Corporate Governance Report

During 2007, the Board focused specifically on issues pertaining to integration of new operations, the introduction of new products and development of the Group’s operations in Asia. The Board also visited Volvo’s facilities in Russia.

Corporate bodies in corporate governance

The governance and control of the Volvo Group is carried out through a number of corporate bodies. At the Annual General Meeting, 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 bodies, the Group Executive Committee and the business areas’ and business units’ Boards of Directors. The Group Executive Committee comprises those who report directly to the CEO. At year-end 2007, there were 18 Group Executive Committee members including the CEO. The Group Executive Committee comprised Presidents of the Group’s business areas as well as President of Nissan Diesel and the President of Volvo Powertrain business unit, who is also the Senior Vice President Technology for the Volvo Group. The Group Executive Committee also includes the Executive Vice President, who is also the Deputy CEO, the 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/unit, and supply information concerning the Group’s performance. The CEO or another member of the Group Executive Committee is the Chairman of the Board for the Boards of all business areas and business units and these comprise mainly of other members of the Group Executive Committee. The Boards of the business areas and business units effect control and follow-ups of business areas’ and business units’ 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), in accordance with which this Corporate Governance Report has
been prepared. The Board’s report regarding internal controls over the financial reporting is included as a special section of this Corporate Governance Report, in accordance with application instructions from the Swedish Corporate Governance Board.

Between January 1, 2007 and December 31, 2007 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 a member of the Remuneration Committee even though he is not, according to the Code, independent in relation to the company and the company management since he has been a member of the Board of Directors of the company for more than 12 years. The Board considers, however, Tom Hedelius to be well suited as a member of the Remuneration Committee, regardless of the fact that he has been a Board member for a long time.

This corporate governance report has not been reviewed by the company’s auditors.

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, proposal for fees and other compensations to be paid to the Board members and proposal for fees to be paid to the auditors. In the years in which election of auditors for Volvo shall be held, the Election Committee presents proposals for election of auditors 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 published on Volvo’s website.

At Volvo’s Annual General Meeting in 2007, new instructions for the Election Committee were adopted. According to these instructions, the Annual General Meeting shall select five members for the Election Committee, of which four shall represent the largest shareholders in the company, in terms of the number of votes, who have expressed their willingness to participate in the Election Committee. In addition, one of the members shall be the Chairman of the Board. Additionally, the Election Committee can offer other larger shareholders to appoint one representative as a member of the Election Committee. If such an offer is made, it should be directed in turn to the largest shareholder in terms of voting rights not already being represented on the Election Committee. The number of members on the Election Committee may not exceed seven however.

The Election Committee, which was appointed at Volvo’s Annual General Meeting in 2007 in accordance with the new instructions, comprised Volvo’s Chairman Finn Johnsson, Carl-Olof By, representing Svenska Handelsbanken, SHB Pension Fund, SHB Pensionskassa, SHB Employee Fund and Oktogonen, Lars Förberg, representing Violet Partners LP, Björn Lind, representing SEB Fonder/Trygg Försäkring and Thierry Moulonguet, representing Renault s.a.s. The Election Committee elected Thierry Moulonguet as Chairman. During 2007, the Election Committee appointed Eva Halvarsson, representing Andra AP-fonden, as a member of of the Election Committee. Due to a change in the shareholder structure, Eva Halvarsson was replaced in August 2007 by Christer Elmqvist, representing AMF Pension. The Election Committee also appointed Bengt Kjell, representing AB Industrivärden as a member of the Election Committee. The Election Committee’s proposal in advance of the 2008 Annual General Meeting will be made public in conjunction with the notice to the Annual General Meeting and on Volvo’s website.

