

**The Volvo Group 2008**

**reach**



**VOLVO**

## A global group

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# 6

In every respect, 2008 was a year of extremes. From record sales and earnings during the first half of the year to a weak close, with losses in the fourth quarter.

# 16

During the year, the Volvo Group showed a number of products with the fourth generation of hybrid drivelines.



# 49

After strong growth during the first half of the year, demand weakened sharply for most of the Group's business areas during the second half.



This report contains 'forward-looking statements'. Such statements reflect management's current expectations with respect to certain future events and potential financial performance. Although the Company believes that the expectations reflected in such forward looking statements are reasonable, no assurance can be given that such expectations will prove correct. Such statements are subject to risk and uncertainties and such future events and financial performance could differ materially from those set out in the forward looking statements as a result of, among other factors, (i) changes in economic, market and competitive conditions, (ii) success of business and operating initiatives, (iii) changes in the regulatory environment and other government actions, (iv) fluctuations in exchange rates and (v) business risk management.

This report does not imply that the company has undertaken to revise these forward-looking statements, beyond what is required under the company's registration contract with OMX Nordic Exchange Stockholm if and when circumstances arise that will lead to changes compared to the date when these statements were provided.

The Volvo Group's formal financial reports are presented on pages 24–63 and 74–141 in the printed version and has been audited by the company's auditors.

# The Volvo Group

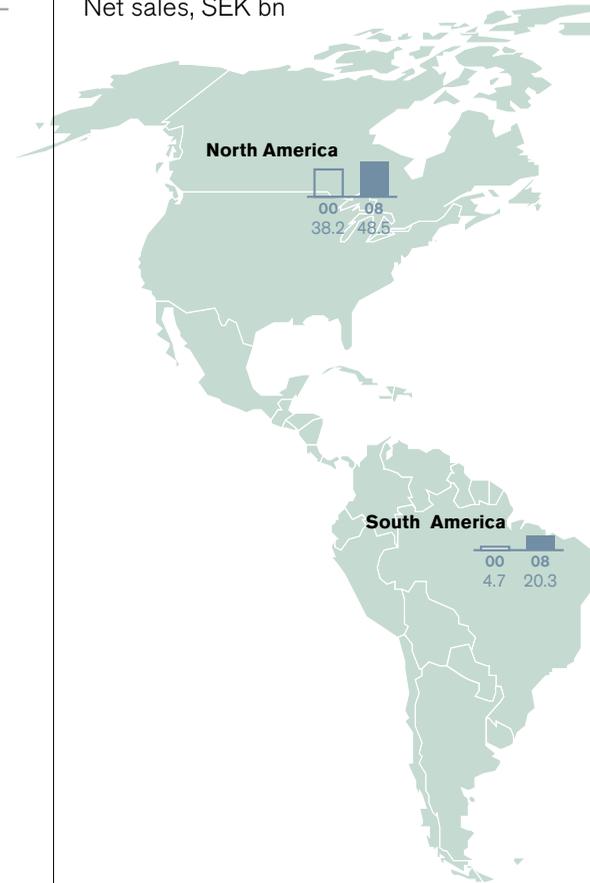
The Volvo Group is one of the leading suppliers of commercial transport solutions providing products such as trucks, buses, construction equipment, drive systems for marine and industrial applications as well as aircraft engine components. The Volvo Group also offers its customers financial services.

The Group has about 100,000 employees, production facilities in 19 countries, and sales activities in some 180 countries.

## Strategy

The Volvo Group's strategy is based on customers' requirements and focused on profitable growth, product renewal and internal efficiency. → 

Net sales, SEK bn



## Organization

The Volvo Group is organized in product-related business areas and supporting business units. This organization permits companies to work closely with their customers and efficiently utilize Group-wide resources. → 



