

Corporate Governance Report

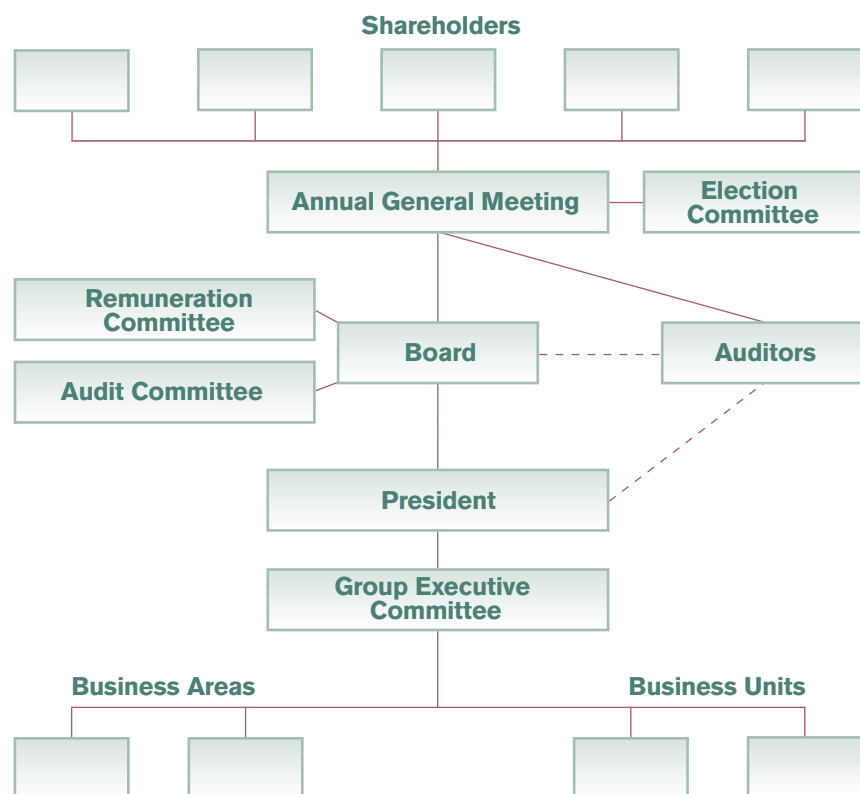
During 2009, the Board focused specifically on adapting the Group's operations and cost structure to the significantly weaker demand for the Group's products. Furthermore, the Board focused on the continued integration of the operations acquired during the last years and issues relating to the continuous renewal of the Group's product portfolio. In addition, the Board focused on securing a strong liquidity position for the Group.

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 business units, which are comprised mainly of other members of the Group Executive Committee. The Boards of the busi-

The Volvo Group Corporate Governance Model



ness 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 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, 2009 and December 31, 2009 Volvo did not deviate from any of the regulations set forth in the Code.

This Corporate Governance Report does not comprise a portion of the formal annual report

and it has not been reviewed by the company's external 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 proposal 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 included in the notice to attend the Annual General Meeting and to be published on Volvo's website at the same time. 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 major 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 to serve on 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 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, however, may not exceed seven.

The Election Committee, which was appointed at Volvo's Annual General Meeting in 2009 in accordance with the instructions, comprised Volvo's Chairman Finn Johnsson, Carl-Olof By, representing AB Industrivärden, Lars Förberg, representing Violet Partners LP, Thierry Moulouguet, representing Renault s.a.s. and Lars Öhrstedt, representing AFA Försäkring. The Election Committee elected Thierry Moulouguet as Chairman. Later during 2009, the Election Committee offered Svenska Handelsbanken together with SHB Pension Fund, SHB Pensionskassa, SHB Employee Fund and Oktogonen 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 Ingrid Bonde.

On January 15, 2010, Finn Johnsson resigned as Chairman of the Board and Board member. Thereby, he also left the Election Committee.

The Election Committee has decided to propose to the Annual General Meeting 2010 the re-election of Peter Bijur, Jean-Baptiste Duzan, Leif Johansson, Anders Nyrén, Louis Schweitzer, Ravi Venkatesan, Lars Westerberg and Ying Yeh and the new election of Hanne de Mora as members of the Board of Directors. The Election Committee has also decided to propose to the Annual General Meeting 2010 the election of Louis Schweitzer as Chairman of the Board.

