longer. The need for advanced skills and special tools, as well as the diminishing number of workshop visits, are making their workshops unprofitable. Instead they are seeking a partner that will ensure the operation of their trucks or buses and also provide other services. This creates new business opportunities for Scania. By using the entire Scania network and all our competence, we can further help to strengthen the competitiveness of our customers. If we offer customers a well-developed range of services, we can increase our pace of growth while strengthening our customer relationships.

In Europe, Scania has chosen to concentrate the production of its main components to Sweden. Production should take place close to research and development. Final assembly should preferably occur close to markets. Employee dedication to the task of making continuous improvements is yielding additional productivity gains. We also review our production structure continuously, in order to ensure efficiency and competitiveness. In the autumn of 2005, we initiated such a review of gearbox and axle component production.

Scania continues to prioritise drivers. More than 13,000 young drivers from 26 European countries participated in Young European Truck Driver 2005 – a competition in safe and fuel-efficient driving, carried out with the endorsement of the European Commission. Similar competitions also took place in Asia, South Africa and Latin America. A total of nearly 30,000 drivers participated in these competitions. The purpose is to help raise the status of the professional drivers and underscore the important role of drivers in both road safety and the profitability of haulage companies.

At the beginning of 2005, there was considerable uncertainty about developments in the truck market. In retrospect, 2005 turned out to be the best year ever in terms of the number of heavy truck registrations in Europe, and another strong year for Scania.

Europe is Scania’s largest market, with good prospects for continued growth. The flow of used vehicles from western Europe to central and eastern Europe contributes to strong demand for new vehicles. Continued rapid economic growth in central and eastern Europe is creating an expanding market. Latin America is another important market for Scania and Asia will become an increasingly significant growth market.

Continued uncertainty about oil prices and European economic prospects makes it difficult to estimate demand in the near future. The introduction of new emission standards this coming autumn is another uncertainty factor. In the long term, however, the demand for heavy vehicles will increase. In the future, our target is to sell 100,000 vehicles per year.

We have laid the foundation for this growth. We are successively adapting our production system to higher demand and increased productivity. The new product range – trucks, buses and engines – is stronger and broader than ever before. We are continuously developing new services.

Behind Scania’s success is the hard work of all employees in the organisation. The contributions, attitudes and dedication of everyone are what generates success and competitiveness. I attach great value to the work they perform and look ahead with confidence. Together we will continue to develop Scania’s business – for our customers, employees and shareholders.

Leif Östling
President and CEO

Important events

In 2005 the last bonneted T-model left the assembly line in Brazil.

Lars Tegnelius of Scania receiving the prestigious Swedish Technology Award from the Swedish Crown Princess Victoria.

Scania Truck Gear was unveiled in October at the European Road Transport show in Amsterdam.

A year of road safety initiatives

During 2005 Scania carried out its second Young European Truck Driver competition. The final was decided in Södertälje on 17 September. A young Belgian, Laurens D'Huyvetter, won the first prize – a new Scania truck. Finalists from 26 European countries participated. Concurrently, Scania carried out similar competitions for example in Argentina, Brazil, South Africa and Taiwan. A total of 30,000 drivers participated in these competitions.

Meanwhile Scania organised seminars and other events on the theme of road safety for politicians and representatives of the transport industry and public authorities. Scania received a Prince Michael International Road Safety Award. The company was nominated for this award for its efforts to improve knowledge among professional drivers and for its continuing work to develop vehicles that are safer on the road.

For the fourth time since 1999, Scania organised a transport conference in Brussels, where it unveiled two road safety initiatives. One is that Scania will support the World Health Organisation (WHO) in its worldwide road safety work. The other is that Scania is taking steps to offer the in-service driver training that becomes mandatory for EU bus and truck drivers starting in 2008 and 2009, respectively.

100th anniversary of Scania industrial engines

A century has passed since Scania delivered its first industrial engine. In 1905 the fire brigade in Stockholm, Sweden installed a four-cylinder Scania 24 hp engine on a fire pump.

Industrial and marine engines had a highly successful year, with record order bookings and engine deliveries.

Many powertrain innovations

At the European Road Transport show in Amsterdam in October, Scania's powertrain innovations were unveiled. This included a complete range of Euro 4 engines, among them the most powerful V8 engine in the market, and some Euro 5 engines tailored for international long-haul transport companies. Scania also presented a new generation of gearboxes.

First with Euro 4 engines

In January 2005, Germany introduced a highway toll system based on a vehicle's environmental impact. Lower tolls are charged for trucks with engines that meet future environmental requirements in advance. As early as September 2004, Scania became the first manufacturer able to deliver trucks equipped with engines that meet the Euro 4 standard, which becomes mandatory in the EU in October 2006. Early in 2006, Scania also began delivering its first Euro 5 engines.

Award for advanced engine technology

Scania's development efforts in EGR combustion technology received the newly established Swedish Technology Award, presented by technology weekly *Ny Teknik* in collaboration with the Swedish Agency for

Scania's new trucks attracted a lot of attention at the 2005 European Road Transport show in Amsterdam. Cecilia Edström, Scania's head of Corporate Relations; Leif Östling, President and CEO; and Hasse Johansson, head of Research and Development, spoke at the press conference.

A new bus and coach range was launched just over a year after the introduction of the new truck range. The development of the new buses and coaches involved greater component sharing between trucks and bus chassis.

Innovation Systems (Vinnova). Lars Tegnelius, the engine development engineer in charge of Performance and Emissions, received the prestigious award in recognition of his development work, which uses an innovative approach to lower both nitrogen oxide and particulate emissions from Scania's diesel engines.

Clothing for professional drivers

During the year, Scania developed a collection of clothing adapted to a truck driver's workday and leisure time – Scania Truck Gear. During 2006 more than 30 garments will be sold at Scania dealerships.

New bus and coach range

Scania's new bus and coach range was a major attraction at October's Busworld trade show in Belgium. The new range includes many innovations that improve fuel economy and uptime, make bodybuilding easier and enhance driver appeal.

Milestone in Brazil

A historic milestone was achieved in 2005. Since Scania began to supply markets in Asia and Africa with vehicles from Brazil, exports from there reached 10,000 vehicles.

Scania wins international awards

Scania was awarded the environmental prize – Premio Europa – of Spain's haulage association (CETM) and the trade publication Transporte Professional for offering truck engines as early as during 2004 that meet the environmental standards that will be introduced in October 2006 (Euro 4).

Scania is one of Brazil's most admired companies, according to a survey by the business periodical Carta Capital. High-quality products and services, as well as customer relations in general, were decisive factors. For the third consecutive year, Scania was named best truck manufacturer with the most professional marketing organisation.

Profitable growth

Scania's strategy is to achieve long-term profitable growth. It does this by investing in human resource and product development, continuously improving its productivity and strengthening its service business.

Scania is a leading company in the development, manufacture and servicing of heavy road transport vehicles. Europe is its largest market, with continued good growth potential. Latin America and Asia also have good potential for profitable growth.

Scania's modular product system, with standardised interfaces between a limited number of main components, allows a high degree of customisation, while keeping down the cost of product development and production as well as simplifying parts management. A high degree of customisation leads to high customer value and gives the customer better overall operating economy.

Understanding the customer's business

Understanding the needs of the customers at an early stage is a precondition for developing competitive products. Along with vehicles, Scania develops service and financing solutions, which further contribute to the customers' competitiveness. The aim is to be a leader in a number of important areas such as fuel economy, cargo capacity and uptime.

Scania's core values

All of Scania's operations are based on three core values: *Customer first, Respect for the individual and Quality.*

The focus must be on the customer when Scania makes strategic decisions, whether they concern investments in research and development, in production or in sales and service operations. Being familiar with the customers' business is vital in order to make the right decisions.

Respect for the individual is a key element of leadership at Scania. All employees must feel that they are respected by their colleagues and supervisors. The knowledge, experience and attitudes of individuals are what creates higher quality and efficiency. All employees know that the profitability of Scania's customers is dependent on the quality of vehicles and services as well as the availability of the service network. Quality is

Vision

Scania's vision is to be the leading company in its industry by creating lasting value for its customers, employees, shareholders and other stakeholders.

Mission Statement

Scania's mission is to supply its customers with high-quality heavy vehicles and services related to the transport of goods and passengers by road. By focusing on customer needs, high-quality products and services, as well as respect for the individual, Scania shall create value-added for the customer and grow with sustained profitability.

Scania's operations specialise in developing and manufacturing vehicles, which shall lead the market in terms of performance and life cycle cost, as well as quality and environmental characteristics.

Scania's sales and service organisation shall supply customers with vehicles and services that provide maximum operating time at minimum cost over the service life of their vehicles, while preserving their environmental characteristics.

SCANIA'S STRATEGY

Concentration on heavy transport vehicles

Scania's operations focus on heavy transport vehicles, the segments where the demands – along with the margins and profitability – are the highest. A customer pays more for a highly specified vehicle than for a standard product. Vehicles in the heavy segment are also driven long distances and have a high degree of utilisation, which provides substantial service business.

Modular product system

With Scania's modular product system, the customer can specify the vehicle he or she wants. The more closely vehicles and services can be matched to a transport task, the better the customer's operating economy will be.

The modular system is important to Scania's development, production and product quality. It also simplifies parts management, contributes to a higher service level and makes it easier to train service technicians. The modular system provides a carefully balanced number of main components with great flexibility. This allows considerably longer production runs than is possible in a conventional product system.

Integrated business – vehicles, services and financing

Scania offers its customers combinations of vehicles, services and financing that contribute to their business operations. Scania's customers often use their vehicles round-the-clock and require maintenance and repairs at all hours of the day or night from our service organisation. Customer financing is another important element of Scania's complete product offering.

Focus on growth markets

Scania has a presence in markets with potential for profitable growth. Scania's main markets – Europe, Latin America and Asia – have good potential for long-term growth. An increasingly borderless Europe, with growing economies and an enlarged EU, offers major opportunities.

In Latin America, there is an increasing demand for vehicles and service as an ever larger share of both goods and passenger traffic utilises heavy vehicles. Asia is a long-term growth market. The infrastructure is improving and logistics systems are developing.

a precondition for sustainable profitability and thereby generates value-added for both customers and Scania's shareholders.

One key concept in Scania's way of working is *continuous improvements.* Identified deviations from established goals and strategies are viewed as an asset, since they show the potential for improvements. Another key concept is *doing it right the first time.* This means that every person assumes responsibility for the quality of the work he or she performs. Throughout the Scania organisation, the same common principles apply to how work should be carried out. These working methods are continually evaluated for the purpose of making improvements.

The strategic process

Scania's strategic process is based on employee participation throughout the organisation and continuous evaluation. The Executive Board reviews the strategy of all operations according to a set schedule. These strategies are assessed from a global perspective and updated to take into account market developments and new guidelines from the Executive Board. The implementation of strategies is discussed at meetings with the Group Management, which consists of the heads of Scania's various fields of operations. Once a year, managers from the entire Scania organisation meet at the Global Management Summit. This conference focuses on overall strategy and top-priority tasks.

Growth generates demand

Economic growth leads to greater demand for the transport of goods and passengers. There is a growing need for safe, efficient transport, but the transport industry must also deal with increased congestion on the roads and calls for lower environmental impact.

Economic growth was good in most of the world's regions – despite high oil prices, global economic imbalances and threats of new terror attacks. Capacity problems at refineries and heavy demand from such countries as China and India point towards continued high oil prices. Increased demand for such commodities as steel and aluminium are also driving up manufacturing costs. This is leading to an increased need for streamlining and efficient use of resources.

Economic development

The demand for transport of both goods and passengers is dependent on the economic development of countries and regions. In recent years, economic growth on all continents has led to increased demand for heavy transport vehicles.

Global buying behaviour

Despite a lack of harmonisation in legal requirements, European manufacturers are regarded as setting the global standard for heavy vehicles in terms of environmental performance, safety and quality. The European way of buying trucks, i.e. buying a complete vehicle from one manufacturer, is expected to gradually take over as the global buying pattern. This differs from the American system, where the buyer often chooses an engine from one manufacturer, a gearbox from another and axles from a third.

Servicing vehicles is becoming an increasingly complex business. Customers require round-the-clock access to their vehicles, and there are growing demands for workshop availability as well: for highly skilled employees, but also for longer opening hours, special tools and trouble-shooting equipment. As a result of this trend, smaller workshops are either disappearing or specialising in minor maintenance work.

Given the service needs in developed countries and increased customer demands in developing countries, new competitors from such countries as China and India are facing difficulties in delivering the quality solutions for both vehicles and service that customers expect.

At the right time and in the right place

Modern society needs a smoothly functioning infrastructure in order to work. Economic growth generates both the need and the preconditions for investments in road infrastructure. The higher value-added of the goods being produced makes logistics an important competitive tool.

Traditionally, different modes of transport such as roads, railways, ships and aviation have been viewed as competitors. The challenge is to enable all modes of transport to function as efficiently as possible, individually but above all in collaboration.

Today all buyers of transport services – for both goods and passengers – suffer major costs because of waiting. A capacity shortage at a port or a train terminal, or traffic jams on the roads, affect everyone in the form of higher costs for delays, reloading requirements etc. A lack of road investments involves costs to society, due to both wasted time and fuel. In some countries, unnecessary use of fuel is estimated at nearly one fifth of the total fuel consumption for transport services.

leading to unwanted waste and environmental load.

Innovation and technical development in the transport industry were key factors in world economic development during the 20th century, and competency in transport and logistics is invaluable to our future prosperity as well.

Keeping pace with the demands of customers for new, innovative solutions is a challenge. Today trucks are the only competitive mode of transport for distribution and local haulage services in developed countries.

For long-haul transport services, in today's well-organised "just-in-time" systems with their small inventories, only trucks offer the flexibility and reliability to be competitive. Railways and ships are the main alternatives for carrying high-volume goods over very long distances and for transporting bulk cargoes with low value per unit of weight. Air freight is a logical choice for goods with extremely high value per unit of weight.

Efficient cargo transport services

Because of globalisation and increased competition, manufacturing costs are not alone in determining the final price of goods. The costs of obtaining materials for factories and of transporting finished products to the end customer have become a large part of total product cost. How cost-effectively a company organises its logistics is becoming an increasingly important competitive tool. One way of improving efficiency, for example, is by using various optimisation systems to reduce the number of empty runs in trucks.

Hauliers today face greater demands from buyers of transport services regarding everything from quality and punctuality to geographic coverage, specialisation and lower prices. The yearly utilisation of trucks is rising. Over the past decade, the annual mileage of a long-haul truck in Europe has increased from about 160,000 kilometres per year to well above 200,000 km. Today many of these trucks are running 24 hours a day, seven days a week. They are important elements of a sophisticated material flow. First making deliveries to production sites and later carrying goods from there to the customer – all as fast as possible, so that the producer can send an invoice and get paid as quickly as possible.

Open borders in Europe

The enlargement of the European Union has opened national borders, allowing faster and more reliable transport services throughout Europe. In spite of this, hauliers and drivers must cope with many different laws and regulations. During a simple journey through Europe, the driver must deal with numerous and sometimes contradictory rules. For example, highway tolls and highway taxes vary between European countries – some are based on the environmental impact of the vehicle, while others are based on the distance driven.

Flexible transports of people

Buses are a competitive mode of transport, both in cities and rural areas. They require no fixed investments such as tracks and terminals. Buses transport people from point A to point B in a flexible, environmentally efficient way.

In more and more markets, public transport is being deregulated, opening new opportunities for private urban traffic operators. Competition is often very keen, and this has led to consolidation in the industry. Having previously been dominated by local and often public sector operators, urban traffic around Europe is now dominated by a small number of private international operators.

Customers demand reliable transport services

Scania's operations and development are controlled by customers and their operations. Today's transport and logistics companies must deliver goods and transport passengers cost-effectively, quickly, reliably and just in time, every time.

Internationalisation, structural changes and increasingly active customers and consumers have transformed the transport industry. Demands for faster, more reliable and cheaper deliveries are forcing transport companies to streamline the flow of goods, services and information.

More and more hauliers are evolving into logistics companies with total responsibility for their customers' transport needs. Meanwhile many smaller haulage firms are specialising or becoming sub-contractors to large logistics companies. Such services as financing, insurance, short-term leasing, maintenance and driver training are in ever greater demand.

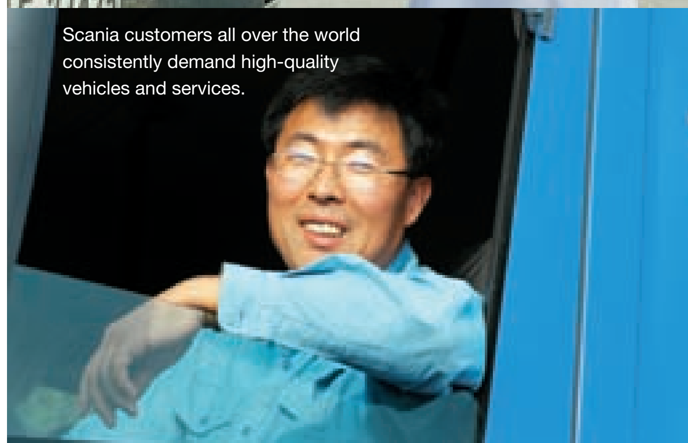
To satisfy new customer demands, in recent years Scania has made major investments in both product development and its sales and service network. This integration process in the organisation has created greater proximity to customers, who can choose the best and most cost-effective transport solution from a large range of vehicles, services and financing.

New laws affect customers

The operations of transport and logistics companies are also affected by political decisions and new legislation. During the autumn of 2005, the EU introduced tighter exhaust standards for newly developed engines, and starting in October 2006 the new standards will apply to new trucks and buses.

Scania was the first to offer engines that meet the new emission standards, and customers showed a high level of interest. Discounts on highway taxes and tolls for vehicles using the motorways in important transit countries such as Germany, Austria and Switzerland have made it profitable to invest in a truck that meets future environmental standards, even before these go into effect.

Another political decision that affects customers' operations concerns driver training. According to an EU directive, starting in 2008 and 2009, respectively, all professional bus and truck drivers in the EU must regularly undergo mandatory in-service training courses.



Scania customers all over the world consistently demand high-quality vehicles and services.

Reliable electricity supply

Our society is highly dependent on electricity, whether in our computers, in hospital operating theatres, at construction sites or during film shoots. In order to supply electricity where no power grid exists, or when ordinary electricity is not sufficient, the worldwide company Aggreko rents out power generator units.

Aggreko builds these gensets at its factory in Scotland and distributes them all over the world. A Scania engine is at the heart of some of these gensets.

"It was a long courtship before we chose Scania. We even contacted some large transport companies that use Scania trucks, in order to hear about their experiences," says Tom Sreeves, Director of Manufacturing at Aggreko.

"Reliability is simply vital to both us and our customers. A genset is a crucial component in a successful project, and our customers must be able to rely on this equipment."

The aim is to improve road safety, fuel consumption and environmental impact.

Truck customers

A customer's decision to choose truck is rarely just about the price of the vehicle itself. More important are the total revenue and costs that the vehicle generates during its entire service life.

For large transport and logistics companies, it is important to keep variable costs low. This is why they choose vehicles with high operating reliability and good fuel economy. At the same time, a good full-coverage service network has become as essential to these companies as reliable vehicles.

For the many small hauliers with one or a small number of trucks, a vehicle's dependability and reliability are often crucial. It is not unusual for the driver himself to own the truck. This is a major investment for an owner-operator, who thus needs help with financing. A cab with a good driver environment both for work and rest is another weighty purchasing argument for many owner-operators.

In many countries, there is a shortage of skilled, well-trained professional drivers. Driver skill is usually of crucial importance to operating cost, road safety and environmental impact. Transport companies thus increasingly need and want driver training.

Bus and coach customers

Scania's city bus customers are often private operators, in many cases active in more than one country. To a growing extent, they are demanding total transport solutions. Service and repair contracts, financing and traffic planning are examples of the elements that may be included in Scania's bus business.

Customers in the tourist coach and intercity bus segments previously composed their own vehicles by ordering the chassis from one manufacturer and the body from another. Today more and more customers want to buy complete buses from one supplier. Scania collaborates with selected bodybuilding companies in various countries and can thus offer complete vehicles to customers.

Industrial and marine engine customers

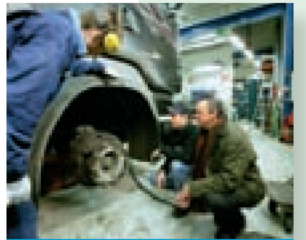
Scania's industrial and marine engines are used by customers in the manufacturing, maritime, generator unit and defence fields. Scania's role varies from supplying an engine to being a strategic partner deeply involved in the customer's development of new machinery and applications.

Customers often export their machinery and vessels all over the world. This means that Scania engines are found in markets where the service network is not entirely developed. Customers thus demand a higher standard of reliability and active customer support.

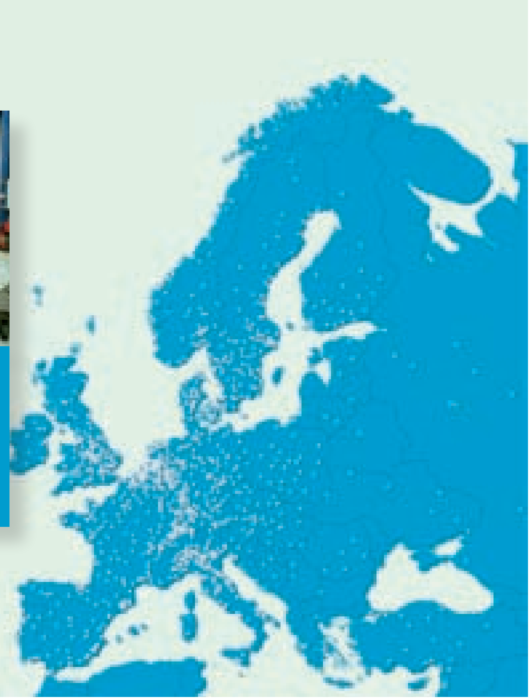
Tighter emission legislation is now also beginning to apply to industrial and marine engines, which affects both customers and manufacturers.

Closer to customers

During 2005 Scania took new steps to move its operations closer to the everyday reality of its customers and to become the customer's best business partner when it comes to vehicles, services and financing.



Scania's range of services grew during 2005 and its workshop business, where Scania has its closest contact with customers, expanded sharply in many markets.



Scania has 1,000 service points in Europe.

Over the past 15 years, Scania has made sizeable investments in sales and service operations and has thereby moved closer to its customers. Today more than 40 percent of Scania's employees work in its sales and service companies, compared to only 10 percent in the early 1990s.

The number of Scania vehicles on the roads is rising at a rapid pace, steadily increasing the importance of the service market. In the future, Scania's target is to sell 100,000 vehicles per year. Scania customers will thus soon have about 800,000 vehicles in operation – vehicles that need service, maintenance and repairs.

During 2005 Scania continued the expansion of its own operations close to customers. One example is the acquisition of the Universal Auto dealer group, with 171 employees and six sales and service facilities in western Belgium. The company accounts for about 15 percent of Scania's vehicle sales in the Belgian market. Another example is Scania's take-over of its distributor in Taiwan. At the end of 2005, Scania had about 1,000 service workshops in Europe. One third of these are wholly owned by Scania, compared to five percent in the early 1990s.

Economies of scale

Scania's investments in the sales and service network have considerable potential in the form of economies of scale, which the company is now focusing on utilising. One example is purchasing: Every year Scania's service network procures lubricants, engine oils and not least, energy for its facilities and workshops. Through concerted action, sizeable economic benefits can be achieved for both Scania's customers and the company itself. Standardised methods at service workshops supported by IS/IT-system are other areas with major potential.

Broad range of services

For many years, Scania has supplemented its role as a successful manufacturer of trucks, buses and industrial and marine engines by also providing a rich service offering. Scania's systematic development into a supplier of complete transport solutions continued during 2005.

Aside from service and maintenance contracts, there is a rich and growing range of customer finance in the form of lease, loan and hire-purchase options, today also supplemented by insurance solutions.

Offering customers advanced support during the entire life cycle of a vehicle also means greater security and better operating economy for customers.

Driver training

The demand for driver training is growing rapidly. A well-trained driver is easier on the vehicle, saves fuel and makes a major contribution to society in the form of fewer accidents.

In many markets and on several continents, Scania's global commitment on issues related to road safety has assumed the form of a wider range of driver training courses.

In Europe, Scania's distributors in France, Germany and Great Britain set a good example, with advanced driver training occupying a prominent place in their service range.

Brazil and South Africa – with their high road accident statistics – are further examples of countries where Scania has successfully run such training courses.

During 2005, Argentina, Brazil, South Africa and Taiwan implemented their own versions of the Young European Truck Driver competition, whose ultimate purpose is to stimulate improved driver skills and thereby improve road safety.

This represents a major contribution to society in the form of fewer accidents.

Ever greater customer demands

For Scania, the economic benefits of its growing service offering increase as the active population of Scania vehicles grows. This represents a stabilising factor in its total business: Whereas sales of new vehicles vary with economic cycles, the growing service market is much less cyclical.

The service market, with its increasingly dense network of workshops, is one of Scania's most important competitive factors, aside from the vehicles themselves. The background is the high level of customer demands.

Customers demand 24-hour access to service over large geographic distances. This, in turn, requires Scania to further enhance its competence and expertise, not only when it comes to the development and manufacture of vehicles, but also to an ever increasing extent when it comes to the ability to offer first-class service and maintenance.

The Scania Assistance network meets the demand for access to round-the-clock service. This service is available throughout Europe and is also provided in a

Juan José Abou, Managing Director of Scania dealer Icasa, and Ángel Luis Sánchez-Bolaños, MD of the bus company Global.

A fruitful partnership

A successful bus business is increasingly a matter of close, long-term relationships with both customers and suppliers. Scania's bus business in Spain's Canary Islands is a good example of this.

Two decades ago, the Scania dealer and one of the bus operators in this tourist paradise reached an agreement: "Let us be partners and grow together".

Scania's dealership Icasa, started in the early 1960s, imported the first Scania vehicles to the Canary Islands even before Scania established a presence on the Spanish mainland.

In the mid-1980s Global, one of the bus companies on the islands, wanted to outsource service and maintenance for its buses and sought a strategic partner that was prepared to take care of everything except the drivers.

"Icasa and Scania were the only supplier with the quality, knowledge and willingness to take care of our vehicles", explains Ángel Luis Sánchez-Bolaños, Managing Director of Global.

Today the long-term relationship between Juan José Abou, Managing Director of the Icasa dealership, and Ángel Luis Sánchez-Bolaños has borne fruit and their two companies dominate one of Spain's most important bus and coach markets.

The partnership with Icasa has meant a lot to the bus company's growth. And not only in financial terms.

"Since Icasa and Scania take care of everything related to our vehicles and we can rely on them completely to handle that job, we have been able to focus on our internal work. We are a much better managed company and can plan long-term in a completely different way", Mr Sánchez-Bolaños explains.

number of important Scania markets on other continents.

Scania is introducing its Dealer Operating Standards (DOS) quality assurance system at more and more workshops. In the European Union, more than 70 percent of the approximately 1,000 Scania workshops are now DOS-certified. Outside Europe, for example in the southern Africa region, today nine workshops in South Africa, Tanzania, Namibia, Botswana and Zimbabwe are DOS-certified.

Customer financing and insurance

Among Scania's range of services, customer financing and insurance solutions grew in importance and size during 2005. One example of this trend is Italy, where most of the Scania finance company's customers have an insurance policy connected to their financing contracts.

During 2005 Scania expanded its network of finance companies by establishing a wholly owned finance company in Turkey. It was the first wholly owned Scania company in this growing market.

Scania's insurance services are in ever greater demand. The total number of insurance contracts rose during the year to about 14,000.

Scania customers benefit from being able to choose an insurance solution that is integrated with their financing, both in terms of administration and service, in case they need to use their insurance. A further advantage is that the service provided by Scania Assistance can be included as part of the insurance package.

Top Team gets workshops excited

During 2005 Scania carried out the Top Team competition, in which service technicians from the service workshops from throughout Scania's global network compete for the title of Scania's best service team.

The competition dates back to 1989 and its purpose is to stimulate, motivate and promote professional development among the people closest to Scania's customers – the service technicians at Scania workshops. The competition is open to all service market employees who are not in supervisory positions. It is an intensive learning experience: Every contestant in the latest Top Team round had prepared for the test stations with more than 50 hours of training.

The competition is based on letting service teams locate and correct faults that have been planted in a truck.

The 2005 final was held in Istanbul, where ten finalists – workshop teams from Australia, the Czech Republic, Hungary, Ireland, Italy, Latvia, Norway, Poland, Spain and Sweden – battled for the championship title. The ten finalist teams had gone to Istanbul after defeating 800 teams with a total of some 3,500 Scania service technicians.

The victorious team in 2005 was Sweden's Team Grease from Haninge, a southern suburb of Stockholm, with Poland's Team WAW capturing second place. In third place was Team Kangaroo from Australia, which took part in the competition for the first time.

Some 3,500 Scania service technicians from all over the world competed for the title of Scania's best service team.

A renewed product range

Scania's business is based on trucks, buses and industrial and marine engines. A modular system provides unique opportunities to tailor vehicles to the specific needs of customers. During the past two years, Scania has renewed its entire product range in Europe and in certain markets in Asia. Customers can now choose more efficient trucks and buses, featuring the latest technology and future-oriented environmental characteristics.

The new truck range was launched in 2004 and the new R-series was named "International Truck of the Year 2005". Scania's trucks have gross weights of more than 16 tonnes and are built for heavy long-distance, construction and distribution haulage.

Scania was the first manufacturer to sell trucks with Euro 4 engines. Starting in 2006, Scania can also offer engines that meet Euro 5 emission standards. Scania's new truck range will be launched in Latin America starting in 2007.

In October 2005, Scania began the launch of a new bus and coach range, primarily for the European market. During a period of about one year, the entire bus and coach range will be replaced by models that meet Euro 4 emission standards.

During 2007, it will also become possible to specify city buses with Euro 5 engines. Many systems and components are shared with Scania's new truck range, which means better service market support for the customer.

Scania's industrial and marine engines are sold all over the world. Different emission rules apply to industrial, genset and marine engines depending on the country where the engine will be used. This requires a highly flexible engine range.

Renewal and strength – unique competence and collective resources

In a short-term perspective, Scania's research and development work is controlled by customer demands. From a longer-term standpoint, Scania engineers also look at what might be around the corner – things that customers are not yet aware of or do not see the importance of.

Scania invested a total of about four percent in research and development. The resources are concentrated at Scania Technical Centre in Södertälje. Some 2,000 truck, bus and engine specialists work with the entire product development chain, from basic research programmes, pre-production engineering and long-term testing to quality monitoring at production units and among Scania's suppliers.

Scania's basic philosophy is to develop and manufacture all strategically and competitively important components in-house. This poses major demands on cross-functional know-how and activity in all phases, in order to give customers products in which all components work together and provide the best performance.

Another fundamental principle is modularisation. Scania's pre-production engineers specialise in designing a product as flexibly as possible, so every component can be smoothly combined with others. This applies to engine and transmission components, cabs and frames, as well as chassis parts. It is largely a matter of designing the interfaces between components with different performance in a smart way.

Scania's new gearbox range is a typical example of modularisation. The various parts are combined in different ways to fit everything from a light distribution truck or a bus to really heavy rigs featuring Scania's most powerful engines.

By controlling all development stages, Scania is also able to offer the best possible support to the customers during the service life of a vehicle in the form of parts supply, service and repairs within Scania's global organisation.

Engine development

Working with the powertrains of the future is the most resource-intensive part of Scania's research and development. Emissions from vehicle engines have been lowered to a level that was considered unachievable fifteen years ago.

The Scania Technical Centre has world-class collective resources.

Scania's new gearbox range is based on modules.

Scania has some 40 test cells, where engines are tested for performance and emissions.

Ethanol is a liquid fuel that functions in a diesel engine if an ignition improver is added. Scania ethanol buses based on tried and proven technology are operating in Swedish towns and cities since 15 years.

Sharply lowering emissions while preserving good fuel economy benefits customers, society and the environment.

Nitrogen oxides and particulates are the emissions that receive the greatest attention. Engine developers have managed to lower emissions of nitrogen oxides by 75 percent and particulates by 95 percent since the early 1990s.

A reduction in particulates or nitrogen oxides normally leads to a fuel penalty for a given transport task. Thanks to a number of other engine improvements, Scania's engineers have also managed to preserve already good fuel economy.

Despite significant emission improvements, today's trucks and buses have better fuel economy than those 15 years ago. Meanwhile vehicles and the whole transport system have become more efficient, greatly benefiting both the transport industry and society at large. However, this positive trend is partly offset by increased road congestion, which poses even greater demands on logistics systems.

Focusing on new fuels

Scania's assessment is that early in the next decade, the exhaust emissions will be so low that the focus will shift to carbon dioxide emissions and the use of alternative fuels. The diesel engine will remain the dominant source of propulsion for heavy vehicles for several more decades, largely thanks to its high efficiency and continued good development potential.

The diesel engine is the most efficient vehicle engine known today. It is adapted for liquid fuel, which further contributes to its efficiency. Enough fuel can be carried in the vehicle to suffice for long daily mileages, for example in international long-distance truck or bus services.

A gaseous fuel is only suitable for local transport services, for example city buses or distribution vehicles. Gas-powered vehicles use Otto engines, which by their nature are less efficiently than diesel engines. The fuel also has to be carried on board in heavy, bulky tanks, which reduce cargo capacity and autonomy.

New fuel using today's technology

One important advantage of the diesel engine is that it can be powered by both fossil fuel and biofuel.

The European Commission has established as a target that by 2010, its member countries should use 5.75 percent alternative fuels for road transport. By 2020 the corresponding figure should be 20 percent, which also includes increased use of natural gas.

Scania believes that the most efficient transition to a higher proportion of alternative fuels will occur by gradually increasing the mixing of biofuels into today's diesel fuel.

A gradual admixture under controlled conditions, in order to ensure the combustion characteristics of the fuel, will make it possible to introduce a higher proportion of biofuel without extensive technical modifications.

Both old and new vehicles can then be driven using mixed fuel, leading to environmental benefits for the entire active vehicle fleet.

Advanced electrical system

One prerequisite for new engine technology is a new electrical system using advanced information technology. This is a necessary platform for further emission reductions in future engines and makes it easy to create new functions that increase customer benefit.

The new electrical system will enable Scania to offer customers a long series of improvements and new functions over the next few years, which are successively being developed and tested in-house.

Serial high-speed communication between the various main components of a vehicle makes it possible to control all functions of the vehicle using a limited number of cables and connectors.

Future emission control technology

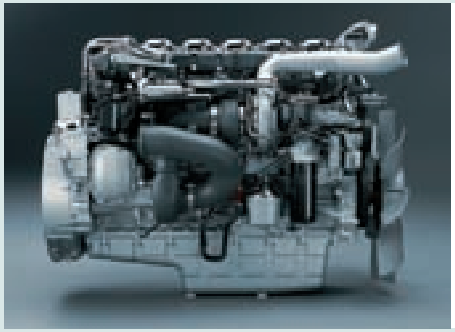
Scania has chosen exhaust gas recirculation (EGR) as the long-term solution that is most beneficial to customers and most flexible for the future. EGR is the best technology for urban traffic and other types of driving where exhaust temperature does not reach the level that selective catalytic reduction (SCR) and particulate filters require. EGR works under all conditions and does not require extra measures in the form of additives or extra tanks on the vehicle.

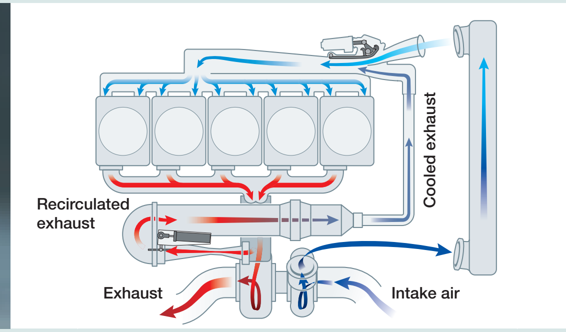
Scania has also developed engines based on SCR technology, in order to give customers access to the performance that large V8 engines provide.

This enables Scania to deliver engines that meet both the Euro 4 and Euro 5 environmental standards even today. Customers can thus benefit from discounts on highway tolls in Germany, for example.

In preparation for the transition to Euro 5 emission standards in 2009, Scania is developing an upgraded engine range based exclusively on EGR technology, which is easiest for the customer to use.

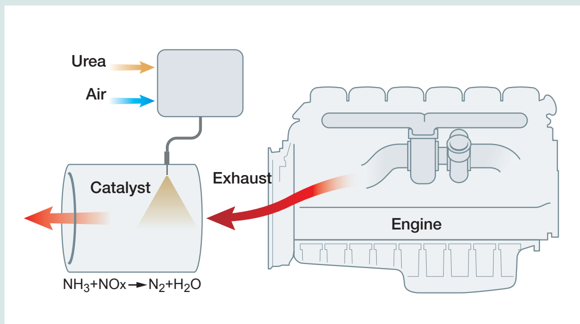
Emission technology for Euro 4 and Euro 5

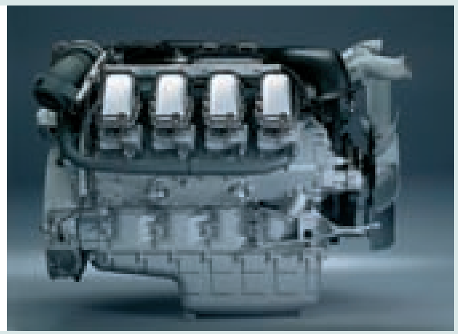




With Scania EGR, some of the exhaust gases are fed back into the combustion chamber, which lowers combustion temperature and reduces the formation of particulates (soot). Meanwhile the high pressure that is possible in Scania's fuel injection system reduces the quantity of particulates. Scania uses EGR to achieve Euro 4 standards in its inline 5- and 6-cylinder engines.