Volvo Trucks



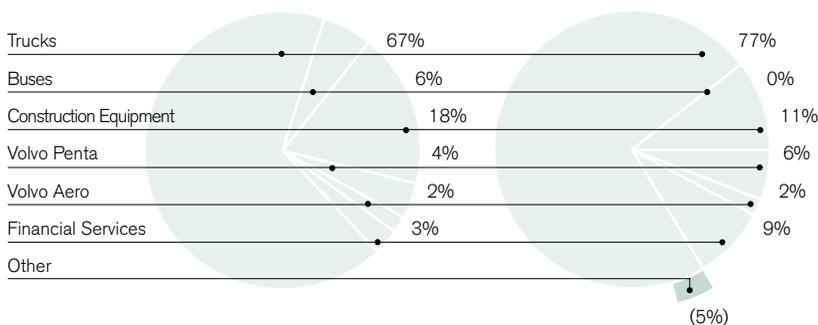
Renault Trucks



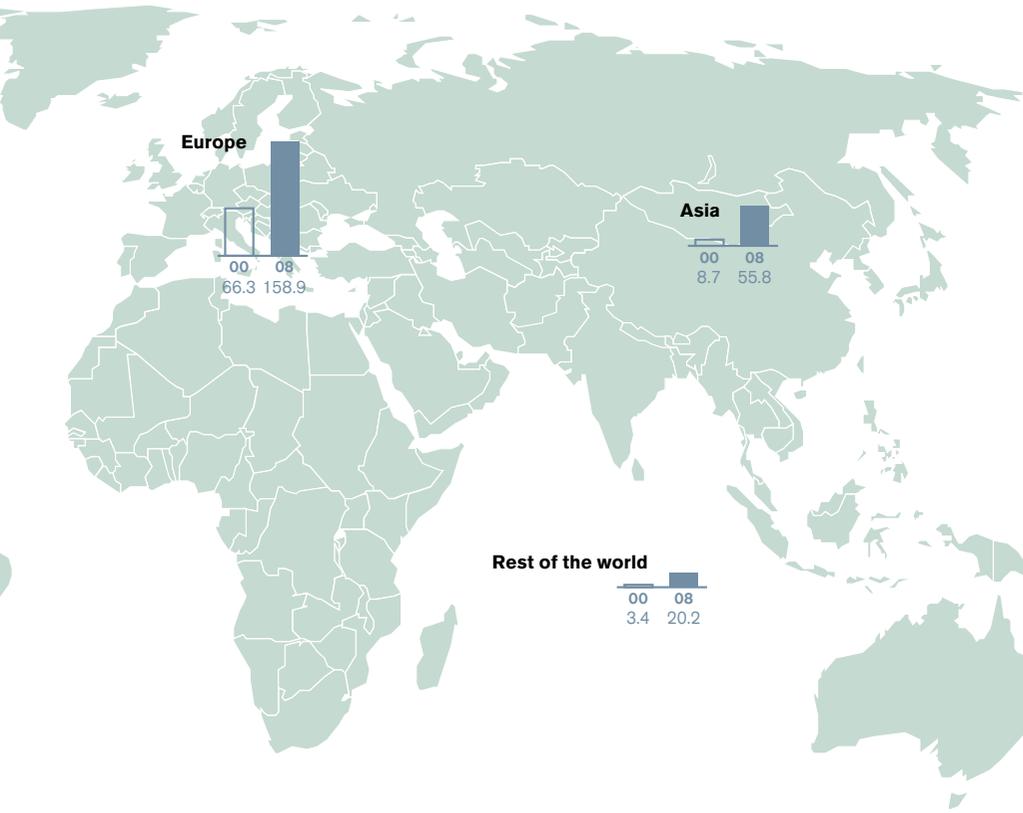
Mack Trucks

Share of Group's net sales

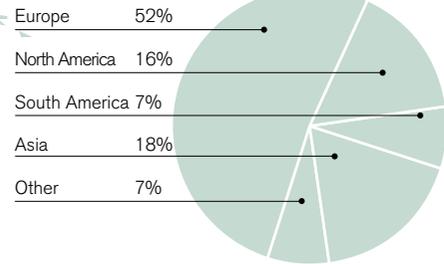
Share of Group's operating income



Volvo 3P		
Volvo Powertrain		
Volvo Parts		
Volvo Logistics		
Volvo Technology		
Volvo Information Technology		
Volvo Group Real Estate - Volvo Business Services		