The Board

In 2009, 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. AB Volvo's CEO, Leif Johansson, was a member of the Board.

On January 15, 2010, Finn Johnsson resigned as Chairman of the Board and Board member. Thereby, the number of Board members elected by the Annual General Meeting decreased to

The Board's composition and attendance at meetings January 1, 2009 to December 31, 2009

	Board	Audit Committee	Remuneration Committee
Finn Johnsson	9		4
Peter Bijur	8	3	
Jean-Baptiste Duzan ¹	5	2	
Tom Hedelius ²	4		
Leif Johansson	9		
Philippe Klein ³	3		
Anders Nyrén ⁴	5		4
Louis Schweitzer	8		4
Ravi Venkatesan	8		
Lars Westerberg	9	3	
Ying Yeh ⁵	7	1	
Martin Linder, ⁶ employee representative	8		
Olle Ludvigsson, ⁷ employee representative	7		
Johnny Rönnkvist, ⁸ employee representative	6		
Mikael Sällström, ⁹ employee representative	2		
Berth Thulin, ¹⁰ employee representative	3		
Total number of meetings	9	3	4

1 Elected to the Board at the 2009 Annual General Meeting. Member of the Audit Committee since April, 2009

2 Resigned from the Board and the Remuneration Committee in conjunction with the 2009 Annual General Meeting

3 Resigned from the Board in conjunction with the 2009 Annual General Meeting

4 Elected to the Board at the 2009 Annual General Meeting

5 Resigned from the Audit Committee in April, 2009

6 At the meeting at which Martin Linder was not present, Margareta Öhlin (deputy, employee representative) took his place

7 Resigned from the Board on September 8, 2009

8 Resigned from the Board on June 26, 2009

9 Board member as from September 8, 2009

10 Board member as from June 26, 2009

eight. In connection with Finn Johnsson resigning as Chairman of the Board and Board member, the Board of Directors appointed Louis Schweitzer as new Chairman of the Board until the next Annual General Meeting.

During 2009, six regular meetings, one statutory meeting 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 thereof, 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 defining 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 1, 2009 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: 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 the Audit Committee should receive SEK 250,000, 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 2009. The Board continuously evaluated the performance of the CEO.

During 2009, the Board focused specifically on adapting the Group's operations and cost structure to the significantly weaker demand for the Group's products. Furthermore, the Board focused on the continued integration of the operations acquired during the last years and issues relating to the continuous renewal of the Group's product portfolio. In addition, the Board focused on securing a strong liquidity position for the Group.

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 ongoing 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, other important board memberships, their and related parties' ownership of shares in Volvo as of February 26, 2010, and the years of membership on the Volvo Board, is presented on the Board and auditors page.

During 2009, 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 Code. Up to October 1, 2009, these independence requirements were also set out in the NASDAQ OMX Stockholm's ("Stockholmsbörsen") Rule Book for Issuers. Further, since July 1, 2009, the Audit Committee must meet independence requirements pursuant to the Swedish Companies Act. Below follows a short description of the independence requirements. The independence requirements mainly state 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 who are independent of 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. According to the Swedish Companies Act, the members of the Audit Committee may not be employees of the company. 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.

Prior to the Annual General Meeting 2009, considering the above requirements regarding the Board's independence, the Election Committee reported the following understanding with regard to the Board members who were elected at the Annual General Meeting in 2009:

Finn Johnsson, Peter Bijur, Ravi Venkatesan, Lars Westerberg, Ying Yeh and Anders Nyrén are all independent of the company and company management as well as of the company's major shareholders.

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

Louis Schweitzer is Chairman of the Board of Directors of Renault S.A. and Jean-Baptiste Duzan is employed by Renault S.A. Both of them represent Renault s.a.s. on the company's Board of Directors. They are both independent of the company and the company management but are, since Renault s.a.s. controls more than 10 percent of the shares and votes in Volvo, not to be considered as independent of one of the company's major shareholders.

