## Significant events during 2012

On January 1, 2012, the implementation of a new, more functional oriented organizational structure for the Volvo Group was initiated.

At the Annual General Meeting held on April 4, 2012, Carl-Henric Svanberg was appointed new Chairman of the AB Volvo Board.

In December 2012, Renault s.a.s. divested its holding of Volvo shares and, in connection therewith, converted a large number of series A shares to series B shares, entailing that the total number of votes in the company declined.

## The Swedish Corporate Governance Code

AB Volvo's shares are admitted to trading on the NASDAQ OMX Stockholm and accordingly, Volvo complies with NASDAQ OMX Stockholm's Rule Book for Issuers. As a listed company, Volvo also applies the Swedish Corporate Governance Code (the Code), which is available at www.bolagsstyrning.se.


This Corporate Governance Report was prepared in accordance with the Swedish Annual Accounts Act and the Code, and is separate from the Annual Report. The report has been examined by Volvo's auditors and includes a report from the auditors.

## Corporate Governance Model

The governance and control of the Volvo Group is carried out through a number of corporate bodies. At the General Meetings of AB Volvo, which is the Parent Company in the Volvo Group, the shareholders exercise their voting rights with regard to for example the composition of the Board of Directors of AB Volvo and election of auditors.

An Election Committee, appointed by the Annual General Meeting of AB Volvo, submits proposals to the next Annual General Meeting concerning the election of Board members, Board Chairman and, when necessary, external auditors, and proposals for resolutions concerning fees to the Board and the auditors.

The Board is ultimately responsible for Volvo's organization and management of the operations. The duties of the Board are partly exercised through its Audit Committee and its Remuneration Committee.

In addition, the Board appoints the President of AB Volvo, who is also the Chief Executive Officer (CEO) of the Volvo Group. The CEO is in charge of the daily management of the Group in accordance with guidelines and instructions provided by the Board.

Division of responsibilities and duties between General Meetings, the Board of Directors and the President are regulated inter alia by the Swedish Companies Act, Volvo's articles of association, the Code and the Board's work procedures.
Shareholders

Vote at the General Meetings

General Meeting

Elects Auditor

Submits proposals concerning election of Board members, auditors and Election Committee for the upcoming AGM

Audit Committee

Appoints Election Committee

Prepare part of the Board’s work.

Remuneration Committee

Election Committee

Elects Board

Appoints President/CEO

The auditors review the interim report for the period January 1 to June 30 and audit the annual report and consolidated financial statements

Operations

Group Executive Team

President/CEO

Audit

AB VOLVO

Elected Board prepares part of the Board’s work.

SUBSIDIARIES

Appoints President/CEO

Elected Board elects the president and the executive team to lead the company.

Board of Directors

Appoints President/CEO

Elects Board

The auditors review the interim report for the period January 1 to June 30 and audit the annual report and consolidated financial statements

Operations

Group Executive Team

President/CEO
**AB Volvo’s share register is kept by Euroclear Sweden AB. On December 31, 2012, Volvo had 242,482 shareholders according to the share register. The largest shareholder on that date was AB Industrivärden, with 18.7% of the votes based on the number of registered shares. Violet Partners L.P. held 6.2% of the votes and Svenska Handelsbanken together with SHB Pension Fund, SHB Employee Fund, SHB Pensionskassa and Oktogonen held 5.2% of the votes, based on the number of registered shares.**

Volvo has issued two classes of shares: series A and series B. In a vote at a General Meeting, series A shares carry one vote and series B shares carry one-tenth of a vote. The two share classes carry equal rights to a share in the assets and earnings of the company. According to a special share conversion clause in the Articles of Association, holders of series A shares are entitled to request that their series A shares be converted to series B shares. Implementation of such conversions entails that the total number of votes in the company decreases.

In mid-December 2012, Volvo’s largest shareholder at that time, Renault s.a.s., announced that the company had divested all of its Volvo shares by selling 138,604,945 series A shares in the stock market. In connection therewith, Volvo received a request for conversion of 110,048,945 series A shares into series B shares. Implementation of the conversion entailed that the total number of votes in the company declined. At the end of 2012, the total number of shares in the company amounted to 2,128,420,220, of which series A shares accounted for 546,544,375 and series B shares accounted for 1,581,875,845. The total number of votes amounted to 704,731,959.50.