### Share of Group's net sales

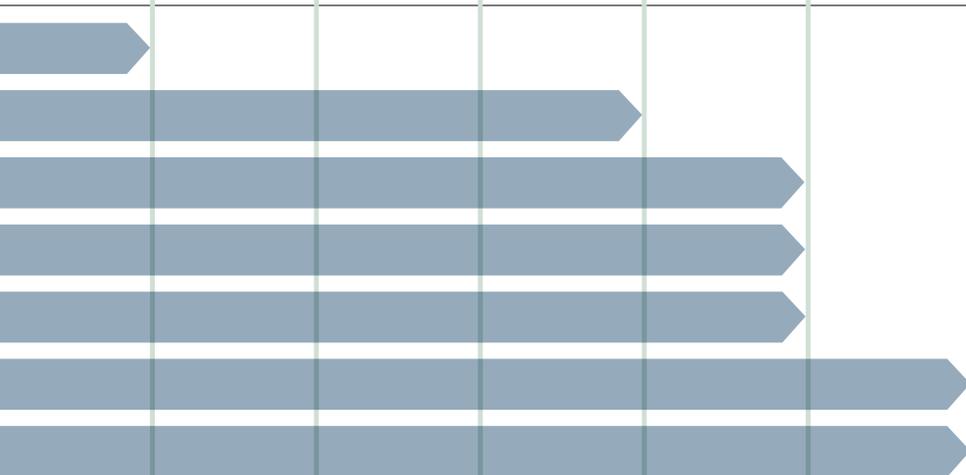


### Customers

Volvo Group customers are active in more than 180 countries worldwide, mainly in Europe, Asia and North America. Group sales of products and services are conducted through both wholly owned and independent dealers. The global service network handles customer demand for spare parts and other services. Read more about the Volvo Group's products and services on page 12. → [12](#)

### Employees

The majority of the Group's employees work in Sweden, France, Japan, the US, China, Brazil and South Korea. → [36](#)



# The Volvo Group 2008

After a first half of the year with record growth and record profit, the second half of the year was considerably weaker.

Net sales rose by 6% to SEK 303,667 M (285,405).

Operating income amounted to SEK 15,851 M (22,231).

Profit for the year amounted to SEK 10,016 M (15,028) and return on equity was 12.1% (18.1).

Creation of joint-venture in India with Eicher Motors.

Broad show-casing of hybrids in trucks, buses and wheel loaders.

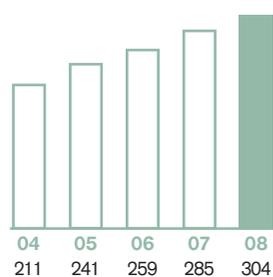
Earnings per share amounted to SEK 4.90 (7.37).

Proposed ordinary dividend of SEK 2.00 (5.50).

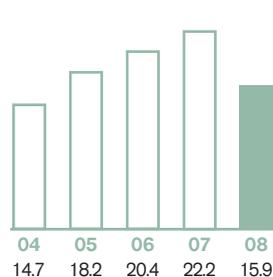
Key ratios	2007	2008
Net sales Volvo Group, SEK M	285,405	303,667
Operating income Volvo Group, SEK M	22,231	15,851
Operating income Industrial operations, SEK M	20,583	14,454
Operating income Customer Finance, SEK M	1,649	1,397
Operating margin Volvo Group, %	7.8	5.2
Income after financial items, SEK M	21,557	14,010
Income for the period, SEK M	15,028	10,016
Diluted earnings per share, SEK	7.37	4.90
Dividend per share, SEK	5.50	2.00 <sup>1</sup>
Return on shareholders' equity, %	18.1	12.1

<sup>1</sup> According to the Board's proposal.

Net sales, SEK bn



Operating income, SEK bn



## Vision, mission and values

### Our vision

The Volvo Group's vision is to be valued as the world's leading supplier of commercial transport solutions.

### Our mission

By creating value for our customers, we create value for our shareholders.

We use our expertise to create transport-related products and services of superior quality, safety and environmental care for demanding customers in selected segments.

We work with energy, passion and respect for the individual.

### Our values

The Volvo Group views its corporate culture as a unique asset, since it is difficult for competitors to copy. By applying and strengthening the expertise and culture we have built up over the years, we can achieve our vision.

Quality, safety and environmental care are the values that form the Volvo Group's common base and are important components of our corporate culture. The values have a long tradition and permeate our organization, our products and our way of working. Our goal is to maintain a leading position in these areas.



### Quality

Quality is an expression of our goal to offer reliable products and services. In all aspects of our operations, from product development and production, to delivery and customer support, the focus shall be on customers' needs and expectations. Our goal is to meet or exceed their expectations. With a customer focus based on everyone's commitment and participation, combined with a process culture, our aim is to be number one in customer satisfaction. This is based on a culture in which all employees are responsive and aware of what must be accomplished to be the best business partner.

### Safety

Safety is concerned with how our products are used in society. We have had a leading position in issues regarding safety for a long time; our goal is to maintain this position. A focus on safety is an integral part of our product development work. Our employees are highly aware of safety issues, and the knowledge gained from our internal crash investigations is applied in product development. Our goal is to reduce the risk of accidents and mitigate the consequences of any accidents that may occur, as well as to improve safety and the work environment for the drivers of our vehicles and equipment.

### Environmental care

We believe that it is self-evident that our products and our operations shall have the lowest possible adverse impact on the environment. We are working to further improve energy efficiency and to reduce emissions in all aspects of our business, with particular focus on the use of our products. Our goal is that the Volvo Group shall be ranked as a leader in environmental care. To achieve this goal, we strive for a holistic view, continuous improvement, technical development and efficient resource utilization.

