

Complete proposal of the Board to the 2006 AGM for the incentive programme in 2006

Background

STI

Since 1997, a Short Term Incentive (STI) programme has existed as a flexible component of Scania's compensation to executive officers. To date, the entire outcome of the STI programme has been disbursed the year after the year when earned.

The outcome of the STI programme has been calculated as a percentage of fixed salary depending on Residual Net Income (RNI) and the level of the position. RNI has been calculated as Scania's net income according to the annual accounts minus a cost of equity. Maximum possible compensation has been set at between 45 and 150 percent of the participants' annual fixed cash salary, depending on their position. In 2005, the STI programme covered 119 individuals.

LTI

Since 1997, a Long Term Incentive (LTI) programme for executive officers has existed at Scania. Until 2004, the outcome was paid in cash. The outcome for 2004 was divided into three equally large payments over three years, provided that the recipient remains an employee during each respective disbursement year.

In 2005 the Annual General Meeting of shareholders (AGM) approved a resolution changing the LTI programme in such a way that compensation would be determined as a cash amount, but participants would receive Scania B shares in the amount of the outcome purchased in the market by a third party, and participants would have no right of disposition over the shares thus received during a period of two years from the date received.

The outcomes of the LTI programme were dependent on a positive change in RNI between the preceding year and the year in question. Maximum possible compensation was set at between 30 and 75 percent of the participants' annual fixed cash salary, depending on their position. In 2005, the LTI programme covered 119 individuals.

Proposal

The Board of Directors makes the assessment that it is advantageous for the company to continue applying a profitability-based, long-term LTI programme in 2006 and to continue with a flexible compensation component in the form of a STI programme, so that executive officers can be retained and recruited on market-related conditions.

The Board of Directors therefore propose an incentive programme in 2006 that encompasses a maximum of 150 executive officers, mainly in accordance with the following conditions and guidelines.

- a) STI outcome is determined as a capital amount calculated as a percentage of the annual fixed cash salary depending on position. The percentage shall depend on the RNI and be decided by the Board's Remuneration Committee. RNI is calculated as Scania's net income according to the annual accounts minus a cost of equity, as decided by the Board's Remuneration Committee. The highest possible capital amount shall be determined at between 45 and 150 percent of the participants' annual fixed cash salary, depending on their position.
- b) LTI outcome is determined as a capital amount calculated as a percentage of the annual fixed cash salary depending on position. The percentage shall depend on a positive change in RNI and be decided by the Board's Remuneration Committee. RNI shall be calculated as set out in a) above. The highest possible cash amount for the LTI outcome shall be determined at between 30 and 75 percent of participants' annual fixed cash salary, depending on their position.
- c) Of the combined STI and LTI outcome, 60 percent shall be paid in cash as salary the year after the year when earned.
- d) Of the combined STI and LTI outcome, 40 percent shall be determined as a cash amount that, after subtracting income tax, shall be used for the purchase of Scania B shares through a third party designated by the company, on a date determined by the company. However, this cash amount shall be rounded off to an amount that, after subtracting income tax, is equivalent to the next lower whole number of Scania B shares on the purchase date. If the cash amount determined according to the above, after subtracting income tax, should mean that fewer than 10 Scania B shares can be obtained, the amount shall instead be disbursed in cash.

e) The participants shall not have the right of disposal over the Scania B shares that have been purchased as described in d) above during a period of two years from the date of purchase.

f) Participants shall, however, have the right of disposal over the return on the Scania B shares purchased as described in d) above.

g) The STI and LTI outcomes of the President and CEO may, in whole or part, be utilised for a pension according to a pension obligation, secured by depositing a gross amount without deduction of tax in a special pension fund.

Cost

The cost of the LTI and STI programmes shall be recognised in the accounts in the year that funds are disbursed and may not exceed SEK 315,000,000, including mandatory payroll fees and transaction costs.

Dilution and purchases of the company's own shares

The proposal does not imply any dilution or any acquisition by Scania of its own shares.