

# CORPORATE GOVERNANCE REPORT

During 2010, the Board focused specifically on the Group's business development taking into account the earlier uncertainty primarily on the North American and European markets and the recovery that occurred in 2010 regarding demand for the Group's products. In addition, the Board focused on development of the Group's operations ongoing in China, Japan and India.

## Corporate bodies in corporate governance

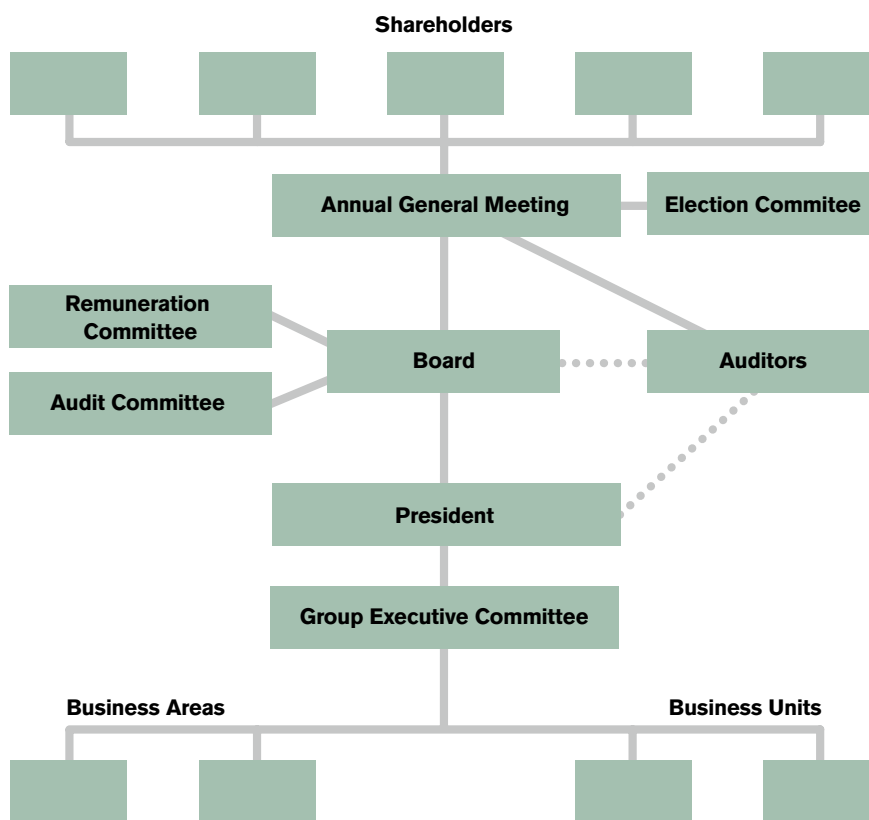
The governance and control of the Volvo Group is carried out through a number of corporate bodies. At the Annual General Meeting, the shareholders exercise their voting rights with regard, for example, to the composition of the Board of Directors of AB Volvo and election of external auditors and as otherwise stipulated in the Companies Act. Information concerning the targets shareholders in AB Volvo as of December 31, 2010 is provided in the Board of Director's report of Volvo on page 57.

The notice for Annual General Meetings (and for Extraordinary General Meetings if any) is, as from the Annual General Meeting 2011, made through advertisement in the Post- and Inrikes Tidningar (Swedish Official Gazette and on the company's website). Announcement that the notice has been published is advertised in *Dagens Nyheter* and *Göteborgs-Posten*.

An Election Committee, appointed by the Annual General Meeting of AB Volvo, 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, for controlling and evaluating the company's operations and for the other duties set forth in the Companies Act. 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 differ-

## The Volvo Group Corporate Governance Model



ent 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 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), which is available at [www.bolagsstyrning.se](http://www.bolagsstyrning.se).

Between January 1, 2010 and December 31, 2010 Volvo did not deviate from any of the regulations set forth in the Code.

This Corporate Governance Report has been prepared in accordance with the Annual Accounts Act and the Code.

### 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 at the Meeting and 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. In addition, the Election Committee, in accordance with prevailing instructions for Volvo's Election Committee, presents proposals for members of the Election Committee for the following year.

In accordance with the aforementioned instructions, the Election Committee shall meet as often as required for the Committee to be able to fulfill its duties.

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. Moreover, the Committee shall report on how it conducted its work.

In accordance with existing 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 2010 in accordance with the instructions, comprised Volvo's Chairman Louis Schweitzer, Thierry Moulouquet, representing Renault s.a.s., Carl-Olof By, representing AB Industrivärden, Håkan Sandberg representing Svenska Handelsbanken, SHB Pension Fund, SHB Employee Fund, SHB Pensionskassa, and Oktogonen and Lars Förberg, representing Violet Partners LP. The Election Committee elected Thierry Moulouquet as Chairman. Later during 2010, as offered by the Election Committee, AMF Pension appointed Ingrid Bonde as member of the Committee.