For more information about the Volvo share and its shareholders, refer to the Board of Director’s report on pages 70-71 of the Annual Report.

**General**

The General Meeting is Volvo’s highest decision-making body. The General Meeting held within six months after the end of the fiscal year and that adopts the income statement and balance sheet is called the Annual General Meeting. The Annual General Meeting of Volvo is normally held in Gothenburg. In addition to resolutions concerning adoption of the income statement and balance sheet for AB Volvo and the Volvo Group, the Annual General Meeting also adopts resolutions concerning allocations of profit, the composition of Volvo’s Board, directors’ fees and elects external auditors. Notice to attend a General Meeting is issued in the form of an announcement in Post- och Inrikes Tidningar (Swedish Official Gazette) and on the company’s website. The fact that notice has been issued is announced in Dagens Nyheter and Göteborgs-Posten.

Shareholders who are recorded in the share register five working days prior to a General Meeting and who have notified Volvo of their participation in a certain order, are entitled to participate in the Meeting, in person or by proxy, and to vote for or against the proposals put forward at the Meeting and to present questions to the Board and the President.

A shareholder who wants the Meeting to consider a special matter must submit a request to the Board in sufficient time prior to the Meeting to the address provided on Volvo’s website, www.volvogroup.com.

Resolutions at a General Meeting are normally passed by simple majority and for elections, the person who receives the most votes is considered elected. However, certain resolutions, such as amendment of the Articles of Association, require a decision by a qualified majority.

**Annual General Meeting 2012**

Volvo’s Annual General Meeting 2012 was held on Wednesday, April 4, 2012 in Gothenburg. The Meeting was attended by 1,401 shareholders, either in person or by proxy, representing 70.17% of the votes in the company. Attorney Sven Unger was elected Chairman of the Meeting. Members of the Board and the Group Executive Team, and Volvo’s Lead Auditor Göran Tidström representing Pricewaterhouse-Coopers, Volvo’s elected auditing firm, were present at the Meeting. At the Meeting, Göran Tidström announced that he would be resigning as Lead Auditor and that his replacement would be Authorized Public Accountant Peter Clemetson.

The Annual General Meeting 2012 adopted inter alia the following resolutions:

- to pay a dividend of SEK 3.00 per share,
- to reelect Board Members Peter Bijur, Jean-Baptiste Duzan, Hanne de Mora, Anders Nyrén, Olof Persson, Ravi Venkatesan, Lars Westerberg and Ying Yeh,
- to elect Carl-Henric Svanberg as new Board Member and Chairman,
- the Board’s fees for the period up until the next Annual General Meeting,
- to adopt the proposed guidelines for remuneration of senior executives.

Complete minutes and information about the Annual General Meeting 2012 are available at www.volvogroup.com.

**Annual General Meeting 2013**

Volvo’s Annual General Meeting 2013 will be held on Thursday, April 4, 2013 in Lisebergshallen, Gothenburg. For further information about the Annual General Meeting 2013, please refer to the fold-out in the end of the Annual Report and Volvo’s website www.volvogroup.com.
Duties
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 proposing fees and other compensations to be paid to the Board members.

In the years in which Volvo elects auditors, the Election Committee presents proposals to the Meeting for the election of auditors and for fees to be paid to the auditors. 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.

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 being published, the Election Committee shall 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 duties and holding of shares in Volvo.

Composition
In accordance with instructions adopted by the Annual General Meeting 2007, the Annual General Meeting shall select five members to serve on the Election Committee, of whom four shall represent the largest shareholders in the company, in terms of the number of votes, who have expressed their willingness to participate on 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 major 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 represented on the Election Committee. The number of members on the Election Committee, however, may not exceed seven.

In accordance with its instructions, Volvo’s Annual General Meeting 2012 resolved to appoint the following individuals as members of the Election Committee:
• Carl-Henric Svanberg, Chairman of the Board,
• Jean-Baptiste Duzan, representing Renault s.a.s.,
• Carl-Olof By, representing AB Industrivärden,
• Lars Förberg, representing Violet Partners LP, and
• Håkan Sandberg, representing Svenska Handelsbanken, SHB Pension Fund, SHB Employee Fund, SHB Pensionskassa and Oktogonen.

