

Corporate Governance

During 2006, the Board focused specifically on issues pertaining to the Volvo Group's strategy with regard to Asia. The Board has also decided to renew the financial targets for the Volvo Group.



The Board at a visit to the Volvo Truck plant in Gent.

Corporate bodies in corporate governance

>>> The governance and control of the Volvo Group is carried out through a number of corporate bodies. At General Meetings, the shareholders exercise their voting rights with regard, for example, to the composition of the Board of Directors of AB Volvo and election of external auditors. An Election Committee proposes candidates to serve as Board members, Board Chairman and external auditors. The Board is responsible for the Group's long-term development and strategy as well as controlling and evaluating the company's operations. In addition, the Board appoints the President of AB Volvo, who is also the Chief Executive Officer (CEO). The duties of the Board are partly exercised through its Audit Committee and its Remuneration Committee. The CEO is in charge of the daily management of the Group in accordance with guidelines and instructions provided by the Board.

The CEO is in charge of the daily management of the Group through primarily two different organs, the Group Executive Committee and the business areas Boards of Directors. The Group Executive Committee comprises those who report directly to the CEO. At 2006 year-end, there were 17 Group Executive Committee members including the CEO and comprised Presidents of the Group's eight business areas as well as President of Volvo Powertrain business unit, who is also the Technical Director for the Volvo Group. The Group Executive Committee also includes the Executive Vice President, who is also the Deputy CEO, Chief Financial Officer and Heads of the Group's staff units. Meetings, which are led by the CEO, deal with Group-wide issues and issues affecting more than one business area, and supply information concerning the Group's performance. The CEO or the Deputy CEO is the Chairman of the Board for the Boards of all business areas and these comprise mainly of other members of the Group Executive Committee. The Boards of the business areas effect control and follow-ups of business areas' financial development, business plans and goals as well as make decisions regarding, for example, investments.

Swedish Code of Corporate Governance

Volvo applies the Swedish Code of Corporate Governance ("the Code").

Between January 1, 2006 and December 31, 2006 Volvo did not deviate from any of the Code's regulations that were applicable during this period, with the exception of paragraph 4.2.1. The exception is that Tom Hedelius is member of the remuneration committee even though he is not, according to the Code, independent in relation to the company and the company management.

This corporate governance report has not been reviewed by the company's auditors. Nor have the company's auditors reviewed the Board's report concerning the organization of internal control with regard to financial reporting.

Election Committee

The Election Committee is the shareholders' body responsible for submitting to the Annual General Meeting the names of candidates to serve as Chairman and other members of the Board, the fees to be paid distributed among the Chairman, other members of the Board and any remuneration for work on the Board's committees. In the years in which election of auditors for Volvo shall be held, the Election Committee presents proposals for election of auditors and audit fees to be paid based on the preparations carried out by Volvo's Audit Committee.

In conjunction with the Election Committee proposing candidates for Chairman and the other members of the Board, the Election Committee shall comment on whether those persons who are proposed are to be considered as independent in relation to the company and company management as well as to large shareholders in the company. The Election Committee's proposal shall be presented to Volvo in sufficient time to be able to be included in the notice of the Annual General Meeting and at the same time on Volvo's web site.

The Election Committee, which was appointed at Volvo's Annual General Meeting in 2006, comprised Volvo's Chairman Finn Johnsson, Eva Halvarsson, representing the Second Swedish National Pension Fund, Björn Lind, representing SEB Funds, Curt Källströmer, repre-

senting Svenska Handelsbanken and Thierry Moulouguet, representing Renault SA. The Election Committee internally selected Curt Källströmer as Chairman. The work of the Election Committee is governed by the instructions approved by the Volvo Annual General Meeting in 2006. In November, 2006 Lars Förberg representing Violet Partners LP, became member instead of Eva Halvarsson. Violet Partners LP replaced the Second Swedish National Pension Fund as the fourth largest shareholder, by votes, in Volvo. Eva Halvarsson was at the same time co-opted onto the Election Committee.

The Election Committee's proposal for the 2007 Annual General Meeting will be provided on Volvo's website.

The Board

In 2006, AB Volvo's Board of Directors consisted of eight members elected by the Annual General Meeting. In addition, the Board had three members and two deputy members appointed by employee organizations. The CEO, Leif Johansson, was a member of the Board.

During 2006, six regular meetings and two extraordinary meetings were held.