## CEO comment

In every respect, 2008 was a year of extremes. From record sales and earnings during the first half of the year to a weak close, with losses in the fourth quarter. From 12-month delivery times for trucks and problems with bottlenecks in production to weak order bookings, a large number of cancellations and shutdown days in our plants during the latter part of the year.



**D**ue to the sharp slow-down in the global economy triggered by the financial crisis that started in the summer of 2008, we decided already during the autumn to initiate the actions that are required as a recession approaches. In a declining economy, it is extremely important to act quickly to reduce the Group's cost level and ensure we do not build inventories, since large inventories generally lead to pressure on prices. In the present situation, it is also highly important that we continue to reduce our working capital and work hard to create a cash flow that will improve our freedom of action.

### Sharp production cutbacks

During the second half of the year, we implemented sharp production cutbacks to lower inventories of new trucks and construction equipment as part of efforts to maintain our product prices, which represent one of the most important factors in securing favorable profitability in the future. We have been successful in these efforts. During the fourth quarter, inventories of new trucks declined 13% and of new construction equipment by

19%. During the beginning of 2009, we have continued to work diligently and focused to reduce inventories to the new, lower levels of demand that prevail in most of our markets, and for most of our products.

Our net debt remains low, corresponding to 40% of equity at year-end 2008, and excluding provisions for future pensions and healthcare costs that fall due for payment in the distant future the net debt was 27% of equity. At year-end we had liquid assets in the form of cash and cash equivalents totaling SEK 24 billion, in addition to SEK 27 billion in unutilized credit facilities.

We have initiated savings at all levels in all operations and we are maintaining a high pace in the implementation of decided actions. Unfortunately, this has forced us to issue notices of redundancy to a large number of employees. These are necessary decisions for the Volvo Group that, regrettably, affect many employees and their families. The notices of redundancy have been a direct consequence of a credit market that does not work for our customers, and more recently, reflects a rapidly declining global demand.

” We have initiated savings at all levels in all operations and we are maintaining a high pace in the implementation of agreed measures.

### **Lower earnings**

Over the short term, rapid implementation of production cutbacks has a negative impact on operating income, due to a time-lag for adjustment of the cost structure. This strongly impacted earnings during the second half of the year in general and the fourth quarter in particular. We will also continue to feel the effects during the first half of 2009.

Driven by the market's strong growth during the first half of the year, sales increased 6% during 2008 to SEK 304 billion. Operating income declined nearly 30%, but we were still able to report earnings of nearly SEK 16 billion. Underutilization in the production plants and reduced deliveries during the second half of 2008, combined with continued high costs for raw materials and parts, had a negative impact on earnings.

### **Investments in the future**

We also continued our investments in future products, as reflected by the fact that we invested SEK 14 billion in research and development, an increase by slightly more than SEK 3 billion compared with the preceding year. Investments in R&D are planned to remain at a relatively high level. We invest substantial amounts of money in the development of hybrids within trucks and buses as well as construction equipment and new, competitive trucks, buses and construction equipment with new, cleaner engines that meet new emission regulations that will become effective throughout the world during the next few years.

We have also invested approximately SEK 10 billion in our factories in order to raise capacity but above all to increase productivity so that we can manufacture our products as efficiently as possible when we have come through the current recession.

### **Difficult conditions in many markets**

The truck market, which started the year at record levels in most parts of the world outside of North America and Japan, declined sharply during the second half of the year in the Group's main markets in Europe, North America and Japan. Toward year-end, it was obvious that all of our truck markets had been impacted by the decline. I have been pleased to note, however, that we increased our market share in nearly all markets during 2008.

Under present market conditions, it is difficult to forecast development in the truck market during 2009. We do not expect any recovery in demand during the first half of the year, but with the approved and already implemented internal actions that will gradually generate favorable effects during the first half of 2009, we are prepared to cope with the difficult conditions.

Construction Equipment was impacted the most by the rapid decline in the global economy, and the business area reported a substantial loss during the fourth quarter. The loss was attributed to sharply lower sales combined with underutilization in our production plants and significantly higher raw material costs. The Construction Equipment business area is now implementing measures that will gradually adjust costs during the first half of 2009 to the lower level of demand.

For Buses, the coach market was weak, but the city bus market continued to show stable development supported by growing interest in environmentally adapted vehicles, with particular emphasis on hybrids. In October, we received our first order for city buses equipped with hybrid drivelines.

For Volvo Penta, the market for marine engines has declined sharply, while the market for industrial engines remains relatively stable. Volvo Penta has also implemented adjustments in business operations and continues to

expand its industrial engine operations as part of efforts to achieve better balance between its segments.