The Election Committee appointed Carl-Olof By as Chairman.

Duties
The Board of Directors is ultimately responsible for Volvo’s organization and management of the company’s operations. The Board is responsible for the Group’s long-term development and strategy, for regularly controlling and evaluating the Group’s operations and for the other duties set forth in the Swedish Companies Act.

Composition
During the period January 1, 2012 – December 31, 2012, AB Volvo’s Board 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 Annual General Meeting 2012 appointed Carl-Henric Svanberg as new member and Chairman of the AB Volvo Board. Carl-Henric Svanberg is also Chairman of the Board of BP p.l.c. He has long prior experience as a President and CEO for leading global companies.

An account of each Board member’s age, principal education, professional experience, assignments in the company, other important board memberships, their own and related parties’ ownership of shares in Volvo as of February 21, 2013, and the year they were elected on the Volvo Board, is presented in the “Board of Directors” section below on pages 80–81.

Independence requirements
The Board of Directors of AB Volvo must meet independence requirements pursuant to the Code entailing 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. Prior to the Annual General Meeting 2012, the Election Committee presented the following assessment concerning independence of the Board members elected by the Annual General Meeting 2012.
Peter Bijur, Hanne de Mora, Carl-Henric Svanberg, Ravi Venkatesan, Lars Westerberg and Ying Yeh were all considered independent of the company and company management as well as of the company’s major shareholders.

Olof Persson, as AB Volvo’s President and CEO of the Volvo Group, was considered independent of the company’s major shareholders but not of the company and company management.

Jean-Baptiste Duzan was considered independent in relation to the company and company management. However, in his prior capacity as an advisor to the CEO of Renault S.A., he was deemed to have such a relation to Renault s.a.s. that he could not be considered independent thereof. Since Renault s.a.s., prior to the Annual General Meeting 2012, controlled more than 10 percent of the votes in the company, Jean-Baptiste Duzan was not considered independent in relation to one of the company’s major shareholders.

Anders Nyrén was deemed independent in relation to the company and company management. However, due to his capacity as President and CEO of AB Industrivärd på, he was not deemed independent thereof. Since AB Industrivärd på, prior to the Annual General Meeting 2012, controlled more than 10 percent of the votes in the company, Anders Nyrén was not considered independent in relation to one of the company’s major shareholders.

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 Board’s work in 2012**

The Board’s work is mainly performed within the framework of formal Board meetings and through meetings in the respective committees of the Board. In addition, regular contact is maintained between the Chairman of the Board and the CEO in order to discuss on-going business and to ensure that the resolutions taken by the Board are executed.

In 2012, there were eight regular meetings, one statutory meeting and two extraordinary meetings. The attendance of Board members at these meetings is presented in the table on page 79.

During 2012 the Board devoted time to matters related to the implementation of the new organizational structure of the Group, such as the introduction of a new financial framework and new strategic objectives for 2013–2015 and discussions concerning a new truck brand positioning strategy. The launch of the new Volvo FH was an important event for the Volvo Group during 2012, which was the result of a long-term development project that has been discussed and decided upon by the AB Volvo Board. During 2012 the Volvo Group further divested the subsidiary Volvo Aero to the British engineering company GKN and the Group increased its shareholding in the German engine manufacturer Deutz AG, two transactions that have also been discussed and decided by the Board. Further the Board has during 2012 devoted time to matters concerning the agreement that Volvo signed with Dongfeng Motor Group Company Limited (DFG) in January 2013, to acquire 45% of a new subsidiary of DFG. As a result of the uncertainty about the macroeconomic trend, the Board specifically focused on monitoring the business environment in order to be prepared to adapt the operation to prevailing demand. The Board also continuously worked with leadership succession- and leadership development issues.

The Board also reviewed the financial positions of AB Volvo and the Volvo Group on a regular basis and acted in order to ensure that there are efficient systems with which to follow-up and control the business and financial position of the Volvo Group. In connection therewith, the Audit Committee was 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. The Board also met with the company’s auditors at several occasions during 2012 and without the presence of management at one occasion. The Board continuously evaluates the performance of the CEO.