Scania SCR is used in Scania's powerful Euro 4 V8 engines and in the first engines that meet Euro 5 standards. Scania SCR is an aftertreatment system that reduces nitrogen oxides by injecting a urea solution into exhausts following combustion.





Scania's on-board computers have been developed to tolerate the operating conditions in a heavy truck.

Four rear-view mirrors on the passenger side and a rear view camera connected to the on-board computer eliminate most blind spots around the truck.

The new engines are being designed for Scania's new extra high pressure injection (Scania XPI) system, which is being developed in partnership with Cummins, an American engine manufacturer.

Ergonomics and driver appeal

Scania focuses on the driver. Behind this are many years of investments in safety and vehicle-driver interaction. Scania has devoted special attention to the design of the driver station.

The feel of driving a vehicle is affected by much more than the feel of individual controls. The vehicle should send signals that help the driver interpret what is going on between vehicle and roadway – for example how hard the suspension is working, or how the friction with the roadway is being utilised.

Ergonomics and vehicle-driver interaction are crucial to safe driving.

Scania provides drivers with the best preconditions for doing a good, safe job. This not only benefits road safety, but also the operating costs of the transport company and the environment.

Continued changeover to new products and streamlining of production

During the autumn of 2005, Scania decided to carry out a review of its production structure in Sweden. The aim is to examine the potential for more concentrated production. Continued streamlining of production is a precondition for ensuring long-term competitiveness.

Production and product development should be located close to each other. This makes it possible at an early stage to ensure both product and production quality when new products are developed.

The review of gearbox and axle production is one step in Scania's continuous efforts to improve productivity and the efficiency of its operations. In the long term, a productivity improvement of 6–8 percent annually is required if Scania is to remain competitive.

During the past five years, Scania has carried out a number of structural changes aimed at strengthening its competitiveness.

European production of such components as cabs, axles and engines has been concentrated to Sweden, creating about 1,500 new jobs in the country.

The integration of bus and truck operations is another example. There the changes have resulted in greater efficiency, reflected in the stronger competitiveness and improved profitability of Scania's bus and coach operations today.

Productivity in bus production has increased by 50 percent since the move to Södertälje, which occurred in the autumn of 2002. Today the direct flow is about 90 percent, which means that 9 out of 10 bus chassis move straight out of the assembly hall without requiring any post-assembly line adjustments.

In Latin America, the plant in Tucumán, Argentina is changing its production structure to focus on machining of gearbox components. A decision has also been made to move gearbox assembly to São Paulo, Brazil.

Continued changeover to new products

During 2005, Scania continued its changeover to new bus and coach model ranges as well as new gearbox and engine ranges.

Early in the year, the changeover and start-up of cab production for Scania's new truck range was completed in Oskarshamn, Sweden. One result of efficiency improvements was shorter assembly time.

The chassis line in São Paulo, Brazil is an important part of Scania's global production system.

Concurrently, the production of double cab ranges ended, since cabs for the Scania 4-series are no longer being made in Europe. During the year, the labour force was adjusted to these new conditions.

Cross-functional collaboration

The bus production unit in Södertälje, which introduced a new chassis range during the second half of 2005, assured its product and production quality by means of structured, cross-functional collaboration between Scania's production, product development and purchasing units.

In connection with the launch of Scania's new powertrains, development lines were built at the gearbox assembly unit in Sibbhult, Sweden and at the engine assembly unit in Södertälje. These are an important element in the verification of new products, with a direct connection to future production.

The Scania Production System

The Scania Production System (SPS) is the foundation of improvement efforts at production units. It has been developed among Scania's own employees. The values, principles and priorities that govern its working methods are the same regardless of where production occurs. New solutions are tested and evaluated. The best ones are adapted and systematically introduced at other production units.

Focus on flows

The work of the Scania Production System increasingly concentrates on flows, both in assembly and machining. The next step is to use collective knowledge to achieve disruption-free production. This includes both flow from suppliers and flows between Scania's own machines and departments. The details of these flows are studied for the purpose of locating deviations that may stimulate changes.

Flexible production is necessary in order to ensure productivity. This is why collaboration within the global production structure is important to Scania. The work of global engine, gearbox and axle production teams is essential, along with the introduction of standardised and common working methods at all production units in Europe and Latin America.

Global collaboration is a method for continuously improving human resource development, quality feedback and capacity utilisation.

Sustainable development – long-term strategy

Scania deals with social and environmental challenges as the company's global organisation grows. These challenges enable Scania to contribute to long-term sustainable development.

Scania's contributions to the relief efforts after the December 2004 tsunami disaster were channelled via the International Red Cross in the form of donations of trucks to Indonesia and Sri Lanka.

As a global company, Scania influences and is influenced by economic, social and environmental factors in its surroundings. One important element of Scania's long-term mission is to be an active partner that assumes responsibility for customers, employees and the communities where the company operates.

Scania as part of the solution

For many years, Scania has worked with continuous improvements in its operations, among other things in order to reduce environmental impact and improve the working environment. Most of the impact on Scania's surroundings occurs during the service life of its products. This applies, for example, to exhaust emissions, noise and personal injuries in traffic. Since vehicle manufacturers are a part of the problem, Scania considers it self-evident that it should also be part of the solution.

One central part of Scania's work revolves around road safety. Examples of this are its commitment to driver training and driver competitions and its collaboration with the World Health Organisation of the United Nations aimed at improving road safety globally.

Scania as a reliable partner

If employees, business partners, customers and owners are to feel confident in a company, it must live up to high ethical standards.

Scania laid the groundwork for its approach many decades ago. To clarify the working methods that had existed in its global organisation for a long time, in 2002 Scania decided to declare its support for the OECD Guidelines for Multinational Enterprises. These principles, together with Scania's leadership philosophy and core values, comprise the basis for how the organisation is managed today. Departures from these fundamental principles are not accepted.

Scania is demanding more from its suppliers

Given its approach to social issues, aside from demanding high standards of quality, product development, cost-effectiveness and delivery capacity, Scania also makes social and environmental demands on its suppliers. Scania pursues a close dialogue with its suppliers, among other things to ensure that these companies are well run, offer good working conditions and handle environmental issues in a satisfactory way. This dialogue includes evaluating the work of suppliers, but also providing them with back-up and helping them obtain advice.

Good corporate governance implies transparency

In order to ensure good corporate governance, Scania must operate in an open way. Giving Scania's stakeholders a transparent picture of the company enables them to evaluate it correctly. Further information is found in the corporate governance section on pages 42–46 and in Scania's website, www.scania.com

The OECD guidelines in brief

Generally: Respect human rights.

Information: Disclose relevant information to all stakeholders.

Employees: Respect the union rights of employees and help eliminate child labour.

Environment: Strive for continuous improvement.

Corruption: Never offer bribes or anything else that may be perceived as bribes.

Interest to customer: Disclose product information to customers and establish improvement procedures.

Science and technology: Work towards transferring knowledge to host countries.

Competition: Refrain from anti-competitive agreements among competitors.

Taxes: Pay on time.

Competent and dedicated employees

Clear leadership, sound working environment and a focus on health and job satisfaction are the foundation of employee well-being and motivation. At Scania, learning is an active process with a clear connection to everyday operations.

Scania's technical upper secondary school

VERONICA JÖNSSON, apprentice, age 17, is in her second year at Scania's technical upper secondary school in Södertälje.

"I chose Scania's technical upper secondary school because the company can offer so many different opportunities. There are not many people today who have a job waiting for them after upper secondary school; those of us who attend here do. I also see the possibilities Scania can offer me in the future, and the opportunity for further education".

One precondition for employee dedication is that everyone has a sense of well-being and feels proud of working at Scania. The company's way of achieving this is based on clear leadership, a sound psychosocial working environment and a focus on employee health, job satisfaction and professional development. Every year Scania conducts employee surveys, which are followed up by action plans as needed.

Leadership and "employeeship"

Being a manager at Scania means being responsible both for one's operations and one's personnel. Above all, it means practising clear leadership. Leadership is the foundation of employee dedication and well-being. For this reason, it is a very high priority at Scania, based on common leadership principles and a continuous dialogue concerning how these should be applied and improved.

With the help of individual human resource development discussions, a manager makes use of the capabilities of employees, so that they feel a sense of responsibility and participation and a desire for professional development. Employees can, and should, take responsibility for their own development, thereby living up to good employeeship.

An organisation built on learning

Human resource development involves more than traditional training. Above all, it involves taking advantage of the great potential for self-improvement that everyday work offers – learning from each other, participating in projects, switching jobs within a working team and doing practical training in another part of the company. All these possibilities are utilised through systematic human resource planning in the company.

Scania apprentices

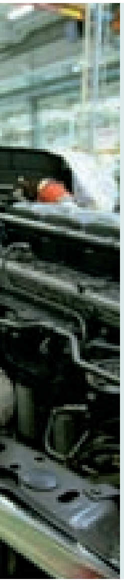
For more than 60 years, Scania has offered a unique opportunity to combine employment with training at the company's technical upper secondary school in Södertälje. Theory alternates with practical training that is clearly connected to real-world operations. Every year, the school accepts around 40 students. The programme is open to those who have completed Sweden's nine-year compulsory school and have not turned 19. The students are regular employees who earn a salary from the first day.

After completing the programme, students are offered jobs as industrial technicians at one of Scania's production units. They eventually have good opportunities for further training within the company. A similar apprentice training programme is also available in São Paulo, Brazil.

Scania trainees

Since 1958, every year Scania has hired about 25 people for the purpose of safeguarding its long-term supply of employees for certain managerial and key positions.

Scania's trainee programme provides the qualifications for a future job in the worldwide Scania organisation – a holistic view, a broad contact network, knowledge unique to Scania and personal development.



Scania's trainee programme

JOSEFIN FRISK, trainee, age 25, began Scania's trainee programme in 2005 and will complete this programme during the second half of 2006. She received her undergraduate engineering education at Linköping University in Sweden, studying engineering physics and electrical engineering with a focus on control engineering.

"Scania's trainee programme was my first choice, since vehicle technology with a specialisation in control systems is my main field. Scania is a company with bright future prospects and a very good reputation".

Scania's apprentice training programme

TAMARA LINS SILVA, age 20, works on the bus assembly line at Scania's plant in São Paulo, Brazil. She was trained at the SENAI vocational training institute, which works closely with Scania. She began her job at Scania in January 2004.

"The first time I visited Scania, when I was still an apprentice at SENAI, I was very impressed by the assembly lines, the efficiency of the processes and how well everything fit together at the end. Even then I felt that this would be a good place to work. When I started at Scania as an apprentice, I got good help from my workmates and was offered many in-service training courses. I have started further training in engineering and intend to spend my career at Scania".

The trainee programme, which is open to university graduates in engineering, business administration and information systems, runs for more than one year. It consists of practical training periods, seminars, training courses and study visits. Over the years, many employees have begun their careers as trainees and have eventually achieved top-level positions in the company.

Successful gender equality work

Most of the people who work at Scania are men. About 15 percent of employees are women. In product development, production, sales and servicing of vehicles, 85 percent of employees are men. This directly reflects the gender breakdown prevailing in technical training and engineering programmes at compulsory schools, upper secondary schools and universities, both in Sweden and internationally.

Scania is making a systematic long-term effort to recruit more women. One way is to actively encourage more women to apply for engineering study programmes at university level, thereby increasing the number of women who apply for jobs at Scania.

The number of women in senior management positions is gradually increasing at Scania, and half the trainees recruited in 2005 were women.

Well-being of vital importance

Promoting health at Scania is a continuous, on-going task. Scania devotes extensive resources to fitness programmes and occupational health care. The company is actively engaged in employee health and safety programmes as well as in the design of job descriptions and workplaces. Health programmes consist of three stages: curing and rehabilitating, preventing risks of ill health and promoting health. The goal is to ensure that employees are in phase three – promoting health. Scania invests in the overall well-being of its employees.

The workday is important, but all other hours are equally important for a well-balanced life. In January 2006, Scania began a two-year trial in Södertälje, where employees and their families will have access to the company's own health care facilities six days a week.

According to the Folksam insurance company's annual health index, Scania's 4.9 percent rate of absences due to illness (sick leave) in Sweden is among the lowest in the Swedish engineering industry. Among Scania's approximately 30,000 employees worldwide, the level of sick leave was 3.5 per cent during 2005.

Scania's human resources

Scania shall be a highly regarded employer with competent and dedicated employees who work in a creative and healthy environment where diversity and an ethical approach are cherished.

First-class drivers for first-class vehicles

Road safety is one of Scania's most important priorities. A commitment to improving road safety is part of Scania's tradition, strategy and brand. During 2005 Scania organised the world's largest competition for truck drivers and began a partnership with the World Health Organisation (WHO) to improve road safety around the world.

Scania believes that the driver is the most important actor in improving road safety, since above all it is a matter of human behaviour and attitudes. This is why the driver is the focus of Scania's development work, which ensures that the vehicle will do the utmost to help the driver make the right decisions behind the wheel. This also means that Scania is committed to driver training.

An urgent international issue

Every year 1.2 million people die in road accidents and another 50 million are injured. In 2004, WHO was assigned the task of coordinating the road safety work of the United Nations. Scania works together with WHO to improve road safety all over the world. Scania's support, which will initially last for two years, will give WHO access to the company's experts and global network.

The European Union has established the goal of halving the number of deaths on EU roads by 2010. With the endorsement of the European Commission, during 2005 for the second time Scania organised the Young European Truck Driver competition. This programme, which is a contribution to the task of achieving the EU's road safety goal, attracted 13,000 contestants from the EU member countries plus Norway, Switzerland and Turkey. Scania organised similar competitions during the year in Latin America, Asia and Africa, with a total of nearly 30,000 contestants.

In conjunction with the driver competitions, Scania invited politicians, other decision makers and opinion moulders to discuss matters related to road safety, with a special focus on the driver. At a road safety seminar that Scania organised in London, the company received a Prince Michael International Road Safety Award in recognition of its work and dedication in this field.

Driver training

Organising driver competitions is one step in Scania's long-term efforts to improve road safety and raise the status of professional drivers. The competitions are based on the new EU directive on driver training, which

During 2005, Scania began a collaboration with the World Health Organisation to improve road safety.

At the Young European Truck Driver final in Södertälje, Sweden in September 2005, the winner was Laurens D Huyvetter of Belgium (centre); the second place finalist was Milan Jacubek of Slovakia (right); and third place went to Michele Sandri of Italy (left).

A Scania Omni double-decker undergoing rollover testing.

Scania's driver competitions reward safe and fuel-efficient driving techniques.

identifies the skills and knowledge required to be the driver of tomorrow. Today Scania already offers driver training to its customers in a number of markets around the world.

Future challenges

In the emerging markets of Asia, but also in Africa, the road safety challenge is at its greatest. Through its partnership with the World Health Organisation and its own efforts, Scania is working to disseminate knowledge and experience that can improve road safety in these regions and elsewhere in the world.

Reduced environmental impact

The environment is one of Scania's business priorities. Scania's Environmental Policy is common to the entire company. The focus of Scania's environmental work is to minimise the environmental impact at all stages of a vehicle's life cycle.

In all of its operations, Scania strives to act resource-efficiently and to use clean technology. Raw material and energy wastage must be avoided. Development work is of fundamental importance, since it is the development phase that creates the conditions for all the other parts of the product life cycle. This applies to reliability and operating economy as well as the environment påverkan. At production units, the Scania Production System (SPS) stimulates good resource management. The modular system means that the number of different components and parts can be kept low, which also increases efficiency from an environmental standpoint.

Integrated environmental work

Scania's environmental work takes place in the same way at all production units, according to an environmental management system certified according to ISO 14001 international standards. Aside from production units, research and development units and corporate units are also included in this certification.

The highest decision-making body for environmental issues is the Scania Executive Board, which makes strategic decisions. Common day-to-day environmental items of business are prepared by the Scania Environmental Committee, where environmental coordinators from various fields of operations meet under the leadership of the Quality and Environment department.

Operational decisions in the environmental field are also made in all parts of the line organisation. All managers have environmental responsibility for their operations. Local management teams are responsible for targets and follow-up at the local level.

Scania as a customer

Purchasing materials and components is fundamental to Scania's production process. It is thus important that the actions of suppliers are consistent with Scania's overall environmental approach.

Scania surveys suppliers' environmental work by using an Environmental Self Assessment and recurring follow-up, thereby strengthening environmental collaboration. This working method also leads to continuous improvements and helps enhance expertise and environmental awareness among suppliers.

Reduced emissions with buses from Scania

AB Storstockholms Lokaltrafik (SL) is responsible for public transport in the Stockholm region of Sweden.

Since the 1980s, SL has achieved substantial reductions in carbon dioxide emissions with the help of ethanol-powered buses from Scania. Ethanol is a renewable fuel, which does not increase net carbon dioxide emissions. During 2006, one fourth of SL's 2,000 or so buses will be powered by renewable fuels. By 2011 the figure will be 50 percent.

JONAS STRÖMBERG, Environmental Manager of SL, says: *"In the short and medium term, ethanol buses are by far the easiest, most cost-effective way for us to reduce both global and local emissions. Liquid fuel makes the infrastructure simple and their well-known diesel technology makes these buses as reliable as ordinary buses. Our investments in ethanol-powered buses have thus been a good example for many other countries.*

"To us, a rapid changeover to renewable fuels is not only an environmental issue, but an important strategic decision. Uncertainty about the oil supply, trading in emission permits, carbon dioxide taxes and other measures will make it expensive to emit carbon dioxide. We are glad that Scania has joined with us in this long-term investment."

The service life of the product

Most of the environmental impact of Scania products occurs during the service lives of vehicles and engines. For a number of exhaust components, for example nitrogen oxides and particulates, and for noise, there are standards and threshold limits in most of Scania's markets. EU regulations are among the most important Scania must meet. Emission standards strongly influence the company's development work. Scania's ambition is to continuously be able to offer products that are at least one level better than the existing legal standards.

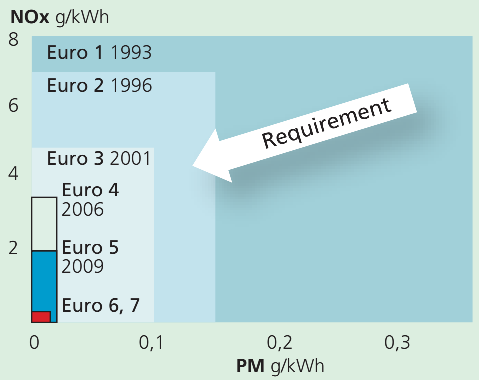
During 2005, Scania introduced engines that meet Euro 4 emission standards, which will become mandatory in October 2006, throughout its European vehicle range. The company also introduced some Euro 5 engines, which will become generally available during 2006. The Euro 4 engines have been a sales success. Sales of these engines have benefited from tax- and toll-based environmental incentives, for example discounts on highway tolls in Germany.

Carbon dioxide emissions from heavy vehicles are not regulated by law, but there are strong market demands for fuel efficiency and consequently low carbon dioxide emissions. In Scania's development work, emission rules and fuel consumption are high priorities. The company's products are thus built for low emissions. It is also Scania's ambition to optimise vehicles for the transport tasks to be performed and to offer driver training. Experience shows that a driver with in-service training can improve a vehicle's fuel efficiency by 10 percent or more. This substantially lowers costs, since fuel accounts for up to 30 percent of a haulier's total costs.

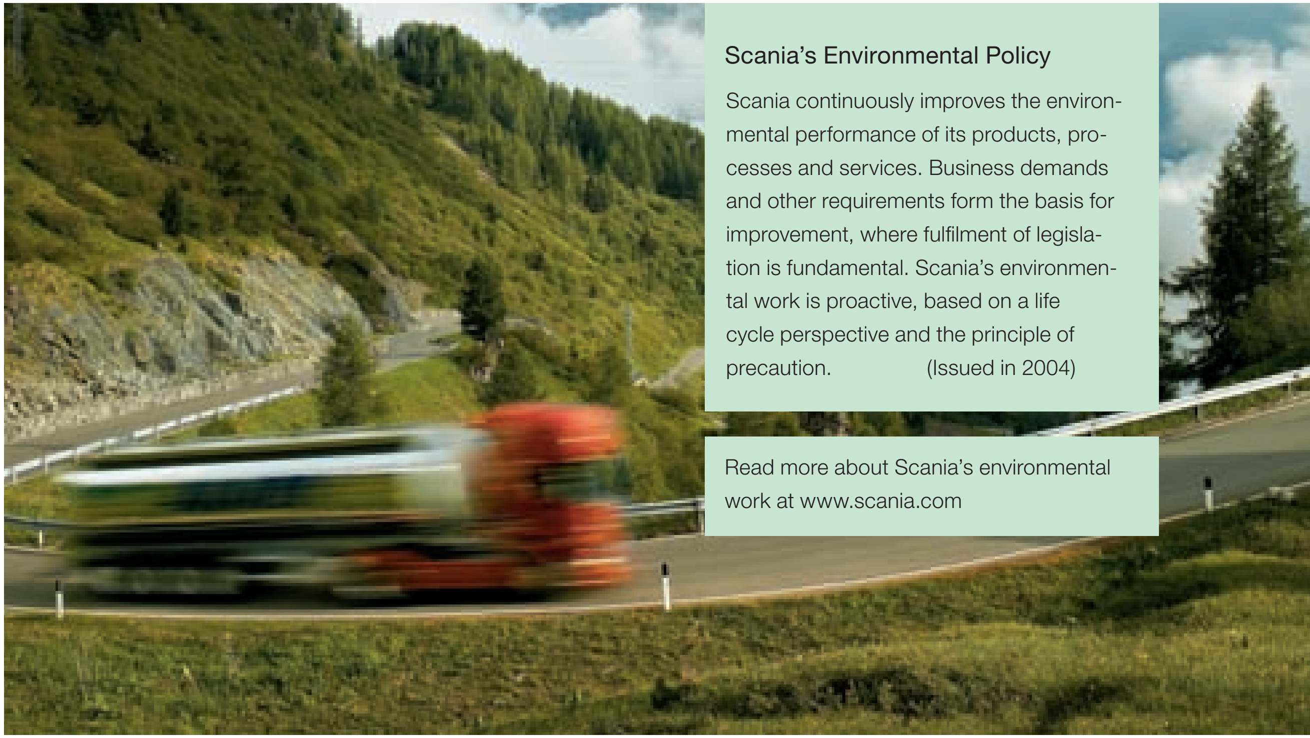
Environmental work in the sales and service organisation

Scania has begun a programme to introduce internal standards aimed at reducing the environmental impact of its sales and service organisation, as part of the Dealer Operating Standards (DOS) quality assurance system. This work is expected to be completed during 2006. It means, among other things, that Scania workshops will have an environmental manager and a local activity plan including environmental targets related to the handling of chemicals, for example.

Emission legislation in Europe



In October 2006, the engines of all new trucks and buses in the EU must meet the Euro 4 environmental standard. The next step will come in October 2009, when Euro 5 enters into force. What will come after that is being discussed in the European Commission, and there is no final proposal yet. In Scania's view, the future environmental requirements should be globally harmonised. This means that testing should occur according to a new, common test cycle and threshold values should correspond to the EPA 2010 levels that will go into effect in the United States.



Scania's Environmental Policy

Scania continuously improves the environmental performance of its products, processes and services. Business demands and other requirements form the basis for improvement, where fulfilment of legislation is fundamental. Scania's environmental work is proactive, based on a life cycle perspective and the principle of precaution. (Issued in 2004)

Read more about Scania's environmental work at www.scania.com

More shareholders

The number of Scania shareholders rose sharply during 2005 after Scania completed its offer for Ainax.

In May 2005, 35 analysts and investors visited Scania's operations in São Bernardo do Campo, Brazil.

On 31 January 2006, the number of shareholders was 109,417 (46,407), of which non-Swedish shareholders accounted for 35,4 percent of votes and 30,8 percent of capital in Scania. The three largest owners were Volkswagen AG, Investor AB and the Knut and Alice Wallenberg Foundation. Ainax is now a subsidiary of Scania.

The Board of Directors of Ainax AB has proposed that the Annual General Meeting on 6 March 2006 approve a resolution to place Ainax AB in liquidation and immediately distribute its Scania shares.

Share trading

During 2005, Scania B share trading volume averaged 690,400 shares per day, an increase of 74 percent compared to the preceding three years. During 2005 192 million Scania shares (258 million) changed hands, equivalent to 96 percent of the total number of shares in Scania. The turnover rate for Scania B shares was 175 (247) percent. For Stockholmsbörsen as a whole, it was 115 (114) percent.

Because of the increased interest in Scania shares, more investment analyst organisations are now following or starting to keep track of Scania. During the year the number of investors interested in holding meetings with Scania also increased.

Dividend

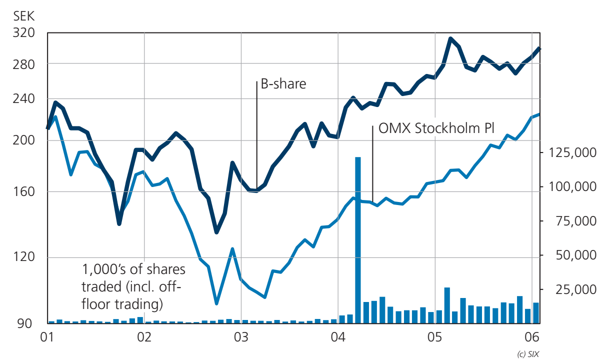
Scania's dividend reflects the company's earnings and capital structure. Since Scania joined Stockholmsbörsen in 1996, the dividend has averaged 54.2 percent of net income. The Board of Directors proposes that the Annual General Meeting approve an unchanged dividend of SEK 15.00 (15.00) per share for the financial year 2005, equivalent to 64 percent of net income for 2005.

Scania has no explicit financial targets but works to generate value-added for shareholders and other stake-holders in the capital market. According to calculations by Delphi Economics, the beta coefficient of Scania's B shares was 0.91 at year-end. This means that on average, Scania shares fluctuated less than the average for the exchange. The explanatory value for Scania's B shares was 0.57. This means that 57 percent of the price changes in Scania shares could be explained by overall changes on the exchange.

About Scania shares
Scania's share capital is divided into 100 million Series A shares and 100 million B shares. Each Series A share represents one vote and each B share one tenth of a vote. Otherwise there are no differences between these types of shares. The nominal value per share is SEK 10.

Market listing
Since 1 April 1996, both types of Scania shares – Series A and B – have been quoted on the A list of Stockholmsbörsen (also called the Stockholm Stock Exchange).

Share price performance, Stockholmsbörsen, Scania B shares



Per share data

SEK (unless otherwise stated)		2005	2004
Earnings		23.33	21.57
Equity		118.64	107.14
Dividend			
(2005: proposed)		15.00	15.00
Market prices, B shares			
Highest for the year		320.50	280.00
Lowest for the year		256.00	204.00
Year-end (at closing)		287.50	263.00
Price/earnings ratio, B shares		12	12
Dividend payout ratio, %		64	70
Dividend yield, %[1]		5.2	5.7
Annual turnover rate, B shares, %		175	247
Number of shareholders[2]		109,400	46,400
Average daily number of shares traded, by series, Stockholmsbörsen	A	69,000	
	B	690,400	
	Total	759,400	

1 Dividend divided by the market price of a B share at year-end.
2 On 31 January 2006.

Ownership structure, 31 January 2006

Number of shares		% of holdings	% of votes
1–	500	3.33	2.60
501–	2,000	2.48	1.18
2,001–	10,000	2.78	1.12
10,001–	50,000	3.81	1.41
50,001–	100,000	2.52	0.86
>	100,001	85.08	92.83
Total		100.0	100.0

The ten largest shareholders, 31 January 2006

Name	A shares	B shares	% of capital [1]	% of votes [2]	% of capital based on outstanding shares	% of votes based on outstanding shares
Volkswagen AG	37,400,000	0	18.70	34.32	16.53	27.44
Investor AB	21,186,757	308,693	10.75	19.47	9.50	15.57
Knut and Alice Wallenberg Foundation	10,642,440	0	5.32	9.77	4.70	7.81
Renault S.A.S.	5,697,042	0	2.85	5.23	2.52	4.18
Alecta	3,688,374	4,280,250	3.98	3.78	3.52	3.02
Robur Mutual Funds	2,109,891	6,875,707	4.49	2.57	3.97	2.05
AMF Pensionsförsäkrings AB	1,306,650	8,700,000	5.00	2.00	4.42	1.60
Fourth Swedish National Pension Fund	1,247,284	3,181,200	2.21	1.44	1.96	1.15
Nordea Mutual Funds	989,876	3,422,765	2.21	1.22	1.95	0.98
SEB Mutual Funds	958,280	2,379,880	1.67	1.10	1.48	0.88
10 largest owners	85,226,594	29,148,495	57.19	80.88	50.54	64.67
Other	13,749,076	70,851,505	42.30	19.12	37.38	15.29
Excluding Ainax	98,975,670	100,000,000	99.49	100.00	87.93	79.95
Ainax [2]	27,320,838		13.66	0.00	12.07	20.05
Outstanding shares [3]	126,296,508	100,000,000			100.00	100.00
Elimination of Scania's holding in Ainax [4]	–26,296,508		–13.15	0.00		
Total	100,000,000	100,000,000	100.00	100.00		

1 Calculation based on 200,000,000 shares. Legally, there are 226,296,508 outstanding shares in Scania but indirectly Scania owns shares through Ainax corresponding to 26,296,508 Series A shares. Calculating share of capital based on 200,000,000 shares takes into account that only the dividend to minority shareholders in Ainax is external to the Scania Group.

2 Calculation based on 108,975,670 votes, of which 98,975,670 votes are for Scania A shares and 10,000,000 votes are for Scania B shares. As a subsidiary of Ainax, Ainax has no voting rights at General Meetings of shareholders, and the 27,320,838 Series A shares owned by Ainax have thus been excluded.

3 The number of outstanding Series A shares in Scania following the acquisition of Ainax amounts to 126,296,508. Of these Series A shares, 27,320,838 are owned by the subsidiary Ainax.

4 Scania's 96.3% stake in Ainax' Series A shares in Scania is equivalent to 26,296,508 Series A shares. In calculating earnings per share in Scania and other key financial ratios, the intra-Group shareholding is eliminated. It is therefore important to note that, for purposes of such analysis, the number of shares in Scania remains 100,000,000 Series A shares and 100,000,000 Series B shares.

THE TRUCK MARKET

Scania's ten largest truck markets, vehicles delivered to customers

Rank		Country	2005	2004	Change in %
1	(2)	Great Britain	5,343	5,863	-9
2	(1)	Brazil	5,157	6,047	-15
3	(3)	France	3,954	3,650	8
4	(4)	Germany	3,831	3,455	11
5	(6)	Italy	3,170	3,149	1
6	(5)	Spain	3,022	3,187	-5
7	(7)	The Netherlands	2,602	2,287	14
8	(9)	Sweden	2,101	1,966	7
9	(8)	Turkey	2,019	1,969	3
10	(17)	Argentina	1,651	873	89

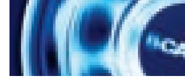
Total Scania deliveries to customers reached 52,567 trucks during 2005, an increase of 4.0 percent compared to 2004.

Registrations of trucks above 16 tonnes in Scania's largest markets

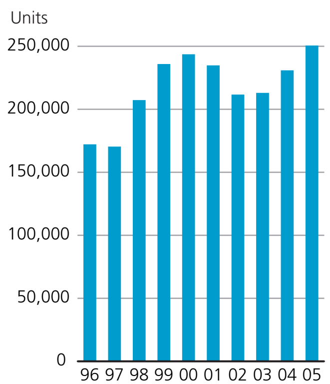
Units	2005	2004	2003
WESTERN EUROPE			
Total	250,626	230,933	213,032
of which Scania	33,107	30,007	29,930
Great Britain	35,732	34,005	34,303
of which Scania	5,698	5,818	6,570
France	46,235	38,341	36,683
of which Scania	4,417	3,382	3,720
Germany	56,435	53,988	46,278
of which Scania	4,166	3,777	3,436
Spain	31,829	28,890	26,757
of which Scania	3,344	3,218	3,448
Italy	24,577	23,915	22,954
of which Scania	3,160	3,194	2,826
Sweden	4,922	4,376	4,214
of which Scania	2,235	1,980	1,870
The Netherlands	11,200	11,458	10,535
of which Scania	2,190	2,212	2,102
CENTRAL AND EASTERN EUROPE			
Russia[1]	4,248	3,224	2,157
of which Scania	1,368	1,126	837
Poland	7,843	8,449	5,361
of which Scania	1,017	1,412	893
Czech Republic	5,472	4,908	3,341
of which Scania	772	807	566
Slovakia	2,547	1,871	1,477
of which Scania	516	429	337

Units	2005	2004	2003
LATIN AMERICA			
Brazil	20,200	25,194	17,856
of which Scania	5,217	6,093	4,106
Argentina	11,248	9,149	3,471
of which Scania	1,659	893	241
Chile	4,909	3,549	1,983
of which Scania	603	352	214
Peru	1,107	567	350
of which Scania	157	61	52
ASIA, AFRICA AND OCEANIA			
Turkey	33,305	28,830	17,751
of which Scania	2,073	1,837	1,515
South Korea	10,879	13,580	15,699
of which Scania	1,070	1,206	1,985
South Africa	6,628	6,438	4,567
of which Scania	516	687	396
Australia	10,315	10,320	8,688
of which Scania	389	410	461
Morocco	1,726	1,250	948
of which Scania	302	229	201

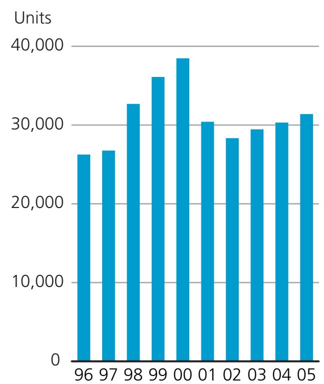
1 Estimated number of imported new trucks from Europe, Japan and the US.



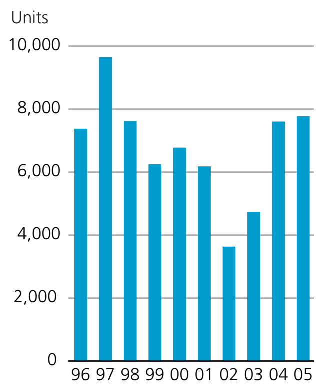
Total registrations of trucks above 16 tonnes in western Europe



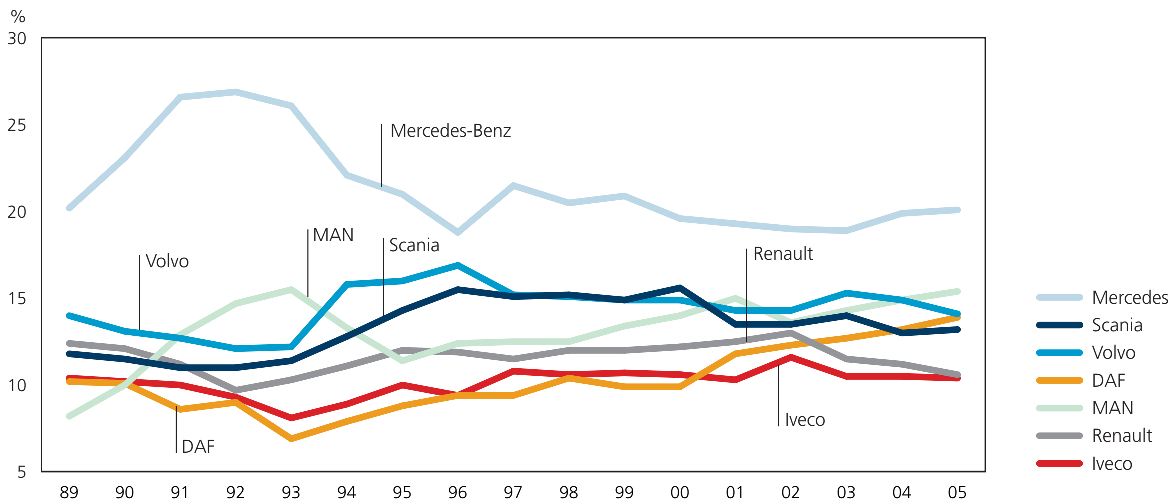
Deliveries of Scania trucks in western Europe



Deliveries of Scania trucks in Latin America



Market shares, trucks above 16 tonnes in western Europe



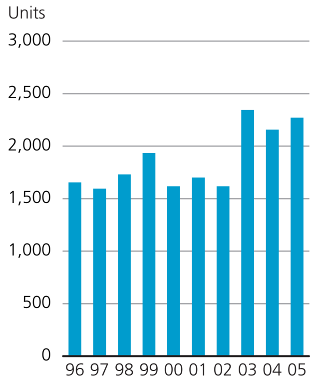
THE BUS AND COACH MARKET

Scania's ten largest bus and coach markets, vehicles delivered to customers

Rank		Country	2005	2004	Change in %
1	(1)	Brazil	**884**	623	42
2	(2)	Spain	**559**	592	-6
3	(3)	Great Britain	**529**	444	19
4	(5)	Italy	**338**	325	4
5	(4)	Mexico	**336**	381	-12
6	(8)	Russia	**274**	270	1
7	(7)	Iran	**264**	300	-12
8	(22)	Sweden	**218**	69	216
9	(20)	South Africa	**205**	81	153
10	(10)	Australia	**172**	205	-16

Scania's total deliveries to customers reached 5,816 units during 2005, an increase of 5.4 percent compared to 2004.

