

Corporate Governance Report

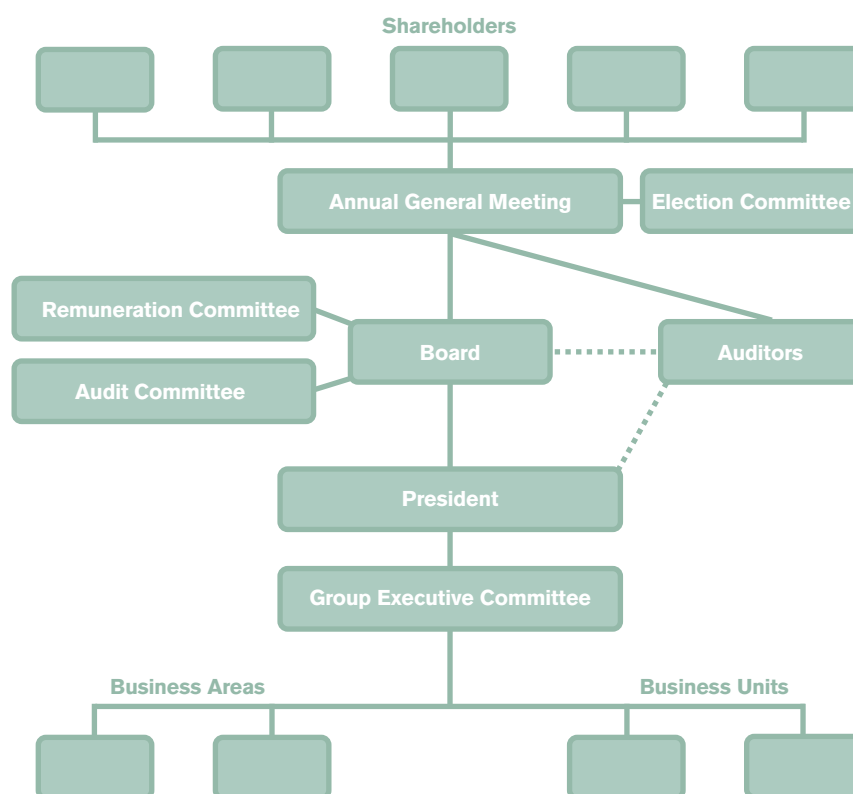
During 2008, the Board focused specifically on adapting the Group's operations to the present market conditions; initially to a very strong demand for the Group's products and during the second half to a significantly weaker development. The Board has furthermore focused specifically on issues pertaining to the continuous integration of newly acquired operations and on issues relating to the continuous renewal of the Group's product portfolio.

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. The Group Executive Committee meetings, which are led by the CEO, deal with Group-wide issues and issues affecting more than one business area/unit, and sharing of information concerning the Group's performance. The CEO or another member of the Group Executive Committee is the Chairman of the Boards of all business areas and

The Volvo Group Corporate Governance Model



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, revised as of July 1, 2008 (the Code), in accordance with which this Corporate Governance Report has been prepared. The Board's report of the key aspects of the company's system for internal controls and risk management regarding financial reports is included as a special section of this Corporate Governance Report.

Between January 1, 2008 and December 31, 2008 Volvo did not deviate from any of the regulations set forth in the Code.

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 as well as proposal for fees and other compensations to be paid to the Board members. In the years in which election of auditors for Volvo shall be held, the Election Committee presents proposals for election of auditors and proposal for fees to be paid to the auditors based on the preparations carried out by Volvo's Audit Committee.

The Election Committee's proposal shall be presented to Volvo in sufficient time to be able to be included in the notice to attend the Annual General Meeting and at the same time to be published on Volvo's website. In conjunction with the notice to attend the Annual General Meeting is published, the Election Committee shall among other things comment on whether those persons who are proposed to

be elected as Board members are to be considered as independent in relation to the company and company management as well as to large shareholders in the company and further to comment on their material assignments and holding of shares in Volvo. 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 AB Volvo 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 2008 in accordance with the new instructions, comprised Volvo's Chairman Finn Johnsson, Carl-Olof By, representing AB Industrivärden, Lars Förberg, representing Violet Partners LP, Anders Oscarsson, representing SEB Fonder / Trygg Försäkring and Thierry Moulouguet, representing Renault. The Election Committee elected Thierry Moulouguet as Chairman. Later during 2008, the Election Committee offered Svenska Handelsbanken together with SHB Pension Fund, SHB Pensionskassa, SHB Employee Fund and Oktagon and AMF Pension to appoint one representative each as a member of the Election Committee. Handelsbanken and others appointed Håkan Sandberg and AMF Pension appointed Christer Elmehegen. When Christer Elmehegen in December 2008 retired from AMF Pension, he also retired from the Election Committee.

The Board's composition and attendance at meetings January 1, 2008 to December 31, 2008

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

¹ Resigned from the Board in conjunction with the 2008 Annual General Meeting.

² Elected to the Board at the 2008 Annual General Meeting.

The Election Committee has proposed re-election of Peter Bijur, Leif Johansson, Finn Johnsson (Chairman of the Board), Louis Schweitzer, Ravi Venkatesan, Lars Westerberg and Ying Yeh as members of the AB Volvo Board. In addition, the Election Committee proposed election for the first time of Jean-Baptiste Duzan and Anders Nyrén. Tom Hedelius and Philippe Klein have declined re-election.