During 2012 the Board performed its yearly evaluation of the Board’s work.

**The Board’s committees**

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. The Audit Committee also has the task of reviewing and overseeing the Group’s legal and taxation matters as well as compliance with laws and regulations that may have a material impact on the financial reporting. The Audit Committee also has the task of reviewing and overseeing the impartiality and independence of the company’s auditors. 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 the election of auditors. In addition, the Audit Committee’s task is to establish guidelines specifying what other services, beyond auditing, the company may procure from the auditors. The Audit Committee shall also evaluate the quality, relevance and efficiency of the Group’s system for internal control over financial reporting, and with respect to the internal audit and risk management. Finally, the Audit Committee adopts guidelines for transactions with companies and persons closely associated with Volvo.
Composition and work in 2012
At the statutory Board meeting following the Annual General Meeting 2012, the following Board members were appointed members of the Audit Committee:
• Lars Westerberg,
• Peter Bijur,
• Jean-Baptiste Duzan

Lars Westerberg was appointed Chairman of the Audit Committee.

According to the Swedish Companies Act, the members of the Audit Committee may not be employees of the company and shall be independent and at least one member of the Audit Committee shall be independent and have accounting or auditing expertise. In addition, the Code stipulates that a majority of the members of 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. The Election Committee’s assessment of independence prior to the Annual General Meeting 2012 is presented above under the “Independence requirements” section on pages 77–78. All members of the Audit Committee are highly familiar with accounting matters and the accounting standards that apply for an international Group such as Volvo.

The Audit Committee met with the external auditors without the presence of management at four occasions in connection with the Audit Committee meetings. The Audit Committee has also met with the Head of Corporate Audit at the meetings of the Audit Committee.

The Audit Committee and the external auditors have, among other tasks, discussed the external audit plan and risk management. The Audit Committee held eight meetings during 2012. The attendance of Board members at Committee meetings is presented in the table to the right on this page.

Remuneration to Board members
The Annual General Meeting resolves on the fees to be paid to the Board members elected by the shareholders. The Annual General Meeting held on April 4, 2012, approved fee payments to the Board, for the time until the end of the next Annual General Meeting, as follows:

Volvo’s Chairman should receive a fee of SEK 2,100,000 and each of the remaining members elected by the shareholders should receive a fee of SEK 700,000 with the exception of the President. The Chairman of the Audit Committee should receive a fee of SEK 300,000 and other members of the Audit Committee SEK 150,000 each. In addition, the Chairman of the Remuneration Committee should receive SEK 125,000 and other members of the Remuneration Committee SEK 100,000 each.

Composition and work in 2012
At the statutory Board meeting following the Annual General Meeting 2012, the following Board members were appointed members of the Remuneration Committee:
• Carl-Henric Svanberg,
• Anders Nygren,
• Ying Yeh

Carl-Henric Svanberg was appointed Chairman of 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. The Election committee’s assessment of independence prior to the Annual General Meeting 2012 is presented above under the “Independence requirements” section on pages 77–78.

The Remuneration Committee held four meetings during 2012. The attendance of Board members at Committee meetings is presented in the table to the right on this page.
Board of Directors
Board members elected by the Annual General meeting

1. Carl-Henric Svanberg
   Chairman of the Board
   Chairman of the Remuneration Committee
   Principal work experience: Has held various positions at Asea Brown Boveri (ABB) and Securitas AB; President and Chief Executive Officer of Assa Abloy AB; President and Chief Executive Officer of Telefonaktiebolaget LM Ericsson; member of the External Advisory Board of the Earth Institute at Columbia University and the Advisory Board of Harvard Kennedy School.

2. Peter Bijur
   Member of the Audit Committee
   Principal work experience: Numerous positions with Texaco Inc, retired as Chairman and Chief Executive Officer in 2001.

3. Jean-Baptiste Duzan
   Member of the Audit Committee
   Principal work experience: Began his career at Citibank. Has held various positions within Renault since 1982 – director of financial services at Renault V.I.; finance director of Renault credit, director of financial operations; project director for the car model Safrane; Senior Vice President, Purchasing, and joined the Renault Management Committee. He was also named Chairman and Managing Director, Renault Nissan Purchasing Organization. He was then named Group Controller. Today, he works as an independent consultant.