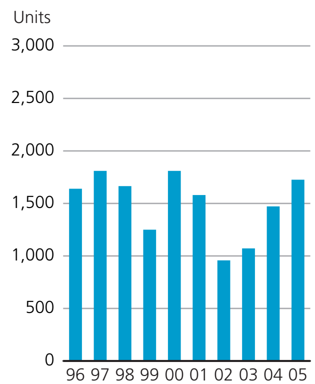
Deliveries of Scania buses in western Europe



Registrations of buses above 12 tonnes

Units	2005	2004	2003
Western Europe			
Total	**23,339**	22,380	21,735
of which Scania	**2,329**	2,160	2,062
Spain	**2,808**	2,603	2,383
of which Scania	**583**	569	458
Great Britain	**3,265**	3,137	3,268
of which Scania	**537**	473	459
Italy	**3,145**	3,247	2,558
of which Scania	**282**	339	310
Sweden	**982**	913	884
of which Scania	**220**	69	199
Norway	**600**	502	425
of which Scania	**142**	99	106

Deliveries of Scania buses in Latin America



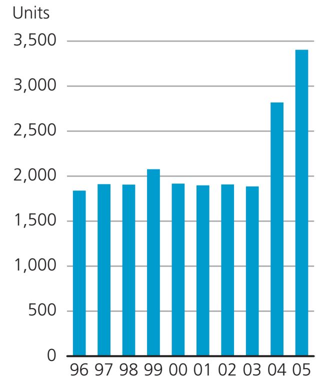
THE MARKET FOR INDUSTRIAL AND MARINE ENGINES

Scania's ten largest markets for industrial and marine engines delivered to customers

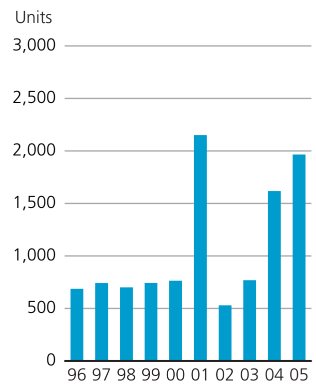
Rank		Country	2005	2004	Change in %
1	(1)	Brazil	**1,781**	1,392	28
2	(4)	Great Britain	**682**	355	92
3	(3)	Sweden	**540**	505	7
4	(2)	Spain	**521**	734	-29
5	(11)	Germany	**496**	144	244
6	(7)	Norway	**281**	217	29
7	(5)	The Netherlands	**267**	313	-15
8	(9)	Italy	**253**	202	25
9	(10)	Finland	**196**	174	13
10	(8)	Argentina	**170**	211	-19

Total Scania deliveries to customers reached 5,704 units during 2005, an increase of 13,8 percent compared to 2004.

Deliveries of Scania engines in western Europe

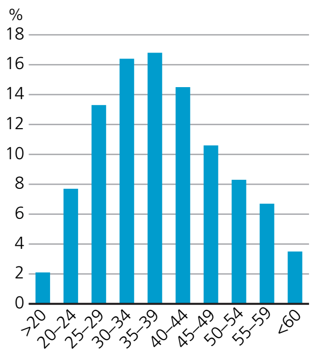


Deliveries of Scania engines in Latin America



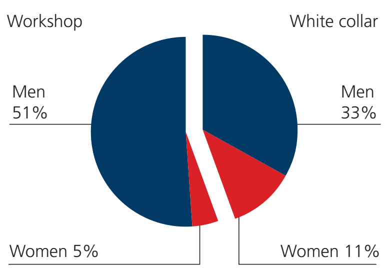
EMPLOYEE STATISTICS

Age distribution



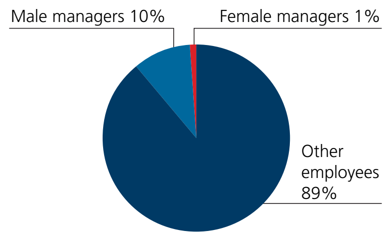
Scania's workforce has a favourable age distribution.

Gender distribution, workshop and white collar employees



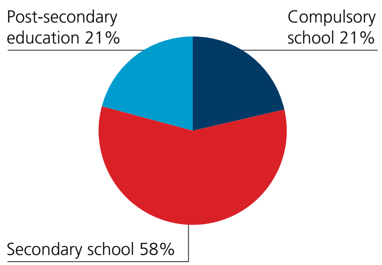
Women and men have the same opportunities at Scania. Yet gender distribution remains uneven.

Percentage of managers and other employees



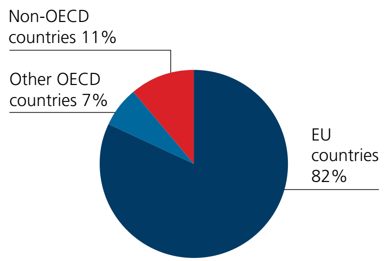
Managers account for 11 percent of all Scania employees, unchanged since 2004.

Educational level



80 percent of employees have an education equivalent to a secondary school diploma or higher.

Wages, salaries and mandatory social insurance fees, by region



ENVIRONMENTAL DEVELOPMENT

Improved conservation of resources and reduced emissions and discharges are resulting in both cost-effectiveness and lower environmental impact.

Environment and economics

Scania's new overall environmental targets for the period 2005-2009 include energy use, organic solvent emissions and waste. Efforts will focus on energy-saving. The aim is to steadily decrease energy use per vehicle at comparable production volume and in the existing production structure. Based on overall targets, detailed local targets are established, thus allowing Scania to carry out more effective monitoring and to localise resources where they will yield the greatest benefit.

During 2005, Scania's costs for raw materials, chemicals, energy and water totalled about SEK 2,288 m., equivalent to 3.6 percent of sales. Use of raw materials as well as total energy use declined, while the number of vehicles produced increased somewhat. In spite of this, the costs of both raw materials and energy increased due to rising prices, which underscores the necessity of continuing the improvement efforts and decreasing energy use. Transport costs also rose somewhat to SEK 1,733 m.

Emissions of carbon dioxide from Scania's production plants totalled 69.1 kilotonnes. In relation to Scania's sales, this represented 1.1 g/SEK. Emissions per vehicle produced declined marginally compared to the year before. Two heat supply units in Oskarshamn and Södertälje, Sweden are included in the EU trading system for carbon dioxide emission allowances. Scania bought a small number of allowances, about 1,000, for the Oskarshamn unit during 2005. Scania is pursuing the task of reducing climate-affecting emissions with the support of the principle of continuous improvements. A detailed account of measures and outcomes, as well as a summary of environmental performance by production unit, can be found on Scania's website, www.scania.com

Environmental investments

As defined in the European Commission's recommendations on voluntary environmental reporting, an environmental investment is an investment carried out only for environmental reasons and aimed at reducing external environmental impact. Scania believes, however, that an investment is motivated by several different reasons, of which environmental impact may be one. In Scania's view, it is better to take the environment directly into account when making investments, instead of subsequently investing in separate purification units. High environmental investment costs are thus not a good yardstick of environmental commitment.

During 2005, Scania's gross capital expenditures for property, plant and equipment were SEK 2,982 m. Of this, SEK 29.6 m. was classified as environmental investments. This amount was appreciably higher than the year before. Among other things, this was due to major investments in engine labs, pre-delivery engine testing and a test track.

Environmental risk management

Scania's risk management focuses on preventive measures to protect employees and the company's overall assets. Procedures for managing the risks of environmental hazards are integrated in the company's other risk management work.

Soil inventories and clean-up

Orientation studies and risk assessments of soil and groundwater contamination have been completed at all production facilities.

In Meppel, the Netherlands; Falun, Sweden; and Słupsk, Poland, aftertreatment is under way. During 2005, clean-up and preventive measures were undertaken in São Paulo, Brazil to avoid diesel leakages.

Operating permits

The operations at Scania's production facilities around the world have permits that comply with national legislation. The environmental impact from these facilities consists mainly of emissions to air, discharges to water, waste products and noise. In addition to legal requirements and the conditions included in the permits, there are also internal requirements and rules for these operations.

Scania has applied for a permit for the new paintshop in Meppel, the Netherlands, which is scheduled to go into service in 2007/2008. The task of renewing the permit for the production unit in São Paulo continued during 2005. The new permit is expected to be ready during 2006. Scania obtained new permits for expanded operations in Falun, Sweden; for noise in Zwolle, the Netherlands; and for emissions from the paintshop in Słupsk.

During 2005 there were no violations of the existing permit conditions. No incidents occurred that caused significant environmental impact or led to major clean-up expenses. The sales company Scania Great Britain was assessed a small fine for shortcomings in its waste management. Measures in the form of clarified procedures and better collaboration with the waste contractor were undertaken to prevent a repetition.

SUMMARY OF ENVIRONMENTAL PERFORMANCE, SCANIA PRODUCTION ORGANISATION

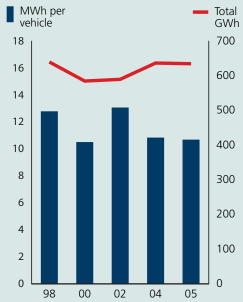
Year	2005	2004	2003
No. of vehicles produced	**59,503**	58,672	51,276
Sales revenue, SEK m.			
Scania products	**63,328**	56,788	50,581
Raw material consumption			
Per vehicle, kg	**3,100**	3,400	3,500
Total, tonnes	**187,000**	199,000	179,000
Total, SEK m.	**1,890**	1,690	1,400
Chemical consumption			
Per vehicle, m³	**0.087**	0.083	0.085
Total, m³	**5,200**	4,900	4,400
Total, SEK m.	**151**	144	118
Energy use			
Per vehicle, MWh	**11**	11	12
Total, GWh	**635**	640	620
Total, SEK m.	**238**	207	180
Carbon dioxide emissions			
Per vehicle, kg	**1,200**	1,300	1,400
Total, tonnes	**69,000**	74,000	74,000
Water use			
Per vehicle, m³	**11**	10	11
Total, 1,000 m³	**660**	580	550
Total, SEK m.	**7**	7	7
Solvent emissions[1]			
Per vehicle, kg	**5.5**	5.2	5.5
Total, tonnes	**330**	300	280
Recycling of residual products and waste			
Per vehicle, kg	**1,000**	1,000	1,050
Total, tonnes	**60,000**	59,000	54,000
Revenue, SEK m.	**46**	54	24
Sent to landfills[2] and other off-site disposal			
Per vehicle, kg	**180**	190	210
Total, tonnes	**11,000**	11,000	11,000
Total, SEK m.	**22**	23	20

1 From painting/rust-proofing.

2 Excluding foundry sand, about 20,600 tonnes of construction material sent to landfills.

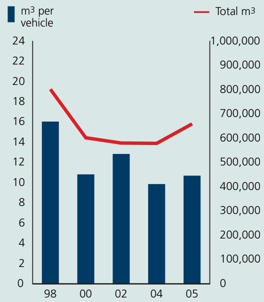
ENVIRONMENTAL PERFORMANCE IN THE PRODUCTION ORGANISATION

Energy use



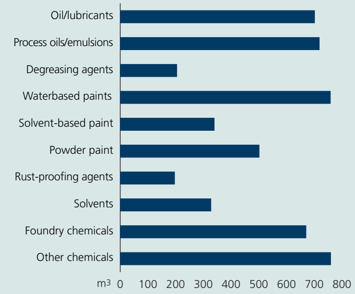
During 2005, energy consumption fell slightly to about 635 GWh, equivalent to about 10,700 kWh per vehicle.

Water use



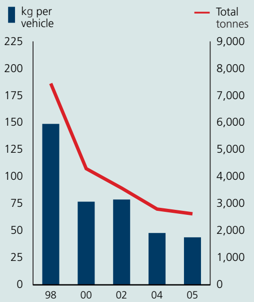
During 2005, water consumption rose from 10 to 11 cubic metres per vehicle. The increase was mainly due to higher consumption at production sites in Latin America.

Chemical use



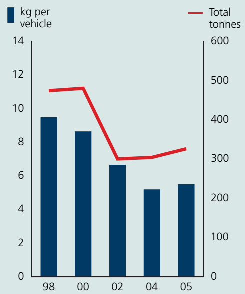
The consumption of chemicals in 2005 was about 5,200 cubic metres, or 87 litres per vehicle.

Residual products sent to landfills



The quantity of residual products sent to landfills during 2005 totalled about 2,600 tonnes, equivalent to 44 kg per vehicle, excluding foundry sand.

Solvent emissions



During 2005, organic solvent emissions from painting/rust-proofing rose from about 300 tonnes to 330 tonnes, or 5.5 kg per vehicle.

Carbon dioxide emissions related to energy use

	Energy use, GWh		Carbon dioxide emissions, ktonnes	
	2005	1996	2005	1996
Electricity	401	360	22	23
District heating	64	130	5	9
Fossil fuels	170	200	42	51
Total	635[3]	690[3]	69	83
Per vehicle	10,700 kWh		1.2 tonnes	

3 Sub-totals and totals have been rounded off.

In 2005, carbon dioxide emissions from Scania's production network amounted to 1.2 tonnes per vehicle, or a total of 69,000 tonnes.

Corporate governance at Scania

Scania's Board of Directors is elected every year by the Annual General Meeting. The Board is the link between the shareholders and the company's management. It is of great importance in the task of developing Scania's strategy and business operations.

CORPORATE GOVERNANCE REPORT

Corporate governance at Scania is based on Swedish legislation, especially the Swedish Companies Act, the listing agreement with Stockholmsbörsen and rules and recommendations issued by relevant organisations.

On 16 December 2004, the Code Group published its final report on a Swedish Code of Corporate Governance ("the Code"). Stockholmsbörsen (the Stockholm Stock Exchange) has introduced the Code as part of its listing requirements, that is, the requirements that a company must live up to in order to be listed on Stockholmsbörsen. For Scania, whose shares are quoted on the exchange's A list, this means that the Code should be applied as soon as possible after 1 July 2005, but no later than by the Annual General Meeting (AGM) in 2006.

Scania's Board of Directors has decided that the company will gradually apply the Code during 2005 and that it will be applied in its entirety in time for the AGM in 2006. Scania already meets most requirements of the Code.

Scania's ambition is that its corporate governance shall maintain a high international standard through the clarity and simplicity of its management systems and governing documents.

The most important internal governing documents at Scania – aside from the Articles of Association and the Rules of Procedure of the Board and its Audit Committee, including the instruction on the division of labour between the President and CEO and the Board as well as essential reporting processes at Scania – are:

- How Scania is Managed
- Scania Strategic Update
- Scania Corporate Governance Manual and
- Scania Financial Reporting Manual

The Annual General Meeting

In compliance with the Swedish Companies Act and Scania's Articles of Association, the composition of the Board of Directors and other items are decided by voting at the Annual General Meeting (AGM).

At the AGM, each A share represents one vote and each B share one tenth of a vote. The AGM must be held within six months of the end of the financial year and is normally held in late April or early May. According to the Articles of Association, it shall be held either in Södertälje or in Stockholm.

In compliance with the Swedish Companies Act, decisions are ordinarily made with a simple majority. In some cases, however, the Swedish Companies Act or the Articles of Association stipulates either a certain level of attendance in order to reach a quorum or a certain majority of votes. A shareholder may utilise all votes that correspond to the shareholder's shareholding and that are duly represented at the AGM.

At the AGM, shareholders have the opportunity to ask questions about the company and its results for the year in question. Normally all members of the Board, the corporate management and the auditors are present in order to answer such questions.

According to the Swedish Companies Act, all shareholders are entitled to have any item dealt with at the AGM. Notice convening the AGM shall be issued no earlier than six and no later than four weeks before the Meeting. Notice convening an AGM and an Extraordinary General Meeting (EGM) is published in at least two Swedish national newspapers, in the newspaper *Länstidningen* in Södertälje and on the company's website.

NOMINATION COMMITTEE

The main task of the Nomination Committee is to propose candidates to the AGM for election to the Board of Directors and as required, in consultation with the Board's Audit Committee, to propose candidates for election as auditors.

Beyond this, the Nomination Committee works out proposals concerning remuneration to the Board, the chairman at the AGM and remuneration to the auditors and assesses the independence of elected Board members in relation to the company and its major shareholders.

The members of the Nomination Committee shall be appointed by the five largest shareholders in voting power, except Ainax AB, which is a subsidiary of Scania, no later than six months before the AGM. In preparation for the AGM in 2006, the following persons have served on the Nomination Committee, in addition to the Chairman of the Board:

Adine Grate Axén, Investor AB – Chairperson

Gudrun Letzel, Volkswagen AG

Marcus Wallenberg, Knut and Alice Wallenberg Foundation

Ramsay Brufer, Alecta

Renault S.A.S., one of the five largest owners in terms of votes, has abstained from appointing any participant in the company's Nomination Committee. The members of the Nomination Committee receive no compensation from the company.

THE BOARD OF DIRECTORS

According to the Articles of Association, the Board shall consist of a minimum of three and a maximum of ten directors with a maximum of two deputy directors for these, besides those Board members who are appointed according to Swedish law by any other than the AGM. These directors are elected each year at the AGM for the period up to the end of the next AGM.

On 29 April 2005, Scania's AGM elected nine Board members and no deputies for them.

They are:

- Vito H Baumgartner
- Staffan Bohman
- Peggy Bruzelius
- Sune Carlsson
- Andreas Deumeland
- Bernd Pischetsrieder
- Lothar Sander
- Peter Wallenberg Jr
- Leif Östling

At the statutory meeting of the Board following the AGM, Bernd Pischetsrieder was elected Chairman and Sune Carlsson was elected Vice Chairman.

In addition, the trade unions at Scania have appointed two Board members and two deputy members for them.

They are:

- Kjell Wallin
- Jan Westberg
- Katrin Rosenqvist, deputy member
- Niclas Wilhelmsson, deputy member

The Nomination Committee's assessment of elected Board members' independence according to the Swedish Code of Corporate Governance (the Code) and the rules of Stockholmsbörsen (the Stockholm Stock Exchange)

Board member	Audit Committee	Remuneration Committee	Independent in relation to the company and its management	Independent in relation to the company's major shareholders
Bernd Pischetsrieder		Chairman	Yes	No
Sune Carlsson			Yes	No
Vito H Baumgartner			Yes	Yes
Staffan Bohman	Chairman		Yes	Yes
Peggy Bruzelius			Yes	Yes
Andreas Deumeland			Yes	No
Lothar Sander			Yes	No
Peter Wallenberg Jr			Yes	No
Leif Östling			No	Yes

The work of the Board

The statutory Board meeting held directly after the AGM approves Rules of Procedure and a standing agenda for the Board meetings and, as required, a standing agenda for its committees.

According to the Rules of Procedure now in effect, the Board shall hold at least five regular meetings each year. Beyond this, the Board meets when there are special needs. During 2005, the Board held a total of seven meetings.

The meetings held in January/February, April/May, July/August and October/November are devoted, among other things, to financial reporting from the company. The meeting held in October/November deals with long-term plans and in December with the financial forecast for the following year.

At all its regular meetings, the Board deals with matters of a current nature and capital expenditure issues.

The committees report their work to the Board on a continuous basis. The Board also regularly discusses various aspects of the company's operations, for example management recruitment, financing, product development and market issues. This occurs at in-depth briefings where affected managers from the company participate.

With very few exceptions, all Board members normally participate in the meetings of the Board.

The instructions of the Board to Scania's President and CEO specify his duties and powers. These instructions include guidelines on capital expenditures, financing, financial reporting and external communications. According to the Swedish Companies Act, the President may also be elected as a member of the Board, which is currently also the case. The company's President and CEO, Leif Östling, is the only member of the Board who also belongs to Scania's operative management.

Evaluation

The Chairman of the Board pursues a continuous dialogue with the members of the Board to evaluate the work of the Board. In addition, a written evaluation takes place annually, in which all Board members are given the opportunity to present their opinions about the Board, including the Chairman, and its work.

The President and CEO is evaluated on a continuous basis by the Board.

The committees of the Board

The Board currently has three committees: the Audit Committee, the Remuneration Committee and the Ownership Structure Committee. The Board appoints the members of the committees from among its own members. The Ownership Structure Committee shall only consist of Board members who are independent of the company and of its three largest shareholders in voting power.

The Audit Committee

The Audit Committee consists of Staffan Bohman (Chairman), Vito H. Baumgartner and Lothar Sander. It normally meets three times per year. In 2005 the Audit Committee met a total of three times. All members participated in all meetings through attendance or by telephone.

The Audit Committee discusses and monitors issues related to administrative processes, risk control and the controller organisation. Its brief also includes discussing and evaluating the company's application of important accounting issues and principles, the company's financial reporting, as well as evaluating the auditors and approving the use of external auditors for non-auditing-related services. When auditors are to be re-elected, the Audit Committee presents a proposal. The result of the evaluation of the auditors and, in case of the re-election of auditors, the proposal of the Audit Committee are presented to the Board as a whole. As appropriate, the Board in turn informs the Nomination Committee. The Nomination Committee proposes candidates to the AGM for the election of auditors and proposes the compensation to be paid to the auditors.

The Audit Committee shall also receive and discuss complaints concerning accounting, internal controls or auditing in the company.

The company's auditors are normally invited to participate in those meetings of the Audit Committee where the auditors are not being evaluated or discussed.

Scania Board Members' participation in Board meetings and Committee meetings in 2005

	Board Meeting	Board Meeting	Board Meeting	Statutory Board Meeting	Board Meeting	Board Meeting	Board Meeting	Audit Committee Meeting	Audit Committee Meeting	Audit Committee Meeting	Remun. Committee Meeting	Remun. Committee Meeting	Owner Structure Committee
2005	4 Feb	27 Apr	29 Apr	29 Apr	27 Jul	1 Nov	9 Dec	31 Jan	26 July	9 Dec	4 Feb	9 Dec	1 Nov
Bernd Pischetsrieder	x	x	x	x	x	x	x				x	x	
Sune Carlsson	x	x	x	x	x	x	x				x	x	
Vito H Baumgartner	x	x	x	x	x	x	x	x	x	x			x
Staffan Bohman[1]				x	x	x	x		x	x			x
Peggy Bruzelius	x	x	x	x		x	x				x	x	x
Andreas Deumeland	x	x	x	x	x	x	x						
Lothar Sander	x	x	x	x	x	x	x	x	x	x			
Peter Wallenberg Jr[1]				x	x	x	x						
Leif Östling	x	x	x	x	x	x	x						
Katrin Rosenqvist	x		x		x	x	x						
Kjell Wallin	x	x	x	x	x	x	x						
Jan Westberg	x	x	x	x	x	x	x						
Niclas Wilhelsson	x	x	x	x	x	x	x						
Rolf Stomberg[2]	x	x	x										
Marcus Wallenberg[2]	x	x	x					x					

1 From 29 April 2005 2 Until 29 April 2005

The Remuneration Committee

The Remuneration Committee consists of Bernd Pischetsrieder (Chairman), Peggy Bruzelius and Sune Carlsson. It normally meets twice a year. During 2005 the Remuneration Committee held two meetings.

All members participated in all meetings through attendance or by telephone.

The Remuneration Committee discusses issues concerning compensation principles and incentive programmes, as well as preparing proposals for such issues that must be approved by the AGM.

In compliance with the principles that the AGM has approved for the Board, the Remuneration Committee also prepares decisions concerning conditions of employment for the company's President and CEO and, as appropriate, Group Vice Presidents.

The Ownership Structure Committee

The Ownership Structure Committee consists of Peggy Bruzelius (Chairman), Vito H. Baumgartner and Staffan Bohman. All three are independent of the company and the three largest shareholders in voting power.

As needed, the committee shall prepare issues concerning the ownership structure of the company as well as reporting these to the Board and the shareholders.

During 2005 the Ownership Structure Committee held one meeting. All members participated in this meeting.

Auditors

In Swedish limited liability companies, independent auditors are elected by the shareholders at the AGM for a period of four years. The auditors then report to the shareholders at the company's AGM.

To ensure that the requirements concerning information and controls that are incumbent on the Board are being met, the auditors report on a continuous basis to the Audit Committee on all substantive accounting issues, any errors and suspected irregularities. The auditors are also invited, as needed, to participate in and report to the meetings of the Board. At least once per year, the auditors report to the Board without the President and CEO or any other member of the company's operative management being present at the meeting.

Scania paid its auditors the fees (including compensation for costs) that are stated in the Annual Report's notes to the financial statements – Note 28, "Fees and other remuneration to auditors", for both audit-related and non-audit-related assignments.

The management of the company

Under the Board of Directors, the President and CEO has overall responsibility for the Scania Group. At the side of the President and CEO is the Executive Board, which jointly decides – in compliance with guidelines approved by the Board of Directors and the instruction on the division of labour between the President and CEO and the Board – on issues in its area of competency and in accordance with guidelines that are of a long-term, strategic nature such as the development of the company, marketing, pricing policy, capital expenditures and financing. The Executive Board also prepares such issues that shall be decided by the Board of Directors.

Group Management consists of the Executive Board and the heads of each corporate unit. The corporate units are responsible for carrying out the established strategies. Each corporate unit reports to one of the members of the Executive Board.

The strategy meetings of the Executive Board take place four to six times per year. These strategies are summarised from a global perspective and updated, taking into account to market developments as well as possible new directives from the Executive Board. The implementation of strategies begins at subsequent meetings with Group Management.

The members of Group Management are responsible for ensuring that the appropriate actions are taken in their respective fields of responsibility based on the strategies that have been decided. They also have a general responsibility for issues that affect the entire company, and they assist the President and CEO and the Executive Board in their work. The Group Management meets four to six times per year to provide updates and information on current activities and projects, as well as the implementation of strategic decisions. These meetings also deal with issues that may later be presented for decisions at the meetings of the Executive Board.

The members of the Executive Board and the rest of the Group Management who are not prevented by other obligations also gather at a brief breakfast meeting once each normal work week.

Compensation issues for the President and CEO and, as appropriate, Group Vice Presidents, are decided by the Board after preparation by its Remuneration Committee. The principles for remuneration to other members of the Executive Board as well as the heads of corporate units are also decided by the Board after preparation by the Remuneration Committee.

Share-related incentive programmes for Group Management shall be decided by the AGM.

Compensation to executive officers, including the President and CEO and other members of Group Management, is stated in the Annual Report, notes to the financial statements – Note 27, "Information regarding compensation to executive officers".

The decision making structure and management of Scania are described in detail in the internal governing document "How Scania is Managed", which is updated as needed.

All managers in the company are responsible for communicating and working in compliance with the company's strategies. The strategic direction of the Scania Group is described in the annually updated "Scania Strategic Update". This internal governing document serves as the foundation for business and operating plans.

The companies in the Scania Group also work in compliance with the principles established in Scania's "Corporate Governance Manual". The main responsibility for the operations of subsidiaries, ensuring that the established profitability targets are achieved and that all of Scania's internal rules and principles are followed, rests with the Board of Directors of each respective subsidiary.

The principles and rules presented in the governing document "Scania Financial Reporting Manual" also apply to the Scania Group as a whole.

Financial, commercial and legal risks as well as tax risks are reported regularly to the Audit Committee.

Internal control of financial reporting at Scania

The description below has been prepared according to the Swedish Code of Corporate Governance and according to guidance jointly provided by the Swedish Institute of Authorised Public Accountants (FAR) and the Confederation of Swedish Enterprise, applying the transitional rules announced by the Swedish Corporate Governance Board on 15 December 2005.

Control environment

Internal control is based on organisational structure, decision making procedures, powers and responsibilities which are documented and communicated in governing documents, such as internal policies, manuals and codes between, on the one hand, the Board of Directors and, on the other hand, the President and CEO and other bodies that the Board has established, as well as instructions on powers and authorisation rights and reporting instructions in the form of manuals.

Risk assessment and control activities

Risks that have been identified in the company's financial reporting are handled through its control structure. The company's control structure, like financial responsibility, follows its organisational and responsibility structure. Responsibility for activities and control measures aimed at ensuring that financial reporting provides a true and fair view of the company's financial position follows the company's control structure.

Information and communication

In order to inform, instruct and coordinate those who work with financial reporting, the company has formal information and communications channels to affected employees regarding policies, guidelines and reporting manuals.

Monitoring

The company monitors compliance with the above-described governing documents and the effectiveness of the control structure. Monitoring and evaluation are performed by the company's corporate controller departments in industrial operations, all sales and service companies and Customer Finance operations. During the 2005 financial year, the company paid special attention to the evaluation of control routines regarding IFRS implementation. Other priorities for examination during the year were areas and processes with large and complex flows, for example material and inventory accounting, as well as units and companies which are, or were, in a growth or change phase. Authorisation plans and powers were evaluated and improved using new technology in connection with the introduction of an electronic accounts payable system. During the year there were also conferences and seminaries in the various areas (industrial operations, sales and service companies and Customer Finance operations) with a focus on quality assurance in financial reporting and governance models.

In preparation for every meeting, the Board of Directors´ Audit Committee receives an internal control report, which is the subject of review. The Board receives monthly financial reports, except for January and July. This financial information increases in terms of content in each interim report, which is always preceded by a Board meeting where the Board approves the interim report.

Through the organisational structure and the work methods described above, the company has decided that the internal control system concerning financial reporting is well-suited to the company's operations. Accordingly, the company, including its management and Board of Directors, has deemed a separate audit department unnecessary at present.

Deviations from the rules in the Swedish Code of Corporate Governance

Scania will apply the Code in its entirety only in preparation for the 2006 AGM.

In the above Corporate Governance Report, the Board of Directors has described the internal control system for financial reporting and thus sees no need for a separate report at present.

The principles for compensation to executive officers have previously been decided by the Board of Directors. However, as from 2006, they will be decided by the AGM.

Up to and including 2005, the Board of Directors has evaluated the work of the President and CEO in his presence. As from 2006, at least once each year such an evaluation will occur without the participation of the President and CEO or of any other person employed by the company.

AUDITORS

Caj Nackstad

Authorized Public Accountant,
KPMG Bohlins AB

Jan Birgerson

Authorized Public Accountant,
Ernst & Young AB

DEPUTY AUDITORS

Thomas Thiel

Authorized Public Accountant,
KPMG Bohlins AB

Björn Fernström

Authorized Public Accountant,
Ernst & Young AB

Board of Directors and management

Leif Östling

Born 1945, MBA and MSc.
Member since 1994. President and CEO of Scania AB.
Other directorships: AB SKF, ISS A/S, Confederation of Swedish Enterprise and Association of Swedish Engineering Industries.
Relevant work experience: Various management positions at Scania AB since 1972, President and CEO of Scania AB since 1994.
Shares in Scania: 70,025 plus 60,000 via related companies.

Vito H Baumgartner

Born 1940, MBA.
Member since 2004. Member, Audit Committee.
Other directorships: AB SKF, PartnerRE Ltd. and Northern Trust Global Services.
Relevant work experience: Group President Caterpillar Inc.
Shares in Scania: 600

Bernd Pischetsrieder

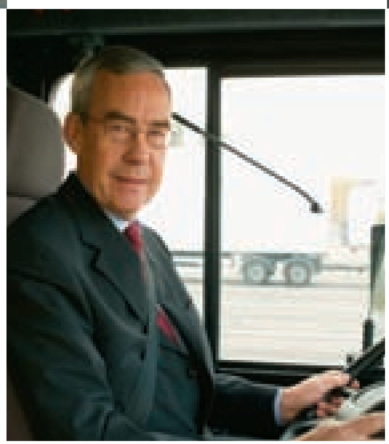
Born 1948, MSc. Chairman since 2002. Chairman, Remuneration Committee. Other directorships: Audi AG, SEAT S. A., Dresdner Bank AG, Metro AG, Münchener Rückversicherungs-Gesellschaft AG and Tetra-Laval Group.
Relevant work experience: Chairman of the Board of Management of Volkswagen AG. Chairman, ACEA and various previous management positions at BMW AG.
Shares in Scania: 0

Andreas Deumeland

Born 1956, MSc.
Member since 2003.
Corporate secretary and Head of Group Product Planning at Volkswagen AG.
Relevant work experience: Various positions at Volkswagen AG and Veba Oil, 1996–1999.
Shares in Scania: 0

Sune Carlsson

Born 1941. M.Sc.
Vice Chairman since 2004.
Member, Remuneration Committee.
Other directorships: Chairman of Atlas Copco AB, Board member, Investor AB and Autoliv Inc.
Relevant work experience: Various management positions at ASEA and ABB as well as President and CEO of AB SKF, 1998–2003.
Shares in Scania: 0



Peter Wallenberg Jr

Born 1959, MBA.
Member since 2005.
CEO of Grand Hôtel Holdings.
Other directorships: SEB Kort AB, General Motors Norden AB, Stockholmsmässan AB, Royal Swedish Automobile Club, Stockholm Chamber of Commerce, Knut and Alice Wallenberg Foundation and W Capital Management AB.
Relevant work experience: Various positions at Grand Hôtel.
Holding in Scania: 1,500

Lothar Sander

Born 1950. MBA.
Member since 2000. Member, Audit Committee.
Other directorships: Flughafen Braunschweig GmbH and TAS Tvornica Automobilia Sarajevo, as well as a number of directorships in subsidiaries of the Volkswagen Group.
Relevant work experience: Various management positions at Volkswagen AG and Member of the Board of Management of the Volkswagen Brand.
Shares in Scania: 0

Kjell Wallin

Born 1943. Two-year folk high school education.
Member since 1998.
Representative of the Swedish Metal Workers' Union at Scania.
Relevant work experience: Various positions at Scania.
Shares in Scania: 25

Staffan Bohman

Born 1949, MBA.
Member since 2005. Chairman, Audit Committee. Member, Ownership Structure Committee.
Other directorships: Atlas Copco AB, Dynapac AB, EDB Business partner, InterIKEA, Ratos, SwedFund International and Trelleborg AB.
Relevant work experience: Former CEO of DeLaval AB, Gränges AB and Sapa AB.
Shares in Scania: 5,000

Jan Westberg

Born 1944, upper secondary school and corporate board training program.
Member since 1996.
Representative of the Federation of Salaried Employees in Industry and Services (PTK) at Scania.
Relevant work experience: Various positions at Scania since 1975, former local Chairman of Metal Workers' Union and Swedish Association of Supervisors (LEDARNA), currently of Swedish Union of Clerical and Technical Employees in Industry (SIF).
Shares in Scania: 25

Peggy Bruzelius

Born 1949, MBA.
Member since 1998. Member, Remuneration Committee. Chairman, Ownership Structure Committee.
Other directorships: Chairman of Grand Hôtel Holdings AB and Lancelot Asset Management AB. Deputy Chairman of Electrolux AB. Board member, Industry and Commerce Stock Exchange Committee, Axel Johnson AB, AB Ratos, Axfood AB, Syngenta AG and The Body Shop International PLC.
Relevant work experience: Various management positions at ABB.
Shares in Scania: 2,000

Niclas Wilhelmsson

Born 1965. Two-year university program.
Deputy member since 2003.
Representative of the Swedish Metal Workers' Union at Scania.
Relevant work experience: Various positions at Scania since 1989.
Shares in Scania: 0

Kathrin Rosenquist

Born 1960, MSc.
Deputy member since 2001.
Representative of the Federation of Salaried Employees in Industry and Services at Scania (PTK) at Scania.
Relevant work experience: Various positions at Scania since 1985 and union representative since 1998.
Shares in Scania: 166

Executive Board

Jan Gurander

Born 1961, MBA.
Joined Scania in 1995, employed until 1999. Rejoined Scania in 2001.
Group Vice President, Chief Financial Officer, Head of Finance and Business Control.
Shares in Scania: 0

Leif Östling

Born 1945, MBA and MSc.
Joined Scania in 1972.
President and CEO.
Shares in Scania: 70,025 plus 60,000 via related companies.

Hasse Johansson

Born 1949, MSc.
Joined Scania in 2001.
Group Vice President, Head of Research and Development.
Shares in Scania: 0

Per Hallberg

Born 1952, MSc.
Joined Scania in 1977.
Group Vice President, Head of Production and Procurement.
Shares in Scania: 0

Hans-Christer Holgersson

Born 1953, MBA.
Joined Scania in 1985.
Group Vice President, Head of Sales and Services Management from 1 January 2006.
Shares in Scania: 0.

Per-Erik Lindquist

Born 1960, MSc.
Joined Scania in 1984, employed until 2000.
Rejoined Scania in 2004.
Group Vice President, Head of Franchise and Factory Sales from 1 January 2006.
Shares in Scania: 0

Gunnar Rustad (not pictured)

Born 1949, MSc.
Joined Scania in 1997, employed until 31 December 2005.
Head of Sales and Services until 31 December 2005.
Shares in Scania: 0

Corporate Units

1. Lennart Hjelte

Born 1945.
Joined Scania in 1966.
Senior Vice President
Industrial and Marine Engines.
Shares in Scania: 4,150

2. Thomas Karlsson

Born 1953.
Joined Scania in 1988.
Senior Vice President
Powertrain Production.
Shares in Scania: 0

3. Hans Narfström

Born 1951.
Joined Scania in 1977.
Senior Vice President
Corporate IT.
Shares in Scania: 10
via closely related person

4. Jan Ytterberg

Born 1961.
Joined Scania in 1987.
Senior Vice President
Corporate Control.
Shares in Scania: 0

5. Cecilia Edström

Born 1966.
Joined Scania in 1995.
Senior Vice President
Corporate Relations.
Shares in Scania: 0

6. Robert Sobocki

Born 1952.
Joined Scania in 1978,
employed until 1997.
Rejoined Scania in 2002.
Senior Vice President Sales
and Services Buses and
Coaches.
Shares in Scania: 405

7. Lars Orehall

Born 1947.
Joined Scania in 1974.
Senior Vice President
Truck, Cab and Bus Chassis
Development.
Shares in Scania: 2,025

8. Peter Härnwall

Born 1955.
Joined Scania in 1983.
Senior Vice President
Sales and Services
Administration and Control.
Shares in Scania: 166

9. Per-Olov Svedlund

Born 1955.
Joined Scania in 1976.
Senior Vice President
Global Purchasing.
Shares in Scania: 166

10. Mikael Sundström

Born 1957.
Joined Scania in 2004.
Senior Vice President
Corporate Legal Affairs
and Risk Management.
Shares in Scania: 0

11. Magnus Hahn

Born 1955.
Joined Scania in 1985.
Senior Vice President
Human Resources Support.
Shares in Scania: 0

12. Michel de Lambert

Born 1947.
Joined Scania in 2005.
Senior Vice President
Latin American Operations.
Shares in Scania: 0

13. Håkan Ericsson

Born 1947.
Joined Scania in 1975.
Senior Vice President
Global Services.
Shares in Scania: 166

14. Claes Jacobsson

Born 1958.
Joined Scania in 1999.
Senior Vice President
Customer Finance.
Shares in Scania: 0

15. Christoffer Ljungner

Born 1950.
Joined Scania in 1976.
Senior Vice President
Sales and Services Overseas.
Shares in Scania: 100

16. Urban Johansson

Born 1945.
Joined Scania in 1971,
employed until 1995.
Rejoined Scania in 1999
Senior Vice President
Powertrain Development.
Shares in Scania: 818

Financial review

REVENUE

The sales revenue of the Scania Group, in the Vehicles and Service segment, rose by 12 percent to SEK 63,328 m. (56,788), due to higher volume. Positive currency rate effects influenced revenue by about SEK 2,300 m.

