

# Corporate governance at Scania

## CORPORATE GOVERNANCE REPORT

Corporate governance at Scania is based on Swedish legislation, especially the Swedish Companies Act, the listing agreement with the OMX Nordic Exchange Stockholm ("Stockholm Stock Exchange") and the Swedish Code of Corporate Governance ("the Code").

The Code is part of the listing requirements for the Stockholm Stock Exchange, 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.

This Corporate Governance Report has not been subjected to review by Scania's auditors.

### *Internal governing documents*

The most important governing documents at Scania are:

- Scania's Articles of Association (reproduced on page 44)
- The Rules of Procedure of the Board of Directors, including the Board's instruction to the President and CEO and guidelines for essential reporting processes at Scania
- The Rules of Procedure of the Audit Committee
- How Scania is Managed
- Strategic Update
- Scania Corporate Governance Manual
- Scania Financial Manual and
- Communication Policy

### *Application and deviations*

This Corporate Governance Report has been prepared in compliance with the Swedish Code of Corporate Governance. Companies that apply the Code may deviate from individual rules but, in such cases, must issue explanations reporting the reasons for each deviation. Scania complies with the wording of the Code and the recommendations stated in the Code with the following exceptions: The Nomination Committee of Scania includes a representative of MAN AG. Aside from being one of Scania's four largest shareholders in terms of voting power, this company is also one of Scania's main competitors. In accordance with a decision of the Annual General Meeting, MAN AG utilised its opportunity to appoint a member of Scania's Nomination Committee. At year-end 2007, some members of the Board of Directors had also

not yet had time to complete their planned introductory training course due to planning problems. All introductory training for the current Board is expected to be completed no later than during the first quarter of 2008.

### **The Annual General Meeting**

The right of shareholders to make decisions on Scania's affairs is exercised at the Annual General Meeting (AGM). All shareholders in Scania are entitled to have an item dealt with at the AGM. At the AGM, each Series A share represents one vote and each Series B share one tenth of a vote. Scania's share capital is divided into 400 million A shares and 400 million B shares.

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.

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)). In order to have an item dealt with at the AGM, a shareholder must submit it in writing to the Board early enough that the item can be included in the notice convening the Meeting. In addition, 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.

In order to participate in decisions, a shareholder is required to attend the AGM, in person or via proxy. The shareholder is also required to be recorded in the shareholder list by a certain date before the AGM and to notify the company according to certain procedures.

In accordance with the Swedish Companies Act and Scania's Articles of Association, the composition of the Board is decided by election. 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.

The minutes of the AGM are published on Scania's website.

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 Chairman of the Board 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 the chairman at the AGM, remuneration to the Board and its committees and remuneration to the auditors. It also assesses the independence of Board members in relation to the company and its major shareholders.

In 2007 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 2008, the following persons have served on the company's Nomination Committee:

**Gudrun Letzel**, representing Volkswagen AG  
**Lennart Johansson**, representing Investor AB – Chairman  
**Ekkehard D. Schultz**, representing MAN AG  
**Marcus Wallenberg**, representing the Knut and Alice Wallenberg Foundation

The members of the Nomination Committee receive no compensation from the company.

## THE BOARD OF DIRECTORS

Scania's Board of Directors is elected every year by the shareholders at the AGM. 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.

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

On 3 May 2007, Scania's AGM elected nine Board members and no deputy members. They are:

<b>Vito H. Baumgartner</b>	<b>Hans Dieter Pötsch</b>
<b>Staffan Bohman</b>	<b>Peter Wallenberg Jr</b>
<b>Peggy Bruzelius</b>	<b>Martin Winterkorn</b>
<b>Börje Ekholm</b>	<b>Leif Östling</b>
<b>Francisco J. Garcia Sanz</b>	

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
Vito H. Baumgartner	X		YES	YES
Staffan Bohman	X		YES	YES
Peggy Bruzelius		X	YES	YES
Börje Ekholm, Vice Chairman		X	YES	NO
Francisco J. Garcia Sanz			YES	NO
Hans Dieter Pötsch	X		YES	NO
Peter Wallenberg Jr			YES	NO
Martin Winterkorn, Chairman		X	YES	NO
Leif Östling			NO	YES

The AGM elected Martin Winterkorn as Chairman and Börje Ekholm as 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**

### 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 six 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 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 2007, the Board held a total of eight meetings.

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 participate in the meetings of the Board. Attendance by the individual members at Board meetings can be seen in the table above.

The instruction of the Board to Scania's President and CEO specifies his duties and powers. This instruction includes 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 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.

### Remuneration to the Board

Compensation to the members of the Board is determined by the AGM and is paid to those members who are not

#### Board meetings, 2007

Board Member	Attendance out of 8 meetings in all
Vito H. Baumgartner	8
Staffan Bohman	8
Peggy Bruzelius	8
Börje Ekholm <sup>1)</sup>	4
Hans Dieter Pötsch <sup>1)</sup>	4
Francisco J. Garcia Sanz <sup>1)</sup>	2
Peter Wallenberg Jr	7
Martin Winterkorn <sup>1)</sup>	4
Leif Östling	8
Kjell Wallin	8
Jan Westberg	8
Johan Järvklo	7
Stefan U. Klingberg	8

1) Newly elected at the AGM in 2007. Only four Board meetings since then.

employees of Scania. The remuneration decided by the AGM is reported in Note 28 of the Annual Report, Compensation to executive officers.