4. Hanne de Mora

5. Anders Nyén
   Member of the Remuneration Committee
   Principal work experience: Has worked for AB Wilhelm Becker. He has held various positions within STC – Controller, Executive Vice President and CFO, and President of STC Venture AB; President at OM International AB; Executive Vice President and CFO at Securum; Director with executive responsibility for Markets and Corporate Finance at Nordbanken; Executive Vice President and CFO at Skanska.

6. Olof Persson
   Principal work experience: Began his career at ABB; has held a number of executive positions at AdTranz and Bombardier; President of Volvo Aero; President of Volvo Construction Equipment.

7. Ravi Venkatesan
   Principal work experience: Several leading positions within the American engine manufacturer Cummins. Chairman of Microsoft India and responsible for Microsoft’s marketing, operational and business development efforts in India.

8. Lars Westerberg
   Chairman of the Audit Committee
   Principal work experience: President and CEO of Gränges AB, ESAB AB and Autoliv Inc.

9. Ying Yeh
   Member of the Remuneration Committee
   Born 1948. BA, Literature & International Relations. Board member: ABB Ltd, Samsonite International S.A., InterContinental Hotels Group PLC. Member of the Volvo Board since 2006. Holdings in Volvo, own and related parties: None.
   Principal work experience: Journalist NBC, New York. Numerous positions with the U.S. Government Foreign Service in Burma, Hong Kong, Taiwan and Beijing. Various positions with Eastman Kodak in China, latest as President and Chairman, North Asia Region. Chairman of Nalco Greater China.
Board members and deputys appointed by employee organisations

10. Mikael Sällström  
Employee representative, ordinary member.  

11. Berth Thulin  
Employee representative, ordinary member.  

12. Peteris Lauberts  
Employee representative, ordinary member.  

13. Lars Ask  
Employee representative, deputy member.  

14. Hans Hansson  
Employee representative, deputy member.  

Secretary to the Board

Eva Persson  
Volvo’s auditors are elected by the Annual General Meeting. The current auditor is PricewaterhouseCoopers AB (PwC), which was elected at the Annual General Meeting 2010 for a period of four years. Two partners of PwC, Peter Clemedtson and Johan Rippe, are responsible for the audit of Volvo. Peter Clemedtson is Lead Auditor.

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 audit 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 Report 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.

For information concerning Volvo’s remuneration to the auditors, refer to Note 28 “Fees to the auditors” in the Group’s notes in the Annual Report.

Volvo’s core values, vision and strategies
Volvo’s core values are quality, safety and environmental care. These values form the common base for the Group’s long-term goals and vision and for the strategies and plans, the purpose of which is to contribute to achieving our goals and vision.

The Volvo Group’s vision is to become the world leader in sustainable transport solutions. The vision describes the overall long-term goal for the operations. Volvo has also adopted a wanted position 2020 with the aim to achieve its long-term vision. In addition, the Board has resolved on a number of new, financial targets for the operations, primarily in relation to growth and profitability, which have been implemented as of 2012.

How Volvo will achieve the vision, the wanted position 2020 and the financial targets are defined in long-term plans for different areas such as brand positioning, product development, finance and IT, and in more short-term strategic objectives with a duration of three years. The long-term plans may be both Group-wide and business area/division specific, and even if a long-term approach is applied, they will be updated continuously. Every third year, specific focus areas and strategic objectives are formulated that are specific to the Group’s various business areas and divisions. These focus areas and strategic objectives define what is to be achieved over the next three years, with the purpose of achieving the financial targets, the wanted position 2020 and also, in long-term perspective, the vision.

The implementation of activities to reach the strategic objectives has high priority. Throughout the three-year period, monthly and quarterly follow-ups of the strategic objectives are reported to the management groups of each business area/division. Potential risks of not achieving the goals are therewith identified and discussed at an early stage, enabling efficient adjustment or action. The vision and strategies thereby become management and governance tools for the Group.
Governance documents
Another key component of the governance and control is the Group’s policies and directives, such as the Code of Conduct and policies pertaining to investments, financial risks, accounting, financial control and internal audit, which contain Group-wide operating and financial rules for the operations, as well as responsibility and authority structures.