New vehicles sales revenue rose by 13 percent. Service revenue increased by 10 percent in Swedish kronor, equivalent to 7 percent in local currencies, and amounted to SEK 12,591 m. (11,418).

Sales revenue by product

SEK m.	2005	2004
Trucks	37,778	33,407
Buses	6,256	5,504
Engines	803	658
Service-related products	12,591	11,418
Uses vehicles etc	7,670	6,792
Revenue deferral, vehicles [1]	– 1,770	– 991
Total Vehicles and Service	63,328	56,788
Customer Finance	3,518	3,427
Elimination	– 1,742	– 1,748
Scania Group total	65,104	58,467

1 Refers to the difference between sales recognised as revenue and sales value based on delivery.

Interest and leasing income in the Customer Finance segment rose by 3 percent due to increased volume and currency rate effects.

NUMBER OF VEHICLES

During the year, the Scania Group delivered 52,567 (50,563) trucks, an increase of 4 percent. Bus chassis deliveries increased by 5 percent, amounting to 5,816 (5,519) units.

Vehicles delivered and financed

SEK m.	2005	2004
Vehicles and Service		
Trucks	52,567	50,563
Buses	5,816	5,519
Total new vehicles	58,383	56,082
Used vehicles	16,393	15,897
Customer Finance		
Number financed (new during the year)		
Trucks	13,471	12,876
Buses	386	302
Total new vehicles	13,857	13,178
Used vehicles	5,418	4,693
Portfolio, SEK m.	29,630	26,596

EARNINGS

Scania's operating income rose by 4 percent to SEK 6,859 m. (6,599) during 2005. The operating margin amounted to 10.8 (11.6) per cent.

Operating income in Vehicles and Service increased by 3 percent to SEK 6,330 m. (6,149) during 2005. The new truck range and higher vehicle volume together with a better currency rate situation were the main contributors to the earnings improvement. Increased service-related sales also contributed positively. The above positive effects were offset by higher material and production costs as well as higher research and development costs. Scania's research and development expenditures amounted to SEK 2,480 m. (2,219). After adjusting for SEK 279 m. (316) in capitalised expenditures and depreciation of SEK 283 m. (84) on previously capitalised expenditures, recognised expenses increased to SEK 2,484 m. (1,987). The operating margin declined to 10.0 percent, compared to 10.8 percent the previous year. Compared to 2004, currency spot rate effects amounted to about SEK 695 m. Currency hedging income amounted to SEK -410 m. During 2004, the impact of currency hedging on earnings was SEK 65 m. Compared to 2004, the total positive currency rate effect was thus SEK 220 m.

Operating income in Customer Finance increased by 18 percent and amounted to SEK 529 m. (450). This was equivalent to an operating income of 1.9 (1.7) percent, expressed as a percentage of the average portfolio during the year. Earnings were favourably affected by increased volume in markets with higher interest margins. This was somewhat offset by increased operating expenses. Earnings were also improved by somewhat lower bad debt expenses. At the end of December, the size of the portfolio amounted to about SEK 29,600 m., which represented an increase of about SEK 3,000 m. since the end of 2004. In local currencies, the portfolio increased by 5 percent.

Earnings	2005	2004
Operating income per segment, SEK m., *(operating margin, %)*		
Vehicles and Service	6,330	6,149
Vehicles and Service	*10.0*	*10.8*
Customer Finance	529	450
Customer Finance [1]	*1.9*	*1.7*
Total operating income	6,859	6,599
Scania Group	*10.8*	*11.6*
Income after financial items	6,765	6,276
Taxes	– 2,100	– 1,960
Net income	4,665	4,316
Earnings per share, SEK	23.33	21.57
Return of equity, %	20.8	21.8

1 The operating margin of Customer Finance is calculated by taking operating income as a percentage of the average portfolio.

Scania's net financial items totalled SEK -94 m. (-323). Net interest items improved by SEK 105 m. to SEK -187 m., mainly due to lower interest expenses in Latin America. Other financial income and expenses amounted to SEK 93 m. (-31). This included SEK 74 m. (-) in positive valuation effects related to financial instruments where hedge accounting was not applied. In addition, the acquisition of Ainax had a positive effect of SEK 47 m. on financial income. Other financial expenses were mainly bank expenses. **Income after financial items** amounted to SEK 6,765 m. (6,276). The Scania Group's **tax expenses** for 2005 were equivalent to 31.0 (31.2) percent of income after financial items.

Net income increased by 8 percent and amounted to SEK 4,665 m. (4,316), equivalent to earnings per share of SEK 23.33 (21.57).

CASH FLOW

Scania's cash flow for Vehicles and Service amounted to SEK 3,865 m. (2,685). Excluding acquisitions, cash flow amounted to SEK 4,077 m. (2,734). Tied-up working capital decreased by SEK 762 m. Net investments excluding acquisitions amounted to SEK 3,597 m. (2,798), including SEK 279 m. (316) in capitalisation of development expenses.

The effect of acquisitions amounted to SEK 205 m. (49). The acquisition of Ainax had a positive effect of SEK 86 m. during the first quarter.

Cash flow in Customer Finance amounted to SEK -1,047 m. (-285). Net investments in customer finance contracts amounted to SEK 1,410 m. (478).

NET DEBT

Net debt, SEK m.	**2005**	2004
Liquid assets and short-term investments	**– 2,793**	– 2,498
Short-term borrowings	**9,351**	5,804
Long-term borrowings	**19,323**	19,809
Net market value of derivatives for hedging of borrowings	**– 405**	–
Total	**25,476**	23,115
of which, attributable to Vehicles and Service	**269**	854
of which, attributable to Customer Finance	**25,207**	22,261

As a result of the year's cash flow for Vehicles and Service, SEK 3,865 m., after subtracting for dividends and the influence of currency rate differences, net debt declined by SEK 585 m. to SEK 269 m.

FINANCIAL POSITION

Financial ratios related to the balance sheet, SEK m.	**2005**	2004
Equity/assets ratio	**30.3%**	30.3%
Equity/assets ratio, Vehicles and Service	**41.5%**	40.7%
Equity/assets ratio, Customer Finance	**10.0%**	11.2%
Equity per share, SEK	**118.7**	107.1
Return on capital employed, Vehicles and Service	**27.9%**	29.0%
Net debt/equity ratio, Vehicles and Service	**0.01**	0.05

During 2005, the equity of the Scania Group rose by SEK 2,303 m. and totalled SEK 23,736 m. (21,433) at year-end. Net income for the year added SEK 4,665 m. (4,316), while the dividend to the shareholders decreased equity by SEK 3,000 m. (1,200). Beyond this, equity rose by SEK 1,307 m. because of exchange rate differences that arose when translating net assets outside Sweden, declined by SEK 691 m. because of cash flow hedging and actuarial losses on pension liabilities net after taxes.

In addition, equity increased by SEK 22 m. (0) due to changes in accounting principles.

The dividend for the financial year 2005 proposed by the Board of Directors is SEK 15.00 (15.00) per share.

NUMBER OF EMPLOYEES

The number of employees in the **Scania Group** at year-end was 30,765, compared to 29,993 at the end of 2004.

In **Vehicles and Service**, the number of employees in Europe decreased in Scania's industrial operations, while staffing in Latin America increased. Staffing increased in research and development. In the global sales network, the number of employees increased, partly due to acquisitions and partly due to organic growth.

In **Customer Finance operations**, the number of employees at year-end 2005 was 405, compared to 354 at the end of 2004, mainly due to an increased sales force and establishment of a new company in Turkey.

FINANCIAL RISKS

Borrowing and refinancing risk

Scania's borrowings consist of two committed credit facilities in the international borrowing market, bonds issued under capital market programmes plus certain other borrowings.

At year-end 2005, borrowings amounted to SEK 27.9 billion. In addition to utilised borrowings, Scania had two unutilised committed credit facilities equivalent to SEK 14.1 billion plus unutilised capital market programmes equivalent to SEK 25.7 billion.

Interest rate risk

Scania's policy concerning interest rate risks is that the interest rate refixing period of its borrowing portfolio should normally be 6 months, but deviations may be allowed within the 0–24 month range. One exception is Scania's Customer Finance companies, in which the interest rate refixing period on borrowing is matched with the interest rate refixing period on assets. To manage interest rate risks in the Scania Group, derivative instruments are used.

Currency risk

Currency transaction exposure during 2005 totalled about SEK 22 billion. The largest currency flows were in euro and British pounds. Based on 2005 revenue and expenses in foreign currencies, a one percentage point change in the Swedish krona against other currencies would affect operating income by about SEK 220 m. on an annual basis.

Scania's policy is to hedge currency flows during a period of time equivalent to the projected orderbook until the date of payment. This normally means a hedging period of 3 to 4 months. However, the hedging period is allowed to vary between 0 and 12 months.

At the end of 2005, Scania's net assets in foreign currencies amounted to SEK 10,850 m. Net assets outside Sweden of Scania's subsidiaries are not hedged under normal circumstances. To the extent a foreign subsidiary has significant monetary assets in local currency, however, they may be hedged.

Credit risk

The management of credit risks in Vehicles and Service are regulated by a credit policy. In Vehicles and Service, credit exposure consists mainly of receivables from independent dealers as well as end customers.

To maintain a controlled level of credit risk in Customer Finance, the process of issuing credit is supported by a credit policy as well as credit instructions. In Customer Finance, the year's bad debt expenses totalled SEK 80 m. (89), equivalent to 0.29 (0.34) percent of the average portfolio. The year's actual credit losses amounted to SEK 80 m. (44).

At year-end, the total reserve for bad debt expenses in Customer Finance totalled SEK 532 m. (500), equivalent to 1.8 (1.9) percent of the portfolio at the close of 2005.

The year-end portfolio amounted to SEK 29,630 m. (26,596), divided among about 20,700 customers, of whom 98.8 percent were small customers with lower credit exposure per customer than SEK 15 m.

The management of the credit risks that arise in Scania's treasury operations, among other things in liquidity investment and derivatives trading, is regulated in Scania's Financial Policy document. Transactions occur only within established limits and with selected creditworthy counterparties.

OTHER CONTRACTUAL RISKS

Residual value exposure

Some of Scania's sales occur with repurchase obligations or guaranteed residual value. The value of all obligations outstanding at year-end was SEK 6,223 m. (5,615). Obligations outstanding increased somewhat, mainly due to the weaker krona and higher volume. During 2005, the volume of new contracts was about 5,200 (4,600).

Service contracts

A large proportion of Scania's sales of parts and workshop hours occur through repair and service contracts. Selling a service contract involves a commitment by Scania to provide servicing to customers during the contractual period in exchange for a predetermined fee.

The cost of the contract is allocated over the contractual period according to estimated consumption of service, and actual deviations from this are recognised in the accounts during the period. From a portfolio perspective, Scania continually estimates possible future deviations from the expected cost curve. Negative deviations from this result in a provision, which affects earnings for the period. The number of contracts rose during 2005 by 4,000 and totalled 56,000 at year-end. Most of these are in the European market.

THE PARENT COMPANY

The Parent Company, Scania AB, owns the shares in Scania CV AB and Ainax AB and otherwise runs no operations.

Scania CV AB is a public company and parent company of the Scania CV Group, which includes all production, sales and finance companies in the Scania AB Group.

The Board of Directors of Ainax AB has proposed that the annual general meeting on 6 March 2006 approve a resolution that Ainax AB shall enter into liquidation and immediately distribute its Scania shares.

Consolidated income statement

January – December, SEK m.	Note	2005	2004
Vehicles and Sevice			
Sales revenue	4	**63,328**	56,788
Cost of goods sold	5	**– 47,835**	– 42,528
Gross income		**15,493**	14,260
Research and development expenses[1]	5	**– 2,484**	– 1,987
Selling expenses	5	**– 5,829**	– 5,343
Administrative expenses	5	**– 858**	– 789
Share of income in associated companies		**8**	8
Operating income, Vehicles and Sevice		**6,330**	6,149
Customer Finance	6		
Interest and lease income		**3,518**	3,427
Interest and depreciation expenses		**– 2,575**	– 2,572
Interest surplus		**943**	855
Other income and expenses		**40**	2
Gross income		**983**	857
Selling and administrative expenses	5	**– 374**	– 318
Bad debt expenses		**– 80**	– 89
Operating income, Customer Finance		**529**	450
Operating income		**6,859**	6,599
Financial income		**635**	326
Financial expenses		**– 822**	– 618
Other financial income and expenses		**93**	– 31
Net financial items	7	**– 94**	– 323
Income after financial items		**6,765**	6,276
Taxes	8	**– 2,100**	– 1,960
Net income		**4,665**	4,316
Attributable to:			
Scania shareholders		**4,665**	4,314
Minority interest		**0**	2
Depreciation/amortisation included inoperating income[2]	9	**– 2,497**	– 1,990
Earnings per share, SEK[3]		**23.33**	21.57
Proposed/established dividend per share, SEK		**15.00**	15.00

1 Total research and development expenditures during the year amounted to SEK 2,480 M (2,219), of which a net amount of SEK -4 m. (232) was capitalised.

2 Refers to Vehicles and Service, excluding short-term leasing, which amounted to SEK 210 m. (168).

3 Attributable to Scania shareholders' portion of earnings.

Consolidated balance sheet

31 December, SEK m.	Note	2005	2004
ASSETS			
Non-current assets			
Intangible non-current assets	10	**2,698**	2,626
Tangible non-current assets	11	**26,598**	23,910
Deferred tax assets	8	**565**	383
Financial non-current assets			
Holdings in associated companies and joint ventures	12	**96**	92
Long-term interest-bearing receivables	13	**15,543**	12,756
Other long-term receivables	15	**753**	503
Total financial non-current assets		**16,392**	13,351
Total non-current assets		**46,253**	40,270
Current assets			
Inventories	14	**9,949**	9,487
Current receivables			
Tax assets		**206**	733
Interest-bearing trade receivables	13	**7,847**	7,875
Non-interest-bearing trade receivables		**8,008**	7,641
Other current receivables [1]	15	**3,162**	2,199
Total current receivables		**19,223**	18,448
Short-term investments		**1,194**	909
Liquid assets			
Short-term investments comprising liquid assets		**493**	470
Cash and bank balances		**1 106**	1 119
Total liquid assets		**1,599**	1,589
Total current assets		**31,965**	30,433
Total assets		**78,218**	70,703
Net debt, excluding provisions for pensions, SEK m.		**25,476**	23,115
Net debt/equity ratio		**1.07**	1.08
Equity/assets ratio, %		**30.3**	30.3
Equity per share, SEK		**118.7**	107.1
Capital employed, SEK m.		**55,463**	49,545
1 Including derivatives with positive value for hedging of borrowings		**788**	–
2 Including derivatives with negative value for hedging of borrowings		**383**	–

Due to changes in accounting principles, amounts for derivatives are included starting with 2005.

Financial assets are described in more detail in Note 29, "Financial instruments".

31 December, SEK m.	Note	2005	2004
EQUITY AND LIABILITIES			
Equity	16		
Share capital		**2,263**	2,000
Other contributed capital		**1,120**	1,120
Fair value reserve		**– 83**	–
Accumulated exchange rate difference		**903**	– 400
Retained earnings		**19,524**	18,708
Equity attributable to Scania shareholders		**23,727**	21,428
Minority interest		**9**	5
Total equity		**23,736**	21,433
Long-term liabilities			
Long-term interest-bearing liabilities		**19,323**	19,809
Provisions for pensions	17	**3,458**	2,499
Other long-term provisions	18	**1,310**	1,236
Accrued expenses and prepaid income	19	**2,126**	2,369
Deferred tax liabilities	8	**2,140**	2,305
Other tax liabilities		**195**	187
Other long-term liabilities		**345**	394
Total long-term liabilities		**28,897**	28,799
Current liabilities			
Current interest-bearing liabilities		**9,351**	5,804
Current provisions	18	**962**	1,366
Accrued expenses and prepaid income	19	**6,836**	5,543
Advance payments from customers		**593**	611
Trade payables		**4,901**	4,167
Tax liabilities		**645**	1,377
Other current liabilities [2]		**2,297**	1,603
Total current liabilities		**25,585**	20,471
Total equity and liabilities		**78,218**	70,703

Consolidated statement of changes in equity Detailed information in note 16

January – December, SEK m.	2005	2004
Equity, 1 January	21,433	18,471
Change in accounting principle	22	–
Adjusted opening balance	21,455	18,471
Exchange rate difference for the year	1,307	– 103
Cash flow hedges		
Recognised directly in equity	– 607	–
Transfer to income statement	415	–
Actuarial gains and losses related to pension liabilities recognised directly in equity	– 770	– 72
Taxes attributable to items recognised directly in equity	271	21
Total changes recognised directly in equity excluding transactions with the company's owners	616	– 154
Net income for the year	4,665	4,316
Total changes excluding transactions with the company's owners	5,281	4,162
Dividend to shareholders	– 3,000	– 1,200
Equity on 31 December	23,736	21,433
Of which, attributable to:		
Scania AB shareholders	23,727	21,428
Minority interest	9	5

Consolidated cash flow statement

January – December, SEK m.	Note	2005	2004
Operating activities			
Income after financial items	23 a	6,765	6,276
Items not affecting cash flow	23 b	2,953	2,386
Taxes paid		– 2,450	– 1,784
Cash flow from operating activities before change in working capital [1]		7,268	6,878
Cash flow from change in working capital			
Inventories		284	– 959
Receivables		439	– 1,664
Provisions for pensions		124	250
Liabilities and provisions		– 85	1,220
Total change in working capital [1]	23 c	762	– 1,153
Cash flow from operating activities [1]		8,030	5,725
Investing activities			
Net investments through acquisitions/ divestments of businesses	23 d	– 205	– 49
Net investments in non-current assets	23 e	– 3,597	– 2,798
Net investments in credit portfolio etc, Customer Finance	23 e	– 1,410	– 478
Cash flow from investing activities [1]		– 5,212	– 3,325
Cash flow for the year before financing activities [1]		2,818	2,400
Financing activities			
Change in net debt from financing activities	23 f	62	– 1,264
Dividend to shareholders		– 3,000	– 1,200
Cash flow from financing activities		– 2,938	– 2,464
Cash flow for the year		– 120	– 64
Liquid assets, 1 January		1,589	1,663
Exchange rate differences in liquid assets		130	– 10
Liquid assets, 31 December	23 g	1,599	1,589
1 Of which, Vehicles and Service			
Cash flow from operating activities before change in working capital		6,905	6,685
Total change in working capital		762	– 1,153
Cash flow from operating activities		7,667	5,532
Cash flow from investing activities		– 3,802	– 2,847
Cash flow before financing activities		3,865	2,685
Cash flow per share, Vehicles and Service, excluding acquisitions/divestments		20.39	13.67

See also Note 3,"Segment reporting", for further information on cash flow by business segment.

Scania Group notes

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NOTE 1 Accounting principles

The Annual Report of the Scania Group has been prepared in compliance with the International Financial Reporting Standards (IFRS) issued by the International Accounting Standards Board (IASB) as well as the interpretations by the International Financial Reporting Interpretations Committee (IFRIC) that have been approved by the European Commission for application in the European Union. This financial report is the first complete financial report prepared in compliance with IFRS. In conjunction with the transition from the accounting principles that were previously applied to reporting in compliance with IFRS, the Scania Group has applied IFRS 1, which is the standard that describes how the transition to IFRS shall be reported. In addition, the Swedish Financial Accounting Standards Council's Recommendation RR 30, "Supplementary Rules for Consolidated Financial Statements" has been applied. Note 33 contains a summary of explanations about how the transition has affected the Group's earnings and financial position.

The Parent Company applies the same accounting principles as the Group except in the cases specified below in the section on Parent Company accounting principles.

The functional currency of the Parent Company is Swedish kronor (SEK) and the financial reports are presented in Swedish kronor. Assets and liabilities are recognised at historical acquisition values, aside from certain financial assets and liabilities which are accounted for at fair value. Financial assets and liabilities that are accounted for at fair value are derivative instruments, financial assets and liabilities within the framework of hedging instruments.

Estimates and assumptions are reviewed regularly. Judgements made by Group management when applying IFRS that have a substantial impact on the financial reports and estimates which have been made that may lead to significant adjustments are described in more detail in Note 2, "Key judgements and estimates".

The principles stated below have been applied consistently for all periods unless otherwise indicated below

CHANGES IN ACCOUNTING PRINCIPLES DUE TO THE IFRS TRANSITION

The transition to reporting in compliance with IFRS in the consolidated financial statements has been reported according to IFRS 1 and is described in Note 33. In accordance with the voluntary exemption in IFRS 1, IAS 32 and IAS 39 are being applied from 1 January 2005.

IFRS 1, First-time Adoption of International Financial Reporting Standards

Standard IFRS 1 sets out the procedures that companies must follow when they adopt IFRS for the first time. The standard stipulates that when transitioning from national Generally Accepted Accounting Principles (GAAP) to IFRS, a company shall present at least one year of comparative figures in accordance with IFRS. As for the accounting standards for financial instruments – IAS 32 and IAS 39 – Scania is not showing comparative figures for 2004, as provided by an option in IFRS 1. This means that the actual transition to IFRS for financial instruments occurs on 1 January 2005.

The following is a presentation of the IFRS standards that have had an influence on Scania's accounts during the transition to IFRS rules, as well as those that are otherwise deemed to be of interest to an external reader of Scania's Annual Report.

IFRS 3, "Business Combinations"

The new rules prohibit amortisation of goodwill. Instead, goodwill must be tested at least once a year for any impairment or when there are indications of a possible need to report an impairment loss.

IFRS 4, "Insurance Contracts"

The transition to IFRS 4 does not result in any effects on the carrying amounts of Scania's assets, liabilities or earnings. The change, compared to previously applicable rules, is that more detailed disclosures about insurance contracts are required.

IAS 16, "Property, Plant and Equipment"

IAS 16 states that the capital cost of an asset shall be allocated among the various significant constituent parts of the asset, so-called components. As a result, different useful service lives and thus different depreciation periods may apply to components compared to the main asset, in which case this affects the carrying amount. Scania has analysed its buildings and implemented an allocation of components. IAS 16 also prohibits upward revaluation in the value of property, plant and equipment. However, the recommendation allows two alternative methods for appraising these assets. Either a company may use the reappraisal model, which means that assets can be carried at regularly reappraised amounts, or the cost model, which states that the assets shall be carried at acquisition value. Scania has chosen to use the cost method in appraising its non-current assets.

IAS 19, "Employee Benefits"

As from 2005, Scania is applying the amendment to IAS 19, "Employee Benefits", issued by the IASB in December 2004 and approved by the EU in November 2005. In accordance with this amendment, as of 2005 Scania is accounting for actuarial gains and losses in equity. In keeping with this, the income statement and specification of equity have been changed with regard to 2004. In its Swedish units, Scania also applies Interpretation URA 45 of the Emerging Issues Task Force, Swedish Financial Accounting Standards Council, which clarifies the treatment of defined-benefit pensions from the retirement insurance company Alecta, and Interpretation URA 43, "Accounting for Special Payroll Tax and Tax on Investment Returns". According to a draft amendment of URA 43 (December 2005), special payroll tax shall be accounted for in the income statement even in those cases where actuarial gains and losses are accounted for in equity. Scania is following the principle of this draft and accounting for special payroll tax related to actuarial gains and losses in the income statement.

IAS 27, "Consolidated and Separate Financial Statements"
The biggest change in IAS 27 for Scania is that minority interests shall be recognised in the consolidated balance sheet separately from the parent company's share capital. A separate disclosure must be provided of the minority's share of earnings.

IAS 32, "Financial Instruments: Disclosure and Presentation"
IAS 32 entered into force on 1 January 2005 and requires no retroactive application. In all essential respects, the disclosure requirements in IAS 32 coincide with the Swedish accounting principles previously in effect, which Scania already applied in 2004. The requirements on accounting for financial assets and liabilities on a net basis (offsetting) are becoming stricter. As a result, Scania is accounting for more financial assets and liabilities on a gross basis than previously. This applies to derivative instruments, for example.

IAS 39, "Financial Instruments: Recognition and Measurement"
IAS 39 entered into force on 1 January 2005 and no retroactive application has been made. IAS 39 has resulted in changes in the reporting and valuation of financial assets and liabilities, of which recognition of derivatives has had the largest effect on Scania. According to the standard, all derivatives shall be recognised in the balance sheet at fair value and any changes in their fair value shall, as a main rule, be reported in the income statement. If the derivative is part of a hedging transaction, the rules for hedge accounting may be applied, provided that the strict conditions for applying hedge accounting have been met. For a more detailed description of the new accounting rules, see the section on financial instruments.

APPLICATION OF ACCOUNTING PRINCIPLES

Consolidated financial statements

The consolidated financial statements encompass Scania AB and all subsidiaries. "Subsidiaries" refers to companies in which Scania directly or indirectly owns more than 50 percent of the voting rights of the shares or otherwise has a controlling influence.

Subsidiaries are reported according to the purchase method of accounting. This means that identifiable assets and liabilities in the acquired company are accounted for at fair values assigned by the purchaser. The acquisition analysis establishes the acquisition value of the participations or the business, as well as the fair value on the acquisition date of acquired identifiable assets as well as liabilities and contingent liabilities assumed. The acquisition value of shares in subsidiaries or of the business, respectively, consists of the fair values on the transfer date of assets, liabilities that have arisen or are assumed and equity instruments issued as payment in exchange for the acquired net assets as well as transaction costs directly attributable to the acquisition. In case of acquisition of a business in which the acquisition cost exceeds the fair value of the company's identified assets, debts assumed and contingent liabilities according to the acquisition analysis, the difference is reported as goodwill. When the difference is negative, this is recognised directly in the income statement. Only earnings arising after the date of acquisition are included in the equity of the Group. Divested companies are included in the consolidated financial statements until and including the divestment date.

Intra-Group receivables and liabilities, revenue or expenses and unrealised gains or losses that arise from intra-Group transactions between Group companies are eliminated in their entirety during the preparation of the consolidated financial statements. The same applies to associated companies.

Minority interest in equity is reported as an item in equity, separately from share capital owned by the Parent Company's shareholders. A separate disclosure of the minority share of the year's earnings is provided.

Associated companies

The term "associated companies" refers to companies in which Scania has a long-term ownership interest and possesses a significant influence. Holdings in associated companies are accounted for using the equity method. This means that in the consolidated financial statements, holdings in associated companies are valued at the Group's share of the equity of the associated company after adjusting for the Group's share of surplus and deficit values, respectively. The Group's share of net earnings after taxes is accounted for in the income statement as "Share of income in associated companies".

Foreign currencies – translation

Receivables and liabilities in foreign currencies are carried at the exchange rates on the balance sheet date (closing day rate).

When preparing the consolidated financial statements, all items in the income statements of foreign subsidiaries are translated to Swedish kronor using the average exchange rates during the year. All balance sheet items except net income are translated using the exchange rates on the respective balance sheet date (closing day rate). This method is usually called the current method. The changes in the equity of the Group that arise due to different exchange rates on the closing day compared to the exchange rate on the preceding closing day are recognised directly in equity. All subsidiaries use the local currency as their functional currency, aside from some markets in eastern Europe for which the euro is the functional currency. The justifications for this have been that the company's cost and price levels have had a high correlation to the euro.

Segment reporting

The operations of the Scania Group are managed and reported primarily by line of business and secondarily by geographic market. Scania's primary segments are Vehicles and Service plus Customer Finance. These two segments have distinct products and differentiated risk situations. The tied-up capital and accompanying financing structure in Customer Finance differs substantially from their equivalents at Vehicles and Service. Internal reporting at Scania is designed in accordance with this division into segments. Only overall analyses are conducted at the geographic level. Financial expenses and taxes are reported at the segment level, since the Customer Finance line of business carries out financial service operations. For reasons of comparability, equivalent information for Vehicles and Service has been included in the note on segment reporting.

Lines of business: Vehicles and Service consists mainly of two parts. The first is industrial operations that encompass all manufacturing of trucks, buses and industrial and marine engines. The second is sales operations encompassing the sales and service companies that handle sales of the manufactured products. The Customer Finance line of business provides financial solutions to Scania customers, such as loan financing, lease contracts and insurance solutions, all of which can be combined with service contracts. Customer Finance operates in all of Scania's geographic markets, in Europe primarily via wholly owned finance companies, in other geographic markets primarily via collaboration with external creditors. The assets of this line of business include assets that are directly used in its operations. Its liabilities and provisions refer to those that are directly attributable to its operations.

Balance sheet – Classifications

Scania's operating cycle, that is, the time that elapses from the purchase of materials until payment for goods delivered is received, is less than twelve months. This means that a current liability is a liability that falls due for payment within twelve months, counting from the balance sheet date. Other liabilities are classified as long-term. Current assets are assets that are expected to be realised within twelve months, counting from the balance sheet date, or that consist of liquid assets. Other assets are classified as non-current assets. Assets held mainly for trading purposes are classified as current assets even when they are not expected to be realised within twelve months.

Classification of financial and operating leases (Scania as lessor)

Leasing contracts with customers are accounted for as financial

Continued on the next page

Note 1, continued

leases in cases where substantially all risks and rewards associated with ownership of the asset have been transferred to the lessee. Other leasing contracts are classified as operating leases and are accounted for among tangible non-current assets. If a sale is combined with a repurchase obligation or a residual value guarantee, the transaction is accounted for as an operating lease provided that important risks remain with Scania.

Lease obligations (Scania as lessee)

In case of a financial lease, the leased asset is accounted for as a tangible non-current asset and the future commitment as a liability. Operating leases are not accounted for as assets, since risks and benefits associated with ownership of the asset have not been transferred to Scania.

For classification of financial instruments – see the section on financial assets and liabilities under "Valuation principles".

Balance sheet – valuation principles

Tangible non-current assets

Tangible fixed assets are reported at acquisition value minus accumulated depreciation and any impairment losses. A non-current asset is divided up into components, each with a different useful life (depreciation period), and these are reported as separate assets.

Depreciation occurs mainly on a straight-line basis over the estimated useful life of an asset, and in those cases where a residual value exists, the asset is depreciated down to this value. Useful life and depreciation methods are examined regularly and adjusted in case of changed circumstances.

Intangible non-current assets

Scania's intangible assets consist mainly of goodwill on consolidation plus capitalised expenditures for development of new products as well as software.

Goodwill on consolidation arises when the acquisition value of shares in a subsidiary exceeds the fair value of that company's net assets according to the acquisition analysis. Goodwill is tested for any impairment annually or when there are indications that impairment may exist. With regard to impairment testing, see also Note 2, "Key judgements and estimates."

During 2005, Scania carried out impairment tests for all goodwill items. No impairments were identified as a consequence of the impairment tests that were carried out. There were no indications that led to impairment tests of tangible non-current assets.

Scania's research and development activities are divided into a research phase and a development phase. Expenditures during the research phase are charged to earnings as they arise. Expenditures during the development phase are capitalised as an intangible non-current asset, beginning on the date when the expenditures are highly likely to lead to future economic benefits. The amortisation of capitalised development expenditures begins when the asset is placed in service and continues during its estimated useful life. For capitalised product development expenditures, the average useful life is currently estimated at five years. For capitalised software development expenditures, the useful life is estimated at between three and five years.

Impairment testing of non-current assets

Intangible non-current assets with an indeterminable useful life are tested annually for any impairment. If there is any indication on the balance sheet date that a non-current asset has diminished in value (for tangible non-current assets, beyond planned depreciation), the recoverable value of the asset is estimated. In case the estimated recoverable value is less than the carrying amount reported to date for the asset, an impairment loss is recognised, reducing the carrying amount to recoverable value.

Inventories

Inventories are carried at the lower of acquisition value and net realisable value according to the first in, first out (FIFO) principle. An allocable portion of indirect expenses is included in the value of the inventories. This valuation has taken normal capacity utilisation into account.

Short-term investments

In certain cases, short-term investments include items with maturities that are formally longer than 90 days, but which can easily be turned into liquid assets.

Financial assets and liabilities

Financial instruments are any form of agreement that gives rise to a financial asset, financial liability or equity instrument in another company.

This encompasses liquid assets, interest-bearing receivables, trade receivables, trade payables, borrowings and derivative instruments. Liquid assets consist of cash and bank balances as well as short-term investments.

<u>Accounting for financial assets and liabilities</u>

Financial assets and liabilities are recognised in the balance sheet when the company becomes a party to their contractual terms and conditions. Receivables are recognised in the balance sheet when Scania has transferred the essential risks and rewards that are associated with the transaction. Liabilities are recognised when the counterparty has performed and there is a contractual obligation to pay.

A financial asset or a portion of a financial asset is derecognised from the balance sheet when the rights in the contract have been realised, expire or the company loses control over them. A financial liability or a portion of a financial liability is derecognised from the balance sheet when the obligation in the contract has been fulfilled or annulled or has expired.

Scania applies settlement day accounting for everything except assets that are held for trading.

Derivatives with positive values are recognised as "Other current receivables" (unrealised gains), while derivatives with negative values are recognised as "Other current liabilities" (unrealised losses).

<u>Classification of financial instruments – that do not meet hedge accounting standards</u>

All financial assets and liabilities are classified in the following categories:

a Financial assets and financial liabilities carried at fair value via the income statement consist of two sub-categories. One group is financial assets and financial liabilities held for trading, which includes all of Scania's derivatives to which hedge accounting is not applied. The purpose of these instruments is to hedge currency and interest rate risks, but these are classified as holdings for trading since Scania has decided to avoid the extensive administration required for hedge accounting. The other group is financial assets and financial liabilities that were determined from the beginning to belong to this category. Scania has no financial instruments classified in this sub-category.

b Held-to-maturity investments
This category includes financial assets with predetermined or determinable payments and predetermined maturity that Scania has the intention and ability to hold until maturity. Scania has only small amounts classified in this category.

c Loan receivables and trade receivables
These assets have predetermined or determinable payments. Scania's liquid assets, trade receivables and loan receivables through financial leases belong to this category.

d Financial assets available for sale

e Other financial liabilities
Includes financial liabilities not held for trading. Scania's trade payables as well as borrowings not used in hedge accounting belong to this category.

<u>Valuation of financial instruments – that do not meet hedge accounting requirements</u>

Financial assets and liabilities are initially recognised at their acquisition value, which is equivalent to their fair value at that time. Financial assets and liabilities in foreign currencies are translated to Swedish kronor, taking into account the closing day exchange rate.

a Financial assets and liabilities carried at fair value via the income statement are continuously carried at fair value. Changes in value are recognised in the income statement.

b Held-to-maturity investments are carried at accrued acquisition value.

c Loan receivables and trade receivables are carried at accrued acquisition value minus potential bad debts.

e Other financial liabilities are initially recognised at the amount received and then at accrued acquisition value. Premiums or discounts as well as transaction costs upon issuance of securities are accrued over the life of the loan. Other liabilities in foreign currencies are carried at the exchange rate on the balance sheet date.

Currency derivatives

Hedge accounting:
Derivatives such as currency forward contracts and currency options that were acquired for the purpose of hedging expected future commercial payment flows in foreign currencies against currency rate risks are recognised according to hedge accounting rules. This implies that all derivatives are accounted for in the balance sheet at fair value and changes in value are recognised in a fair value reserve in equity. When a customer is invoiced, a change in the value of the derivative instrument is recognised in the income statement.

Non-hedge accounting:
Scania's external financing occurs mainly via borrowing programmes. To convert this borrowing to the desired currency, currency derivatives are used. These are carried at fair value and the change in fair value is recognised in net financial items. Borrowings in foreign currencies are translated at the exchange rate on the balance sheet date and exchange rate differences are recognised in net financial items and thus meet the change in value of the derivative.

Interest rate derivatives

Hedge accounting:
Scania's external financing occurs mainly via borrowing programmes. To convert this borrowing to the desired interest-rate refixing structure and thereby minimise interest rate risk, interest rate derivatives are used. Due to the strict requirements that are imposed in order to apply hedge accounting, for administrative reasons Scania has chosen to apply hedge accounting only to a few large derivative contracts. In these cases, the hedging instrument i.e. the derivative is carried at fair value with regard to the risk that has been hedged as well as the hedged item, i.e. the borrowing. Thus the change in value of the derivative instrument and that of the hedged item meet in net financial items.

Non-hedge accounting:
All interest rate derivatives are carried at fair value and, except when hedge accounting is applied, the change in value is recognised continuously in the income statement. Borrowing is carried at accrued acquisition value. Due to the different treatment in account for hedging instruments and the hedged item, net financial items are subject to volatility. Financially, Scania considers itself hedged and its risk management adheres to the Finance Policy approved by the Board of Directors.

Provisions

Provisions are reported if an obligation (legal or informal) exists as a consequence of events that occur. It must also be deemed likely that an outflow of resources will be required to settle the obligation and that the amount can be reliably estimated.

Provisions for factory warranties for vehicles sold during the year are based on factory warranty conditions and the estimated quality situation. Provisions on service contracts are related to expected future expenses that exceed contractual future revenue. Provisions for residual value obligations arise as a consequence either of an operating lease or a sale with a repurchase obligation. The provision must cover the risk of a negative future price trend, if the expected future market value is below the price agreed in the leasing contract or repurchase contract. In this case, a provision for the difference between these amounts is to be reported, to the extent that this difference is not less than an as yet unrecognised deferred gain. Assessment of future residual value risk occurs continuously over the contract period. For provisions related to pensions, see the description of employee benefits below as well as Note 17. For provisions related to deferred tax liabilities, see below under "Taxes".

Taxes

The Group's total tax consists of current and deferred tax. Deferred tax is recognised in case of a difference between the carrying amount of assets and liabilities and their fiscal value ("temporary difference"). Full provision is made for deferred tax liabilities. Deferred tax assets are recognised only to the extent that it is likely that they can be utilised. Deferred tax attributable to items recognised directly in equity is also recognised directly in equity.