Volvo Aero reached several important engine agreements during the year that will start to generate substantial long-term revenues within the next few years. Sales and profitability declined during 2008, however, and Volvo Aero has already started to prepare for lower demand due to the general decline in air travel throughout the world.

As expected, write-offs and credit provisions for doubtful receivables in the customer financing portfolio of Volvo Financial Services (VFS) increased in parallel with the weakening economy, but they remain, nevertheless, at relatively low levels. For full-year 2008, VFS generated a 12.6% return on equity.

The Group has worked during recent years to expand its aftermarket business consisting of spare parts, used trucks, workshop services and other supplementary services. We have become better at supporting the business activities of our customers throughout the entire lifecycle of the products. During 2008, this part of our operations accounted for about 26% of total sales. This provides several advantages. The aftermarket business is much more stable in its development than sales of new vehicles and equipment. As long as our customers' trucks, buses, construction equipment, boats and aircraft remain in operation, they will continue to need service, spare parts and many of the other services that we offer in this area. Profitability is also higher, and therefore the aftermarket is a prioritized area in order to improve the Group's profitability over the course of the business cycle.

### **Long-term growth and development with focus on the environment**

It is impossible to predict how long the present level of weak demand will continue. I am con-

vinced, however, that the market will recover, since transports and infrastructure are the backbone of modern society. In the long-term perspective, economic growth is driven by increased trade and the need for infrastructure. This is particularly true in regions such as Eastern Europe and Asia. We have advanced our positions in these markets during recent years through investments in our dealer and service networks, our acquisition of the Japanese truck manufacturer Nissan Diesel, the acquisition of the Chinese wheel-loader manufacturer Lingong and the establishment of a joint-venture company for trucks and buses in cooperation with Eicher Motors of India.

As one of the world's largest manufacturers of commercial vehicles, we have a responsibility to reduce the environmental impact of our production and the utilization of our products. There is no conflict between the development of products with lower environmental impact and the creation of profitable growth. Engines that consume less fuel reduce our customers' costs and strengthen their competitiveness. We have a frontline position in the development of engines that meet future emission requirements and Volvo's hybrid technology is one of the most promising and competitive technologies for commercial vehicles. The Group's solution enables the diesel engine and electric motor to work in parallel or individually, depending on the power range and application, which significantly increases fuel efficiency compared with serial hybrid solutions.

**Strong positions in industries with potential for the future**

In order to maintain solid financial stability and support continued investments in the development of products for the future, the Board of Directors proposes that the ordinary divi-

dend be reduced by 64% to SEK 2.00 per share. Since the Volvo Group's return on equity exceeded 12% for the full-year 2008, SEK 150 M has been reserved for the profit-sharing program for employees, whose efforts during a difficult year were highly commendable.

There is no doubt that a difficult period lies ahead, but when the conversion to a new, lower level of costs is fully implemented, we will have built a good foundation from which to build upon when market recovers. The Volvo Group is one of the world's leading companies in industrial segments with large future opportunities. We have strong brands, a product range at the absolute forefront and strong positions in our markets.

As a result of substantial investments in recent years in innovations and product development, supported by the required measures we are now introducing, we have major opportunities to strengthen our market positions when the economy rebounds. But continued hard work will be required to achieve our goals.



Leif Johansson  
President and CEO

“ The Volvo Group is one of the world's leading companies in industrial segments with large future opportunities. We have strong brands, a product range at the absolute forefront and strong positions in our markets.

# Organized to drive synergies

## Business Areas

The Volvo Group is organized in product-related business areas and supporting business units. This organization permits companies to work closely with their customers and efficiently utilize Group-wide resources. Approximately 70% of the Group's 101,400 employees work in the eight product-related business areas.



**Volvo Trucks**  
manufactures medium-heavy to heavy trucks for long-haul, regional transport, and construction operations.

Number of employees: 20,472



**Renault Trucks**  
offers many types of vehicles from light trucks for delivery to heavy trucks for long haulage.

Number of employees: 10,100



**Mack Trucks**  
manufactures heavy-duty trucks primarily for construction, refuse and and heavy regional transports.

Number of employees: 2,663



**Nissan Diesel**  
Nissan Diesel's products range from medium-heavy to heavy trucks used for long-haul, regional transport, and construction operations.

Number of employees: 7,817

## Business Units

The business units are organized globally and combine expertise in key areas. They have the overall responsibility for product planning and purchasing, and for developing and delivering components, subsystems, services, and service and support to the Group's business areas. The structure creates economies of scale in product development, production, parts supply, logistics, administration and support functions.

Volvo Business Services provides administrative services to Volvo Group companies.

Volvo Group Real Estate conducts property management and development.