Organizational structure
The Volvo Group’s business activities are organized into six business areas: Group Trucks, Construction Equipment, Buses, Volvo Penta, Governmental Sales and Volvo Financial Services.

The Group Trucks operations, which account for almost two-thirds of the Group’s total sales, are organized into five divisions. There are three sales and marketing divisions: Group Trucks Sales & Marketing Americas (with responsibility for North and South America), Group Trucks Sales & Marketing EMEA (with responsibility for Europe, the Middle East and Africa) and Group Trucks Sales & Marketing and JVs APAC (with responsibility for Asia and the Pacific region and for the Group’s joint-venture truck companies). There is also a division with responsibility for product development of engines, transmissions and trucks as well as for purchasing: Group Trucks Technology (GTT). Finally, Group Trucks Operations (GTO) is a division within Group Trucks with responsibility for production of trucks and the Group’s engines and transmissions. GTO is also responsible for the Group’s spare parts supply and logistics operations.

There are seven Corporate Functions: Corporate Human Resources, Corporate Public & Environmental Affairs, Corporate Communication, Corporate Finance & Control, Corporate Legal & Compliance, Corporate Process & IT and Corporate Strategy, providing support to the CEO and the Group Executive Team with expertise in each Corporate Function area and developing standards for the entire organization through policies, directives and guidelines.

In addition there are more than twenty Group Functions that provide services and/or products to the entire Group, for example Volvo IT and Business Services.
The Group Executive Team has 16 members including the CEO. In addition to the CEO, the Group Executive Team comprises the Executive Vice Presidents of the five Group Trucks divisions, the Executive Vice President Volvo Construction Equipment, the Executive Vice President Business Areas, the Executive Vice President Volvo Financial Services and the Executive Vice Presidents of the seven Corporate Functions. The members of the Group Executive Team report directly to the CEO.

The CEO leads the operations of the Group partly through the Group Executive Team but also through the Group Trucks Executive Management Team, which normally holds weekly meetings. In addition, the CEO conducts regular follow-ups with the heads of Group Functions, the other Business Areas and Corporate Functions. Further, the Business Areas and the Group Functions have separate decision forums called Business Review Meetings and there are also cross-functional committees that manage matters concerning processes pertaining to more than one Group Function. These bodies effect control and monitoring of the Group’s financial development, strategies and targets and make decisions regarding investments and other matters.

Remuneration to the Group Executive Team

AB Volvo’s Annual General Meeting annually approves a policy on remuneration to the Group Executive Team, following a proposal from the Board. The remuneration policy adopted by the Annual General Meeting 2012 states that the guiding principle is that remuneration and other terms of employment for the Group Executive Team shall be competitive in order to ensure that the Volvo Group can attract and retain competent executives.

The policy also states that the executives may receive variable salary in addition to fixed salary. The variable salary may, as regards the President, amount to a maximum of 75% of the fixed salary and, as regards the other executives, a maximum of 60% of the fixed salary. In 2012, members of
Patrick Olney
Executive Vice President
Volvo Construction Equipment

Håkan Karlsson
Executive Vice President
Business Areas

Martin Weissburg
Executive Vice President
Volvo Financial Services

Anders Osberg
CFO and Executive Vice President
Corporate Finance & Control

Eva Persson
Executive Vice President
Corporate Legal & Compliance and General Counsel

Kerstin Renard
Executive Vice President
Corporate Human Resources

Karin Falk
Executive Vice President
Corporate Strategy

Mårten Wikforss
Executive Vice President
Corporate Communication
Born 1964. Journalism degree, Bachelor of Arts, Master of Science. Responsible within the Volvo Group for Corporate Communication since July 1, 2012. Prior to that he was Senior Vice President Media Relations & Corporate News. Member of the Group Executive Team since July 1, 2012. With Volvo since 2001. Holdings in Volvo, own and related parties: 20,288 shares, including 10,523 Series B shares.

Jan-Eric Sundgren
Executive Vice President
Public & Environmental Affairs

Magnus Carlander
Executive Vice President
Corporate Process & IT
the Group Executive Team were entitled to vari-
able salary according to a program for variable
remuneration determined by the Board. The per-
formance targets defined in the program were
primarily related to operating margin and opera-
ting rolling cash flow.