Employee benefits

Within the Scania Group, there are a number of both defined contribution and defined benefit pension and similar plans, some of which have assets that are managed by special foundations, funds or the equivalent. The plans include retirement pensions, survivor pensions, health care and severance pay. These are accounted for by provisions in the balance sheet and partially financed via premium payments.

Plans in which Scania only pays fixed contributions and has no obligation to pay additional contributions if the assets of the plan are insufficient to pay all compensation to the employee are classified as defined contribution plans. The Group's expenditures for defined contribution plans are reported as an expense during the period when the employees render the services in question.

Defined benefit plans are all plans that are not classified as defined contribution. These are calculated according to the "projected unit credit method", for the purpose of fixing the present value of the obligations for each plan. Calculations are performed every year and are based on actuarial assumptions that are set on the closing day. The obligations are carried at the present value of expected disbursements, taking into account inflation, expected future pay increases and using a discount rate equivalent to the interest rate on top-rated corporate or government bonds with a remaining maturity corresponding to the obligations in question. For plans that are funded, the fair value of the plan assets is subtracted from the estimated present value of the obligation. Changes in pension obligations and plan assets, respectively, due to changes in actuarial assumptions or adjustments in actuarial parameters based on outcomes are recognised directly in equity ("actuarial gains and losses").

In the case of some multi-employer defined benefit plans, sufficient information cannot be obtained to calculate Scania's share of the plans. For this reason, these plans are reported as defined contribution. For Scania, this applies to the Dutch Pensioenfonds Metaal en Techniek, which is administered via MN Services, and Bedrijfstakpensioenfonds Metaloelektro, which is administered via PVF Achmea, as well as the portion of the Swedish ITP occupational pension plan that is administered via the retirement insurance company Alecta. Most of the Swedish plan for salaried employees (the collectively agreed ITP plan) is accounted for by provisions in the balance sheet, however, safeguarded via credit insurance from the mutual insurance company Försäkringsbolaget Pensionsgaranti (FPG) and administered by a common institution operated on behalf of the Swedish business sector, Pensionsregistreringsinstitutet (PRI). See also Note 17.

According to a draft amendment to URA 43 (December 2005), Sweden's special payroll tax shall be recognised in the income statement even in cases when actuarial gains and losses are accounted for in equity. Scania follows the principle of the draft amendment and recognises special payroll tax related to actuarial gains and losses in the income statement.

Scania follows the rules in IAS 19 on limiting the valuation of net assets. Since these are never carried at more than the present value of available economic benefits in the form of repayments from the plan or in the form of reductions in future fees to the plan, this value is determined as present value taking into account the discount rate in effect.

Income statement – classifications

Research and development expenses

This item consists of the research and development expenses that arise during the research phase and the portion of the develop-

Continued on the next page

Note 1, continued

ment phase that does not fulfil the requirements for capitalisation, plus amortisation and any impairment losses during the period of previously capitalised development expenditures (see Note 10, "Intangible non-current assets").

Selling expenses

Selling expenses are defined as operating expenses in sales and service companies plus costs of corporate-level commercial resources. In Customer Finance operations, selling and administrative expenses are reported as a combined item, since a division is irrelevant.

Administrative expenses

Administrative expenses are defined as costs of corporate management as well as staff units and corporate service departments.

Financial income and expenses

The item "Financial income" refers to income connected to financial investments and trade receivables. "Financial expenses" refers to expenses connected to loans and pension liability. Otherwise included are current bank fees and gains or losses on non-hedged accounted interest rate derivatives (see the section on financial instruments) and in 2005 also the effect of the acquisition of Ainax.

Income statement – valuation principles

Revenue recognition

Revenue from the sale of goods and services is recognised when substantially all risks and rewards are transferred to the buyer. Sales revenue is reduced, where applicable, by discounts provided. Deliveries and leases with obligations related to residual value and/or repurchase are recognised in revenue continuously over their useful life in those cases where risks and rewards have not initially been transferred. Invoicing for both service and repair contracts and for vehicles that could not yet be recognised as revenue is recognised as prepaid income. In Customer Finance, lease income is recognised continuously over the useful life of the asset.

Miscellaneous

Related party transactions

Related party transactions occur on market terms. The Scania Group's related parties consist of the companies in which Scania can exercise a controlling or significant influence in terms of the financial and operating decisions that are made. The circle of related parties also includes those companies and physical persons that are able to exercise a controlling or significant influence over the financial and operating decisions of the Scania Group. Related party transactions also include defined benefit and defined contribution pension plans.

Government grants

Government grants received that are attributable to operating expenses reduce these expenses. Government grants related to investments reduce the gross acquisition value of non-current assets.

Contingent liabilities

As appropriate, contingent liabilities are carried at discounted present value.

CHANGES IN ACCOUNTING PRINCIPLES DURING THE NEXT YEAR

Presented here are new rules that have been issued by IASB and that will have an impact on Scania as from 2006. To be implemented, the rules must also be approved by the EU. There are no new rules with an impact on Scania's income statement and balance sheet that go into effect in 2006.

IFRS 7, "Financial Instruments: Disclosures"

IFRS 7 requires additional disclosures about financial assets and liabilities beyond those required today by IAS 32. It also replaces IAS 30, which deals with disclosures for financial institutions and is not applicable to Scania today. For Scania, the new rule implies increased requirements for disclosures of financial assets and liabilities related to risks.

PARENT COMPANY

Parent Company accounting principles

The Parent Company has prepared its Annual Report in compliance with Sweden's Annual Accounts Act (1995: 1554) and Recommendation RR 32, "Accounting for Legal Entities". RR 32 implies that the parent company in the Annual Report of a legal entity shall apply all International Financial Reporting Standards (IFRS) and interpretations approved by the EU as far as this is possible within the framework of the Annual Accounts Act, and taking into account the connection between reporting and taxation. The recommendation states what exceptions from IFRS and additionals shall be made.

Subsidiaries

Holdings in subsidiaries are recognised in the Parent Company financial statements according to the cost method of accounting.

Anticipated dividends

Anticipated dividends from subsidiaries are recognised in cases where the Parent Company has the exclusive right to decide on the size of the dividend and the Parent Company has made a decision on the size of the dividend before the Parent Company has published its financial reports.

Taxes

The Parent Company financial statements recognise untaxed reserves including deferred tax liability. The consolidated financial statements, however, divides up untaxed reserves into deferred tax liability and equity.

Group contributions

The Parent Company financial statements recognise Group contributions in accordance with the statement of the Emerging Issues Task Force of the Swedish Financial Accounting Standards Council. A Group contributions that is comparable to a dividend is recognised as a dividend. This means that a Group contribution received and its actual tax effect are recognised in the income statement. A Group contribution provided and its actual tax effect are recognised directly in retained earnings.

NOTE 2 Key judgements and estimates

The key judgements and estimates for accounting purposes that are discussed in this section are those that Group management and the Board of Directors deem the most important for an understanding of Scania's financial reports, taking into account the degree of significant influence and uncertainty. These judgements are based on historical experience and the various assumptions that the Group management and the Board deem reasonable under the prevailing circumstances. The conclusions drawn in this way provide the basis for decisions regarding recognised values of assets and liabilities, in those cases where these cannot easily be established through information from other sources. Actual outcomes may diverge from these judgements if other assumptions are made or other conditions emerge. Note 1 presents the accounting principles the company has chosen to apply.

Important estimates and judgements for accounting purposes are attributable to the following areas.

Revenue recognition

Scania delivers about 9 percent of its vehicles with residual value obligations or repurchase obligations. In these cases, where due to such an obligation, substantial risks are not transferred to the counterparty, neither invoicing nor income from this transaction is recognised initially, but instead over time.

In case of major changes in the market for used vehicles, this affects Scania's successive recognition of profit. In case the profit is insufficient to cover a possible downturn in market value, there is a provision in the required amount.

At the end of 2005, obligations related to residual value or repurchase amounted to about SEK 6,200 m.

Credit risks

In Customer Finance operations, Scania has an exposure in the form of contractual payments. At the end of 2005, these amounted to SEK 29,630 m.

In all essential respects, Scania has collateral in the form of the right to repossess the underlying vehicle. In case the market value of the collateral does not cover the exposure to the customer, Scania has a risk of loss. See also "Credit risk exposure" under Note 29.

Intangible assets

Intangible assets at Scania are essentially attributable to capitalised development expenses and "acquisition goodwill".

All goodwill items at Scania stem from acquisitions of previously independent importers/dealerships. All goodwill items are subject to an annual impairment test, which is mainly based on the assumptions below.

In the long term, the increase in sales of Scania's products is deemed to be closely correlated with economic growth (GDP) in a market. The revenue/cost ratio, or margin, for both vehicles and service is kept constant over time compared to the latest known level. When discounting to present value, Scania uses its average cost of equity (currently 11 percent before taxes).

To the extent the above parameters change negatively, an impairment loss may arise. On 31 December 2005, Scania's goodwill amounted to SEK 1,095 m.

Scania's development costs are capitalised in the phase of product development where decisions are made for future production. In this case a future revenue and a corresponding production cost are predicted. In case future volume or the price and cost trend deviates negatively from the preliminary calculation, an impairment loss may arise. Scania's capitalised development costs amounted to SEK 1,456 m. on 31 December.

Pension obligations

In the actuarial methods that are used to establish Scania's pension liabilities, a number of assumptions are highly important. The most critical ones are related to the discount rate on the obligations and expected return on managed assets. Other vital assumptions are the estimated pace of wage and salary increases and estimated life expectancy. A lowering of the discount rate increased the pension liability recognised. In 2005, the discount rate was lowered by 1.5 percentage points to 4.0 percent for calculation of Swedish pension liability. Such a change in the above-mentioned actuarial parameters is recognised directly in equity, net after taxes. The effect of changes in actuarial parameters amounted to SEK 668 m. for Swedish pension liability, which represented 91 percent of the total change in liability.

Product obligations

Scania's product obligations are mainly related to vehicle warranties in the form of a one-year "factory warranty" plus extended warranties and, in some cases, special quality campaigns.

For each vehicle sold, Scania makes a warranty provision. For extended warranties and campaigns, a provision is made at the time of the decision. Provisions are dependent on the estimated quality situation and the degree of utilisation in the case of campaigns. An essential change in the quality situation may require an adjustment in earlier provisions. Scania's product obligations can be seen in Note 18.

Legal risks

The Group is party to legal proceedings and related claims that are normal in its operations. However, Scania management has made the assessment that the ultimate resolution of these proceedings will not have any material impact on the financial position of the Group.

There are also demands and claims that are normal in operations and that do not lead to legal proceedings. Scania has made the assessment that these demands and claims will not have any material impact on the financial position of the Group either.

Demands and claims aimed at the Group, including demands and claims that lead to legal proceedings, may be related to infringements of intellectual property rights, faults and deficiencies in products that have been delivered, including product liability, or other legal liability for the companies in the Group.

Tax risks

In 2003, the Swedish local tax authority denied a request for deduction of a loss of SEK 2.9 billion. This decision has been appealed. The aggregate effect on earnings may total a maximum of SEK 575 m. if the deduction is disallowed in its entirety.

Significant judgements are made in order to determine both current and deferred tax liabilities/assets. As for deferred tax assets, Scania must assess the likelihood that deferred tax assets will be utilised to offset future taxable profits. The actual result may diverge from these judgements, among other things due to future changes in business climate, altered tax rules or the outcome of still uncompleted examinations of filed tax returns by authorities or tax courts.

Scania recognises deferred net tax liabilities totalling SEK 1,575 m. at the end of 2005. In addition, at the end of 2005 the Group had deferred tax receivables of about SEK 245 m. related to unutilised tax loss carry-forwards that were not carried in the financial statements after assessment of the potential for utilising the tax loss carry-forwards, that their utilisation may thus affect income both negatively and positively.

NOTE 3 Segment reporting

Lines of business: Vehicles and Service consists mainly of two parts. The first is industrial operations that encompass all manufacturing of trucks, buses and industrial and marine engines. The second is sales operations encompassing the sales and service companies that handle sales of the manufactured products. Customer Finance operations provide financial solutions to Scania customers, such as loan financing, lease contracts and insurance solutions.

Geographic areas: Scania is geographically divided into five parts: western Europe, central and eastern Europe, Asia, America and other markets. The final table in this note shows what countries are included in each of these areas. Sales of Scania's products occur in all five geographic areas. Customer financing is found mainly in the European markets and to a lesser extent in the others. Most of Scania's research and development occurs in Sweden. Manufacturing of buses, trucks and marine and industrial engines occurs in a number of locations in Sweden, Argentina, Brazil, France, the Netherlands, Poland and Russia.

PRIMARY SEGMENTS (lines of business)

INCOME STATEMENT	Vehicles and Service		Customer Finance		Eliminations and other		Scania Group	
January – December, SEK m.	**2005**	2004	**2005**	2004	**2005**	2004	**2005**	2004
Revenue from external customers	**63,328**	56,788	**3,518**	3,427	**– 1,742**	– 1 748	**65,104**	58,467
Expenses	**– 57,006**	– 50,647	**– 2,989**	– 2,977	**1,742**	1 748	**– 58,253**	– 51,876
Income from holdings in associated companies	**8**	8	**-**	-	**-**	-	**8**	8
Operating income	**6,330**	6,149	**529**	450	**0**	0	**6,859**	6,599
Financial income and expenses [1]	**– 94**	– 323	**-**	-	**-**	-	**– 94**	– 323
Income after financial items	**6,236**	5,826	**529**	450	**0**	0	**6,765**	6,276
Taxes[1]	**– 1,938**	– 1,821	**– 162**	– 139	**-**	-	**– 2,100**	– 1,960
Net income for the year	**4,298**	4,005	**367**	311	**0**	0	**4,665**	4,316
Depreciation/amortisation included in operating income [2]	**– 2,497**	– 1,990	**– 15**	– 15	**-**	-	**– 2,512**	– 2,005
BALANCE SHEET								
31 December, SEK m.								
Assets								
Intangible non-current assets	**2,685**	2,613	**13**	13			**2,698**	2,626
Tangible non-current assets [3, 6]	**20,673**	18,173	**7,292**	7,065	**– 1,367**	– 1,328	**26,598**	23,910
Shares and participations in associated companies	**96**	92	**-**	-	**-**	-	**96**	92
Inventories	**9,949**	9,446	**0**	41	**-**	-	**9,949**	9,487
Other receivables [4]	**12,784**	11,456	**612**	658	**– 702**	– 656	**12,694**	11,458
Interest-bearing receivables [5]	**1,025**	1,074	**22,365**	19,558	**-**	-	**23,390**	20,632
Liquid investments	**2,616**	2,196	**177**	302	**-**	-	**2,793**	2,498
Total assets	**49,828**	45,050	**30,459**	27,637	**– 2,069**	– 1,984	**78,218**	70,703
Equity and liabilities								
Equity	**20,682**	18,336	**3,054**	3,097	**-**	-	**23,736**	21,433
Interest-bearing liabilities	**3,290**	3,050	**25,384**	22,563	**-**	-	**28,674**	25,613
Provisions for pensions	**3,445**	2,490	**13**	9	**-**	-	**3,458**	2,499
Other provisions	**3,834**	4,307	**578**	600	**-**	-	**4,412**	4,907
Other liabilities [6]	**18,577**	16,867	**1,430**	1,368	**– 2,069**	– 1,984	**17,938**	16,251
Total equity and liabilities	**49,828**	45,050	**30,459**	27,637	**– 2,069**	– 1,984	**78,218**	70,703
Gross investment for the period in								
– Intangible non-current assets	**312**	367	**3**	4	**-**	-	**315**	371
– Tangible non-current assets	**2,969**	2,360	**13**	12	**-**	-	**2,982**	2,372
– Short-term and operating leases	**1,522**	1,617	**3,221**	2,572	**-**	-	**4,743**	4,189

1 Financial income and expenses are reported for both lines of business, since Customer Finance carries out financial operations and the cost of this is based on net financing expense after taxes. For reasons of comparability, the corresponding information is also shown for the Vehicles and Service line of business.

2 Depreciation on operating leases is not included.

3 Tangible assets in the Customer Finance segment mainly consist of leasing assets (operating leases).

4 Elimination refers to internal receivables and liabilities between the two segments.

5 Interest-bearing receivables in the Customer Finance segment mainly consist of hire purchase receivables and financial lease receivables.

6 Elimination refers to deferred gains on operating leases.

Cash flow statement by segment	Vehicles and Service		Customer Finance		Scania Group	
SEK m.	2005	2004	2005	2004	2005	2004
Operating activities						
Cash flow from operating activities	6,905	6,685	363	193	7,268	6,878
Change in working capital	762	– 1,153			762	– 1,153
Cash flow from operating activities	7,667	5,532	363	193	8,030	5,725
Investing activities						
Net investments	– 3,802	– 2,847	– 1,410	– 478	– 5,212	– 3,325
Cash flow from investing activities	– 3,802	– 2,847	– 1,410	– 478	– 5,212	– 3,325
Total cash flow	3,865	2,685	– 1,047	– 285	2,818	2,400

SECONDARY SEGMENTS (geographic areas)

	Western Europe		Central and eastern Europe		Asia		America		Other markets		Eliminations		Scania Group	
SEK m.	2005	2004	2005	2004	2005	2004	2005	2004	2005	2004	2005	2004	2005	2004
Vehicles and Service														
Revenue, January-December 1	42,027	38,598	5,586	5,072	4,138	3,994	7,575	5,654	4,002	3,470	–	–	63,328	56,788
Assets, 31 December 2	36,282	33,866	3,022	2,778	1,090	1,095	8,866	6,735	2,131	2,049	– 1,563	– 1 473	49,828	45,050
Gross investments 2	2,764	2,275	213	171	13	37	266	180	25	64	–	–	3,281	2,727
Customer Finance														
Revenue, January-December 1	2,859	2,884	415	356	160	128	1	–	83	59	–	–	3,518	3,427
Assets, 31 December 2	22,785	21,082	5,108	4,717	1,804	1,326	14	–	748	512	–	–	30,459	27,637
Gross investments 2	8	9	5	4	4	3	0	–	0	0	–	–	17	16

1 Revenue from external customers, by location of customers.

2 Assets and liabilities, respectively, by geographic location.

Composition of secondary segments (geographic areas)

Western Europe: Austria, Belgium, Denmark, Finland, France, Germany, Great Britain, Iceland, Ireland, Italy, Liechtenstein, Malta, the Netherlands, Norway, Portugal, Spain, Sweden and Switzerland.

Central and eastern Europe: Albania, Belarus, Bosnia-Herzegovina, Bulgaria, Croatia, Cyprus, the Czech Republic, Estonia, Georgia, Greece, Hungary, Kazakhstan, Latvia, Lithuania, Macedonia, Moldavia, Poland, Romania, Russia, Slovakia, Turkmenistan, Ukraine and Yugoslavia.

Asia: Afghanistan, Bahrain, Bangladesh, Brunei, China, Hong Kong, India, Indonesia, Iran, Iraq, Israel, Japan, Jordan, Kuwait, Laos, Lebanon, Macao, Malaysia, the Maldives, Mongolia, Myanmar, Nepal, North Korea, Oman, Pakistan, the Philippines, Qatar, Saudi Arabia, Singapore, South Korea, Sri Lanka, Syria, Taiwan, Thailand, Turkey, the United Arab Emirates, Vietnam and Yemen.

America: Argentina, Barbados, Bermuda, Bolivia, Brazil, Canada, Chile, Colombia, Costa Rica, Cuba, the Dominican Republic, Ecuador, El Salvador, Grenada, Guatemala, Guyana, Haiti, Honduras, Jamaica, Martinique, Mexico, Nicaragua, Panama, Paraguay, Peru, Puerto Rico, Surinam, Trinidad, Uruguay, the United States, Venezuela and the Virgin Islands.

Other markets: Algeria, Angola, Australia, Benin, Botswana, Burundi, Cameroon, the Canary Islands, Chad, Congo, Egypt, Eritrea, Ethiopia, French Polynesia, Gabon, Gambia, Ghana, Guadeloupe, Guinea-Bissau, Guinea-Conakry, Ivory Coast, Kenya, Liberia, Libya, Madagascar, Mali, Malawi, Mauritania, Mauritius, Micronesia, Morocco, Mozambique, Namibia, New Caledonia, New Guinea, New Zealand, Niger, Reunion, Rwanda, São Tomé, Senegal, the Seychelles, Sierra Leone, Somalia, South Africa, Sudan, Tanzania, Togo, Tunisia, Uganda, Zambia and Zimbabwe.

NOTE 4 Sales revenue, Vehicles and Sevice

SEK m.	2005	2004
Trucks	37,778	33,407
Buses	6,256	5,504
Engines	803	658
Service-related products	12,591	11,418
Used vehicles etc	7,670	6,792
Revenue deferral, vehicles 1, 2	– 1,770	– 991
Total	63,328	56,788

1 Refers to the difference between revenue recognised as income and sales value based on deliveries. This difference arises when a lease or sale, combined with a residual value guarantee or a repurchase obligation, is reported as an operating lease, provided that significant risks remain.

2 Of which, trucks SEK -1,618 m. (-920) and buses SEK -152 m. (-71).

NOTE 5 Operating expenses

Vehicles and Service Cost of goods sold	2005	2004
Cost of goods	31,272	27,237
Staff	7,844	7,421
Depreciation/amortisation	2,033	1,506
Other	6,686	6,364
Total	47,835	42,528

Research and development expenses	2005	2004
Staff	1,072	962
Depreciation/amortisation	377	164
Other	1,035	861
Total	2,484	1,987

Selling expenses	2005	2004
Staff	2,530	2,324
Depreciation/amortisation	281	278
Other	3,018	2,741
Total	5,829	5 343

Administrative expenses	2005	2004
Staff	417	454
Depreciation/amortisation	16	16
Other	425	319
Total	858	789

Customer Finance: Selling and administrative expenses	2005	2004
Staff	222	183
Depreciation/amortisation	15	15
Other	137	120
Total	374	318

Cost of goods includes new trucks, buses and engines, but also used vehicles, bodywork and cars. The size of the cost of goods is also dependent on the degree of integration in different markets. Capitalisation of R&D has been divided between the categories "Staff" and "Other".

NOTE 6 Customer Finance

	2005	2004
Interest income	1,375	1,253
Lease income	2,143	2,174
Depreciation	– 1,725	– 1,731
Interest expenses	– 850	– 841
Net interest income	943	855
Other income and expenses	40	2
Gross operating income	983	857
Operating expenses	– 374	– 318
Bad debt expenses[1]	– 80	– 89
Operating income	529	450

1 This was equivalent to 0.29 (0.34) percent of the average credit portfolio.

Lease assets (operating leases)	2005	2004
1 January	7,043	7,900
New contracts	3,221	2,572
Depreciation	– 1,725	– 1,731
Terminated contracts	– 1,676	– 1,669
Change in value adjustment	30	21
Exchange rate differences	377	– 50
Carrying amount, 31 December[2]	7,270	7,043

2 Included in the consolidated financial statements under "Machinery and equipment" after subtracting deferred profit recognition and internal gains.

Financial receivables (hire purchase contracts and financial leases)	2005	2004
1 January	19,553	18,026
New receivables	14,408	9,458
Loan principal payments/ terminated contracts	– 12,800	– 7,950
Change in value adjustment	– 74	– 86
Exchange rate differences	1,273	105
Carrying amount, 31 December	22,360	19,553
Total receivables and lease assets[3]	29,630	26,596

3 The number of contracts in the portfolio on 31 December totalled about 70,000 (67,000).

Net investments in financial leases	2005	2004
Receivables related to future minimum lease payments	19,196	16,421
Less:		
Executory costs and reserve for bad debts	– 408	– 311
Imputed interest	– 1,527	– 1,345
Net investment[4]	17,261	14,765

4 Included in the consolidated financial statements under "Interest-bearing trade receivables" and "long-term interest-bearing receivables".

Future minimum lease payments[5]	Operating leases	Financial leases
2006	2,089	7,545
2007	1,345	5,147
2008	1,041	3,643
2009	633	2,000
2010	302	665
2011 and thereafter	107	196
Total	5,517	19,196

5 Minimum lease payments refer to the future flows of incoming payments to the contract portfolio, including interest. For operating leases, the residual value is not included since this is not a minimum payment for these contracts.

NOTE 7 Financial income and expenses

	2005	2004
Financial income (Interest income)		
Bank balances and short-term investments	268	239
Interest-bearing receivables	345	42
Other	22	45
Total financial income	635	326
Financial expenses (Interest expenses)		
Borrowings	– 723	– 513
Pension liability	– 99	–105
Total financial expenses	– 822	– 618
Other financial income and expenses	93	– 31
Net financial items	–94	–323

The above-mentioned "Other financial income and expenses" is mainly attributable to negative goodwill from the acquisition of Ainax (SEK 47 m.) recognised as income and to fluctuation in the valuation of derivatives not included in hedge accounting (SEK 74 m.)

NOTE 8 Taxes

Tax expense/income for the year	2005	2004
Current tax [1]	– 2,263	– 1,943
Deferred tax	163	– 17
Total	**– 2,100**	– 1,960
1 Of which, taxes paid:	– 2,450	– 1,784

Deferred tax is attributable to the following:	2005	2004
Deferred tax related to temporary differences	265	329
Deferred tax related to changes in tax rates and tax rules [2]	10	3
Deferred tax income due to tax value of loss carry-forwards capitalised during the year	60	18
Deferred tax expense due to utilisation of previously capitalised tax value of tax loss carry-forwards	– 141	– 375
Other changes in deferred tax liabilities/assets	– 31	8
Total	**163**	– 17

2 During 2005, the tax rate changed in the following countries, among others: Denmark, France and the Netherlands.

	2005		2004	
Reconciliation of effective tax	Amount	%	Amount	%
Income after financial items	6,765		6,276	
Swedish statutory tax	– 1,894	– 28	– 1,757	– 28
Tax effect and percentage influence:				
Difference between Swedish and foreign tax rates	– 155	– 2	– 86	– 1
Tax-exempt income	127	2	36	1
Non-deductible expenses	– 149	– 2	– 122	– 2
Utilisation/valuation of tax loss carry-forwards	46	0	– 30	0
New valuation of deferred tax	– 18	0	24	0
Adjustment for taxes pertaining to previous years	– 6	0	11	0
Other	– 51	– 1	– 36	– 1
Effective tax	**– 2,100**	**– 31**	– 1,960	– 31

Deferred tax assets and tax liabilities are attributable to the following:	2005	2004
Deferred tax assets		
Provisions	460	434
Provisions for pensions	371	146
Non-current assets	677	291
Inventories	478	416
Unutilised tax loss carry-forwards [3]	187	300
Other	487	451
Offset within tax units	– 2,095	– 1,655
Total deferred tax assets	565	383
Deferred tax liabilities		
Property, plant and equipment	3,230	2,741
Tax allocation reserve [4]	943	884
Other	62	335
Offset within tax units	– 2,095	– 1,655
Total deferred tax liabilities	2,140	2,305
Net deferred tax liabilities	**1,575**	1,922

3 Unutilised tax loss carry-forwards in 2005 stemmed mainly from France, Germany and Latin America. Of the deferred tax assets attributable to unutilised tax loss carry-forwards, SEK 175 m. may be utilised without time constraints.

4 In Sweden, tax laws permit provisions to an untaxed reserve called a tax allocation reserve. Deductions for provisions to this reserve are allowed up to a maximum of 25 percent of taxable profits. Each provision to this reserve may be freely withdrawn and face taxation, and must be withdrawn no later than the sixth year after the provision was made. As of 2005, interest is charged on the provision to the reserve and this expense is accounted for as a tax.

Reconciliation of net deferred tax liabilities:	2005	2004
Carrying value on 1 January	1,922	1,897
Deferred taxes recognised in the year's income	– 163	17
Exchange rate differences	36	13
Tax assets/tax liabilities in acquired/divested businesses	60	16
Deferred taxes recognised directly in equity attributable to changes		
in provisions for pensions	– 217	– 21
in provisions for cash flow hedging	– 63	–
Net deferred tax liabilities, 31 December	**1,575**	1,922

Recognised tax assets related to subsidiaries that reported a loss during 2005 were valued on the basis of an assessment that future earnings capacity makes a valuation possible. In the Scania Group, deferred tax assets related to unutilised tax loss carry-forwards of SEK 245 m. (243) were not included after assessment of the potential for utilising the tax loss carry-forwards.

Expiration structure of deferred tax assets related to tax loss carry-forwards not recognised	
2006	21
2007	1
2008	2
2009	1
2010	–
2011 and thereafter	110
No expiration date	110
Total	**245**

NOTE 9 Depreciation/amortisation

Vehicles and Sevice	2005	2004
Intangible non-current assets		
Research and development expenses	– 283	– 84
Selling expenses	– 33	– 45
Total	– 316	– 129
Tangible non-current assets		
Costs of goods sold [1]	– 1,782	– 1,505
Research and development expenses	– 136	– 106
Selling expenses	– 247	– 234
Administrative expenses	– 16	– 16
Total	– 2,181	– 1,861
Total depreciation/amortisation, Vehicles and Sevice	**– 2,497**	– 1,990

1 In addition, there was a value reduction of SEK -210 m. (-168) related to short-term leasing in Vehicles and Service and accrual of capitalised repurchasing obligations, which was charged to the cost of goods sold, plus a value reduction of SEK -578 m. (-646) in operating leases.

Customer Finance	2005	2004
Operating leases	– 1,725	– 1,731
Other non-current assets	– 15	– 15
Total depreciation/amortisation, Customer Finance	**– 1,740**	– 1,746

NOTE 10 Intangible non-current assets

	Goodwill	Research and development	Software	Total
Carrying amount, 1 January 2004	1,006	1,231	158	2,395
Change in accumulated acquisition value, 2004	6	313	25	344
Change in accumulated amortisation, 2004	–	– 83	– 30	– 113
Carrying amount, 31 December 2004	1,012	1,461	153	2,626
2005				
Accumulated acquisition value				
1 January	1,012	1,547	280	2,839
Acquisitions/divestments of businesses	63	–	13	76
New acquisitions	–	291	24	315
Divestments and disposals	–	– 13	– 32	– 45
Reclassifications	–	–	25	25
Exchange rate differences	20	–	21	41
Total	**1,095**	**1,825**	**331**	**3,251**
Accumulated amortisation				
1 January	–	86	127	213
Amortisation for the year				
– Vehicles and Sevice	–	283	33	316
– Customer Finance	–	–	5	5
Divestments and disposals	–	–	– 5	– 5
Reclassifications	–	–	10	10
Exchange rate differences		–	14	14
Total	–	369	184	553
Carrying amount, 31 December	**1,095**	**1,456**	**147**	**2,698**

Intangible assets at Scania are essentially attributale to capitalised development expenses and "acquisition goodwill". All goodwill items at Scania are attributable to acquisitions of previously independent importers/dealers that comprise cash-generating units. The impairment tests that have been implemented have not led to any reappraisals.

NOTE 11 Tangible non-current assets

	Buildings and land	Machinery and equipment	Construction in progress and advanced payments	Assets in operating leases [1]	Total
Carrying amount, 1 January 2004	7,238	5,797	1,428	9,711	24,174
Change in accumulated acquisition value, 2004	506	884	– 287	– 658	445
Change in accumulated depreciation, 2004	– 395	– 405	–	91	– 709
Carrying amount, 31 December 2004	**7,349**	**6,276**	**1,141**	**9,144**	**23,910**
2005					
Accumulated acquisition value					
1 January	11,387	20,366	1,141	13,794	46,688
Acquisitions/divestments of subsidiaries	275	35	–	–	310
New acquisitions	207	734	2,041	4,743	7,725
Divestments and disposals	– 54	– 1,029	–	– 4 498	– 5 581
Reclassifications	507	1,248	– 1,693	– 73	– 11
Exchange rate differences for the year	718	1,428	31	872	3 049
Total	**13,040**	**22,782**	**1,520**	**14,838**	**52,180**
Accumulated depreciation					
1 January	4,038	14,090	–	4,512	22,640
Depreciation for the year					
– Vehicles and Sevice	361	1 820	–	788	2 969
– Customer Finance	–	10	–	1,725	1,735
Divestments and disposals	– 8	– 911	–	– 2,384	– 3,303
Reclassifications	90	– 100	–	– 45	– 55
Exchange rate difference for the year	221	1,016	–	248	1,485
Total	**4,702**	**15,925**	**–**	**4,844**	**25,471**
Accumulated impairment losses [2]					
1 January	–	–	–	138	138
Change in value for the year	–	–	–	– 27	– 27
Total	**–**	**–**	**–**	**111**	**111**
Carrying amount, 31 December	**8,338**	**6,857**	**1 520**	**9,883**	**26,598**
– of which "Machinery"		6,024 (5,501)			
– of which "Equipment"		833 (775)			
– of which "Buildings"	6,252 (5,644)				
– of which "Land"	2,086 (1,705)				
– of which Customer Finance	–	23	–	7,269	7,292
Tax assessment value, buildings in Sweden	**950 (939)**				
equivalent carrying amount	2,284 (2,315)				
Tax assessment value, land in Sweden	**397 (325)**				
equivalent carrying amount	448 (422)				

1 Including assets for short-term leasing as well as assets capitalised due to repurchase obligations.

2 Impairment losses on assets in operating leases refer to value adjustment for actual and potential credit losses.

NOTE 12 Holdings in associated companies

Associated companies	2005	2004
Carrying amount on 1 January	66	66
Acquisitions, divestments and impairment losses during the year	– 6	– 4
Reclassifications	1	0
Exchange rate differences	7	– 3
Share in income for the year	8	8
Dividends	– 5	– 1
Carrying amount on 31 December	71	66
Contingent liabilities	0	0

Share of assets, liabilities and income	2005	2004
Non-current assets	47	46
Current assets	76	73
Long-term liabilities	14	16
Current liabilities	37	34
Scania's share of net assets	72	69
Sales revenue	464	455
Income after financial items	11	12
Taxes	– 3	– 4
Net income for the year	8	8

Associated company/corporate ID number/country of registration	Ownership %	Carrying amount in Parent Company financial statements	Value of Scania's share in consolidated financial statements 2005	2004
Cummins-Scania high pressure injection L.L.C; 043650113, USA	30	26	32	30
BitsData AB, 556112-2613, Sweden	25	1	3	1
ScaMadrid S.A., ES A80433519, Spain	49	1	22	19
ScaValencia S.A., ES A46332995, Spain	26	12	13	16
Other		1	1	0
Holdings in associated companies			71	66
Other shares and participations			25	26
Total			96	92

NOTE 13 Interest-bearing receivables

	2005	2004
Long-term receivables		
Customer Finance [1]	15,013	12,174
Vehicles and Sevice	530	582
Total long-term interest-bearing receivables	15,543	12,756
Current receivables		
Customer Finance	7,353	7,383
Vehicles and Sevice	494	492
Total current interest-bearing receivables	7,847	7,875
Total interest-bearing receivables	23,390	20,631

1 Note 6 shows how the financial receivables of Customer Finance (including the short-term portion) changed during 2005.

NOTE 14 Inventories

	2005	2004
Raw materials	970	937
Work in progress	1,114	1,109
Finished goods [1]	7,865	7,441
Total	9,949	9,487
1 Of which, used vehicles	1,251	1,269
Increase, adjustment in value of inventories	– 24	– 78

NOTE 15 Other receivables

	2005	2004
Prepaid expenses and accrued income	86	54
Value-added tax	169	126
Other receivables	498	323
Total other long-term receivables	753	503
Prepaid expenses and accrued income	792	853
Derivatives with positive market value	788	–
Value-added tax	739	553
Other receivables	843	793
Total other current receivables	3,162	2,199
Total other receivables	3,915	2,702

NOTE 16 Equity

The equity of the Scania Group has changed as follows:

2004	Share capital	Other contributed capital	Fair value reserve	Exchange rate differences	Retained earnings	Total[1]	Minority interest	Total
Equity, 1 January	2,000	1,120	–	– 299	15,645	18,466	5	18,471
Exchange rate differences for the year				– 101		– 101	– 2	– 103
Actuarial gains/losses related to pension liabilities recognised directly in equity					– 72	– 72		– 72
Tax attributable to items recognised directly in equity					21	21		21
Total changes recognised directly in equity excluding transactions with the company's owners	**0**	**0**	**–**	**– 101**	**– 51**	**– 152**	**– 2**	**– 154**
Net income for the year					4,314	4,314	2	4,316
Total changes excluding transactions with the company's owners	**0**	**0**	**–**	**– 101**	**4,263**	**4,162**	**0**	**4,162**
Dividend to shareholders					– 1,200	– 1,200		– 1,200
Equity, 31 December	**2,000**	**1,120**	**–**	**– 400**	**18,708**	**21,428**	**5**	**21,433**

2005	Share capital	Other contributed capital	Fair value reserve	Exchange rate differences	Retained earnings	Total[1]	Minority interest	Total
Equity, 1 January	2,000	1,120	–	– 400	18,708	21,428	5	21,433
Change in accounting principle (IAS 39)			55		– 33	22		22
Adjusted equity, 1 January	2,000	1,120	55	– 400	18,675	21,450	5	21,455
Exchange rate differences for the year				1,303		1,303	4	1,307
Cash flow hedging								
Recognised directly in equity			– 607			– 607		– 607
Transferred to income statement			415			415		415
Actuarial gains/losses related to pension liabilities recognised directly in equity					– 770	– 770		– 770
Tax attributable to items recognised directly in equity			54		217	271		271
Total changes recognised directly in equity excluding transactions with the company's owners	**0**	**0**	**– 138**	**1,303**	**– 553**	**612**	**4**	**616**
Net income for the year					4,665	4,665	0	4,665
Total changes excluding transactions with the company's owners	**0**	**0**	**– 138**	**1,303**	**4,112**	**5,277**	**4**	**5,281**
New share issue in conjunction with acquisition of Ainax	263				– 263	0		0
Dividend to shareholders					– 3,000	– 3,000		– 3,000
Equity, 31 December 2005	**2,263**	**1,120**	**– 83**	**903**	**19,524**	**23,727**	**9**	**23,736**

The share capital of Scania AB consists of 126,296,508 A shares outstanding with voting rights of one vote per share and 100,000,000 B shares outstanding with voting rights of 1/10 vote per share. The subsidiary Ainax owns 26,296,508 shares. There is thus a total of 200,000,000 shares available to shareholders outside the company. All shares are fully paid and no shares are reserved for transfer of ownership.