The Board

In 2008, 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 2008, 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 9, 2008 approved a total fee to the Board, for the time until the end of the next Annual General Meeting, of SEK 5,725,000 to be distributed among the Board Members according to the following. The Chairman of the Board should receive a fee of SEK 1,500,000 and each of the remaining members should receive a fee of SEK 500,000, with the exception of the President. In addition, the Chairman of Audit Committee should 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. The Board also 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 was responsible for preparing for the Board's work to assure the quality of the company's financial reporting through reviewing the interim reports and the annual report. In connection therewith, the Board met with the company's auditors during 2008. The Board continuously evaluated the performance of the CEO.

During 2008, the Board focused specifically on adapting the Group's operations to the present market conditions; initially to a very strong demand for the Group's products and during the second half to a significantly weaker

development. The Board has furthermore focused specifically on issues pertaining to continuation of the integration of newly acquired operations and on issues relating to the continuous renewal of the Group's product portfolio.

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, main education, professional experience, assignments in the Company and other important board memberships, own and related parties ownership of shares in Volvo as of March 4, 2009 and the years of membership on the Volvo Board, is presented on the Board and auditors page.

During 2008, 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 OMX Nordic Exchange Stockholm (the "Stockholm Exchange"), and the Code. Below follows a short description of the rules of the Stockholm 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 members elected by the General Meeting shall be independent of the company and the company management and that at least two of the Board members elected by the General Meeting 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 the company management and that at least one member shall be independent

of the company's major shareholders. A member of the Board who is a member of the company management shall not be a member of the Audit Committee. 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 2008:

Finn Johnsson, Peter Bijur, Tom Hedelius, Philippe Klein, Louis Schweitzer, Ravi Venkatesan, Lars Westerberg och Ying Yeh are all independent from the company and company management.

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

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

Also the Election Committee must meet independence requirements pursuant to the Code. According to the Code the majority of the members of the Election Committee are to be independent of the company and the company management. Neither the CEO nor other members of the executive management are to be members of the Election Committee. At least one member of the nomination committee is to be independent of the company's largest shareholder in terms of votes or any

In the autumn of 2008, the Volvo Group's Board of Directors visited Eicher's plant in Pithampur, India.



group of shareholders that act in concert in the governance of the company. All members of the Election Committee have been considered to be independent of Volvo and Volvo's management. All members of the Election Committee except Thierry Moulounguet have been considered to be independent of Volvo's largest shareholder in terms of votes, since Thierry Moulounguet represents Renault in the Election Committee and Renault is Volvo's largest shareholder in terms of votes.

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 guidelines specifying what other services than audit the company may procure from the company's auditors and to provide guidelines for and decisions on trans-

actions 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. Finally the Audit Committee shall evaluate the quality, relevance and efficiency of the Group's system for internal controls, internal audit and risk management.

At the statutory Board meeting following the 2008 Annual General Meeting, Peter Bijur, Lars Westerberg and Ying Yeh were appointed members of the Audit Committee. Lars Westerberg 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 and the external auditors have among other things discussed the external audit plan and risk management. The Audit Committee held three meetings during 2008.

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 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 2008, 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, principal education, Board memberships, own and related parties' ownership of shares in Volvo as of March 4, 2009, 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 PricewaterhouseCoopers 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 external auditors discuss the external audit plan and risk management with the Audit Committee. 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.

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.

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 share price sensitive information.

The Committee comprises the heads of the departments Corporate Finance, Internal

Audit, Investor Relations, Corporate Legal, Business Control and Financial Reporting. Chairman of the Disclosure Committee is the company's Senior Vice President of Corporate Communications.

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 on the key aspects of the company's system for internal controls and risk management regarding financial reports

The Board is responsible for the internal controls according to the Swedish Companies Act and the Swedish Code of Corporate Governance (the Code). 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 Code and the guidance issued by the Confederation of Swedish Enterprise and FAR SRS and is thus limited to internal control over financial reporting. 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

Until March 2008 AB Volvo's Series B shares were registered with the Securities and Exchange Commission (SEC) in the US. Volvo was subject to the Sarbanes-Oxley Act (SOX) until the B shares were deregistered from the SEC. SOX includes, among other things, comprehensive regulations regarding the evaluation of the internal control over the financial reporting.

Also after the deregistration from the SEC Volvo has maintained many principles for the internal controls of the financial reporting

which were implemented when the Group had to comply with the SOX-regulations. 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.

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 and business units, 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 risks, 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.

Control environment

Fundamental to Volvo's control environment is the business culture that is established within the Group and in which managers and employees operate. Volvo works actively on communications and training regarding the company's basic values as described in The Volvo Way, an internal document concerning Volvo's busi-

ness culture, and the Group's Code of Conduct, to ensure that good morals, ethics and integrity permeate the organization.

The foundation of the internal control process relating to the financial reporting is built up around the Group's directives, policies and instructions, and the responsibility and authority structure that has been adapted to the Group's organization to create and maintain a satisfactory control environment. The principles for internal controls and directives and policies for the financial reporting are contained in Volvo Financial Policies & Procedures (FPP), an internal book comprising all important instructions, rules and principles.

Risk assessment

Risks relating to the financial reporting are evaluated and monitored by the Board through the Audit Committee inter alia through identifying what types of risks that typically could be considered as material and where they would typically occur. 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 units 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

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.