There are further units with clear responsibilities. Volvo Technology Transfer focuses on strengthening the Volvo Group's relationship to new technology or new services by investing in companies with projects of technical and commercial interest.

Volvo Treasury, the in-house bank of the Volvo Group, coordinates the Group's global financing. Volvo Treasury is also responsible for managing all interest-bearing assets and liabilities.

Volvo Group NAP (Non-Automotive Purchasing) is a global procurement organization sourcing indirect goods and services.

### Volvo 3P

Volvo 3P is responsible for product planning, product development and purchasing for the Group's truck companies. Product planning involves having the right products over the longer term. Product development focuses on chassis, cabins and electrical systems. In purchasing, Volvo 3P offers significant size and negotiating strength. Number of employees: 4,057

### Volvo Powertrain

Volvo Powertrain coordinates the Volvo Group driveline operations and is responsible for the development and manufacturing of heavy diesel engines, gearbox and driveshafts. Volvo Powertrain is also responsible for ensuring that the Volvo Group is supplied with drivelines for medium-heavy applications. The Volvo Group has common engine platforms that fulfill the latest environmental requirements, a more focused research and development program, more efficient production and a more focused supplier structure. Number of employees: 9,181

### Volvo Parts

Volvo Parts provides services and tools for the aftermarket. The services start with the suppliers and proceed via the dealers all the way to the end-customers. This entails planning, purchasing, shipping and storing parts, as well as inventory management, order management, and tools and services for the aftermarket. Number of employees: 4,175

### Volvo Logistics

Volvo Logistics develops and provides transport and logistics solutions to the automotive and aerospace industries worldwide. Its customers come from both inside and outside the Volvo Group. Volvo Logistics provides customer-adapted services throughout the logistics chain – everything from the design of complex logistics systems to packaging, insurance and distribution solutions for finished products. Number of employees: 1,185

### Volvo Technology

Volvo Technology (VTEC) develops new technology and new concepts for "hard" and "soft" products and processes in the transportation and automotive industries. The primary customers are the Volvo Group, Ford-owned Volvo Cars and selected suppliers. VTEC also carries out a few strategic programs and expert functions related to innovation and participates in national and international research programs involving universities, research institutions and other companies. Number of employees: 431

### Volvo Information Technology

Volvo IT's business concept is to manage complex IT systems. Volvo IT delivers solutions for all segments of the industrial process and provides unique expertise in product lifecycle management, SAP solutions and IT operation. Its customers include the Volvo Group, Ford-owned Volvo Cars, and other large industrial companies. Number of employees: 5,326

### Volvo Group Real Estate, Volvo Business Services



**Buses**

has a product range comprising city and intercity buses, coaches and chassis.

Number of employees: 8,019



**Construction Equipment**

manufactures equipment for construction applications and related industries.

Number of employees: 16,460



**Volvo Penta**

provides engines and power systems for leisure and commercial craft, as well as for industrial applications such as gensets and materials handling.

Number of employees: 1,595



**Volvo Aero**

offers advanced components for aircraft engines and space applications with a focus on light-weight technology for reduced fuel consumption. Services for the aerospace industry are also offered.