Other contributed equity consists of equity contributed by the owners of Scania AB when it became a limited company in 1995.

The fair value reserve consists of the change in market value of commercial cash flow hedging instruments in cases where hedge accounting is applied according to IAS 39.

Accumulated exchange rate differences arise when translating net assets outside Sweden according to the current method of accounting. The positive rate difference of SEK 1,307 m. during 2005 arose as a consequence of the weakening of the Swedish krona against currencies important to Scania. The exchange rate differences were mainly attributable to a weakening against the Brazilian real and various European currencies, mainly the euro and the British pound.

Retained earnings consist not only of accrued profits but also of the change in pension liability attributable to changes in actuarial assumptions that is recognised directly in equity. Regarding changes in actuarial assumptions, see also Note 17, "Provisions for pensions and similar commitments." Of the Parent Company's dividend, SEK 3,394 m., the subsidiary Ainax received SEK 394 m., thereby reducing the dividend that affected the Group's equity to SEK 3,000 m.

Minority interest is the portion of equity belonging to external minority owners in various subsidiaries in the Group.

New share issue. The acquisition of Ainax in February 2005 was paid for by a new issue of 26,296,508 A shares, which is equivalent to 96.3 percent of the number of shares outstanding in Ainax. The new share issue affected the equity of the Scania Group in a net amount of zero, but since SEK 263 m. is accounted for as equity, "Retained earnings" is affected in the amount of SEK -263 m. The intention is to liquidate the company during 2006, after which share capital will be restored.

1 Equity attributable to Scania shareholders.

NOTE 17 Provisions for pensions and similar commitments

The Group's employees, former employees and their survivors may be included in both defined-contribution and defined-benefit plans related to post-employment compensation. The defined-benefit plans include retirement pensions, survivor pensions, health care and severance pay.

The commitment that is reported in the balance sheet stems from the defined-benefit plans. The largest plans are found in Sweden, Great Britain and Brazil. The plans are safeguarded via re-insured provisions in the balance sheet, foundations and funds. Calculations are performed according to the "projected unit credit method", using the assumptions presented in the table below, also taking into account any revocability. As of 2005, actuarial gains and losses are recognised directly in equity. The actuarial loss of SEK 72 m. during the comparative year has been reclassified from the income statement to equity.

In the case of some of the Group's defined-benefit multi-employer plans, sufficient information cannot be obtained to calculate Scania's share in these plans. They have thus been accounted for as defined-contribution. In Scania's case, this applies to the Dutch fund Pensioenfonds Metaal en Techniek, which is administered via MN Services, and Bedrijfstakpensioenfonds Metaloelektro, which is administered via PVF Achmea, as well as the portion of the Swedish ITP occupational pension plan that is administered via the retirement insurance company Alecta. Most of the Swedish plan for salaried employees (the collectively agreed ITP plan), however, is accounted for by provisions in the balance sheet, safeguarded by credit insurance from the mutual insurance company Försäkrings-bolaget Pensionsgaranti (FPG) and are administered by a Swedish multi-employer institution, the Pension Registration Institute (PRI).

Premiums to Alecta amounted to SEK 72 m. (74). A surplus or deficit at Alecta may mean a refund to the Group or lower or higher future premiums. At year-end 2005, Alecta's surplus, in the form of a collective consolidation level, amounted to 128 (128) percent. The collective consolidation level consists of the market value of Alecta's assets as a percentage of its insurance obligations calculated according to Alecta's actuarial assumptions, which do not coincide with IAS 19.

In the Dutch plans, both companies and employees contribute to the plan. The companies' premiums to MN Services amounted to SEK 22 m. (19) and to PVF Achmea SEK 55 m. (49). The consolidation level amounted to 126 (114) percent for MN Services and 127 (115) percent for PVF Achmea.

Scania's forecasted disbursement of pensions is SEK 170 m. in 2006.

Expenses for pensions and other defined-benefit obligations recognised in the income statement	**Expenses related to pension obligations**		**Expenses related to health care benefits**		**Expenses related to other obligations**	
	2005	2004	**2005**	2004	**2005**	2004
Current service expenses	**– 117**	– 186	**– 2**	– 2	**– 10**	– 4
Interest expenses	**– 143**	– 125	**– 21**	– 14	**– 4**	– 2
Expected return on plan assets	**44**	20	**–**	–	**3**	1
Past service expenses	**–**	-3	**-8**	–	**–**	–
Gains (+) and losses (-) due to curtailments and settlements	**10**	0	**–**	–	**–**	–
Total expense for defined-benefit obligations recognised in the income statement	**– 206**	– 294	**– 31**	– 16	**– 11**	– 5

For defined-contributi

towards employees. The Group's expenses for defined-contribution plans amounted to SEK 488 m. (455) during 2005.

Pension expenses and other defined-benefit payments are found in the income statement under the headings "Cost of goods sold", "Research and development expenses", "Selling expenses", and "Administrative expenses". The interest portion of pension expenses, along with the return on plan assets, is found under "Financial expenses and income".

Expenses for pensions and other defined-benefit obligations recognised in equity	**Expenses related to pension obligations**		**Expenses related to health care benefits**		**Expenses related toe other obligations**	
	2005	2004	**2005**	2004	**2005**	2004
Experience-based adjustments in pension liability	**– 32**	N/A	**– 6**	N/A	**-1**	N/A
Experience-based adjustments in plan assets	**38**	N/A	**–**	N/A	**16**	N/A
Effects of changes in actuarial assumptions	**– 769**	N/A	**–**	N/A	**– 4**	N/A
Net actuarial gains (+) and losses (-) for the year	**– 763**	– 65	**– 6**	– 7	**11**	0
Curtailment in valuation of net assets	**– 12**	–	**–**		**–**	–
Total expense/revenue for defined-benefit obligations recognised in equity	**– 775**	– 65	**– 6**	– 7	**11**	0

The accumulated amount of actuarial losses in equity is SEK 842 m. before taxes.

Continued on next page

Note 17, continued

Recognised as provision for pensions in the balance sheet	Pension obligations 2005	2004	Obligations related to health care 2005	2004	Other obligations 2005	2004
Present value of defined-benefit obligations, wholly or partly funded	**1,258**	593	**–**	–	**40**	28
Present value of defined-benefit obligations, unfunded	**2,827**	2,091	**258**	167	**50**	36
Present value of defined-benefit obligations	**4 085**	2,684	**258**	167	**90**	64
Fair value of plan assets	**– 1,048**	– 395	**–**	–	**– 47**	– 21
Unrecognised expenses related to employment during prior years	**–**	–	**–**	–	**–**	–
Net assets not fully valued due to curtailment rule	**81**	–	**–**	–	**–**	–
Other amounts recognised in the balance sheet	**–**	–	**–**	–	**–**	–
Recognised in the balance sheet	**3,118**	2,289	**258**	167	**43**	43
Of which, pension liability recognised under the heading “Provisions for pensions”	**3,157**	2,289	**258**	167	**43**	43
Of which, pension asset recognised under the heading “Other long-term receivables”	**– 39**	–	**–**	–	**–**	–

Assumptions applied in actuarial calculation	Sweden (pension) 2005	2004	Great Britain (pension) 2005	2004	Brazil (health care) 2005	2004	Other countries (pension etc) 2005	2004
Discount rate (%)	**4.0**	5.5	**5.0**	5.5	**10.3**	10.3	**2.0-4.5**	4.5–5.5
Expected return on plan assets (%)	**–**	–	**5.5**	6.0	**10.3**	10.3	**2.3-5.0**	5.0–6.0
Expected wage and salary increase (%)	**3.0**	3.0	**0.0**	0.0	**–**	–	**1.5-4.4**	2.0–4.3
Change in health care costs (%)	**–**	–	**–**	–	**8.6**	7.8	–	–
Employee turnover (%)	**5.0**	5.0	**0.0**	0.0	**–**	–	**1.0-8.0**	1.0–6.0
Expected remaining years of service	**22.0**	21.5	**10.0**	11.0	**18.7**	19.0	**8.5-33.0**	15.0–33.0
Expected increase in pension (%)	**2.0**	2.0	**2.8**	3.0	**–**	–	**0.8-2.0**	1.8–2.5

Expected return on plan assets is calculated taking into account the allocation of the assets and market conditions at the end of 2005. No changes in investment strategies are planned.

Present value of defined-benefit obligations changed during the year as follows:	Liabilities related to pension obligations 2005	2004	Liabilities related to health care benefits 2005	2004	Liabilities related to other obligations 2005	2004
Present value of defined-benefit obligations, 1 January	**2,684**	2,411	**167**	150	**64**	52
Present value of reclassified obligations, 1 January [1]	**401**	–	**–**	–	**–**	–
Current service expenses	**117**	186	**2**	2	**10**	4
Interest expenses	**143**	125	**21**	14	**4**	2
Payments made by pension plan participants	**–**	– 4	**–**	– 8	**–**	– 3
Net actuarial gains and losses for the year	**785**	58	**6**	7	**5**	8
Exchange rate differences	**62**	– 10	**65**	2	**16**	3
Disbursements of pension payments	**– 113**	– 85	**– 11**	–	**– 9**	– 2
Past service expenses	**–**	3	**8**	–	**–**	–
Present value of defined-benefit obligations in companies bought/sold	**1**	–	**–**	–	**–**	–
Gains and losses due to net curtailments for the year	**–**	–	**–**	–	**–**	–
Gains and losses due to net settlements for the year	**5**	–	**–**	–	**–**	–
Present value of defined-benefit obligations, 31 December	**4,085**	2,684	**258**	167	**90**	64

1 A change in legislation in Switzerland as of 1 January 2005, which compels employers to participate in restructuring into foundations in the event of deficits in financing, is leading to a reclassification of the plan from defined-contribution to defined-benefit.

Market value of plan assets changed as follows during the year:	Plan assets related to pension obligations 2005	2004	Plan assets related to health care benefits 2005	2004	Plan assets related to other obligations 2005	2004
Market value of plan assets, 1 January	**395**	357	**–**	–	**21**	11
Market value of plan assets related to reclassified commitments [1]	**503**	–	**–**	–	**–**	–
Expected return on plan assets	**44**	20	**–**	–	**3**	1
Net actuarial gains and losses for the year	**22**	– 7	**–**	–	**16**	8
Exchange rate differences	**51**	– 4	**–**	–	**9**	1
Payments to pension plan	**47**	29	**–**	–	**–**	–
Payments made by pension plan participants	**7**	–	**–**	–	**–**	–
Disbursements of pension payments	**– 21**	–	**–**	–	**– 2**	–
Market value of plan assets in companies bought/sold	**–**	–	**–**	–	**–**	–
Net gains and losses for the year due to settlements	**–**	–	**–**	–	**–**	–
Market value of plan assets, 31 December	**1,048**	395	**–**	–	**47**	21

1 A change in legislation in Switzerland as of 1 January 2005, which compels employers to participate in restructuring into foundations in the event of deficits in financing, is leading to a reclassification of the plan from defined-contribution to defined-benefit.

Plan assets consist mainly of shares and interest-bearing securities with the following market value on closing day:	2005 SEK m.	2004 SEK m.	2005 %	2004 %
Shares and participations, Scania	**–**	–	**–**	–
Shares and participations, other	**339**	127	**31.0**	30.5
Miscellaneous interest-bearing securities, Scania	**–**	–	**–**	–
Miscellaneous interest-bearing securities, other	**506**	248	**46.2**	59.6
Properties leased to Scania companies	**74**	–	**6.8**	–
Investment properties	**64**	15	**5.8**	3.6
Bank deposits etc.	**112**	26	**10.2**	6.3
Total	**1,095**	416	**100.0**	100.0

Actual return	Plan assets related to pension obligations 2005	2004	Plan assets related to health care benefits 2005	2004	Plan assets related to other obligations 2005	2004
Actual return on plan assets	**84**	23	**–**	–	**17**	11

Sensitivity analysis concerning 1% change in health care expenses on:	1% decrease 2005	1% increase 2005
Sum of cost for employment in current year and interest expense	**– 23**	**31**
Sum of present value of the defined-benefit commitment	**– 205**	**269**

Multi-year summary recognised in balance sheet	2005	2004
Present value of defined-benefit commitments	**4,433**	2,684
Market value of plan assets	**– 1,095**	– 395
Deficit	**3,338**	2,289
Net assets not valued in full due to curtailment rule	**81**	–
Recognised in balance sheet	**3,419**	2,289

Multi-year summary of expenses in equity	2005	2004
Experience-based adjustments in pension liability	**– 39**	–
Experience-based adjustments in plan assets	**54**	–
Effects of changes in actuarial assumptions	**– 773**	– 72
Net actuarial gains (+) and losses (-) for the year	**– 758**	– 72
Curtailment in value of net assets	**– 12**	–
Total expense/income for defined-benefit obligations recognised in equity	**– 770**	– 72

NOTE 18 Other provisions

During the year, the Scania Group's provisions changed as follows:

2004	Product obligations	Restruc-turing	Legal and tax disputes	Other pro-visions	Total
1 January	1,712	94	249	707	2,762
Provisions during the year	1,147	23	76	494	1,740
Provisions used during the year	– 1,217	– 41	– 53	– 373	– 1,684
Provisions reversed during the year	– 120	– 10	– 8	– 68	– 206
Exchange rate differences	– 9	0	0	– 1	– 10
31 December	1,513	66	264	759	2,602
– of which, current provisions					*1,366*
– of which long-term provisions					*1,236*

2005	**Product obligations**	**Restruc-turing**	**Legal and tax disputes**	**Other pro-visions**	**Total**
1 January	1 513	66	264	759	2 602
Provisions during the year	1 146	27	109	348	1 630
Provisions used used during the year	– 1 182	– 45	– 53	– 200	– 1 480
Provisions reversed during the year	– 64	– 5	– 11	– 117	– 197
Reclassified to prepaid income	– 450	–	–	–	– 450
Exchange rate differences	65	2	88	12	167
31 December	**1 028**	**45**	**397**	**802**	**2 272**
– of which, current provisions					*962*
– of which, long-term provisions					*1 310*

"Other provisions" include provisions for possible losses on service agreements and residual value obligations.

NOTE 19 Accrued expenses and prepaid income

	2005	2004
Employee-related accrued expenses	**2,019**	1,731
Prepaid income related to service and repair contracts [1]	**1,676**	1,060
Prepaid income related to repurchase obligations	**3,311**	2,993
Accrued financial expenses	**67**	355
Other customary accrued expenses and prepaid income	**1,889**	1,773
Total	**8,962**	7,912
– of which, current	**6,836**	5,543
– of which, long-term	**2,126**	2,369
Of which Customer Finance operations	**263**	306

Of the above prepaid income related to vehicles sold with repurchase obligations, SEK 1,080 m. is expected to be recognised as revenue within 12 months and SEK 50 m. later than after five years.

1 Includes SEK 450 m. in reclassifications from "Other provisions".

NOTE 20 Assets pledged and contingent liabilities

Assets pledged	**2005**	2004
Real estate mortgages	**29**	42
Trade receivables	**20**	19
Other	**1**	6
Total [1]	**50**	67
1 Of which, assets pledged for:		
Long-term borrowings	**28**	41
Short-term borrowings	**21**	20
Liabilities of others	**1**	6

Contingent liabilities	**2005**	2004
Contingent liability related to FPG credit insurance	**34**	31
Loan guarantees	**36**	46
Discounted bills and contracts	**3**	13
Other guarantees	**136**	170
Total	**209**	260

In addition to the above contingent liabilities, the Group has issued vehicle repurchase guarantees worth SEK 350 m. (236) to customers' creditors.

NOTE 21 Lease obligations

As a lessee, the Scania Group has entered into financial and operating leases and other lease contracts.

Future payment obligations on non-cancellable operating leases:

Operating leases	**Lease payments 2005**	**Of which premises 2005** [2]	Lease payments 2004	Of which premises 2004 [2]
Within one year	**194**	**111**	167	106
Between one year and five years	**371**	**293**	359	313
Later than five years	**440**	**439**	533	532
Total [1]	**1 005**	**843**	1 059	951

1 Refers to operating leases where the commitment exceeds one year.

2 Expenses for leases on premises were charged to income in the amount of SEK 95 m. (85).

Future payment obligations on financial leases:

Financial leases	**Lease payments 2005**	**Present value 2005**	Lease payments 2004	Present value 2004
Within one year	**58**	**54**	63	58
Between one year and five years	**142**	**119**	122	102
Later than five years	**0**	**0**	35	25
Total [1]	**200**	**173**	220	185

1 Refers to financial leases where the total commitment exceeds one year.

The carrying amount related to financial leases in the balance sheet was SEK 182 m. (200).

NOTE 22 Government grants

During 2005, the Scania Group received government grants amounting to SEK 27 m. (26) attributable to operating expenses of SEK 250 m. (100). It also received government grants of SEK 17 m. (22) attributable to investments with a gross acquisition value of SEK 702 m. (456).

NOTE 23 Consolidated cash flow statement

In those cases where no allocation by segment is specified, the cash flow statement below refers to Vehicles and Service.

	2005	2004
a. Interest and dividends received/paid		
Dividends received from associated companies	4	1
Interest received	635	374
Interest paid	– 632	– 574
Net interest received/paid	7	– 199

b.1 *Vehicles and Service: Items not affecting cash flow*	2005	2004
Depreciation/amortisation	*2,497*	*1,990*
Value adjustment, short-term leasing	*210*	*168*
Unrealised exchange rate differences	*– 5*	*4*
Bad debts	*196*	*205*
Associated companies	*– 4*	*– 11*
Deferred profit recognition, operating leases	*65*	*– 42*
Reported capital gain/loss on divestment of businesses	*36*	*9*
Other	*– 112*	*– 22*
Total	*2,883*	*2,301*

b.2 Customer Finance: Items not affecting cash flow	*2005*	*2004*
Depreciation/amortisation	*15*	*15*
Bad debts	*80*	*89*
Other	*– 25*	*– 19*
Total	*70*	*85*

c. Change in working capital	2005	2004
Long-term interest-bearing receivables	66	93
Other receivables	373	– 1,757
Inventories	284	– 959
Provisions for pensions	124	250
Trade payables	646	864
Other liabilities and provisions	– 731	356
Total	762	– 1,153

d. Net investment through acquisitions/ divestments of businesses [1]	2005	2004
Divestments of businesses	7	–
Acquisitions of businesses	– 212	– 49
Total	– 205	– 49

e.1 Vehicles and Sevice: Acquisitions of non-current assets	2005	2004
Investments in non-current assets [2]	– 4,027	– 3,314
Divestments of non-current assets	430	516
Total	– 3,597	– 2,798

e.2 Customer Finance: Acquisitions of non-current assets	2005	2004
Increases in credit portfolio	– 4,768	– 3,824
Decreases in credit portfolio	3,358	3,346
Total	– 1,410	– 478

f. Change in net debt through financing activities	2005	2004
Net change in short-term borrowings	912	– 207
Repayment of long-term borrowings	– 4,351	– 4,446
Increase in long-term borrowings	3,501	3,389
Net change in restricted deposits	0	0
Total	62	– 1,264

g. Liquid assets	**2005**	**2004**
Cash and bank balances	1,106	1,119
Short-term investments equivalent to liquid assets	493	470
Total	1,599	1,589

1 See Note 24, "Businesses acquired/divested".

2 Of which, SEK 279 m. (316) in capitalised research and development expenditures.

Relationship between cash flow statement and change in net debt in the balance sheet	**2005**	2004
Total cash flow before financing activities	2,818	2,400
Exchange rate effects on interest-bearing liabilities	– 2,370	27
Businesses acquired	– 26	– 40
Businesses divested	–	–
Exchange rate effects on short-term investments	328	0
Exchange rate effects on liquid assets	130	– 10
Change in accounting principle, financial items	– 273	–
Effect of market valuation of borrowings	– 373	–
Change in derivatives affecting net debt	405	–
Dividend to shareholders	– 3,000	– 1,200
Change in net debt according to the balance sheet	– 2,361	1,177

NOTE 24 Companies acquired/divested

Assets and liabilities acquired and divested:	Carrying amounts upon acquisitions Ainax	Belgium	Other	Fair value adjustment	Total
Tangible and intangible non-current assets	0	49	76	176	301
Inventories	0	32	36	4	72
Receivables	1	60	25	0	86
Liquid assets	89	0	55	0	144
Borrowings	0	0	– 23	0	– 23
Other liabilities and provisions	– 4	– 65	– 75	– 59	– 204
Net identifiable assets and liabilities	86	76	93	122	377
Goodwill in consolidation		50	16		66
Withdrawal of negative goodwill [1]	– 86				– 86
Purchase price	0	236	120		356
Liquid assets in companies acquired	89	0	55		144
Impact on consolidated liquid assets	89	– 236	– 65		– 212
Number of employees	1	171	252		424

1 Recognised in the income statement on a net basis after transaction costs under "Other financial income".

During the first quarter, in accordance with a decision at an extraordinary general meeting, Scania acquired Ainax by giving the shareholders of Ainax one A share in Scania for each Ainax share. See also Note 16, "Equity".

As one element of its vertical integration, Scania acquired additional sales and service companies during 2005, among others a large acquisition in Belgium. The company acquired during the second quarter of 2005 will be integrated into the existing structure and thereby contribute positive synergies.

No contingent liabilities were included in the acquisitions made during 2005.

Scania's share of ownership in all acquisitions, except one in the Czech Republic (99.92%) and Ainax (96.3%) amounts to 100%. During the year, Scania's holding in a dealership in Spain (Sca Valencia) decreased from 38% to 26%. The sale price amounted to SEK 7 m. The other acquisitions, which were minor in nature, were attributable to Switzerland, Taiwan, France, Poland and Namibia.

Companies acquired had the following accumulated impact on the 2005 financial statements: Sales revenue SEK +185 m., gross income SEK +56 m., expenses SEK +45 m., operating income SEK +13 m. and income after financial items SEK +14 m.

The fact that the acquisitions did not occur at the beginning of the financial year had a marginal effect on the earnings of the Scania Group.

NOTE 25 Wages, salaries and other remuneration and number of employees

Wages, salaries and other remuneration, pension expenses and other mandatory payroll fees	2005	2004
Operations in Sweden:		
Boards of Directors, Presidents and Executive Vice Presidents	**45**	38
of which bonuses	**18**	16
Other employees	**3,886**	3,862
Operations outside Sweden:		
Boards of Directors, Presidents and Executive Vice Presidents	**149**	175
of which bonuses	**22**	16
Other employees	**4,646**	4,173
Total	**8,726**	8,248
Pension expenses and other mandatory payroll fees	**3,137**	2,985
of which pension expenses [1]	**827**	762
Total	**11,863**	11,233

1 Of the pension expense in the Group, SEK 34 m. (39) was for Boards of Directors and Presidents in the Scania Group. At year-end, the total pension commitment was SEK 95 m. (90) for this category.

	2005			2004		
Wages, salaries and other remuneration, pension expenses **and other mandatory payroll fees by country**	**Wages, salaries and other remuneration**	**Mandatory payroll fees**	**(of which pension)**	Wages salaries and other remuneration	Mandatory payroll fees	(of which pension)
Operations in Sweden:	**3,931**	**2,001**	**(517)**	3,900	1,985	(515)
Operations outside Sweden:						
The Netherlands	**752**	**162**	**(67)**	714	151	(61)
Brazil	**651**	**227**	**(22)**	449	186	(17)
Great Britain	**618**	**101**	**(36)**	589	78	(13)
Germany	**304**	**63**	**(5)**	305	64	(6)
Norway	**302**	**69**	**(18)**	322	45	(2)
France	**295**	**181**	**(52)**	272	168	(49)
Denmark	**220**	**15**	**(14)**	201	21	(12)
Finland	**211**	**60**	**(42)**	198	64	(37)
Austria	**177**	**9**	**(1)**	175	6	(0)
Belgium	**174**	**65**	**(2)**	161	57	(3)
Switzerland	**139**	**22**	**(0)**	130	22	(0)
Australia	**103**	**8**	**(8)**	99	8	(8)
37 countries with < SEK 100 m [2]	**849**	**154**	**(43)**	733	130	(39)
Total outside Sweden	**4,795**	**1,136**	**(310)**	4,348	1,000	(247)
Total	**8,726**	**3,137**	**(827)**	8,248	2,985	(762)

2 In 2004, 37 countries had less than SEK 100 m. in wages, salaries and other remuneration.

Average number of employees (excl. employees on temporary contracts)	2005 Total	2005 Men	2005 Women	2004 Total	2004 Men	2004 Women
Operations in Sweden:	**12,147**	**10,097**	**2,050**	12,192	10,140	2,052
Operations outside Sweden:						
Brazil	**2,990**	**2,665**	**325**	2,812	2,514	298
The Netherlands	**2,043**	**1,907**	**136**	2,040	1,903	137
Great Britain	**1,645**	**1,400**	**245**	1,630	1,401	229
Argentina	**1,094**	**1,034**	**60**	1,015	969	46
France	**1,003**	**853**	**150**	984	838	146
Germany	**942**	**818**	**124**	894	779	115
Belgium	**760**	**614**	**146**	650	557	93
Norway	**779**	**722**	**57**	767	705	62
Poland	**720**	**655**	**65**	563	511	52
Finland	**652**	**575**	**77**	653	572	81
Russia	**620**	**514**	**106**	512	419	93
Denmark	**500**	**456**	**44**	506	456	50
Austria	**435**	**381**	**54**	422	368	54
South Africa	**346**	**279**	**67**	393	327	66
Schwitzerland	**327**	**292**	**35**	303	274	29
Australia	**272**	**240**	**32**	272	236	36
Czech Republic	**272**	**239**	**33**	223	194	29
South Korea	**257**	**225**	**32**	300	264	36
Italy	**197**	**159**	**38**	192	159	33
Spain	**157**	**120**	**37**	155	122	33
Hungary	**156**	**131**	**25**	140	113	27
Slovakia	**143**	**119**	**24**	119	97	22
Thailand	**129**	**94**	**35**	115	82	33
Chile	**125**	**110**	**15**	115	100	15
Mexico	**120**	**95**	**25**	157	147	10
Malaysia	**116**	**97**	**19**	111	93	18
Latvia	**115**	**107**	**8**	115	106	9
Morocco	**101**	**94**	**7**	102	94	8
21 countries with < 100 employees[3]	**706**	**569**	**137**	612	496	116
Total outside Sweden	**17,722**	**15,564**	**2,158**	16,872	14,896	1,976
Total, average number of employees	**29,869**	**25,661**	**4,208**	29,064	25,036	4,028

3 In 2004, 19 countries had fewer than 100 employees.

Gender distribution	2005	2004
Board members in subsidiaries and the Parent Company	**476**	421
– Of whom men	**467**	411
– Of whom women	**9**	10
Presidents of subsidiaries and the Parent Company, plus the Group's Executive Board	**105**	121
– Of whom men	**104**	119
– Of whom women	**1**	2

Number of employees, 31 December	2005	2004
Vehicles and Service		
Production and corporate units	**15,888**	15,968
Research and development	**2,058**	1,924
Sales and service companies	**12,414**	11,747
Total	**30,360**	29,639
Customer Finance	**405**	354
Total	**30,765**	29,993
– Of whom, employed on temporary contracts	**1,996**	2,069

NOTE 26 Related party transactions

Associated companies	Sales to 2005	Sales to 2004	Purchase from 2005	Purchase from 2004	Receivables from 2005	Receivables from 2004	Liabilities to 2005	Liabilities to 2004
ScaValencia S.A.	**160**	177	**34**	29	**35**	21	**3**	1
ScaMadrid S.A.	**144**	143	**38**	33	**20**	17	**2**	1
Cummins-Scania HPI L.L.C	**–**	–	**167**	207	**–**	–	**37**	29
Bitsdata AB	**–**	–	**10**	12	**–**	–	**1**	1

Information about relationships with related parties that include a controlling influence is provided in the list of subsidiaries. See also the presentation of Scania's Board of Directors and Executive Board as well as Note 27, "Information regarding compensation to executive officers". Information about pension plans is provided in Note 17, "Provisions for pensions and similar commitments" and Note 25, "Wages, salaries and remuneration and number of employees". Scania has two main owners, Investor and Volkswagen. There are no transactions with Investor, aside from the below-described settlement of the stock option agreement. In the case of Volkswagen, purchases of company cars have not been taken into account. See also the presentation of Scania's Board of Directors and Executive Board as well as Note 27, "Information Regarding Compensation to Executive Officers".

In conjunction with a stock option programme for the President and CEO in 1999, which is described in Note 27, the price of the stock option was ensured through an agreement between Scania and Investor, in which Scania acquired a right to buy shares in accordance with the stock option programme at a price of SEK 196 each. The President and CEO's stock option programme was exercised during 2005, and in conjunction with this, the stock option agreement was settled in cash with Investor. This meant that when the stock option agreement was exercised, Scania received SEK 27 m. from Investor to cover the company's obligation including mandatory payroll fees.

NOTE 27 Information regarding compensation to executive officers

Remuneration to the Board

According to the decision of the Annual General Meeting (AGM), remuneration during 2005 to the external members of the Board of Directors elected by the Annual Meeting amounted to SEK 4,000,000, with SEK 1,000,000 to be paid to the Chairman of the Board, SEK 500,000 to the Vice Chairman of the Board and SEK 325,000 to each of the other Board members elected by the AGM who are not employees of the Company, plus a total of SEK 550,000 to be distributed by the Board to those members that belong to its committees.

The total remuneration to the Chairman is thus SEK 1,050,000, of which SEK 50,000 is compensation for the chairmanship of the Remuneration Committee.

Beyond the customary remuneration to the Board, no compensation from Scania was paid to the members of the Board who are not employees of the company.

Incentive programme for executive officers

Scania's incentive programme for executive officers, among them the President and CEO, which was approved by the Board in 1997, is based on operating return, defined as Scania Group net income after subtracting the cost of equity, residual net income (RNI).

The programme consists of one portion, LTI (long-term incentive) which is related to Scania's ability to increase, RNI as defined in the preceding paragraph (maximum 75 percent of fixed salary), from one year to another. The outcome of this component of the programme for 2005 will be administered in such a way that, after subtracting income tax, the employee acquires B shares in Scania AB. These shares will be locked in the custody of a bank during a period of two years, after which they will be at the employee's disposal only after the Year-end Report in 2008.

The second component in the incentive programme, STI (short-term incentive) is related to actual ability to generate a return during the year in question, all provided that RNI according to the preceding paragraph is positive (maximum 150 percent of fixed salary). The outcome of this component will be disbursed during 2006.

As indicated, both components are designed in such a way that they contain an upper limit for the compensation that is payable according to the programme. This upper limit has never been reached.

During the period 1997 – 2004, the outcome of the incentive programme for the members of the Executive Board, among them the President and CEO, has fluctuated from zero to 178 percent of fixed salary. The outcome for the period has, on average, amounted to 81 percent of fixed salary.

The outcome 2005 for the President and CEO was SEK 9,945,000. The corresponding total for other Group Management members amounted to SEK 46,552,452.

Fixed salary for the President and CEO

The fixed salary for the President starting in 2005 amounted to SEK 6,500,000 per year.

Other conditions for the President and CEO

In light of the then complex ownership structure of Scania AB, during 2001 the Board's Remuneration Committee approved a five-year employment agreement with the President and CEO. The agreement, which stipulates the employment conditions of the President and CEO until 30 March 2006, prescribes that an annual extra pension provision of SEK 4,410,000 will be made during each of the five years even if employment should cease due to termination by the company. In such a case, the other agreed salary and incentive benefits will also be provided for the period.

SEK	Fixed salary	Board remuneration	Exercise of personal stock option	Outcome incentive regarding 2005	Pension cost, defined contribution system	Pension cost, defined benefit system (ITP)	Other remuneration	Summary
Chairman of the Board		1,050,000 [2]						1,050,000
President and CEO	6,500,000 [1]		20,460,000	9,945,000	6,717,917	521,050	12,533	44,156,500
Executive officers in the Group Management including the Executive Board (21 persons)	36,105,925 [1]			46,552,452	11,396,579	10,569,735	2,477,581	107,102,272

1 According to statements of income provided to tax authorities, fixed salary minus among other things co-payment for pension was SEK 4,800,078 for the President and CEO and SEK 34,025,121 for the other 21 Group Management executive officers.

2 Remuneration paid during 2005 was SEK 925,000.

Pension cost, defined-contribution system: annual premiums according to a defined-benefit pension system and ITPK (defined-contribution portion of the ITP occupational pension).

Pension cost, defined-benefit system (ITP): risk insurance premiums and the increase of retirement pension liability according to the ITP occupational pension plan.

Other remuneration: taxable portion of car, newspaper subscription and other perquisites. Amounts excluding employer payroll fees.

Retirement age: the retirement age according to agreements is 60 for the Executive Board excluding the President and CEO, and 62 for other executive officers in the Group Management. The retirement age for the ITP occupational pension is 65.

The employment agreement with the President and CEO will end automatically twelve months after Volkswagen AG has reduced its holding in Scania AB – direct or indirect – so that it is below 5 percent.

In such a case, the above-stated benefits shall be provided.

Stock option programme for the President and CEO

Since 1999 the President and CEO has held a non-transferable employee stock option, entitling him, as from 1 January 2004 but no later than 31 December 2005, to purchase a maximum of 220,000 shares in Scania AB at a price of SEK 196 per share. The President exercised this personal stock option on 28 December 2005. This occurred by means of a cash settlement by which the President received a cash amount of SEK 20,460,000 equivalent to the value of 220,000 Scania B shares at a market price of SEK 289 per share minus SEK 196 per share. Scania's costs for this programme were previously charged to earnings.

Renegotiated conditions for the President and CEO

The conditions of employment for the President and CEO have changed, in accordance with the following decision by the Board of Directors, extending his contract from 31 March 2006 until 31 March 2009.

The fixed salary of the President and CEO for the period is SEK 7,500,000 per year. The incentive programme in force for the Executive Board shall apply for the contract period of the President and CEO, as well as the pension conditions in force. The contract also prescribes that an extra annual pension provision of SEK 4,410,000 shall be made during each year of the contract period.

If the President and CEO resigns of his own volition, he is entitled to his salary for a six-month notice period. The applicable outcome of the incentive programme shall be proportional to the length of his period of employment during the year in question.

In case of termination by the company before the end of 31 March 2009, during the remaining time until said date the President and CEO shall be entitled to his fixed salary in an unchanged amount per year, plus annual compensation equivalent to the average of three years' incentive outcome.

Termination conditions for the Executive Board

If the company terminates their employment, the other members of the Executive Board are entitled to severance pay equivalent to a maximum of two years' salary, in addition to their salary during the six-month notice period. If they obtain new employment within 18 months, counting from their termination date, the severance pay ceases. In case of a substantial change in the ownership structure of Scania, members of the Executive Board are entitled to resign of their own volition with severance pay amounting to two years' salary.

Pension system for executive officers

Group Management executive officers, including the President, are covered by a defined-contribution pension system in addition to the public pension and the ITP occupational pension.

According to this defined-contribution system, benefits accrue by means of annual payment of premiums by the company. Added to this is the value of annual individual employee co-payments, amounting to 5 percent of fixed salary.

The annual company-paid pension premium for the President according to his pension agreement amounts to 35 percent of fixed salary for as long as the President and CEO remains an employee of the company. The premium for 2005 amounted to SEK 2,275,000.

The annual company-paid premium for other members of the Executive Board, excluding the President and CEO, varies between 28 and 33 percent of fixed salary. The premium for other members of the Group Management varies between 12 and 21 percent of fixed salary.

NOTE 28 Fees and other remuneration to auditors

Fees for auditing assignments and other assignments recognised as expenses during the year, in those cases where the same auditing company has the auditing assignment in that particular company.

	2005		2004	
SEK m.	**Auditing assignments**	**Other assignments**	Auditing assignments	Other assignments
KPMG	**21**	**4**	23	4
Ernst & Young	**8**	**1**	7	2
Other auditors	**12**	**6**	10	4
Total	**41**	**11**	40	10

NOTE 29 Financial instruments and financial risk management

Financial assets in the Scania Group consist primarily of financial leases and hire purchase receivables that have arisen in the Customer Finance segment as a consequence of financing customers' vehicle purchases. Other financial assets of significance are trade receivables from independent dealerships and end customers in the Vehicles and Service segment plus short-term investments and liquid assets. Scania's financial liabilities consist largely of loans, mainly taken out to in order fund the Customer Finance segment's lending and leasing to customers and, to a lesser extent, to fund working capital in Vehicles and Service.

Financial assets and liabilities give rise to various kinds of risks, which are primarily managed by means of various derivative instruments. Scania uses derivative instruments, mainly for the purpose of:

- transforming corporate-level borrowings in a limited number of currencies to those currencies in which the respectively funded assets are denominated,
- transforming the interest rate refixing period for borrowings to the interest rate refixing period in the Customer Finance loan and lease portfolio, as well as the desired interest rate refixing period for funding of other assets,
- converting expected future commercial payments in foreign currencies to SEK and
- to a lesser extent, converting projected surplus liquidity in foreign currencies to SEK.

Financial risk management in the Scania Group

In addition to business risks, Scania is exposed to various financial risks in its operations. The financial risks that are of the greatest importance are currency, interest rate, refinancing and credit risks, which are all regulated by a Financial Policy adopted by Scania's Board of Directors. Credit risk related to customer commitments is managed, within established limits, on a decentralised basis by means of local credit assessments. Decisions on major credit commitments are made in corporate credit committees. Other risks are managed primarily at corporate level by Scania's treasury unit. Scania's Financial Policy states that financial risks shall be minimised and access to liquidity shall be safeguarded. On a daily basis, the corporate treasury unit measures the risks of outstanding positions, which are managed within established limits in compliance with the Financial Policy.