The Board’s composition and attendance at meetings January 1, 2007 to December 31, 2007

<table>
<thead>
<tr>
<th>Name</th>
<th>Board</th>
<th>Audit Committee</th>
<th>Remuneration Committee</th>
</tr>
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<tbody>
<tr>
<td>Finn Johnsson</td>
<td>8</td>
<td>4</td>
<td></td>
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<tr>
<td>Per-Olof Eriksson</td>
<td>7</td>
<td>3</td>
<td></td>
</tr>
<tr>
<td>Tom Hedelius</td>
<td>8</td>
<td>4</td>
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<tr>
<td>Leif Johansson</td>
<td>8</td>
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<tr>
<td>Louis Schweitzer</td>
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<tr>
<td>Philippe Klein</td>
<td>7</td>
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<tr>
<td>Ying Yeh</td>
<td>7</td>
<td>3</td>
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<tr>
<td>Peter Bjur</td>
<td>8</td>
<td>3</td>
<td></td>
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<tr>
<td>Lars Westerberg¹</td>
<td>4</td>
<td>1</td>
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<tr>
<td>Olle Ludvigsson</td>
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<tr>
<td>Johnny Rönkvist</td>
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<tr>
<td>Martin Linder</td>
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</tbody>
</table>

¹Elected to the Board at the 2007 Annual General Meeting.

The Board
In 2007, AB Volvo’s Board of Directors consisted of nine 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 2007, six regular meetings, one statutory meeting and one extraordinary meeting 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 how financial information should be reported to the Board as well as the distribution of duties between the Board and the President.

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 4, 2007 approved a
and engines that can operate on renewable fuels. The Board also visited Volvo’s facilities in Russia.

The Board’s work is mainly performed through Board meetings and through meet-
ings 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 memberships, owner-
ship of shares in Volvo as of February 26, 2008 and the years of membership on the Volvo Board, is presented on the Board and auditors page.

During 2007, the Board performed its yearly evaluation of the Board’s work. The Chairman has informed the Election Commit-
tee on the result of the evaluation.

Independence requirements

The Board of Directors of Volvo must meet independence requirements pursuant to the rules of the Nordic Exchange in Stockholm, the Code and the Sarbanes-Oxley Act (SOX). In 2007, AB Volvo applied for deregistration of its class B shares from the SEC. Below follows a short description of the rules of the Nordic Exchange in Stockholm 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 man-
agement 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 share-
holders. In addition, the Code demands that a majority of the members in the Audit Commit-
tee 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 excep-
tion of the Board chairman if a member of the Remuneration Committee, shall be independ-
ent of the company and company manage-
ment.

Considering the above demands regarding the Board’s independence, the Election Com-
mittee has reported to the company the fol-
lowing understanding about the independ-
ence from the company and the company management as well as the company’s largest shareholders with regard to the Board mem-
bers who were elected at the Annual General Meeting in 2007:

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

Leif Johansson, as Volvo’s CEO, is not inde-
pendent from 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 Direc-
tors. 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 responsible for preparing the Board’s work to assure the quality 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 guide-
lines 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.

At the statutory Board meeting following the 2007 Annual General Meeting, Peter Bjur, Ying Yeh, Lars Westerberg and Per-Olof Eriksson were appointed members of the Audit Committee. Per-Olof Eriksson was appointed Chairman of the Audit Committee.

The Audit Committee met with the external auditors and Head of Internal Audit at the meetings of the Audit Committee. The Audit Committee has also met separately with the external auditors and the Head of Internal Audit without the presence of the company management. The Audit Committee held three meetings during 2007.

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 2007, 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 as of February 26, 2008, and year of joining Volvo for the CEO and each member of the Group Executive Committee is presented in the Group Executive Committee section.

External auditing
Volvo’s auditors are elected by the Annual General Meeting, for a period of three or four years. The current auditor is Pricewaterhouse-Coopers AB (PwC), which was elected at the 2007 Annual General Meeting for a period of three years. The next election of auditors will thus be at the 2010 Annual General Meeting. Two PwC partners, Göran Tidström and Olov Karlsson, are responsible for the audit of Volvo. Göran Tidström is the Lead Partner.

The Auditors review the interim report for the period January 1 to June 30 and the annual report. The auditors report their findings as regards the annual report 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 reviews to the Audit Committee twice a year and, once a year, to the full Board of Directors.

In addition to the audit, PwC also provides certain services to Volvo. In 2007 such services included the performance of a financial due diligence in relation to the company’s discussions with Dong Feng Motor Group regarding a possible future cooperation. 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 Fees to the auditors of the notes to the consolidated financial statements.

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.

Outstanding share- and share-price-related incentive programs
An account of outstanding share- and share price-related incentive programs is provided in Note 34 Employees in the Group’s notes.
The Board’s report regarding internal control over the financial reporting

The purpose of this report is to provide shareholders and other interested parties an understanding of how internal control is organized at Volvo with regard to financial reporting.