The purpose of the program for variable remu-
neration is to create an incentive for the executives
to strive for the Volvo Group developing in such a
manner that the defined performance targets are
achieved, thereby constituting a management
tool. Accordingly, the performance targets set by
the Board for variable remuneration inter alia
relate to the Group's financial targets for improved
operating margin.

The Remuneration Committee conducts an
annual evaluation of the remuneration policy and
Volvo's system for variable remuneration to execu-
tives and the Board prepares a special report of
this evaluation and the conclusions. The report on
the evaluation for 2012 will be available on Volvo's
website not later than two weeks prior to the
com. For more information about remuneration to
the Group Executive Team and an account of out-
standing share and share-price related incentive
programs to the management, refer to Note 27 in
the Group’s notes in the Annual Report.

Changes to the Group Executive Team
On July 1, 2012, Per Löjquist retired and the-
rely resigned from the Group Executive
Team and from his position as Executive Vice
President Corporate Communication. Mårten
Wikforss assumed the position on the same date.
On September 30, 2012, Pär Östberg resig-
ned from the Group Executive Team and from
his position as Executive Vice President Truck
Joint Ventures. In conjunction with Pär
Östberg’s departure from the Volvo Group,
Truck Joint Ventures organizationally became
part of Group Trucks Sales & Marketing and
JVs APAC, headed by Joachim Rosenberg.
On January 1, 2013, the Head of Volvo
Financial Services, Martin Weissburg, joined the
Group Executive Team. On January 1, 2013, Martin
Weissburg thereby assumed the position as Execu-
tive Vice President Volvo Financial Services.
On April 1, 2013, Eva Persson will retire and
resign from the Group Executive Team and from
her position as General Counsel and Executive
Vice President Corporate Legal & Compliance.
Sofia Frändberg will assume this position on the
same date.
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 with an understanding of how internal control is organized at Volvo with regard to financial reporting. The description has been designed in accordance with the Swedish Annual Accounts Act and is thus 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 interrelated components. These 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 Group Functions, allowing them to continuously provide solid and improved internal controls relating to financial reporting. Work that is conducted through this function is primarily based on a methodology that aims to ensure compliance with directives and policies, and to create effective conditions for specific control activities in key processes related to financial reporting. The Audit Committee is informed of the results 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 Corporate Audit function with the primary task of independently monitoring 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 Corporate Audit function reports directly to the CEO, and to the Group’s General Counsel and the Board’s 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 based on 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 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 Corporate Audit functions, is 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 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 management groups and other decision-making bodies in the business areas, Group Functions and Group companies constitute overall supervisory bodies.

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.

Responsibility for ensuring that control activities in the financial processes are appropriate and in accordance with the Group’s policies and instructions are compiled in the Group’s financial reporting function. The Group’s shared service center is responsible for the performance of control activities including the responsibility for ensuring that authority structures are designed in accordance with good internal control so that one person cannot 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. The Group’s financial reporting function has direct operating responsibility for the daily financial reporting and works to ensure 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 Group's financial reporting function. In addition, the Corporate Audit and the Internal Control functions conduct review and follow-up activities 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,” with the purpose of systematically evaluating the quality of the internal control over financial reporting on an annual basis. An annual evaluation plan is established and presented to the Audit Committee. This evaluation program comprises three main areas:

1. Group-wide controls: Self-assessment procedure carried out by management teams at business area, Group Function and company levels. The main areas evaluated are compliance with the Group’s financial directives and policies found in FPP, The Volvo Way and the Group’s Code of Conduct.

2. Process controls at transaction level: Processes related to the financial reporting are evaluated by testing procedures/controls based on a framework for internal control over financial reporting, Volvo Internal Control Standards (VICS). The framework focuses on the financial reporting areas deemed to have a relatively higher risk for potential errors due to factors such as complex accounting principles, complex or changed business operations.

3. General IT controls: Processes for maintenance, development and access management of financial applications are evaluated by testing procedures and controls.

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

The Board of Directors

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PricewaterhouseCoopers AB

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Peter Clemedtson
Authorized Public Accountant Lead Partner

Johan Rippe
Authorized Public Accountant Partner