Currency risk

Currency risk is the risk that changes in currency exchange rates will adversely affect cash flow. Changes in exchange rates also affect Scania's income statement and balance sheet as follows:

- Earnings are affected when income and expenses in foreign currencies are translated to Swedish kronor.
- The balance sheet is affected when assets and liabilities in foreign currencies are translated to Swedish kronor.

During 2005, 94 (94) percent of Scania's sales occurred in countries outside Sweden. Since a large proportion of production occurs in Sweden, at costs denominated in Swedish kronor, this means that Scania has large net inflows of foreign currencies. During 2005, total net revenue in foreign currencies amounted to about SEK 22 (20) billion. The largest currencies in this flow were EUR and GBP. Note 31 shows Scania's net flows in the most commonly occurring currencies.

Based on the revenues and expenses in foreign currencies during 2005, a one percentage point change in the Swedish krona against other currencies, excluding currency hedging, has an impact on operating income of about SEK 220 (200) m. on an annual basis.

Scania's policy is to hedge its currency flows during a period of time equivalent to the projected orderbook until the date of payment. However, the hedging period is allowed to vary between 0 and 12 months. Hedging of currency risks mainly occurs by selling currencies on forward contracts, but also by means of currency options.

The effect of currency derivatives on operating income totalled SEK -410 m. (65). The value of outstanding contracts not recognised in earnings can be seen in the table below. The cash flow effect is deemed to occur at the same time as the effect on earnings.

Hedging of currency flows, 31 December 2005

		AUD/SEK		CHF/SEK		DKK/SEK		EUR/SEK		GBP/SEK		KRW/SEK		NOK/SEK		USD/SEK		ZAR/SEK	
		Volume [1]	Rate [2]	Volume [1]	Rate [2]	Volume [1]	Rate [2]	Volume [1]	Rate [2]	Volume [1]	Rate [2]	Volume [1]	Rate [2]	Volume [1]	Rate [2]	Volume [1]	Rate [2]	Volume [1]	Rate [2]
Q1	2006	46	5.82	19	5.97	120	1.22	195	9.11	45	13.57	15,904	0.0074	145	1.14	40	7.95	174	1.21
Q2	2006	–		15	6.06	120	1.23	205	9.28	20	13.85	6,528	0.0076	120	1.14	–		120	1.24
Q3	2006	–		15	6.10	120	1.25	155	9.34	–		–		110	1.18	–		–	
Q4	2006	–		15	6.14	120	1.26	180	9.40	–		–		120	1.20	–		–	
Total		**46**	**5.82**	**64**	**6.06**	**480**	**1.24**	**735**	**9.28**	**65**	**13.66**	**22,432**	**0.0075**	**495**	**1.16**	**40**	**7.95**	**294**	**1.22**
Closing day rate, 31 Dec 2005			5.83		6.06		1.26		9.43		13.73		0.0079		1.18		7.95		1.26
Unrealised gain/loss SEK m.[3] 31 Dec 2005			1		– 1		– 9		– 94		1		– 3		– 3		– 2		– 6
Hedging of currency flows, 31 Dec 2004																			
Total		–	–	47	5.98	–	–	470	9.13	20	13.04	5,000	0.0063	100	1.11	–	–	30	1.16

1 Volume is expressed in millions of local currency units.

2 Average forward price and lowest redemption price for currency options.

3 Fair value recognised in a fair value reserve in equity for cash flow hedgings where hedge accounting is applied.

To ensure efficiency and risk control, borrowings in Scania's subsidiaries largely occur through the corporate treasury unit, mainly in EUR and SEK, and are then transferred to the subsidiaries in the form of internal loans in the local currencies of the subsidiaries. By means of currency swap agreements, the loans are converted at corporate level to local currencies. In Customer Finance, assets should be financed by liabilities in the same currency. Scania's borrowings in various currencies excluding and including currency derivatives can be seen in the table "Borrowings and effective interest rates".

At the end of 2005, Scania's net assets in foreign currencies amounted to SEK 10,850 m. (8,900). See Note 30. The net foreign assets of subsidiaries are normally not hedged. To the extent subsidiaries have significant net monetary assets in local currencies, however, they may be hedged. At year-end 2005 as well as the end of 2004, no foreign net assets were hedged.

Interest rate risk

Interest rate risk is the risk that changes in market interest rates will adversely affect cash flow or the fair value of financial assets and liabilities. For Scania's assets and liabilities that carry variable interest rates, a change in market interest rates has a direct effect on cash flow, while for fixed-interest assets and liabilities, the fair value of the portfolio is instead affected. At year-end 2005, Scania's interest-bearing assets consisted primarily of assets in the Customer Finance segment and to a certain extent of liquid assets. Interest-bearing liabilities consisted mainly of loans, to a great extent intended to fund lending in Customer Finance operations and to a lesser extent to fund working capital in Vehicles and Service. To manage interest rate risks, the Group mainly uses interest rate derivatives in the form of interest rate swap agreements.

Borrowings in Vehicles and Service are mainly used for funding of working capital. To match the turnover rate of working capital, a short interest rate refixing period is used in the borrowing portfolio. Scania's policy concerning interest rate risks in the Vehicles and Service segment is that the interest rate refixing period on its loan portfolio should normally be 6 months, but that deviations are allowed in the range between 0 and 24 months. Net debt was SEK 269 m. (854) at year-end 2005. The borrowing portfolio in Vehicles and Service amounted to SEK 3,290 m. (3,050) and the average interest rate refixing period was less than 6 months. Net debt also included derivatives that hedged borrowings with a net value of SEK 405 m. Short-term investments and liquid assets amounted to SEK 2,616 m. (2,196) and the average interest rate refixing period on this was below 1 month.

Given the same loan liabilities, short-term investments, liquid assets and interest rate refixing periods as at year-end 2005, a change in market interest rates of 100 basis points (1 percentage point) would change the interest expenses in Vehicles and Service by about SEK 15 m. (25) and interest income by SEK 25 m. on an annual basis. Due to the short interest rate refixing period, the fair value of the loan portfolio as well as short-term investments and liquid assets would not be significantly affected.

Scania's policy regarding interest rate risks in the Customer Finance segment is that lending and borrowing should match in terms of interest rates and maturity periods. Interest rate refixing in related to the credit portfolio and borrowing in Customer Finance had the following structure as of 31 December 2005:

Interest rate refixing in Customer Finance 31 Dec 2005	**Interest-bearing Customer Finance portfolio [1]**	**Interest-bearing liabilities (incl. rate derivates) [2]**
2006	16,469	15,442
2007	5,452	5,288
2008	3,966	2,369
2009	2,458	1,624
2010	936	517
2011 and later	349	144
Total	**29,630**	**25,384**

Interest rate refixing in Customer Finance 2004-12-31	Interest bearing Customer Finance portfolio [1]	Interest bearing liabilities (incl. rate derivates) [2]
2005	14,767	14,102
2006	5,160	4,816
2007	3,533	2,439
2008	1,911	668
2009	1,008	520
2010 and later	217	18
Total	26,596	22,563

1 Including operating leases.
2 Other funding consists mainly of equity.

Scania's total borrowing portfolio, excluding accrued interest as well as fair value adjustments on two bonds, amounted to SEK 27,854 m. (25,613) at year-end 2005. The effective interest rate on borrowings was 3.9 (3.5) percent.

Borrowings and effective interest rate	**Borrowings excl. currency swap agreements 2005**	**Borrowings incl. currency swap agreements 2005**	**Effective interest rate (%) [1] 2005**
SEK	5,785	196	1.8
EUR	17,708	17,715	2.8
GBP	186	1,424	4.6
USD	120	642	4.7
KRW	78	1,428	4.6
Other	3,977	6,449	6.4
Total [2]	**27,854**	**27,854**	**3.9**

1 Including currency and interest rate derivatives.
2 Total borrowings exclude accrued interest and fair value adjustments on two bonds, for which hedge accounting is applied, with a value of SEK 820 m.

Credit risk

Credit risk is the risk that the counterparty in a transaction will not fulfil its contractual commitments and that any collateral will not cover the company's claim.

An overwhelming share of the credit risk for Scania is related to receivables from customers. Scania sales are distributed among a large number of end customers with a large geographic dispersion, which limits the concentration of credit risk.

Customer Finance operations

The credit portfolio including operating leases in Customer Finance operations amounted to SEK 29,630 m. (26,596). To maintain a controlled level of credit risk in the Customer Finance segment, the process of issuing credit is supported by a credit policy as well as credit instructions. Credit risks are managed by active credit monitoring and administration of customers who do not follow the agreed payment plan. Collateral in Customer Finance operations mainly exists in the form of the products being financed.

Provisions for bad debts are based on an individual assessment of each customer, based on the customer's payment capacity, expected future risk and the value of the underlying collateral. Provisions for credit losses amounted to SEK 532 m. (500), equivalent to 1.8 (1.9) percent of the total Customer Finance portfolio. The year's bad debt expense totalled SEK 80 m. (89).

Continued on next page

Note 29 continued

The table below shows the credit risk exposure in Customer Finance.

Concentration of credit risk in Customer Finance	Number of customers 2005	Percentage of total number of customers 2005	Percentage of portfolio 2005
Exposure < SEK 15 m.	20,445	98.8	66.9
Exposure SEK 15-50 m.	207	1.0	18.2
Exposure > SEK 50 m.	43	0.2	14.9
Total	**20,695**	**100**	**100**

Concentration of credit risk in Customer Finance	Number of customers 2004	Percentage of total number of customers 2004	Percentage of portfolio 2004
Exposure < SEK 15 m.	20,345	99.0	68.4
Exposure SEK 15-50 m.	177	0.8	17.2
Exposure > SEK 50 m.	33	0.2	14.4
Total	20,555	100	100

Vehicles and Sevice

In the Vehicles and Service segment, receivables from customers totalled SEK 9,319 m. (8,822), most of which consisted of receivables from independent dealerships and end customers. Provisions for bad debts amounted to SEK 642 m. (591), equivalent to 6.4 (6.3) percent of total receivables. The year's bad debt expense amounted to SEK 196 m. (205).

Financial credit risks

The administration of the financial credit risks that arise primarily in corporate treasury operations, among other things when investing liquidity and in derivatives trading, is regulated in Scania's Financial Policy. Transactions occur only within established limits and with selected, creditworthy counterparties. "Creditworthy counterparty" means that the counterparty has received an approved credit rating from Standard and Poor's and/or Moody's. To reduce credit risk, the volume of exposure allowed per counterparty is limited, depending on the counterparty's credit rating. To further limit credit risk, Scania has entered into netting contracts (ISDA) with most of its counterparties. The corporate treasury unit is responsible for ensuring compliance with the rules of Scania's Financial Policy. Overall counterparty exposure related to derivatives trading, calculated as a net receivable per counterparty, amounted to SEK 290 m. (855) as per 31 December 2005. Estimated gross exposure to counterparty risks related to derivatives trading totalled SEK 833 m. (1,246). Gross exposure to liquid assets and short-term investments amounted to SEK 2,793 m. (2,498).

Refinancing risk

Refinancing risk is the risk of not being able to meet the need for future funding. To ensure access to funding, Scania applies a conservative policy which prescribes that there should be a liquidity reserve, consisting of available liquid assets and unutilised credit facilities, that exceeds its funding needs for the next 1–2 years.

Borrowings, SEK m.	Total borrowings 2005	Ceiling 2005	Total borrowings 2004	Ceiling 2004
Medium Term Note Programme	**6,215**	**13,000**	7,354	13,000
European Medium Term Note Programme	**14,340**	**23,575**	11,504	18,014
Other bonds	**1,263**	**–**	1,813	–
Credit facility (EUR)	**–**	**14,145**	–	11,116[3]
Commercial paper, Sweden	**–**	**6,000**	–	6,000
Commercial paper, Belgium	**141**	**3,772**	–	3,603
Bank loans	**5,895**	**–**	4,942	–
Total[1]	**27,854**[2]	**60,492**	25,613	51,733

1 Of the total ceiling, SEK 14,145 m. (11,116) consisted of guaranteed revolving credit facilities.

2 Total borrowings exclude accrued interest as well as fair value adjustments on two bonds, for which hedge accounting is applied, worth SEK 820 m.

3 In USD/EUR

At the beginning of 2005, Scania had committed revolving credit facilities totalling USD 1,000 m. and EUR 500 m. from the international banking market, with USD 1,000 m. expiring in May 2008 and EUR 500 m. expiring in July 2009. In June 2005, the USD 1,000 m. facility was replaced by a new facility totalling EUR 1,000 m. with an expiration date of June 2012. At year-end 2005, Scania had committed revolving credit facilities totalling EUR 1,500 m. in the international banking market, equivalent to SEK 14,145 m. translated at the closing day rate.

In addition to its committed revolving credit facilities, Scania has capital market programmes of more than SEK 46 billion (41) translated at the closing day rate. Of this, more than SEK 21 billion (19) was being utilised at year-end.

Under Scania's European Medium Term Note programme (ceiling EUR 2,500 m.) and its Medium Term Note programme (ceiling SEK 13,000 m.), the company may borrow in maturities of between 1 and 10 years. The total ceiling outstanding for both programmes together, translated on closing day, was SEK 36,575 m.

During 2005, Scania issued bonds equivalent to SEK 3,499 m., of which the total outstanding for the MTN programme was SEK 6,215 m. and for the EMTN programme SEK 14,340 m.

Scania also has short-term borrowing facilities in the form of commercial paper programmes in Sweden and Belgium, totalling SEK 6,000 m. and EUR 400 m., respectively. At year-end, the total amount outstanding was SEK 141 m. The company also has bank loans with varying maturities, totalling SEK 5,895 m. (4,942).

Scania's liquidity reserve at the close of 2005, consisting of unutilised credit facilities, liquid assets and short-term investments, amounted to SEK 16,938 m. (13,614).

Scania had short-term investments worth SEK 1,687 m. (1,379), of which SEK 493 m. (470) consisted of investments with a maturity of less than 90 days and SEK 1,194 m. (909) consisted of investments with a maturity of 91-365 days. Of short-term investments, SEK 50 m. (123) was restricted through agreements with external counterparties. In addition to short-term investments, Scania had bank balances worth SEK 1,106 m. (1,119).

Aside from safeguarding access to credit facilities, Scania controls its refinancing risk by diversifying the maturity structure of its borrowing portfolio. At year-end, Scania's total borrowings had the following maturity structure:

Maturity structure of Scania's borrowings, 31 Dec 2005	SEK m.
2006	8,871[1]
2007	8,635
2008	7,912
2009	708
2010	1,213
2011 and later	515
Total	**27,854**[2]

1 Borrowings with a maturity date within one year excluded accrued interest worth SEK 480 m.

2 Total borrowings excluded accrued interest as well as fair value adjustments on two bonds for which hedge accounting was applied, worth SEK 820 m.

Maturity structure of borrowings, 31 Dec 2004	SEK m.
2005	5,804
2006	6,033
2007	7,244
2008	5,490
2009	652
2010 and later	390
Total	25,613

Fair value of financial instruments

The carrying amounts of interest-bearing assets and liabilities in the balance sheet may deviate from their fair value, among other things as a consequence of changes in market interest rates. To establish the fair value of financial assets and liabilities, official market quotations have been used for those assets and liabilities that are traded in an active market.

In those cases where market quotations do not exist, fair value has been established by discounting future payment flows at current market interest rates and exchange rates for similar instruments. Fair value of financial instruments such as trade receivables, trade payables and other non-interest-bearing financial assets and liabilities that are recognised at accrued acquisition value minus any impairment losses, is regarded as coinciding with the carrying amount. Financial assets and liabilities already determined from the beginning as belonging to the category of being recognised at fair value are not shown in the table, since Scania has no instruments classified in this category.

IAS 32 requires gross reporting instead of netting of financial assets and liabilities. As a result, Scania now applies gross reporting of certain financial assets and liabilities that were previously recognised as a net amount. IAS 39 has led to changes in the valuation of financial assets and liabilities, of which the recognition of derivatives has had the greatest impact on Scania. Scania now accounts for all derivatives at fair value; this was not previously done. Since Scania applied Swedish generally accepted accounting principles in 2004, it is difficult to compare the values recognised in 2005 to those of 2004. For this reason, the recognised values and fair values of Scania's financial assets and liabilities in 2004 are shown in a separate table.

The main reason why the fair value of interest-bearing assets and liabilities exceeded the book value is that general interest rates were lower at year-end than when the contracts were entered into.

In some cases, the carrying amounts of assets with fixed interest rates exceeded fair value as a consequence of changes in market interest rates. Impairment losses for these assets occur only when there is reason to believe that the counterparty will not fulfil its contractual commitments, not as a consequence of changes in market interest rates.

The fair value and the book value of financial liabilities for which hedge accounting is applied will differ. The reason for this is that Scania applies hedge accounting on interest rate risk excluding Scania's risk premium, unlike the fair value calculation, which takes the risk premium into account.

At the end of 2005, Scania applied hedge accounting to currency derivatives that are used for hedging future payments in foreign currencies plus a few large interest rate swap agreements that are used to achieve the desired interest-rate refixing. Upon the transition to IAS on 1 January 2005, according to the regulations Scania was compelled to apply hedge accounting on most interest rate swaps used in order to achieve the desired interest rate refixing. Due to the strict requirements imposed to apply hedge accounting, for administrative reasons Scania has chosen not to continue hedge accounting for most of these derivatives. However, Scania regards itself as financially hedged, and risk management complies with the Financial Policy approved by the Board of Directors.

2005 Fair value	**Carrying amount**	**Fair value**
Financial assets		
Financial assets held for trading, carried at fair value	260 [1]	260
Held-to-maturity investments	29 [2]	29
Loan and trade receivables	34,559 [3]	34,659
Interest-rate-related derivatives on which hedge accounting is applied	530 [1]	530
Currency derivatives related to commercial exposure on which hedge accounting is applied	45 [1]	45
Total financial assets[4]	**35,423**	**35,523**

2005 Fair value	**Carrying amount**	**Fair value**
Financial liabilities		
Financial liabilities held for trading, carried at fair value	385 [5]	385
Other financial liabilities	23,521 [6]	23,941
Financial liabilities on which hedge accounting is applied	10,054 [7]	10,266
Interest-rate-related derivatives on which hedge accounting is applied	31 [5]	31
Currency derivatives related to commercial exposure on which hedge accounting is applied	161 [5]	161
Total financial liabilities	**34,152**	**34,784**

1 Derivatives that are part of "Other current receivables" accounted for in the balance sheet.

2 Part of "Short-term investments".

3 Accounted for in the balance sheet under "Cash and bank balances", "Interest-bearing trade receivables, "Non-interest-bearing trade receivables", "Long-term interest-bearing receivables", part of "Other long-term receivables", part of "Short-term investments" and part of "Holdings in associated companies".

4 Operating leases amounting to SEK 6,009 m. are not included in the table.

5 Derivatives that are part of "Other current liabilities" accounted for in the balance sheet.

6 Accounted for in the balance sheet under "Trade payables", "Current interest-bearing liabilities" and as part of "Long-term interest-bearing liabilities".

7 Accounted for in the balance sheet as part of "Long-term interest-bearing liabilities".

2004 Fair value	Carrying amount	Fair value
Assets		
Long-term holdings of securities [1]	25	25
Long-term interest-bearing receivables [2]	12,756	12,630
Other long-term receivables	503	503
Interest-bearing trade receivables [2]	7,875	8,090
Non-interest-bearing trade receivables	7,641	7,641
Short-term investments	1,379	1,384
Cash and cash equivalents	1,119	1,119
Currency derivatives related to commercial exposure [3, 4]	31	110
Other derivatives [3]	187	745
Total financial assets	31,516	32,247
Liabilities		
Current interest-bearing liabilities	5,804	5,962
Trade payables	4,167	4,167
Long-term interest-bearing liabilities	19,809	21,093
Total financial liabilities	29,780	31,222

1 Part of "Holdings in associated companies etc".

2 Operating leases amounting to SEK 5,809 m. are not included in the table.

3 Accounted for in the balance sheet under "Other current receivables".

4 Fair value of hedging instruments that were not included in the balance sheet on the closing date totalled SEK 79 m.

NOTE 30 Net assets in foreign currencies

On 31 December 2005, net assets in foreign currencies amounted to SEK 10,850 m. (8,900). Foreign net assets in subsidiaries are normally not hedged. To the extent a subsidiary has sizeable monetary net assets in local currency, however, hedged may be used.

Net assets, Vehicles and Sevice	2005	2004
Brazilian real (BRL)	2,200	1,600
Euro (EUR)	1,850	800
South African rand (ZAR)	600	450
Argentine peso (ARP)	600	350
British pound (GBP)	400	450
Mexican peso (MXN)	300	50
Norwegian krone (NOK)	250	200
Chilean peso (CLP)	200	0
Australian dollar (AUD)	200	250
Swiss franc (CHF)	200	150
Danish krone (DKK)	200	150
Polish zloty (PLN)	150	200
US dollar (USD)	150	200
Czech koruna (CZK)	150	150
Other currencies	150	550
Total net assets in foreign currencies, Vehicles and Sevice	**7,600**	5,500

Net assets, Customer Finance	2005	2004
Euro (EUR)	2,250	2,550
Other currencies	1,000	850
Total net assets in foreign currencies, Customer Finance	**3,250**	3,400

NOTE 31 Currency exposure in operating income

The table below shows the net amount of operating revenue and operating expenses exposed to foreign currencies, by currency.

Operating income, Vehicles and Sevice	2005	2004
Euro (EUR)	8,400	7,300
British pound (GBP)	4,700	4,800
Norwegian krone (NOK)	1,400	900
US dollar (USD)	1,200	700
Danish krone (DKK)	1,100	900
Korean won (KRW)	900	800
Australian dollar (AUD)	800	700
Swiss franc (CHF)	500	400
Polish zloty (PLN)	400	700
South African rand (ZAR)	400	600
Czech koruna (CZK)	400	400
Brazilian real (BRL)	– 900	– 200
Other currencies	2,500	1,800
Currency exposure in operating income	**21,800**	19,800

Operating income, Customer Finance	2005	2004
Euro (EUR)	400	300
Other currencies	100	100
Currency exposure in operating income	**500**	400

In Vehicles and Service, compared to 2004, currency spot rate effects totalled about SEK 695 m. Currency hedging income in 2005 amounted to SEK -410 m. During 2004, currency hedging had an impact of SEK 65 m. on income. Compared to 2004, the total positive currency rate effect was thus SEK 220 m.

NOTE 32 Effect of exchange rate differnces on net income

Net income for the year was affected by exchange rate differences (excluding flow-related forward contracts) as shown in the following table:

	2005	2004
Sales revenue	464	– 85
Cost of goods sold	– 270	8
Selling expenses	4	0
Income from Customer Finance	1	– 5
Operating income	199	– 82
Financial income and expenses	11	18
Taxes	0	1
Effect on net income for the year	**210**	– 63

For information on total currency exposure, see Notes 30 and 31. For accumulated exchange rate differences that are recognised directly in equity, see Note 16.

NOTE 33 Impact of IFRS

Beginning in 2005, all listed companies in the EU shall report their consolidated financial statements in accordance with International Financial Reporting Standards (IFRS). Below is a description of what impact, expressed in amounts, the transition to IFRS has had on Scania. IAS 32 and IAS 39, which deal with reporting and measurement of financial instruments, entered into force only on 1 January 2005, in compliance with an exception in IFRS 1. In compliance with IFRS 1, Scania is providing a disclosure of the major adjustments that would have had to be made if the 2004 information were to agree with IAS 32 and IAS 39. As a consequence of this, information about the estimated impact, in amounts, of these two standards as per 1 January 2005 has been included below.

SEK m.	Note	Opening balance, Swedish accounting rules	Effect of transition to IFRS rules, 1 Jan 2004	Opening balance, IFRS	Closing balance, Swedish accounting rules	Effect of transition to IFRS rules, 31 Dec 2004	Closing balance, IFRS	Effect of transition to IAS 32 and 39, 1 Jan 2005	Adjusted opening balance
ASSETS									
Non-current assets									
Intangible non-current assets	a	2,395	–	2,395	2,460	166	2,626	–	2,626
Tangible non-current assets	b	23,892	282	24,174	23,598	312	23,910	–	23,910
Financial non-current assets	f	122	–	122	92	–	92	701	793
Long-term receivables		12,311	–	12,311	13,313	–	13,313	–	13,313
Current assets	f	27,115	–	27,115	30,762	–	30,762	488	31,250
Total assets		**65,835**	**282**	**66,117**	**70,225**	**478**	**70,703**	**1,189**	**71,892**
EQUITY AND LIABILITIES									
Equity									
Equity attributable to Scania AB shareholders	e	18,251	190	18,441	21,050	378	21,428	22	21,450
Minority interest in equity		–	4	4	-	5	5	0	5
Total equity		**18,251**	**194**	**18,445**	**21,050**	**383**	**21,433**	**22**	**21,455**
Minority interest	**c**	**4**	**– 4**	**0**	**5**	**– 5**	**0**	**0**	**0**
Provisions									
Provisions for pensions		2,274	–	2,274	2,499	–	2,499	–	2,499
Provisions for deferred tax liabilities	d, f	2,180	95	2,275	2,202	103	2,305	9	2,314
Other provisions		2,762	–	2,762	2,602	–	2,602	–	2,602
Total provisions		7,216	95	7,311	7,303	103	7,406	9	7,415
Long-term interest-bearing liabilities	f	20,827	0	20,827	19,809	–	19,809	835	20,644
Current liabilities	f	19,537	– 3	19,534	22,058	– 3	22,055	323	22,378
Total liabilities		**47,580**	**92**	**47,672**	**49,170**	**100**	**49,270**	**1,167**	**50,437**
Total equity and liabilities		**65,835**	**282**	**66,117**	**70,225**	**478**	**70,703**	**1 189**	**71,892**

Continued on next page

Note 33 continued

Reconciliation of income statement for 2004	Note	Income statement items for the year Swedish accounting rules	IFRS effect	IFRS	Effect of IAS 19-based restatement 2005	Net income for the year after IAS-based restatement
Vehicles and Service						
Sales revenue		56,788	–	56,788	–	56,788
Cost of goods sold	e, g	– 42,570	16	– 42,554	26	– 42,528
Gross income	g	14,218	16	14,234	26	14,260
Research and development expenses		– 1,987	–	– 1,987	–	– 1,987
Selling expenses	e, g	– 5,550	178	– 5,372	29	– 5,343
Administrative expenses	g	– 806	–	– 806	17	– 789
Share of income in associated companies	h	12	–	12	-4	8
Operating income, Vehicles and Service		**5,887**	**194**	**6,081**	**68**	**6,149**
Customer Finance						
Operating income, Customer Finance		450	–	450	–	450
Operating income		**6,337**	**194**	**6,531**	**68**	**6,599**
Net financial items		– 323	–	– 323	–	– 323
Income after financial items		**6,014**	**194**	**6,208**	**68**	**6,276**
Taxes	d, g, h	1,935	– 8	– 1,943	– 17	– 1,960
Minority interest		– 2	2	0	–	0
Net income for the year		**4,077**	**188**	**4,265**	**51**	**4,316**
Of which,						
attributable to Scania AB shareholders				4,263		4,314
Minority interest				2		2

Change in key financial figures, 2004

Scania Group	Key figures, Swedish accounting rules	IFRS key figures	IFRS after restatement
Operating margin, %	11.2	11.5	11.6
Earnings per share, SEK	20.4	21.3	21.6
Net debt/equity ratio	1.10	1.08	1.08
Return on equity, %	20.8	21.4	21.8
Equity/assets ratio, %	30.0	30.3	30.3
Equity per share, SEK	105	107	107
Capital employed, SEK m.	49,167	49,545	49,545

Vehicles and Service			
Operating margin, %	10.4	10.7	10.8
Net debt/equity ratio	0.05	0.05	0.05
Interest coverage, times	8.4	8.6	8.7
Return on equity, %	28.1	29.0	29.0
Profit margin, %	11.1	11.5	11.5
Capital turnover rate, times	2.53	2.53	2.50

Impact on cash flow, 2004

The transition to IFRS does not result in any impact on Scania's reported cash flow in 2004.

a In accordance with IFRS 3, no goodwill amortisation shall be carried out; the amortisation carried out in 2004, totalling SEK 166 m., was thus reversed. As a consequence of this, the carrying amount of goodwill increased correspondingly.

b Scania's tangible non-current, primarily buildings, were examined with respect to component depreciation, which is prescribed according to IAS 16. As a consequence of this examination, as of 31 December 2004 the carrying amount of tangible non-current was raised by SEK 312 m., since the depreciation periods on these assets were changed. Depreciation for 2004 in the income statement decreased by about SEK 30 m. The opening carrying amount of tangible non-current as per 1 January 2004 rose by SEK 282 m., which also affected shareholders' equity for the same period by about SEK 190 m.

c In accordance with IAS 27, the minority interest in equity was reclassified and, after the adjustment, was included as an item in equity. As per 1 January 2004, this had an effect of SEK 4 m. on equity. As per 31 December 2004, the reclassified amount totalled SEK 5 m.

d As a consequence of decreased depreciation on tangible non-current assets, deferred tax was affected by the change in asset values. Both the historical change and the 2004 change affected deferred tax, which increased by SEK 95 m. as per 1 January 2004 and by SEK 103 m. as per 31 December 2004.

e Income for the year was favourably affected by the decreased depreciation on non-current assets, the reversal of goodwill amortisation carried out during 2004 and the tax effect of the lower depreciation on tangible non-current assets.

f According to IAS 39, all derivatives must be recognised at market value and be recognised in the balance sheet. As a result, derivatives that were not previously recognised in the balance sheet are now included in the balance sheet at market value. As a consequence of changed rules in IAS 32 on netting of financial instruments, Scania must account for these on a gross basis. Hedge accounting has been applied for derivatives that hedge expected future commercial payments in foreign currencies and for certain derivatives that are used to convert borrowings to the desired interest rate refixing structure. As a result of the change in principles, total assets rose by SEK 1,189 m., and long- and short-term liabilities increased by SEK 835 m. and 323 m., respectively. Unrestricted equity was affected in the amount of SEK 22 m. and deferred tax liability by SEK 9 m.

g As from 2005, Scania is applying the amendment ot IAS 19, by which actuarial gains/losses are recognised directly in equity. The actuarial loss of SEK 72 m. in the comparative year has been reclassified from the income statement to equity.

h For the comparative year, taxes related to Scania's share of associated companies have been reclassified from taxes to "Share of income in associated companies".

List of subsidiaries

Company	Corporate ID no.	Registered office	Land	% ownership
Vehicle and Service				
Aconcagua Vehiculos Com. S.A.	30-70737179-6	Mendoza	Argentina	100.00
Ainax	556579-4459	Stockholm	Sweden	96.25
Automotores del Atlantico S.A.	30-70709795-3	Mar del Plata	Argentina	100.00
Automotores Pesados S.A.	30-55137605-9	Tucuman	Argentina	99.38
Beers N.V.	NL003779439B01	Den Haag	The Netherlands	100.00
Buenos Aires Camiones	33-70791031-9	Buenos Aires	Argentina	100.00
Codema Coml Import LTDA	60849197/001-60	Guarulhos	Brazil	99.99
Dynamate AB	556070-4818	Södertälje	Sweden	100.00
Fastighets AB Katalysatorn	556070-4826	Södertälje	Sweden	100.00
Ferruform AB	556528-9120	Luleå	Sweden	100.00
GB&M Garage et Carrosserie SA	CH-660-0046966-0	Geneva	Switzerland	100.00
Grandes Camiones S.A.	30-56236684-5	Cordoba	Argentina	100.00
Griffin Automotive Limited	656978	Road Town	British Virgin Islands	100.00
Hedenlunda Konferenscenter AB	556147-5871	Flen	Sweden	100.00
Italscania SPA	IT 01632920227	Trento	Italy	100.00
Lauken S.A.	21.150044.0016	Montevideo	Uruguay	100.00
Norsk Lastebilutleie AS	875346822	Drammen	Norway	100.00
Norsk Scania AS	879 263 662	Oslo	Norway	100.00
Omni Katrineholm AB	556060-5809	Katrineholm	Sweden	100.00
OOO Scania Russia	5 032 073 106	Moscow	Russia	100.00
Oy Autokuvio Ab	1505472-2	Hämeenlinna	Finland	100.00
Oy Autolinna Ab	1568949-6	Jyväskylä	Finland	100.00
Oy Maakunnan Auto Ab	1568951-7	Seinäjoki	Finland	100.00
Oy Scan-Auto Ab	FI0202014-4	Helsinki	Finland	100.00
S.A.S. Scania Holding France	40309278600017	Angers	France	100.00
Scan Siam Service Co. Ltd	3030522108	Bangkok	Thailand	73.98
Scanexpo S.A.	21.173422.0012	Montevideo	Uruguay	100.00
Scania (Malyasia) SDN BHD	518606-D	Kuala Lumpur	Malaysia	100.00
Scania Administradora de Consórcios Ltda	96.479.258/0001-91	Cotia	Brazil	99.99
Scania Argentina S.A.	30-51742430-3	Buenos Aires	Argentina	100.00
Scania Asset Management AB	556528-9088	Södertälje	Sweden	100.00
Scania Australia Pty Ltd	000537333	Melbourne	Australia	100.00
Scania Belgium SA-NV	BE402607507	Diegem	Belgium	100.00
Scania BH d.o.o.	1-23174	Sarajevo	Bosnia-Herzegovina	100.00
Scania Botswana (Pty) Ltd	CO.2000/6045	Gaborone	Botswana	100.00
Scania Bulgaria EOOD	2 220 100 629	Sofia	Bulgaria	100.00
Scania Bus Belgium N.V.-S.A.	BE460.870.259	Diegem	Belgium	100.00
Scania Bus NV	BE460.870.259	Neder Over Heembeek	Belgium	99.90
Scania Chile S.A.	96.538.460-K	Santiago	Chile	100.00
Scania Commercial Vehicles Renting S.L.	ESA82853995	Madrid	Spain	100.00
Scania CV AB	556084-0976	Södertälje	Sweden	100.00
Scania Czech Republic s.r.o.	CZ61251186	Prague	Czech Republic	100.00
Scania DAB A/S	DK 13925542	Herlev	Denmark	100.00
Scania Denmark A/S	DK 17045210	Herlev	Denmark	100.00
Scania Denmark Holding A/S	DK 17886843	Copenhagen	Denmark	100.00
Scania de Mexico S.A.	SME-930629-JT3	Mexico D.F.	Mexico	99.99
Scania del Peru S.A.	101-36300	Lima	Peru	99.99
Scania Deutschland GmbH	DE148787117	Koblenz	Germany	100.00
Scania Deutschland Holding GmbH	DE812893584	Frankfurt/Main	Germany	100.00
Scania East Adriatic Region d.o.o.	1 605 810	Ljubliana	Slovenia	100.00
Scania Eesti AS	10 238 872	Tallinn	Estonia	100.00
Scania Europe Holding B.V.	NL800564364B01	Zwolle	The Netherlands	100.00
Scania Finance Holding Great Britain Ltd	4031225	London	Great Britain	100.00
Scania Finance Pty Ltd	52006002428	Melbourne	Australia	100.00
Scania France S.A.S.	30716693400033	Angers	France	100.00
Scania Great Britain Ltd	831017	Milton Keynes	Great Britain	100.00
Scania Group Treasury B.V.	27269640	Den Haag	The Netherlands	100.00
Scania Hainaut S.A.	BE439.418.908	Mons	Belgium	99.90
Scania Hispania S.A.	ESA59596734	Madrid	Spain	100.00
Scania Hrvatska d.o.o.	1 351 923	Zagreb	Croatia	100.00
Scania Hungaria KFT	10415577	Biatorbagy	Hungary	100.00
Scania Ile de France S.A.	648 204 139	Goussainville	France	100.00
Scania Int. Fleet Development	4006517	Milton Keynes	Great Britain	100.00
Scania IT AB	556084-1206	Södertälje	Sweden	100.00
Scania IT Angers	FR17412 282 626	Angers	France	100.00
Scania IT Nederland	8073.08.432.B01	Zwolle	The Netherlands	100.00
Scania Italy Holding SRL	01668350224	Trento	Italy	100.00
Scania Korea Ltd	136-81-15441	Seoul	South Korea	100.00
Scania Latin America Ltda	635 010 727 112	Saõ Bernardo do Campo	Brazil	100.00
Scania Locations S.A.S.	402 496 442	Angers	France	100.00
Scania Luxembourg S.A.	LU165291-18	Münsbach	Luxembourg	99.90