### Evaluation of the work of the Board

A written evaluation is performed 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. 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 Hans Dieter Pötsch, who replaced Lothar Sander at the Board meeting after the AGM in 2007. In 2007 the Audit Committee met a total of five times. All members participated in all meetings





through attendance, except that Lothar Sander, who was a member of the Audit Committee until the end of the AGM in 2007, did not participate in the meeting the day before the AGM. In addition, Hans Dieter Pötsch did not attend one of the meetings of the Audit Committee after he had become a member of it.

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 and 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 results 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 election as 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 Remuneration Committee consists of Martin Winterkorn (Chairman), Peggy Bruzelius and Börje Ekholm. Until the end of the AGM, the Remuneration Committee consisted of Bernd Pischetsrieder (Chairman), Peggy Bruzelius and Sune Carlsson. During 2007 the Remuneration Committee met three times. All members participated in all meetings through attendance.

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 Group Vice Presidents.

### **Auditors**

In Swedish limited liability companies, independent auditors are elected by the shareholders at the AGM, normally 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.

The auditors have no assignments for companies that affect their independence as auditors for Scania.

Scania paid its auditors the fees (including compensation for costs) that are stated in the Annual Report, 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 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.

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 agenda item at subsequent meetings between the Executive Board and the heads of corporate units.

The heads of corporate units are responsible to the Executive Board for ensuring that the appropriate actions are taken in their respective fields of responsibility based on the strategies that have been decided. The heads of corporate units 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 Executive Board and the heads of corporate units meet 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 decision at the meetings of the Executive Board.

The members of the Executive Board and the heads of corporate units 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 "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 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 compensation to executive officers 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 the Executive Board, is stated in the Annual Report, Note 28, Compensation to executive officers. Note 28 of the Annual Report for 2007 also states the compensation to the heads of corporate units.

### **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 Governing Board in September 2006.

The cornerstones of Scania's internal control system consist of the control environment, risk assessment, control activities, information and communication as well as monitoring.

#### *Control environment*

Internal control at Scania is based on the decisions on organisational structure, powers and guidelines made by the Board of Directors. The Board's decisions have been transformed into functioning management and control systems by the Executive Board. Organisational structure, decision-making procedures, powers and responsibilities are documented and communicated in governing documents, such as internal policies, manuals and codes.

Also included in the basis for internal control are Group-wide accounting and reporting instructions, instructions regarding powers and authorisation rights as well as manuals. The Group reporting system for integrated financial and operational information is another central element of the control environment and internal control. The Finance and Business Control unit is responsible for continuous updating of accounting and reporting instructions, with due regard for external and internal requirements. During 2007, the Group reporting system was upgraded, thereby strengthening the control environment. Integrated reporting of financial and operational information ensures that external financial reporting is firmly based on business operations. In addition to information on final outcome figures, the reporting system also includes quarterly moving forecast information.

#### *Risk assessment and control activities*

Risk management and risk assessment are an integral element of the business management and decision-making processes. Risk areas identified in financial reporting are handled and scrutinised via Scania's controller organisation. The controller organisation, like financial responsibility, follows the company's organisational and responsibility structure. Controllers who closely scrutinise business operations are found at all levels of the organisation. Clear reporting to higher levels takes place regularly, ensuring a solid understanding of how a unit's business operations are reflected in the figures. In its task of compiling, verifying and analysing



>> financial information, the corporate-level controller organisation has access to the figures and business-related comments of all operational units.

#### *Information and communication*

In order to inform, instruct and coordinate financial reporting, Scania has formal information and communications channels to employees concerned regarding policies, guidelines and reporting manuals. These formal information and communications channels are supplemented by frequent dialogue between Finance and Business Control and the individuals in charge of financial reporting at operational units. The Group holds internal seminars and conferences regularly, with a focus on quality assurance in financial reporting and governance models.

#### *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 finance companies. During the 2007 financial year, in its control and investigative activities the company prioritised areas and processes with large flows and values as well as selected operational risks. Monitoring compliance with the Scania Corporate Governance Manual and Scania Financial Manual remained high priority areas, along with units undergoing changes.

In preparation for every meeting, the Audit Committee of the Board of Directors 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 report.

In preparation for 2007, Scania established an Internal Control unit within Finance and Business Control. One task of this unit is to monitor and review internal control of the company's financial reporting. The independence of the Internal Control unit is ensured by its reporting to the Audit Committee. Functionally, the Internal Control unit reports to the CFO of Scania.

Through the organisational structure and the work methods described above, the company deems the internal control system concerning financial reporting well suited to the company's operations.