The Election Committee has decided to propose to the Annual General Meeting 2011 the re-election of Louis Schweitzer, Peter Bijur, Jean-Baptiste Duzan, Leif Johansson, Hanne De Mora, Anders Nyrén, Ravi Venkatesan, Lars Westerberg and Ying Yeh as members of the Board of Directors. The Election Committee has also decided to propose to the Annual General Meeting 2011 the re-election of Louis Schweitzer as Chairman of the Board.

### The Board

During the period January 1, 2010 and January 15, 2010AB Volvo's Board of Directors consisted of nine members elected by the Annual General Meeting. In addition, the Board had

### The Board's composition and attendance at meetings January 1, 2010 to December 31, 20

	Board Committee	Audit Remuneration Committee
Finn Johnsson <sup>1</sup>		
Peter Bijur	8	6
Jean-Baptiste Duzan	8	6
Leif Johansson	8	
Hane de Mora <sup>2</sup>	4	
Anders Nyrén	8	5
Louis Schweitzer <sup>3</sup>	8	5
Ravi Venkatesan	6	
Lars Westerberg	8	6
Ying Yeh <sup>4</sup>	8	5
Martin Linder, employee representative	8	
Mikael Sällström, employee representative	8	
Berth Thulin, employee representative	8	
<b>Total number of meetings</b>	<b>8</b>	<b>6</b>
		<b>5</b>

1 Left the Board on January 15, 2010.

2 Was elected member of the Board on the Annual General Meeting 2010.

3 Was appointed Chairman of the Board and Chairman of the Remuneration Committee as of January 15, 2010 until the close of the Annual General Meeting 2010. Was Elected Chairman of the Board on the Annual General Meeting 2010. Was appointed Chairman of the Remuneration Committee in connection with the Annual General Meeting 2010.

4 Member of the Remuneration Committee as of January 15, 2010.

three members and two deputy members appointed by employee organizations.

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 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.

Effective from and including the 2010 Annual General Meeting, AB Volvo's Board of Directors comprised nine members elected by the Annual General Meeting. In addition, the Board had three members and two deputy members appointed by employee organizations. Louis Schweitzer was elected Board Chairman at the 2010 Annual General Meeting.

AB Volvo's CEO, Leif Johansson, has been a member of the Board during the entire period.

During 2010, 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 accordance with these procedures, the Board's Chairman shall organize and guide the Board's work, be responsible for contacts with the owners regarding ownership matters and provide the owners' viewpoints to the Board, ensure that the Board receives adequate information and decision documents for its work and to control that the Board's decisions are complied with. In addition, 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 14, 2010 approved a fee to the Board, for the time until the end of the next Annual General Meeting, 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 Group's financial reporting through reviewing the interim reports, the annual report and the consolidated accounting. In connection therewith, the Board met with the company's auditors during 2010. The Board continuously evaluated the performance of the CEO.

The Board has during 2010, after preparation by the remuneration committee, evaluated Volvo's system for variable salary to senior executives and has concluded that the structure applied by Volvo as regards targets and performance periods is well functioning.

During 2010, the Board focused specifically on issues related to the Group's business development taking into account the earlier uncertainty primarily in the North American and European markets and the recovery that occurred in 2010 regarding the demand for the Group's products. Furthermore, the Board focused on development of the Group's operation in China, Japan and India.

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, other important board memberships, their and related parties' ownership of shares in Volvo as of February 24, 2011, and the years of membership on the Volvo Board, is presented in the section Board of Directors and auditors on page 141.

During 2010, 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 AB Volvo must meet independence requirements pursuant to the Code. Further, the Audit Committee must meet independence requirements pursuant to the Swedish Companies Act. Below follows a short description of the independence require-

ments. 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 of the members who is independent of the company and the company management shall also be independent of the company's major shareholders. According to the Swedish Companies Act, the members of the Audit Committee may not be employees of the company and that at least one member of the audit Committee shall be independent of the company, company management and the company's largest shareholders and shall have accounting and auditing expertise. 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 2010, 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 2010:

Peter Bijur, Hanne De Mora, Anders Nyrén, Ravi Venkatesan, Lars Westerberg and Ying Yeh and Anders Nyrén were all considered independent of the company and company management as well as of the company's major shareholders.

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

Louis Schweitzer was stated as representing Renault s.a.s. on the Board and Jean-Baptiste

Duzan is an advisor to the president of Renault S.A. and was also stated as representing Renault s.a.s. on the company's Board. They were both considered independent of the company and the company management but were not, since Renault s.a.s. controlled more than 10 percent of the shares and votes in the company, prior to the Annual General Meeting 2010, considered as independent of one of the company's major shareholders.