List of subsidiaries

Company	Corporate ID no.	Registered office	Land	% ownership
Scania Maroc S.A.	06100472	Casablanca	Morocco	100.00
Scania Nederland B.V.	NL800564364B04	Zwolle	The Netherlands	100.00
Scania Nederland Holding B.V.	NL800564364B03	Zwolle	The Netherlands	100.00
Scania Networks B.V.	NL802638429B01	Den Haag	The Netherlands	100.00
Scania Overseas AB	556593-2984	Södertälje	Sweden	100.00
Scania Parts Logistics AB	556528-9104	Södertälje	Sweden	100.00
Scania Peter OOO	78:111158:25	St Petersburg	Russia	100.00
Scania Plan S.A.	30-61086492-5	Buenos Aires	Argentina	80.00
Scania Polska S.A.	521-10-14-579	Warsaw	Poland	100.00
Scania Production Angers S.A.S.	378 442 982	Angers	France	100.00
Scania Production Meppel	NL800564364B06	Meppel	The Netherlands	100.00
Scania Production Slupsk S.A.	839-000-53-10	Slupsk	Poland	100.00
Scania Properties Ltd	895484	Milton Keynes	Great Britain	100.00
Scania Real Estate AB	556084-1180	Katrineholm	Sweden	100.00
Scania Romania SRL	J40/10908/1999	Bucharest	Romania	100.00
Scania Switzerland AG	218687	Kloten	Switzerland	100.00
Scania Service S.A.	33-70784693-9	Buenos Aires	Argentina	100.00
Scania Siam Co Ltd	865/2543	Bangkok	Thailand	80.00
Scania Singapore Pte Ltd	200309593R	Singapore	Singapore	100.00
Scania Slovakia	0035826649/801	Bratislava	Slovakien	100.00
Scania Slovenija d.o.o.	1 124 773	Ljubliana	Slovenia	100.00
Scania South Africa Pty Ltd	95/0 1275/07	Sandton	South Africa	100.00
Scania Srbia d.o.o.	SR100014375	Belgrade	Serbia	100.00
Scania Sweden AB	556051-4621	Södertälje	Sweden	100.00
Scania Sweden Bussar AB	556060-0586	Katrineholm	Sweden	100.00
Scania Switzerland Holding Ltd	CH_170.3024.547-0	Zug	Switzerland	100.00
Scania Tanzania Ltd	39320	Dar Es Salaam	Tanzania	100.00
Scania Thailand Co Ltd	9802/2534	Bangkok	Thailand	99.99
Scania Trade Development	556013-2002	Södertälje	Sweden	100.00
Scania Treasury AB	556528-9351	Södertälje	Sweden	100.00
Scania Treasury Netherland B.V.	27269639	Den Haag	The Netherlands	100.00
Scania Truck Financing AB	556020-4231	Södertälje	Sweden	100.00
Scania Ukraine LLC	30 107 866	Kiev	Ukraine	100.00
Scania United States Inc	06-1288161	San Antonio, TX	United States	100.00
Scania Vastgoed B.V.	NL800564364B05	Zwolle	The Netherlands	100.00
Scania Österreich GmbH	AT 43324602	Brunn am Gebirge	Austria	100.00
Scania-Bilar Stockholm AB	556084-1198	Stockholm	Sweden	100.00
Scania-Bilar Syd AB	556528-9112	Malmö	Sweden	100.00
Scania-Bilar Väst AB	556040-0938	Gothenburg	Sweden	100.00

Company	Corporate ID no.	Registered office	Land	% ownership
SIA Scania Latvia	LV000311840	Riga	Latvia	100.00
Suvesa Super Veics Pesados LTDA	88301668/0001-10	Canoas	Brazil	99.99
Svenska Mektek AB	556616-7747	Södertälje	Sweden	100.00
Thommen Nutzfahrzeuge AG	CH-280.3.001.323-2	Rümlingen	Switzerland	100.00
Truck Namibia (Pty) Ltd	3864704-015	Windhoek	Namibia	100.00
UAB Scania Lietuva	2 387 302	Vilnius	Lithuania	100.00
UL Scantrak s.r.o.	CZ27271196	Ústí nad Labem	Czech Republic	99.92
Vabis Försäkrings AB	516401-7856	Södertälje	Sweden	100.00
Customer Finance				
OOO Scania Leasing	7705392920	Moscow	Russia	100.00
Scania Credit AB	556062-7373	Södertälje	Sweden	100.00
Scania Credit Hrvatska	80516047	Rakitje	Croatia	100.00
Scania Credit Romania	17996167	Ciorogarla	Romania	100.00
Scania Credit Ukraine	33052443	Kiev	Ukraine	100.00
Scania Finance Belgium N.V. S.A.	BE 413 545 048	Diegem	Belgium	99.90
Scania Finance Czech Republic s.r.o.	CZ25657496	Prague	Czech Republic	100.00
Scania Finance Deutschland GmbH	DE811292425	Koblenz	Germany	100.00
Scania Finance France S.A.	350 890 661	Angers	France	100.00
Scania Finance Great Britain Ltd	581 016 364	Milton Keynes	Great Britain	100.00
Scania Finance Hispania EFC S.A.	ESA82853987	Madrid	Spain	100.00
Scania Finance Holding AB	556548-4697	Södertälje	Sweden	100.00
Scania Finance Italy S.p.A	01204290223	Trento	Italy	100.00
Scania Finance Korea	613 812 7196	Kyoung Sang Nam-Do	South Korea	100.00
Scania Finance Luxembourg S.A.	2001 2217 359	Luxembourg	Luxembourg	100.00
Scania Finance Nederland B.V.	27004973	Den Haag	The Netherlands	100.00
Scania Finance Polska Sp.z.o.o.	521 15 79 028	Warsaw	Poland	100.00
Scania Finance Turkey	7570328278	Istanbul	Turkey	100.00
Scania Finans AB	556049-2570	Södertälje	Sweden	100.00
Scania Leasing Österreich Ges.m.b.H	ATU57921547	Brunn am Gebirge	Austria	100.00

Parent Company Scania AB, financial statements

Income statement

January–December, SEK m	Note	2005	2004
Operating income		**0**	0
Financial income and expenses	1	**3,561**	4,920
Withdrawal from tax allocation reserve		**705**	637
Provision to tax allocation reserve		**–**	– 814
Taxes		**– 234**	– 684
Net income		**4,032**	4,059

Balance sheet

31 December, SEK m.	Note	2005	2004
ASSETS			
Financial non-current assets			
Shares in subsidiaries	2	**8,484**	8,401
Current assets			
Due from subsidiaries		**8,306**	9,195
Total assets		**16,790**	17, 596
EQUITY AND LIABILITIES			
Equity	3	**14,997**	14,433
Untaxed reserves	4	**1,774**	2,479
Current liabilities			
Tax liabilities		**19**	684
Total current liabilities		***19***	*684*
Total shareholders' equity and liabilities		**16,790**	17,596
Assets pledged		**–**	–
Contingent liabilities	5	**24,105**	22,688

Statement of changes in equity

January–December, SEK m.	2005	2004
Equity, 1 January	**14,433**	11,574
New share issue	**83**	–
Net income	**4,032**	4,059
Group contributions (net after tax)	**– 551**	–
Dividend to shareholders	**– 3,000**	– 1,200
Equity, 31 December	**14,997**	14,433

Cash flow statement

January–December, SEK m.	2005	2004
Operating activities		
Income after financial items	**3,561**	4,920
Items not affecting cash flow	**3,500**	– 4,830
Taxes paid	**– 684**	0
Cash flow from operating activities before change in working capital	**– 623**	90
Cash flow from change in working capital		
Due from/liabilities to subsidiaries	**3,623**	– 1,524
Total change in working capital	**3,623**	– 1,524
Cash flow from operating activities	**3,000**	– 1,434
Investing activities		
Divestments of shares in subsidiaries	**–**	2,634
Investments in shares in subsidiaries	**– 83**	–
Paid through issue of own shares	**83**	–
Cash flow from investing activities	**0**	2,634
Total cash flow before financing activities	**3,000**	1,200
Financing activities		
Dividend to shareholders	**– 3,000**	– 1,200
Cash flow from financing activities	**– 3,000**	– 1,200
Cash flow for the year	**–**	–
Liquid assets, 1 January	**–**	–
Liquid assets, 31 December	**–**	–

Parent Company Scania AB, notes

NOTE 1 Financial income and expenses

	2005	2004
Interest income from subsidiaries	100	90
Dividend/Group contribution from Scania CV AB	3,500	4,830
Other	– 39	–
Total	3,561	4,920

NOTE 2 Shares in Group companies

Subsidiary/Corporate ID number/country of registration	Ownership %	Carrying amount 2005	Carrying amount 2004
Scania CV AB, 556084-0976, Södertälje	100.0	8,401	8,401
Ainax AB, 556579-4459, Stockholm	96.3	83	–
Total		8,484	8,401

Scania CV AB is a public company and parent company of the Scania CV Group, which includes all production, sales and service and finance companies in the Scania AB Group. The company is a subsidiary of Scania AB, whose shares are listed on Stockholmsbörsen. Regarding Ainax, see Note 3, "Equity".

Other disclosures

Taking into account that the Parent Company's operations consist exclusively of owning of shares in Group companies, the appropriate portions of the Group's Report of the Directors and notes otherwise apply.

NOTE 3 Equity

2004	Share capital	Statutory reserve	Share premium fund	Unrestricted shareholders, equity	Total
Balance, 1 January	2,000	1,120	–	8,454	11,574
Dividend to shareholders				– 1,200	– 1,200
Net income for 2004				4,059	4,059
Balance, 31 December 2004	2,000	1,120	–	11,313	14,433

2005	**Share capital**	**Statutory reserve**	**Share premium fund**	**Unrestricted shareholders, equity**	**Total**
Balance, 1 January	2,000	1,120	–	11,313	14,433
New share issue, Ainax AB	263		7,560	– 7,740	83
Reduction in share premium reserve			– 7,560	7,560	0
Dividend to shareholders				– 3,394	– 3,394
Dividend received from Ainax				394	394
Group contribution				– 551	– 551
Net income for 2005				4,032	4,032
Balance, 31 December 2005	**2,263**	**1,120**	**0**	**11,614**	**14,997**

Under Swedish law, **equity** shall be allocated between non-distributable (restricted) and distributable (unrestricted) funds.

Restricted equity consists of share capital plus non-distributable funds. Scania AB has 126,296,508 A shares outstanding with voting rights of one vote per share and 100,000,000 B shares outstanding with voting rights of 1/10 vote per share. Of the A shares, 26,296,508 are held by the subsidiary Ainax AB. In conjunction with the acquisition of Ainax using newly issued shares, share capital rose by SEK 263 m. and the share premium reserve by SEK 7,560 m. A reduction has occurred after a district court decision. The Board of Directors of Ainax AB has proposed that the Annual General Meeting on 6 March 2006 approve a resolution that Ainax AB shall enter into liquidation and immediately distribute its Scania shares. When this occurs, share capital and the number of shares outstanding will revert to the previous 200,000,000. The shares have a nominal value of SEK 10 apiece. All shares are fully paid and no shares are reserved for transfer of ownership.

NOTE 4 Untaxed reserves

Tax allocation reserve	2005	2004
2000 assessment	–	705
2001 assessment	634	634
2002 assessment	326	326
2005 assessment	814	814
Total	1,774	2,479

SEK 497 m. (695) of "Untaxed reserves" consists of a deferred tax liability, which is part of the Scania Group's deferred tax liabilities.

NOTE 5 Contingent liabilities

	2005	2004
Contingent liability related to FPG credit insurance, mainly on behalf of subsidiaries	2,143	2,010
Loan guarantees on behalf of borrowings in Scania CV AB	21,959	20,671
Other loan guarantees on behalf of subsidiaries	3	7
Total	24,105	22,688

NOTE 6 Information regarding compensation to executive officers and auditors

The President of Scania AB and the other members of the executive management hold identical positions in Scania CV AB. Wages, salaries and other remuneration are paid by Scania CV AB. The reader is therefore referred to Notes 26 and 27. Compensation of SEK 15 m. (10) was paid to auditors in 2004 with respect to the Parent Company.

Proposed distribution of earnings

The Board of Directors and the President propose that the following amounts at the disposal of the Annual General Meeting:

Amounts in SEK m.	
Retained earnings	7,582
Net income for the year	4,032
Total	11,614
be distributed as follows:	
To the shareholders, a dividend of SEK 15.00 per share	3,394
To be carried forward	8,220
Total	11,614

After implementing the proposed distribution of earnings, the equity of the Parent Company Scania AB, is as follows:

Amounts in SEK m.	
Share capital	2,263
Statutory reserve	1,120
Retained earnings	8,220
Total	11,603

As far as the undersigned members of the Board of Directors and President are aware, the Annual Report has been prepared in compliance with generally accepted practices for listed companies, the information provided matches the actual conditions and nothing of essential importance has been omitted that might affect the picture of the company created by the Annual Report. The Annual Report and the consolidated financial statements were approved for issuance by the Board of Directors on 6 February 2006. The consolidated income statement and balance sheet and the Parent Company income statement and balance sheet will be subject to adoption by the Annual General Meeting on 4 May 2006.

Södertälje, 6 February 2006

Bernd Pischetsrieder
Chairman

Vito H Baumgartner — Staffan Bohman — Peggy Bruzelius

Sune Carlsson — Andreas Deumeland — Lothar Sander

Peter Wallenberg Jr — Kjell Wallin — Jan Westberg

Leif Östling
President and CEO

Our auditors' report was submitted on 16 February 2006

Caj Nackstad
Authorised Public Accountant
KPMG Bohlins AB

Jan Birgerson
Authorised Public Accountant
Ernst & Young AB

Audit Report

To the Annual General Meeting of shareholders of Scania AB (publ)
Corporate identity number 556184-8564

We have audited the annual accounts, the consolidated accounts, the accounting records and the administration of the Board of Directors and the President of Scania AB (publ) for the year 2005. The Board of Directors and the President are responsible for these accounts and the administration of the company as well as for the application of the Annual Accounts Act when preparing the annual accounts and the application of International Financial Reporting Standards (IFRSs) as adopted by the EU and the Annual Accounts Act when preparing the consolidated accounts. Our responsibility is to express an opinion on the annual accounts, the consolidated accounts and the administration based on our audit.

We conducted our audit in accordance with generally accepted auditing standards in Sweden. Those standards require that we plan and perform the audit to obtain high but not absolute assurance that the annual accounts and the consolidated accounts are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the accounts. An audit also includes assessing the accounting principles used and their application by the Board of Directors and the President and significant estimates made by the Board of Directors and the President when preparing the annual accounts and the consolidated accounts as well as evaluating the overall presentation of information in the annual accounts and the consolidated accounts.

As a basis for our opinion concerning discharge from liability, we examined significant decisions, actions taken and circumstances of the company in order to be able to determine the liability, if any, to the company of any Board member or the President. We also examined whether any Board member or the President has, in any other way, acted in contravention of the Companies Act, the Annual Accounts Act or the Articles of Association. We believe that our audit provides a reasonable basis for our opinion set out below.

The annual accounts have been prepared in accordance with the Annual Accounts Act and give a true and fair view of the company's financial position and results of operations in accordance with generally accepted accounting principles in Sweden. The consolidated accounts have been prepared in accordance with International Financial Reporting Standards (IFRSs) as adopted by the EU and the Annual Accounts Act and give a true and fair view of the Group's financial position and results of operations. The statutory Report of the Directors is consistent with the other parts of the annual accounts and the consolidated accounts.

We recommend to the Annual General Meeting of shareholders that the income statements and balance sheets of the Parent Company and the Group be adopted, that the profit of the Parent Company be dealt with in accordance with the proposal in the Report of the Directors and that the members of the Board of Directors and the President be discharged from liability for the financial year.

Södertälje, 16 February 2006

Caj Nackstad
Authorized Public Accountant
KPMG Bohlins AB

Jan Birgerson
Authorized Public Accountant
Ernst & Young

Quarterly data, units by geographic area

	2005					2004				
	Full year	Q4	Q3	Q2	Q1	Full year	Q4	Q3	Q2	Q1
Order bookings, trucks										
Western Europe	**34,900**	10,211	7,630	8,863	8,196	32,645	8,899	6,790	8,349	8,607
Central and eastern Europe	**6,005**	1,981	1,527	1,495	1,002	5,727	1,618	1,260	1,532	1,317
Latin America	**7,608**	2,177	1,863	1,560	2,008	7,644	1,863	1,935	2,141	1,705
Asia	**5,257**	1,199	695	1,862	1,501	5,816	918	1,232	1,778	1,888
Other markets	**2,772**	774	751	613	634	2,096	640	388	463	605
Total	**56,542**	**16,342**	**12,466**	**14,393**	**13 341**	53,928	13,938	11,605	14,263	14,122
Trucks delivered										
Western Europe	**31,392**	9,119	6,149	8,689	7,435	30,312	9,276	6,198	7,554	7,284
Central and eastern Europe	**5,693**	1,939	1,229	1,339	1 186	5 272	1,678	1,216	1,509	869
Latin America	**7,776**	2,220	1,718	2,078	1,760	7,604	2,095	2,126	1,912	1,471
Asia	**5,415**	1,562	1,212	1,516	1,125	5,464	1,637	1,200	1,248	1,379
Other markets	**2,291**	833	470	491	497	1,911	550	527	438	396
Total	**52,567**	**15,673**	**10,778**	**14,113**	**12,003**	50,563	15,236	11,267	12,661	11,399
Order bookings, buses[1]										
Western Europe	**2,568**	739	326	673	830	2,333	693	591	505	544
Central and eastern Europe	**348**	58	38	121	131	491	101	149	67	174
Latin America	**1,785**	303	312	388	782	1,621	289	535	512	285
Asia	**628**	89	97	237	205	955	197	250	193	315
Other markets	**717**	66	216	283	152	653	211	181	163	98
Total	**6,046**	**1,255**	**989**	**1,702**	**2,100**	6,053	1,491	1,706	1,440	1,416
Buses delivered[1]										
Western Europe	**2,271**	685	526	573	487	2,157	648	426	550	533
Central and eastern Europe	**394**	126	95	89	84	424	129	95	98	102
Latin America	**1,727**	384	324	633	386	1,472	355	524	342	251
Asia	**616**	113	164	183	156	947	320	214	325	88
Other markets	**808**	153	339	176	140	519	174	142	135	68
Total	**5,816**	**1,461**	**1,448**	**1,654**	**1,253**	5,519	1,626	1,401	1,450	1,042

1 Including body-built buses and coaches.

Quarterly data, earnings

	2005					2004				
Amounts in SEK unless otherwise stated	**Full year**	**Q4**	**Q3**	**Q2**	**Q1**	Full year	Q4	Q3	Q2	Q1
Vehicles and Service										
Sales revenue	**63,328**	18,286	14,608	16,561	13,873	56,788	16,264	13,323	14,118	13,083
Cost of goods sold	**– 47,835**	– 13,636	– 11,257	– 12,624	– 10,318	– 42,528	– 11,971	– 10,116	– 10,534	– 9,907
Gross income	**15,493**	4,650	3,351	3,937	3,555	14,260	4,293	3,207	3,584	3,176
Research and development expenses	**– 2,484**	– 705	– 581	– 631	– 567	– 1,987	– 563	– 471	– 561	– 392
Selling expenses	**– 5,829**	– 1,726	– 1,473	– 1,398	– 1,232	– 5,343	– 1,417	– 1,292	– 1,381	– 1,253
Administrative expenses	**– 858**	– 196	– 239	– 217	– 206	– 789	– 234	– 190	– 194	– 171
Share of income in associated companies	**8**	2	2	1	3	8	1	4	2	1
Operating income, Vehicles and Sevice	**6,330**	**2,025**	**1,060**	**1,692**	**1,553**	6,149	2,080	1,258	1,450	1,361
Customer Finance										
Interest and leasing income	**3,518**	921	884	858	855	3,427	851	881	836	859
Interest and depreciation expenses	**– 2,575**	– 675	– 636	– 631	– 633	– 2,572	– 633	– 663	– 624	– 652
Net interest income	**943**	246	248	227	222	855	218	218	212	207
Other income and expenses	**40**	6	19	2	13	2	– 5	3	3	1
Gross income	**983**	252	267	229	235	857	213	221	215	208
Selling and administrative expenses	**– 374**	– 12	– 89	– 91	– 86	– 318	– 88	– 78	– 80	– 72
Bad debt expenses	**– 80**	– 108	– 32	– 13	– 23	– 89	– 10	– 21	– 25	– 33
Operating income, Customer Finance	**529**	132	146	125	126	450	115	122	110	103
Operating income	**6,859**	2,157	1,206	1,817	1,679	6,599	2,195	1,380	1,560	1, 464
Net interest items	**– 187**	– 36	– 61	– 41	– 49	– 292	– 72	– 70	– 82	– 68
Other financial items	**93**	49	10	– 34	68	– 31	10	– 6	– 12	– 23
Net financial items	**– 94**	13	– 51	– 75	19	– 323	– 62	– 76	– 94	– 91
Income before taxes	**6,765**	2,170	1,155	1,742	1,698	6,276	2,133	1,304	1,466	1,373
Taxes	**– 2,100**	– 646	– 330	– 581	– 543	– 1,960	– 715	– 406	– 440	– 399
Taxes	**4,665**	1,524	825	1,161	1,155	4,316	1,418	898	1,026	974
Of which, attributable to Scania AB shareholders	**4,665**	1,524	825	1,161	1,155	4,314	1,419	897	1,026	972
Minority interest	**0**	0	0	0	0	2	– 1	1	0	2
Earnings per share, SEK	**23.33**	7.62	4.13	5.81	5.78	21.57	7.09	4.49	5.13	4.86
Operating margin, percent	**10.8**	11.8	8.3	11.0	12.1	11.6	13.5	10.4	11.0	11.2

Key financial figures [1]

	2005	2004	2003	2002	2001	2000	1999	1998	1997	1996
SCANIA GROUP										
Operating margin, %	**10.8**	11.6	10.1	9.3	4.6	10.5	12	8.7	8.6	9.4
Earnings per share, SEK	**23.3**	21.6	15.2	13.7	5.2	15.4	15.7	11.3	9.7	9.9
Equity per share, SEK	**118.6**	107.1	91.3	84.7	80.0	78.5	67.7	59.3	51.8	44.9
Return on equity, %	**20.8**	21.8	17.4	17.2	6.5	21.6	25.1	20.7	20.2	22.7
Dividend, SEK per share [2]	**15.00**	15.00	6.00	5.50	3.50	7.00	7.00	6.50	5.50	5.50
Dividend as percentage of net income	**64.3**	69.5	39.6	40.2	66.8	45.5	44.5	57.8	55.4	55.5
Equity/assets ratio, %	**30.3**	30.3	27.7	25.6	23.4	25.8	25.3	25.8	27.0	28.1
Net debt, excluding provisions for pensions, SEK m.	**25,476**	23,115	24,291	25,108	29,305	23,777	21,677	17,506	14,054	10,304
Net debt/equity ratio	**1.07**	1.08	1.33	1.48	1.83	1.51	1.60	1.48	1.37	1.15
Vehicles and Service										
Operating margin, %	**10.0**	10.8	9.4	7.5	4.1	9.5	10.4	7.7	7.5	8.9
Capital employed, SEK m.	**26,988**	23,876	21,859	24,363	27,311	27,278	26,239	22,294	21,447	19,390
Operating capital, SEK m.	**24,372**	21,680	20,080	20,356	23,380	23,810	23,696	20,584	19,383	16,602
Profit margin, %	**11.5**	11.5	10.0	9.2	4.7	10.5	12.0	8.7	8.6	10.5
Capital turnover rate, times	**2.43**	2.50	2.21	1.89	1.93	1.96	1.77	1.99	1.91	1.82
Return on capital employed, %	**27.9**	29.0	22.0	17.4	9.1	20.6	21.2	17.3	16.3	19.1
Return on operating capital, %	**26.3**	29.0	23.1	16.6	9.1	21.5	22.2	17.6	16.5	17.8
Net debt, excluding provisions for pensions, SEK m.	**269**	854	2,647	4,308	7,790	7,781	8,309	6,522	7,143	5,859
Net debt/equity ratio	**0.01**	0.05	0.17	0.31	0.58	0.50	0.61	0.55	0.69	0.64
Interest coverage, times	**7.0**	8.7	6.2	4.6	2.0	4.8	5.7	5.9	4.7	4.0
Customer Finance										
Gross margin, %	**1.9**	1.7	1.4	1.2	1.3	1.1	1.0	0.9	1.1	1.2
Equity/assets ratio, %	**10.0**	11.2	11.5	11.9	9.5	8.2	7.6	6.5	8.5	9.1

1 Before 2004, recognised according to Swedish accounting standard. After that, according to IFRS.
2 For 2005, dividend proposed by the Board of Directors.

Definitions

Operating margin
Operating income as a percentage of sales revenue.

Earnings per share
Net income for the year excluding minority interest divided by number of shares.

Equity per share
Total equity excluding minority interest divided by the number of shares.

Return on equity
Net income for the year as a percentage of equity.

Equity/assets ratio
Equity as a percentage of total assets on each respective balance sheet date.

Net debt, excluding provision for pensions
Long- and short-term borrowings (excluding pension liabilities) minus liquid assets and net market value of derivatives for hedging of borrowings.

Net debt/equity ratio
Net debt as a percentage of equity.

Capital employed
Total assets minus operating liabilities.

Operating capital
Total assets minus liquid investments and operating liabilities.

Profit margin
Operating income plus financial income as a percentage of sales revenue.

Capital turnover
Sales revenue divided by capital employed (total assets minus non-interest-bearing liabilities).

Return on capital employed
Operating income plus financial income as a percentage of capital employed.

Return on operating capital
Operating income as a percentage of operating capital.

Interest coverage
Operating income plus financial income divided by financial expenses.

Gross margin, Customer Finance
Operating income as a percentage of average portfolio.

Multi-year statistical review

Multi-year statistical review [1]

SEK m. unless otherwise stated	2005	2004	2003	2002	2001	2000	1999	1998	1997	1996
Sales revenue by market area										
Western Europe	**43,559**	39,566	38,073	36,031	36,617	36,393	33,139	28,893	22,993	20,964
Central and eastern Europe	**5,884**	5,157	4,246	3,235	2,739	1,922	1,440	1,883	1,507	872
Europe, total	**49,443**	44,723	42,319	39,266	39,356	38,315	34,579	30,776	24,500	21,836
Latin America	**7,575**	5,655	3,836	3,542	5,576	5,529	4,247	5,974	6,798	4,800
Asia	**4,137**	3,997	3,936	3,123	2,898	2,390	1,118	1,018	1,932	1,740
Other markets	**3,943**	3,404	2,896	2,529	2,364	2,050	1,784	1,907	1,857	1,578
Revenue deferral [2]	**– 1,770**	– 991	– 2,406	– 1,175	– 1,884	– 2,425	– 3,066	– 2,166	– 1,783	– 1,160
Total, Scania products	**63,328**	56,788	50,581	47,285	48,310	45,859	38,662	37,509	33,304	28,794
Divested car operations [3]	**–**	–	–	–	4,755	5,539	5,382	5,637	4,632	3,776
Total	**63,328**	56,788	50,581	47,285	53,065	51,398	44,044	43,146	37,936	32,570
Operating income										
Vehicles and Sevice	**6,330**	6,149	4,759	3,548	2,089	4,623	4,655	3,251	2,716	2,787
Customer Finance	**529**	450	366	308	278	179	140	91	73	55
Divested car operations [3]	**–**	–	–	550	100	277	250	250	258	215
Total [4]	**6,859**	6,599	5,125	4,406	2,467	5,079	5,045	3,592	3,047	3,057
Operating margin, %										
Vehicles and Sevice	**10.0**	10.8	9.4	7.5	4.3	10.1	12.0	8.7	8.2	9.7
Divested car operations [3]	**–**	–	–	–	2.1	5.0	4.6	4.4	5.6	5.7
Total [4]	**10.8**	11.6	10.1	9.3	4.6	9.9	11.5	8.3	8.0	9.4
Net financial items	**– 94**	– 323	– 521	– 684	– 926	– 630	– 545	– 378	– 296	– 351
Net income	**4,665**	4,316	3,034	2,739	1,048	3,080	3,146	2,250	1,943	1,981
Specification of research and development expenditures										
Expenditures	**– 2,480**	– 2,219	– 2,151	– 2,010	– 1,955	– 1,621	– 1,267	– 1,168	– 1,248	– 1,084
Capitalisation	**279**	316	669	573						
Depreciation	**– 283**	– 84	– 2	–						
Research and development expenses	**– 2,484**	– 1,987	– 1,484	– 1,437	– 1,955	– 1,621	– 1,267	– 1,168	– 1,248	– 1,084
Net investments through acquisitions/ divestments of businesses	**205**	49	26	-1 165	929	457	1,121	– 5	483	85
Net investments in non-current assets	**3,597**	2,798	3,285	2,921	1,878	1,521	1,654	1,817	2,307	2,438
Portfolio, Customer Finance operations	**29,630**	26,596	25,926	25,303	25,091	18,522	15,262	12,342	8,100	5,386
Cash flow, Vehicles and Service	**3,865**	2,685	2,450	3,583	2,066	2,557	476	1,797	– 55	1,625
Inventory turnover rate, times [5]	**6.0**	6.0	5.8	6.1	6.0	6.2	5.6	5.3	5.3	5.7

1 Before 2004 according to Swedish accounting standards, then according to IFRS.
2 Refers to the difference between sales recognised as revenue and sales value based on delivery.
3 Swedish car operations were divested as per 1 January 2002.
4 Includes Customer Finance.
5 Calculated as sales revenue divided by average inventory (adjusted for divested car operations).

Multi-year statistical review

	2005	2004	2003	2002	2001	2000	1999	1998	1997	1996
Number of vehicles produced										
Trucks	**53,368**	53,051	45,985	41,433	43,487	51,409	45,779	45,546	43,555	38,455
Buses	**6,141**	5,621	5,291	3,712	4,664	4,172	3,703	4,515	4,586	3,901
Total	**59,509**	58,672	51,276	45,145	48,151	55,581	49,482	50,061	48,141	42,356
Number of trucks delivered by market area										
Western Europe	**31,392**	30,312	29,322	28,229	30,272	38,347	35,942	32,595	26,659	26,195
Central and eastern Europe	**5,693**	5,272	4,148	3,205	2,723	2,416	1,715	2,328	1,930	1,084
Europe, total	**37,085**	35,584	33,470	31,434	32,995	40,763	37,657	34,923	28,589	27,279
Latin America	**7,776**	7,604	4,739	3,633	6,181	6,777	6,253	7,621	9,649	7,377
Asia	**5, 415**	5,464	5,317	3,486	2,994	3,438	1,481	1,410	3,096	2,997
Other markets	**2,291**	1,911	1,519	1,342	1,489	1,340	1,260	1,599	1,058	1,375
Total number of trucks delivered	**52,567**	50,563	45,045	39,895	43,659	52,318	46,651	45,553	42,392	39,028
Number of buses and coaches delivered by market area										
Western Europe	**2,271**	2,157	2,224	1,612	1,696	1,617	1,935	1,721	1,518	1,641
Central and eastern Europe	**394**	424	349	132	132	85	67	116	172	97
Europe, total	**2,665**	2,581	2,573	1,744	1,828	1,702	2,002	1,837	1,690	1,738
Latin America	**1,727**	1,472	1,072	958	1,595	1,843	1,237	1,697	1,829	1,641
Asia	**616**	947	631	440	666	278	160	78	308	309
Other markets	**808**	519	634	632	583	351	364	505	757	275
Total number of buses delivered	**5,816**	5,519	4,910	3,774	4,672	4,174	3,763	4,117	4,584	3,963
Total number of vehicles delivered	**58,383**	56,082	49,955	43,669	48,331	56,492	50,414	49,670	46,976	42,991
Total market for heavy trucks and buses, number										
Western Europe:										
Trucks	**251,000**	231,000	213,000	211,700	235,000	243,700	235,900	207,300	170,300	172,000
Buses	**23,300**	22,400	21,700	22,500	23,500	23,500	22,400	21,000	18,000	17,500
Number of employees [6]										
Production companies and corporate units	**15,888**	15,983	15,498	15,067	14,987	15,984	15,818	15,913	16,290	16,058
Research and development	**2,058**	1,909	1,833	1,681	1,435	1,159	944	921	855	890
Sales and service companies	**12,414**	11,747	11,460	11,173	11,868	10,029	9,431	6,559	6,511	5,183
Total Vehicles and Service	**30,360**	29,639	28,791	27,921	28,290	27,172	26,193	23,393	23,656	22,131
Customer Finance companies	**405**	354	321	309	251	194	166	144	107	75
Total	**30,765**	29,993	29,112	28,230	28,541	27,366	26,359	23,537	23,763	22,206

6 Including employees with temporary contracts.

Annual General Meeting and information

Annual General Meeting

The Annual General Meeting of Shareholders will be held at 14:00 CET on Friday, 4 May 2006 in Scaniarinken, AXA Sports Center in Södertälje, Sweden.

Participation

Shareholders who wish to participate in the AGM must be recorded in the shareholder list maintained by VPC AB (the Swedish Central Securities Depository and Clearing Organisation) on Thursday, 27 April 2006. They must also register with the company by post at:

Scania AGM
Box 47011
SE-100 74 Stockholm, Sweden

or by telephone at +46 8 775 01 10, or via Scania's website www.scania.com no later than 16:00 CET on Thursday, 27 April 2006.

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 reregister their shares in their own name with VPC.

Shareholders who wish to reregister their shares in this way must inform their nominees accordingly in sufficient time before Wednesday, 26 April 2006.

Dividend

The Board of Directors proposes Tuesday, 9 May 2006 as the record date for the 2006 dividend. The last day for trading shares that include the dividend is Thursday, 4 May 2006. Provided that the AGM approves this proposal, the dividend can be expected to be sent on Friday, 12 May 2006.

Information from Scania

Interim Report, January–March, on 26 April 2006.
Interim Report, January–June, on 28 July 2006.
Interim Report, January–September,
on 30 October 2006.

The Annual Report is posted on the company's website, www.scania.com, where Scania's Interim Reports are also found.

Financial reports may also be ordered from

Scania AB
SE-151 87 Södertälje, Sweden
Telephone: +46 8 55 38 10 00
Fax: +46 8 55 38 55 59

Updated facts

Addresses and updated facts can be found at **www.scania.com**

The Annual Report contains forward-looking statements that reflect management's current views with respect to certain future events and potential financial performance. Such forward-looking statements involve risks and uncertainties that could significantly alter potential results. The statements are based on certain assumptions, including assumptions related to general economic and financial conditions in the company's markets and the level of demand for the company's products. This report does not imply that the company has undertaken to revise these forward-looking statements, beyond what is required under the company's registration contract with Stockholmsbörsen if and when circumstances arise that will lead to changes compared to the date when these statements were provided.

The world of Scania

PRODUCTION UNITS

Sweden

Södertälje (2,571)
Production of components, engines, truck and bus chassis.

Falun (667)
Production of axles.

Luleå (591)
Production of frame members and rear axle housings.

Oskarshamn (1,630)
Production of cabs.

Sibbhult (518)
Production of gearboxes.

Argentina

Tucumán (731)
Production of gearbox components and rear axle gears.

Brazil

São Paulo (2,494)
Production of engines, gearboxes, axles, cabs, trucks and bus chassis.

France

Angers (523)
Assembly of trucks.

The Netherlands

Zwolle (1,281)
Assembly of trucks.

Poland

Słupsk (596)
Assembly of bus bodies.

Russia

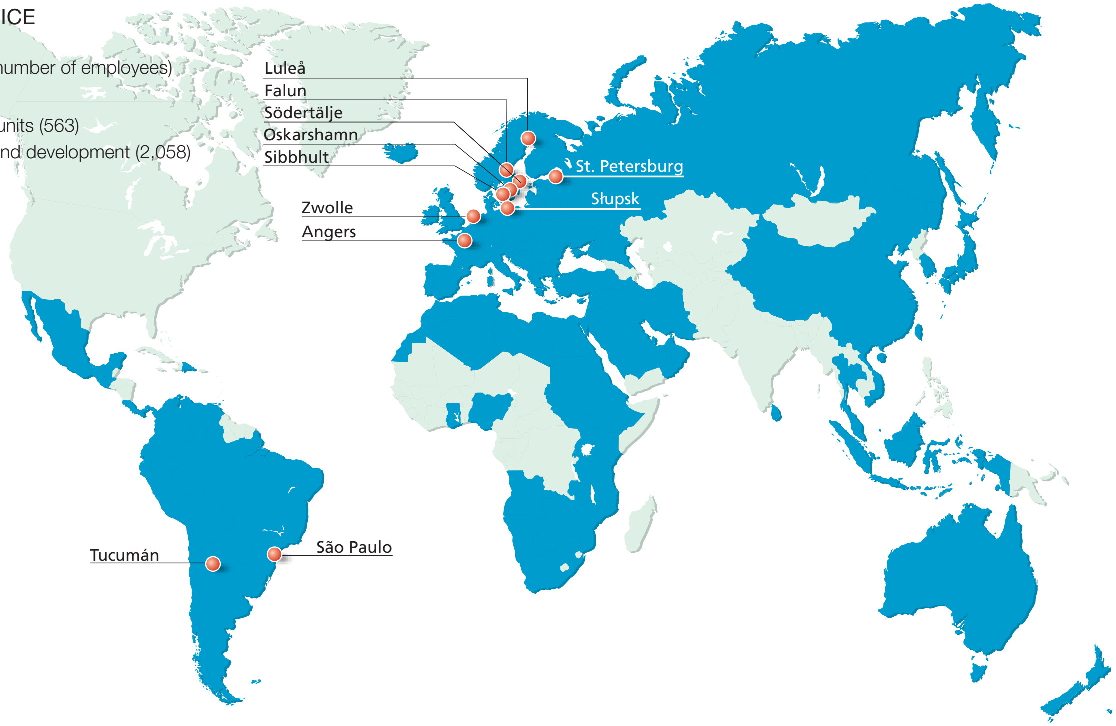
St. Petersburg (203)
Assembly of bus bodies.

HEAD OFFICE

Sweden (number of employees)

Södertälje

- Corporate units (563)
- Research and development (2,058)



Sales and service

Altogether, Scania is represented in about 100 countries through 1,500 sales and service points, of which about 1,000 in Europe.

Finance companies

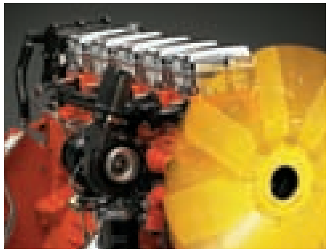
Scania offers customer financing in 34 markets all over the world through a network of 20 wholly owned finance companies. In those markets where Scania has not established its own finance company, various types of financial services are offered via Scania's Swedish finance company.

Scania's global purchasing

In addition to its corporate purchasing department, Scania has local procurement offices in Russia, Poland, the Czech Republic, the United States and China.

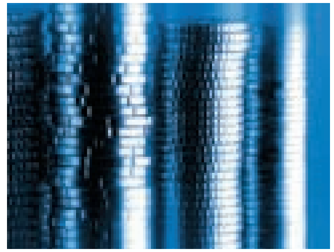
TRUCKS

BUSES



ENGINES

SERVICE-RELATED PRODUCTS



CUSTOMER FINANCE

Scania AB (publ), SE-151 87 Södertälje, Sweden. Tel: +46 8 55 38 10 00. Fax: +46 8 55 38 10 37

For more information:
www.scania.com

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