The Board has adopted work procedures for its activities that contain rules pertaining to the distribution of work between the Board members, the number of Board meetings, matters to be handled at regular meetings of the Board and duties incumbent on the Chairman. In addition thereto, the work procedures contain directives concerning the tasks of the Audit Committee and the Remuneration Committee respectively. The Board has also issued written instructions specifying when and how information required to evaluate the company's and Group's financial position should be reported to the Board as well as the distribution of duties between the Board and the President and in what circumstances the Executive Vice President and Deputy CEO is to substitute for the CEO.

The Annual General Meeting decides on the fees to be paid to the Board members elected by the shareholders. The Annual General Meeting held on April 5, 2006 approved a total fee to the Board, for the time until the end of the next Annual General Meeting, of SEK

4,775,000 to be distributed among the Board Members according to the following. The Chairman of the Board receives a fee of SEK 1,350,000 and the remaining members a total of SEK 2,700,000 to be distributed among the members as the Board decides. In addition, the Chairman of Audit Committee shall receive SEK 250,000 and the other two members of the Audit Committee SEK 125,000 each and the members of the Remuneration Committee SEK 75,000 each.

During the year, the Board reviewed the business plans and strategies for the various businesses in the Volvo Group. In addition thereto, the Board reviewed the financial positions of AB Volvo and the Volvo Group on a regular basis and acted in order to ascertain that there are efficient systems in order to follow-up and control the business and financial position of the Volvo Group. In connection therewith, the Audit Committee is responsible for preparing for the Board's work through quality assurance of the company's financial reporting through reviewing the interim reports and the annual report. The Board has met with the company's auditors during 2006. The Board has continuously evaluated the performance of the CEO.

During 2006, the Board focused specifically on issues pertaining to the Volvo Group's strategy with regard to Asia and thereby decided to acquire shares in Nissan Diesel Motor Co Ltd and on initiating discussions on the commercial operation Dongfeng Motor Co Ltd. During the year, the Board also discussed and decided to renew the financial goals for the Volvo Group. In addition, the Board also dealt regularly with matters involving other divestments, acquisitions and the establishment of new operations, and matters related to investments in product renewal and product development in the Group's business areas.

The Board's work is mainly performed through Board meetings and through meetings in the respective committees of the Board. In addition thereto, the chairman of the Board is in regular contact with the CEO in order to discuss on-going business and to ensure that the decisions taken by the Board are executed. An account of each Board member's age, education, main professional experience, other board

The Board's composition and attendance at meetings January 1, 2006 to December 31, 2006.

	Board	Audit Committee	Remuneration Committee
Finn Johnsson	8		4
Per-Olof Eriksson	8	4	
Tom Hedelius	8		4
Leif Johansson	8		
Louis Schweitzer	7		4
Philippe Klein ¹	5		
Ying Yeh ¹	4	3	
Peter Bijur ¹	4	3	
Ken Whipple ²	3	1	
Haruko Fukuda ²	2	1	
Patrick Faure ²	1		
Olle Ludvigsson, employee representative	8		
Johnny Rönnkvist, employee representative	8		
Martin Linder, employee representative	7		
Total number of meetings	8	4	4

¹ Elected to the Board at the 2006 Annual General Meeting.

² Resigned from the Board in conjunction with the 2006 Annual General Meeting.

memberships, ownership of shares in Volvo and the years of membership on the Volvo Board is presented on pages 84 and 85.

During 2006, the Board performed its yearly evaluation of the Board's work. The Chairman has informed the Election Committee on the result of the evaluation.

Independence requirements

The Board of Directors of Volvo must meet independence requirements pursuant to the rules of the Stockholm Stock Exchange, the Code and NASDAQ's regulations, as well as the Sarbanes-Oxley Act (SOX). Below follows a short description of the rules of the Stockholm Stock Exchange and the Code. The independence requirements mainly mean that only one person from the company's management may be a member of the Board, that a majority of the Board shall be independent of the company and the company management and that at least two of the members that are independent from the company and the company's management shall also be independent of the company's major shareholders. In addition, the

Code demands that a majority of the members in the Audit Committee shall be independent of the company and that at least one member shall be independent of the company's major shareholders. With regard to the Remuneration Committee, the Code sets the requirement that members of the Remuneration Committee, with the exception of the Board chairman if a member of the Remuneration Committee, shall be independent of the company and company management.