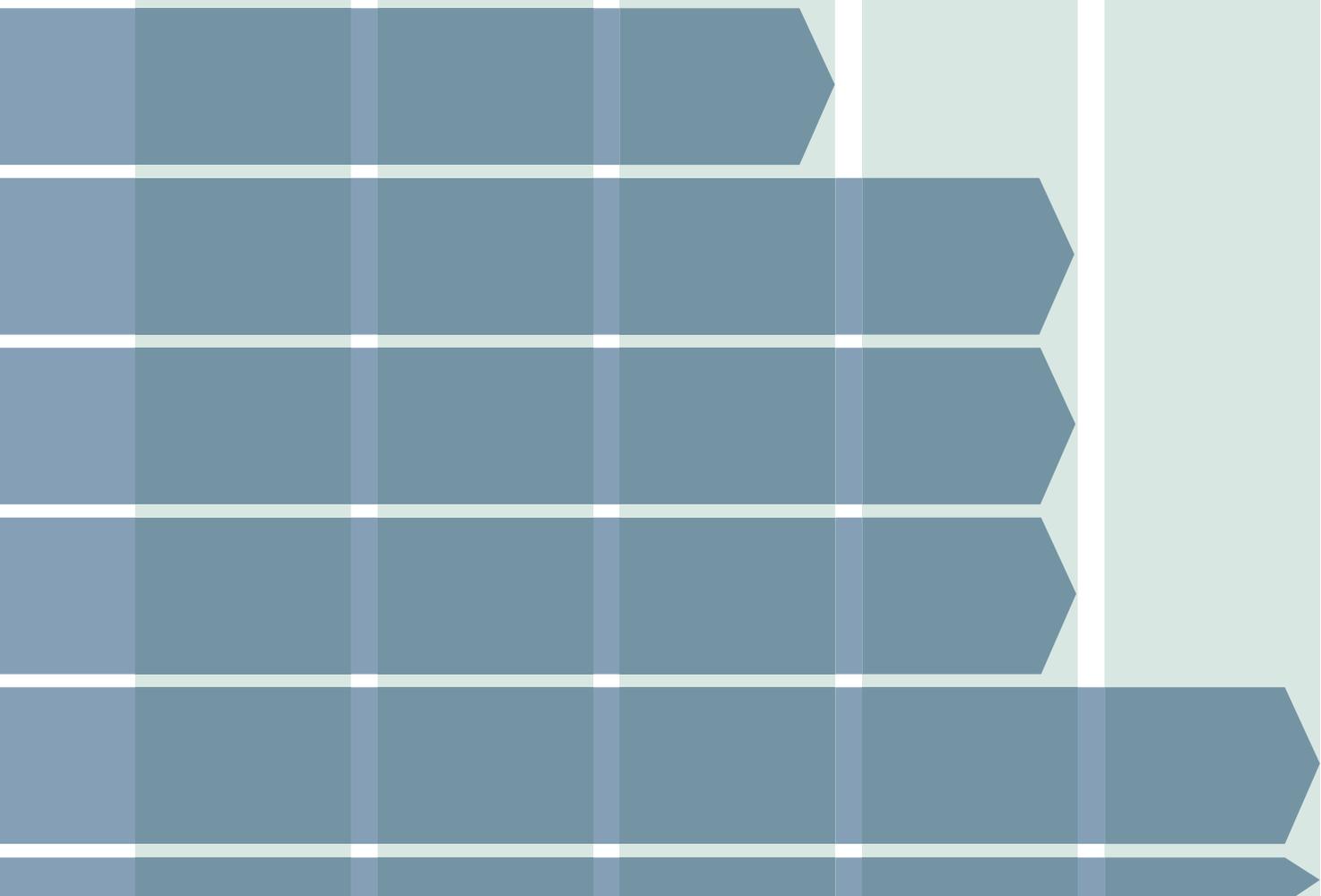
Number of employees: 3,262



**Financial Services**

Conducts operations in customer and dealer financing.

Number of employees: 1,290



# Sharp downturn in the global economy

After a strong start to the year, demand weakened significantly on most the Volvo Group's markets during the second half of 2008 as a consequence of the financial crisis and weaker global growth.



## Downturn aggravated by financial crisis

After a positive development during the first six months of the year, global growth softened during the second half of 2008. The financial turmoil and the recession spread from North America to Europe and subsequently further east. The downturn in the economy was significantly aggravated when the financial crisis, that started in the housing market in the US, spread through the global financial system. The tightening of credit that followed led to great difficulties for both businesses and households to finance investments as well as consumption, with a sharp downturn in the global economy as a consequence.

Many central banks cut interest rates sharply toward the end of 2008 to stimulate the economy. In addition, many countries decided on monetary and financial measures to cushion the decline, including increased government subsidies for investments in infrastructure. Despite the expected positive effects of the stimulus measures, both the OECD and UN project that the recession will extend also through 2010. The OECD, as stated in its Economic Outlook No. 84 published in November 2008, expects that GDP in the OECD area will decline by slightly more than 1% during 2009. This is the weakest development since World War II. According to the report World Economic Situation and Prospects 2009, the UN foresees a Global GDP development during 2009 of at worst minus 0.4% and at best growth of 1.6%. This can be compared with growth of 2.5% in 2008 and 3.8% in 2007

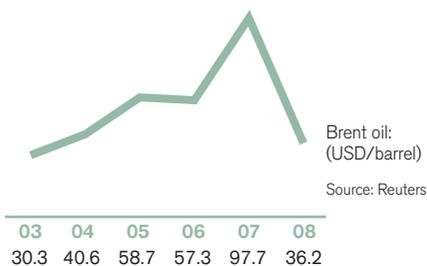
## Long-term transport need

In recent years, the growth economies in Asia, Eastern Europe and South America have contribute significantly to the world's strong economic trend. The BRIC countries – Brazil, Russia, India and China – account for one-quarter of the world's GDP, a substantial increase from 17% in 1990, according to the OECD. North America and the EU, however, remain indisputably the largest economies, accounting collectively for approximately 60% of the world's GDP. During the same period world trade has increased dramatically. Total trade in relation to the world's total GDP has more than doubled since 1970 – from 12% to 27%. The percentage of export of the growth countries has doubled – from 20% to approximately 40%. Growth in trade creates higher requirements for the transport of goods between and within various parts of the world, countries and regions. At the same time, social trends, such as urbanization in many countries imply that ever-increasing numbers of people require transportation in their daily lives.

