

# 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	Bernd Pischetsrieder
Staffan Bohman	Lothar Sander
Peggy Bruzelius	Peter Wallenberg Jr
Sune Carlsson	Leif Östling
Andreas Deumeland	

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 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.

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

## 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.

## 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

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 <sup>1</sup>				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 <sup>1</sup>				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 Wilhelmsson	X	X	X	X	X	X	X						
Rolf Stomberg <sup>2</sup>	X	X	X										
Marcus Wallenberg <sup>2</sup>	X	X	X					X					

1 From 29 April 2005 2 Until 29 April 2005



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 meet-

ings 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 seminars 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.