Considering the above demands regarding the Board's independence, the Election Committee has reported to the company the following understanding about the independence from the company and the company management as well as the company's largest shareholders with regard to the Board members who were elected at the Annual General Meeting in 2006:

Finn Johnsson, Peter Bijur, Philippe Klein, Louis Schweitzer and Ying Yeh are all independent from the company and company management.

Leif Johansson, as Volvo's CEO, is not independent of the company and company management.

Tom Hedelius and Per-Olof Eriksson have been members of the Board of Volvo since January 19, 1994. Accordingly, they have been members for more than 12 years and consequently, in accordance with the Code, are not to be considered independent of the company and company management.

Philippe Klein and Louis Schweitzer are employee and Chairman of the Board respectively of Renault SA and represent Renault SA on the company's Board of Directors. Since Renault SA controls more than 10% of the shares and votes in Volvo, these persons may not, pursuant to the Code, be considered as independent in relation to one of the company's major shareholders.

Audit Committee

In December 2002, the Board established an Audit Committee primarily for the purpose of overseeing the accounting and financial reporting processes and the audit of the financial statements. The Audit Committee is responsi-

ble for preparing the Board's work through quality assurance of the company's financial reporting through reviewing the interim reports and the annual report. In addition, the Audit Committee's task is to establish guidelines specifying what other services than audit the company may procure from the company's auditors and to provide guidelines for and decisions on transactions with companies and persons closely associated with Volvo. The Audit Committee is also responsible for evaluating the internal and external auditors' work as well as to provide the Election Committee with the results of the evaluation and to assist in preparing proposals for auditors.

Up to the 2006 Annual General Meeting, the Audit Committee comprised Board members Haruko Fakuda, Ken Whipple and Per-Olof Eriksson, Chairman. After the Annual General Meeting in 2006, the Audit Committee comprised Board members Peter Bijur, Ying Yeh and Per-Olof Eriksson, Chairman. During 2006 the Audit Committee held three regular meetings and one extraordinary meeting.

The Audit Committee met with the external auditors and Head of Internal Audit at the ordinary meetings. The Audit Committee has also met with the external auditors without the presence of the company management.

Remuneration Committee

In April 2003, the Board established a Remuneration Committee primarily for the purpose of preparing and deciding on issues relating to remuneration to senior executives in the Group. The duties of the Committee include presenting recommendations for resolution by the Board regarding terms of employment and remuneration for the President and Executive Vice President of AB Volvo, principles for remuneration, including pensions and severance payment for other members of the Group Executive Committee, and principles for variable salary systems, share-based incentive programs, pensions and severance payment for other senior executives in the Group. In addition, the Remuneration Committee decides the individual terms of employment for the other members of the Group Executive Committee in accordance with the principles established by the Board.

In 2006, the Remuneration Committee comprised Board members Tom Hedelius, Louis Schweitzer and Finn Johnsson, Chairman. The Remuneration Committee held four meetings during the year.

Group Executive Committee

An account of their respective age, education, Board memberships, ownership of shares in Volvo, and year of joining Volvo for the CEO and each member of the Group Executive Committee is presented on pages 82 and 83.

External auditing

Volvo's auditors are elected by the Annual General Meeting, for a period of three or four years. The current auditors were elected at the 2003 Annual General Meeting and the next election of auditors will be at the 2007 Annual General Meeting. Volvo's auditor is PricewaterhouseCoopers AB ("PwC"). Two PwC partners, Göran Tidström and Olov Karlsson, are responsible for the audit of Volvo. Göran Tidström is the Lead Partner.

The Auditors report their findings to the shareholders through the audit report, which they present to the Annual General Meeting of the shareholders. In addition, the auditors report detailed findings from their review to the Audit Committee and, once a year, to the full Board of Directors.

In addition to the audit, PwC also provides certain services to Volvo. In 2006 such services included advice on the company's extended procedures for testing and reporting of internal controls, in accordance with SOX, Section 404, which is mandatory for the first time in 2006. PwC also provides tax advice and other audit-related services to Volvo. When PwC is retained to provide services other than the audit, it is done in accordance with rules decided by the Audit Committee pertaining to pre-approval of the nature of the services and the fees. Volvo believes that the provision of the additional services does not jeopardize PwC's independence.

For more detailed information concerning auditor's fees see Note 35 of the notes to the consolidated financial statements.