Prior to the Annual General Meeting 2011, the Election Committee appointed at the Annual General Meeting 2010, has however concluded that Louis Schweitzer is no longer to be considered as dependent of Renault s.a.s., since he is no longer employed by nor has any assignments for Renault and could no longer be considered as a representative of Renault on the company's Board.

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. 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. Neither the CEO nor other members of the executive management are to be members of the Election Committee. If Board members are included in the Election Committee, these may not constitute a majority of the Election Committee's members. The Chairman of the Board of the company or other Board member may not be the Chairman of the Election Committee. If Board members are included in the Election Committee, not more than one of them may be dependent in relation to the company's largest shareholders. 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 and Louis Schweitzer have, prior to being appointed, been considered to be independent of Volvo's largest shareholder in terms of votes. This conclusion is based on the facts that Renault s.a.s. is Volvo's largest shareholder in terms of votes, that Thi-

erry Moulouquet represents Renault s.a.s. in the Election Committee and that Louis Schweitzer at the time of the Annual General Meeting 2010, when he was appointed as member of the Election Committee, represented Renault s.a.s. in the Board. As stated above Louis Schweitzer has however, prior to the Annual General Meeting 2011, been considered as independent from Renault s.a.s., 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 Group's financial reporting by reviewing the interim reports, the annual report and consolidated accounting. 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 also has the task of reviewing and overseeing the impartiality and independence of the company's auditor. The Audit Committee is also responsible for evaluating the internal and external auditors' work, providing the Election Committee with the results of the evaluation of the external auditors 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 2010 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 six meetings during 2010.

#### **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.

The Remuneration Committee shall follow and evaluate ongoing programs and programs concluded during the year covering variable remuneration for the Group Executive Committee, application of the guidelines for remuneration to senior executives on which the Annual General Meeting shall decide and the current remuneration structures and levels in the Group. The Board shall, not later than two weeks prior to the Annual General Meeting, submit a report on the results of the Remuneration Committee's evaluation on the company's website.

If the Remuneration Committee commissions external suppliers for its work, it must ensure that there are no conflicts of interest in relation to other assignments this supplier may have for the Group or the Group Executive Committee.

In conjunction with 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. At the statutory meeting of the Board following the 2010

Annual General Meeting, Louis Schweitzer, Anders Nyrén and Ying Yeh were appointed members of the Remuneration Committee. Louis Schweitzer was named Chairman of the Remuneration Committee. The Remuneration Committee held five meetings during 2010.

### **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 24, 2011, and year of joining Volvo for the CEO and each member of the Group Executive Committee is presented in the Group Management section on page 139.

On December 8, 2010, Leif Johansson notified AB Volvo's Board of Directors that he intends to resign as president of AB Volvo, also CEO of the Volvo Group, in conjunction with his 60th birthday in the summer of 2011.

### **External auditing**

Volvo's auditors are elected by the Annual General Meeting. The current auditor is Price-waterhouseCoopers AB (PwC), which was elected at the 2010 Annual General Meeting for a period of four years. Two PwC partners, Göran Tidström and Johan Rippe, 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 and the consolidated accounting. The auditors also express an opinion whether this Corporate Governance Report was prepared or not and in such respect whether certain information therein coincides with the annual and consolidated accounting. The auditors report their findings with regard to the annual report, consolidated accounting and the Corporate Governance Report through the audit reports and a separate opinion regarding the Corporate Governance 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 responsible for 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.

### **Report on the key aspects of the company's and Group's system for internal controls and risk management in conjunction with financial reporting**

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 Annual Accounts Act. Consequently the report is limited to internal control over financial reporting.

### **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 inter-related 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 document 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 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. **Group-wide 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. **Process controls at transaction levels:** 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. **General IT 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.

Göteborg, February 24, 2011

AB Volvo (publ)

Board of Directors

### **Auditor's report on the Corporate Governance Report**

It is the Board of Directors who is responsible for the Corporate Governance Report on pages 142–147 and that it has been prepared in accordance with the Annual Accounts Act.

As a basis for our opinion that the Corporate Governance Report has been prepared and is consistent with the annual accounts and the consolidated accounts, we have read the Corporate Governance Report and assessed its statutory content based on our knowledge of the company.

In our opinion, the Corporate Governance Report has been prepared and its statutory content is consistent with the annual accounts and the consolidated accounts.

Göteborg, February 24, 2011

PricewaterhouseCoopers AB

Göran Tidström  
Authorized Public  
Accountant  
Lead Partner

Johan Rippe  
Authorized Public  
Accountant