After the Annual General Meeting 2009, Louis Schweitzer has left his assignment as

Chairman of the Board of Directors of Renault S.A. and Jean-Baptiste Duzan has left his employment in Renault S.A. However, Jean-Baptiste Duzan has remained advisor to Renault S.A. and both Louis Schweitzer and Jean-Baptiste Duzan have continued to represent Renault s.a.s. in the company's Board of Directors. Further, Finn Johnsson has resigned as Chairman and member of the company's Board of Directors.

The Election Committee must also 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 Election Committee is to be independent of the company's largest shareholder in terms of votes or any 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 the company and the company management. All members of the Election Committee except Thierry Moulouquet have been considered to be independent of Volvo's largest shareholder in terms of votes, since Thierry Moulouquet represents Renault s.a.s. in the Election Committee and Renault s.a.s. is Volvo's largest shareholder in terms of votes.

As from the Annual General Meeting 2010, the Audit Committee must meet additional requirements according to the Swedish Companies Act. As from that time at least one member of the Audit Committee must be independent of the company, the company management and the company's major shareholders and have accounting or auditing proficiency.

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 respon-

sible for preparing the Board's work to assure the quality of the company's financial reporting by reviewing the interim reports and the annual report. In addition, the Audit Committee's task is to establish guidelines specifying what other services, beyond auditing, the company may procure from the company's auditors and to provide guidelines for transactions with companies and persons closely associated with Volvo. The Audit Committee is also responsible for evaluating the internal and external auditors' work, 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 control over financial reporting, internal audit and risk management.

At the statutory Board meeting following the 2009 Annual General Meeting, Lars Westerberg, Peter Bijur and Jean-Baptiste Duzan 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 2009.

Remuneration Committee

In April 2003, the Board established a Remuneration Committee 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 payments, 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 2009, the Remuneration Committee comprised of Board members Finn Johnsson, Louis Schweitzer and Anders Nyrén. Finn Johnsson was appointed Chairman of the Remuneration Committee. The Remuneration Committee held four meetings during 2009.

When resigning as Chairman and member of the Board of the company on January 15, 2010, Finn Johnsson also left the Remuneration Committee. Thereafter, Ying Yeh was appointed as a new member of the Remuneration Committee and Louis Schweitzer was appointed as the new Chairman of the Remuneration Committee.

Group Executive Committee

An account of their respective age, principal education, Board memberships, their and related parties' ownership of shares in Volvo as of February 26, 2010, 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. Auditors will thus be elected 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 with regard to the annual report to the shareholders through the audit report, which they present to the Annual General Meeting. 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 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

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 a specific function for internal control. The objective of the Internal Control function is to provide support for management groups within business areas and business units, that allows them to continuously provide good and improved internal controls relating to financial reporting. Work that is conducted through this function is based primarily on a methodology, which aim is to ensure 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 business 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, as well as 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.

In October 2009, the Board of Directors visited Volvo Powertrain's plant in Skövde, Sweden.



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 at identifying and communicating shortcomings and areas of improvement in the processes for financial reporting.

Follow-up

Ongoing responsibility for follow-up rests with the business areas' 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 described in the introduction of this report. More specifically, the Internal Control function runs and coordinates evaluation activities through the "Volvo Group Internal Control programme", which gives a systematic way of evaluating the quality and effectiveness of the internal control over financial reporting on a yearly basis. A yearly evaluation plan is settled and presented to the Audit Committee. This evaluation programme comprises three main areas:

1. **Management controls:** Self assessment procedure carried out by management teams at business area and business unit level as well as local company level. Main areas evaluated are the adherence to the Group's financial directives and policies found in FPP along with The Volvo Way and the Group's Code of Conduct.
2. **Transaction level controls:** Processes related to the financial reporting are evaluated by testing of specific routines and controls based upon the Group's framework for internal control over financial reporting, VICS – "Volvo Internal Control Standards". The framework focus on the financial reporting areas deemed to have a relatively higher risk for potential errors because e.g. complex accounting principles, complex or changed business operations etc.
3. **IT General controls:** Processes for maintenance, development and access management of financial applications are evaluated by testing of routines and controls.

The results of the evaluation activities are reported to the Group management and the Audit Committee.