The organization of the internal control over financial reporting

Volvo has had internal control processes for a long time.

Volvo applies internal control principles introduced by the Committee of Sponsoring Organizations of the Treadway Commission (COSO). The COSO principles consists of five interrelated components where a number of objectives have to be met in each component. The components are: control environment, risk assessment, control activities, information and communication and monitoring.

Volvo has an internal audit function of which the main responsibility is to ensure adherence to the internal control system that the company applies. The Head of Internal Audit reports directly to the CEO and CFO and has a dotted reporting line to the Audit Committee of the Board of Directors.

During 2005 and 2006, Volvo continued its efforts that were initiated in 2004 in terms of reviewing and documenting relevant processes for the purpose of ensuring that the internal control of the financial reporting functioned satisfactorily and was well documented. In 2006, the work was finalized and the relevant processes were tested.

Since AB Volvo's Series B shares are registered with the Securities & Exchange Commission (SEC) in the US, Volvo must comply with Sarbanes-Oxley Act (SOX). SOX section 404 requires that Volvo submit a report from Volvo's CEO and CFO regarding Volvo's internal control over the financial reporting, in conjunction with the presentation of the US Annual Report, Form 20F, for 2006. The report, which is part of the Form 20F, will include a statement regarding the outcome of the company's evaluation of the effectiveness of the internal control over the financial reporting for the 2006 year-end. The report will also include a statement from the CEO and CFO on whether the internal control over the financial reporting is effective or not, and a statement on which internal control system that was used to evaluate the effectiveness. If any material weaknesses in the internal control of the financial reporting are identified these will be described in the report. PwC will submit an auditor's statement pertaining to the internal control of the financial reporting.

The intention is to publish the Form 20F in May 2007.

Disclosure Committee

A Disclosure Committee was established in 2004. The Committee contributes to ensuring that Volvo fulfills its obligations according to applicable legislation as well as to listing rules to timely disclose to the financial market all material information that affects the share price.

The Committee comprises the heads of the departments, Corporate Finance, Internal Audit, Investor Relations, Corporate Legal, Business Control and Financial Reporting.

Principles for remuneration and other employment terms for the Group Executive Committee

The Annual General Meeting of 2006 decided upon principles for remuneration and other employment terms for the members of Volvo's Group Executive Committee ("Remuneration Policy") in accordance with Section 4.2.2 of the Code. The proposed principles for remuneration and other employment terms can be summarized as follows.

The guiding principle is that remuneration and other employment terms for company management shall be competitive to ensure that Volvo can attract and retain skilled persons in the Group Executive Committee. The fixed salary may be competitive and reflect the individual's area of responsibility and performance. In addition to the fixed salary a variable salary may be paid. A variable salary may amount to a maximum of 50% of the fixed annual salary and be based on the Volvo Group's and/or the executive's Group company's fulfillment of certain improvement goals. The improvement goals are decided by the Board of AB Volvo and may be related, for example, to operating income or cash flow. In addition to fixed and variable salary, normally other customary benefits, such as company car and company healthcare are provided. In individual cases, housing and other benefits are provided. In addition to pension benefits provided by law and collective bargaining agreements, the members of the Group Executive Committee domiciled in Sweden are offered a defined-contribution pension whereby the amount of the individual's pension comprises

The Board at a visit to Volvo Construction Equipment in Shanghai.



the premium paid and any return. In individual cases, other pension solutions may be considered. Members of the Group Executive Committee domiciled outside Sweden are offered pension solutions that are competitive in the country in which the person is domiciled. With regard to notice of termination of employment for members of the Group Executive Committee domiciled in Sweden, the notification period is 12 months if the company terminates the employment and six months if the individual terminates employment. In addition, the employee is entitled to a severance pay of 12 months' salary if Volvo terminates employment. In individual cases, other principles for notification periods and severance pay may be considered. Those members who are domiciled outside Sweden are offered terms in this respect that are competitive in the country in which the person is domiciled.

A more detailed account of remuneration to the President and principles for the remuneration to other senior executives is presented in Note 34 to the consolidated financial statements.

At the 2007 Annual General Meeting, the Board has decided to propose renewed guidelines for remunerations to executives. The proposal will be available on Volvo's website.

Outstanding share- and share-price-related incentive programs

An account of outstanding share- and share-price related incentive program is provided in Note 34 to the consolidated financial statements.