The report has been prepared in accordance with the Swedish Code of Corporate Governance (the Code), and the guidance issued by the Confederation of Swedish Enterprise and FAR. The report is therewith limited to internal control over financial reporting. In accordance with application directions for the Code from the Swedish Corporate Governance Board, this report does not contain any statement regarding how well the internal controls have functioned. This report is included as a section in the Corporate Governance Report, but does not comprise a portion of the formal annual report. This report has not been reviewed by the company’s external auditors.

Introduction

Since AB Volvo’s Series B shares are registered with the Securities and Exchange Commission (SEC) in the US, Volvo is subject to the Sarbanes-Oxley Act (SOX) that includes, among other aspects, comprehensive regulations regarding evaluation of internal control over the financial reporting. During 2007 Volvo applied for delisting of the Volvo share from the NASDAQ stock exchange in the US and for deregistration of the class B share from the SEC.

Volvo primarily applies internal control principles introduced by the Committee of Sponsoring Organizations of the Treadway Commission (COSO). The COSO principles consist of five interrelated components. The components are: control environment, risk assessment, control activities, information and communication and follow-up/supervision.

Volvo has had a specific department for internal control since 2005. The aim of the Internal Control function is to provide support for management groups within business areas, so that they are able to continuously provide good and improved internal controls relating to financial reporting. Work that is conducted through this function is based primarily on an evaluation methodology that has been developed for the purpose of complying with SOX requirements. The methodology is aimed at ensuring both compliance with directives and policies, as well as to create good conditions for specific control activities in key processes related to financial reporting. The Audit Committee is informed of the result of the work performed by the Internal Control function within Volvo with regard to risk, control activities and follow-up on the financial reporting.

Volvo also has an Internal Audit function with the primary task of independently verifying that companies in the Group follow the principles and rules that are stated in the Group’s directives, policies and instructions for financial reporting. The head of the Internal Audit function reports directly to the CEO, the Group’s CFO and the Audit Committee.

Risk assessment

Risks relating to the financial reporting are evaluated and monitored by the Board through the Audit Committee. The annual evaluation of internal control activities conducted by the Internal Control and Internal Audit functions, are based on a risk-based model. The evaluation of the risk that errors will appear in the financial reporting is based on a number of criteria. Complex accounting principles can, for example, mean that the financial reporting risks being inaccurate for those posts that are covered by such principles. Valuation of a particular asset or liability according to various evaluation criteria can also constitute a risk. The same is true for complex and/or changing business circumstances.

Control activities

In addition to the Board of AB Volvo and its Audit Committee, the Boards and management groups of Group companies constitute the overall supervisory body.

Several control activities are applied in the ongoing business processes to ensure that potential errors or deviations in the financial reporting are prevented, discovered and corrected. Control activities range from review of outcome results in management group meetings to specific reconciliation of accounts and analyses of the ongoing processes for financial reporting. CFOs in Group companies are ultimately responsible for ensuring that control activities in the financial processes are appropriate and in accordance with the Group’s policies and instructions. They are also responsible for ensuring that authority structures are designed so that one person can’t perform an activity and then perform the control of the same activity. Control activities within IT security and maintenance are a key part of Volvo’s internal control over financial reporting.

Information and communication

Policies and instructions relating to the financial reporting are updated and communicated on a regular basis from management to all affected employees. In addition, there are a
number of committees and networks within Volvo that serve as forums for information and discussions regarding issues relating to the financial reporting and application of internal rules. Included in these committees and networks are representatives from the business areas and the Group’s staff functions, who are responsible for financial reporting. Work in these committees and networks is aimed, among other things, at ensuring a uniform application of the Group’s policies, principles and instructions for the financial reporting and to identify and communicate shortcomings and areas of improvement in the processes for financial reporting.

**Follow-up/Supervision**

Ongoing responsibility for follow-up rests with the business area’s management groups and accounting and controller functions. In addition, the Internal Audit and the Internal Control functions conduct follow-up and supervision in accordance with what is adopted in the introduction of this report. The outcome of evaluation activities shall be reported to Group management and to the Audit Committee.