



# 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 the Stockholm Stock Exchange and the Swedish Code for Corporate Governance.

The Stockholm Stock Exchange has introduced the Swedish Code for Corporate Governance ("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 the Exchange.

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
- Strategic Update
- Scania Corporate Governance Manual and
- Scania Financial Reporting Guide

## 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.

According to the Articles of Association, the AGM shall be held either in Södertälje or in Stockholm.

In compliance with the Swedish Companies Act, decisions at the AGM are usually made by 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 qualified 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 Extraordinary General Meeting (EGM) shall be issued no earlier than six and no later than two weeks before the Meeting. Notice convening an AGM and an EGM is published in the Swedish national newspapers *Dagens Nyheter* and *Svenska Dagbladet* as well as in the official gazette *Post- och Inrikes Tidningar* ([www.bolagsverket.se](http://www.bolagsverket.se)) and on the company's website.

According to the Swedish Companies Act, within

six months of the expiry of each financial year, Swedish limited liability companies shall hold a general meeting of shareholders, where the Board of Directors shall present the Annual Report and the Auditors' Report. This shareholder meeting is called the Annual General Meeting. At Scania, the AGM is normally held during April or May.

Descriptive information about rules and practices at the annual general meetings of companies listed on the Stockholm Stock Exchange and about other aspects of Swedish corporate governance is available on the Scania website, [www.scania.com](http://www.scania.com). This information is found under Corporate Governance and is labelled "Special Features of Swedish Corporate Governance".

## The 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 Board members in relation to the company and its major shareholders.

In 2006 the AGM decided that the members of the Nomination Committee shall be appointed by the four largest shareholders in voting power, no later than six months before the AGM. In preparation for the AGM in 2007, the following persons have served on the Nomination Committee, in addition to the Chairman of the Board:

Lennart Johansson, Investor AB – Chairman  
 Gudrun Letzel, Volkswagen AG  
 Marcus Wallenberg, Knut and Alice Wallenberg Foundation

MAN AG, which is one of the four largest shareholders in terms of votes, has refrained from appointing a representative to 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 plus 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. The directors are elected each year at the AGM for the period up to the end of the next AGM.

On 4 May 2006, Scania's AGM elected nine Board members and no deputy members.

They are:

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

The AGM elected Bernd Pitschetsrieder as Chairman. At the statutory meeting of the Board following the AGM, Sune Carlsson was appointed 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
- Johan Järvklo, deputy member
- Stefan U Klingberg, deputy member

During 2006, Johan Järvklo and Stefan U Klingberg succeeded Niclas Wilhelmsson and Kathrin Rosenquist, respectively, as deputy members.

### 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, rules of procedure for its committees.

According to its Rules of Procedure, the Board shall hold at least five regular meetings each year. Beyond this, the Board meets when there are special needs. 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

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



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.

During 2006, the Board held a total of 19 meetings. The unusually large number of meetings was due to MAN's offer for Scania. See footnote 1 on page 47.

#### Scania Board members' participation in Board meetings and committee meetings during 2006

2006	Board Attendance, out of 19 meetings in all
Bernd Pischetsrieder <sup>1</sup>	11
Sune Carlsson	19
Vito H Baumgartner	18
Staffan Bohman	19
Peggy Bruzelius	16
Andreas Deumeland <sup>1</sup>	10
Lothar Sander <sup>1</sup>	11
Peter Wallenberg Jr	18
Leif Östling	19
Kjell Wallin	18
Jan Westberg	18
Johan Järnklo <sup>2</sup>	13
Stefan U Klingberg <sup>3</sup>	18
Kathrin Rosenquist <sup>4</sup>	3
Niclas Wilhelmsson <sup>5</sup>	0

1 On 18 September 2006, MAN AG made a public offer for Scania. On 4 October, Volkswagen announced that it had acquired 15 percent of the shares in MAN. As a consequence of the conflict of interest situation that had arisen, in keeping with a unanimous decision by the Board on 17 September, since 4 October Volkswagen's representatives have not participated in deliberations and decisions concerning MAN's offer or in meetings that have exclusively dealt with this.

2 Since the summer of 2006.

3 Since the spring of 2006.

4 Until the spring of 2006.

5 Until the summer of 2006.

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. Attendance by the individual members at Board meetings and committee meetings can be seen in the adjacent table.

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 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. Once a year, the Board also carries out an evaluation of the President and CEO in which he does not participate.

#### The committees of the Board

The Board currently has two committees: the Audit Committee and the Remuneration Committee. An Ownership

Structure Committee completed its work during 2006.

The Board appoints the members of the committees from among its own members.

#### The Audit Committee

The Audit Committee consists of Staffan Bohman (Chairman), Vito H Baumgartner and Lothar Sander. In 2006 the Audit Committee met a total of five 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 elected, the Audit Committee presents a proposal. The result of the evaluation of auditors and, in case of the 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 normally participate in the meetings of the Audit Committee, provided that the auditors are not being evaluated or discussed.

### The Remuneration Committee

The members of the Remuneration Committee are Bernd Pischetsrieder (Chairman), Peggy Bruzelius and Sune Carlsson. During 2006 the Remuneration Committee met three times. All members participated in all meetings through attendance or by telephone, except that Peggy Bruzelius was absent from one meeting.

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, its deputy CEO:s.

### 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 29, "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 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 market developments. The implementation of strategies is an initial point 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. Group Management meets four to

six times per year to provide updates and information on current activities and projects, as well as to discuss 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 Group Management who are not prevented by other obligations also gather at a brief meeting once each normal work week.

The decision making structure and management of Scania are described in greater detail in the internal governing document "How Scania is Managed".

All managers in the company are responsible for working and communicating 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 are reported regularly to the Audit Committee.

### Management compensation

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 the President and CEO, other members of the Executive Board as well as the heads of corporate units are decided by the AGM, based on a proposal by the Board. The proposal is prepared by the Remuneration Committee.

Share-related incentive programmes are 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 28, "Compensation to executive officers".

### **Internal control of financial reporting at Scania**

The description below has been prepared in compliance with the Swedish Code of Corporate Governance and according to the instruction issued by the Swedish Corporate Governance Board in September 2006. The description follows the guidelines provided by the Swedish Institute of Authorised Public Accountants (FAR) and the Confederation of Swedish Enterprise.

#### *Control environment*

Internal control at Scania 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. Internal control is also based on instructions on powers and authorisation rights as well as reporting instructions in the form of manuals.

#### *Risk assessment and control activities*

Risks that have been identified in Scania'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 its control structure.

#### *Information and communication*

In order to inform, instruct and coordinate financial reporting, Scania has formal information and communications channels to affected employees regarding policies, guidelines and reporting manuals.

#### *Monitoring*

Scania 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 2006 financial year, in its control and investigative activities the company prioritised areas and processes with large flows and values, for example material and inventory accounting. Monitoring compliance with the Scania Corporate Governance Manual and Scania Financial Reporting Guide were also high-priority areas, along with units and companies which are, or were, in a growth or change phase. During the year internal Group seminars and conferences were also held, 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

for review. The Board receives monthly financial reports, except for January and July. This financial information increases in terms of content in the run-up to 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 Group Management and the Board of Directors, has deemed a separate audit department unnecessary at present.