The transport requirement is reflected in demand for transport vehicles, which have reported growth rates of about 4% a year over a business cycle. Historically, the trend of registrations of heavy trucks has shown wide fluctuations in North America but been more stable in Western Europe. The fastest growth has occurred in Eastern Europe and Asia.

Growth in the economy and in transport also clearly underscores the need for a reliably functioning infrastructure. In the next few years, major investments in the road network will be carried out in markets such as China, India and Eastern Europe while stimulus packages in the form of investments in infrastructure are on the agenda in a number of countries. Increased global wealth means that there is a long-term need to build airports, railways, factories and shopping centers, as well as housing and recreational facilities.

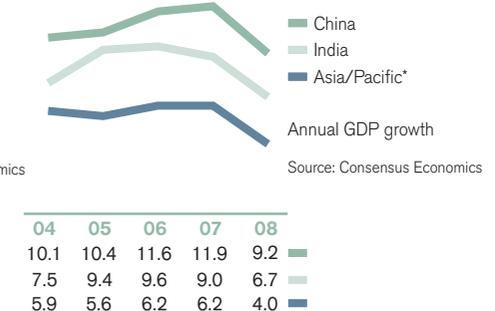
Brent Oil



GDP-growth in the US and in Europe, %



Growth in Asia, %



\* China, Hong Kong, South Korea, Taiwan, Indonesia, Malaysia, Singapore, Thailand, Philippines, Vietnam, Australia, New Zealand, India, Japan, Sri Lanka

## Fluctuating raw materials prices

The boom in recent years, with higher production and increased transports has resulted in upward pressure on raw materials prices. In particular, the price of oil continued to climb during the first half of 2008. At the beginning of 2008, North Sea oil, so-called Brent, cost USD 100 per barrel, later peaking at about USD 150 in July. In pace with the increasingly weaker trend in the world economy, the price of oil dropped sharply during the second half of the year. In December, a Brent barrel cost about USD 36. The price of other important input goods, such as metals and rubber, retreated during the second half of 2008 after the sharp rises in recent years.

Fuel represents a large part of the operating costs for many of the Volvo Group's customers. Fuel accounts for as much as one third of total costs for a transport company. Accordingly, fuel economy is an important factor when they choose new vehicles and machinery. This places demands on manufacturers to develop, new, more fuel-efficient products. Combined with increasingly stringent environmental demands, this means that substantial investments must be made in research and development related to new technologies that reduce emissions and with regard to complementary fuels and alternative drivelines with better environmental performance.

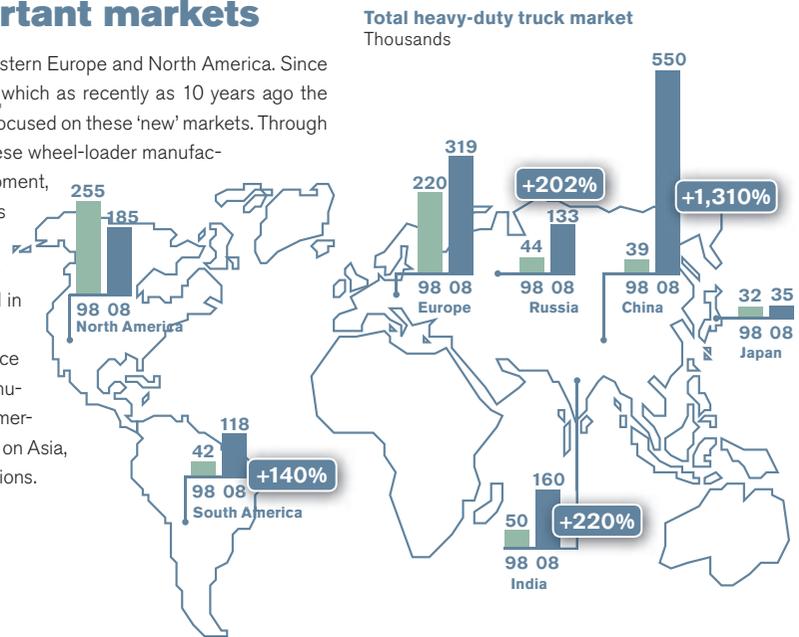
The Volvo Group is well in the forefront in the development of more fuel-efficient engines and alternative drivelines, such as hybrids for example.



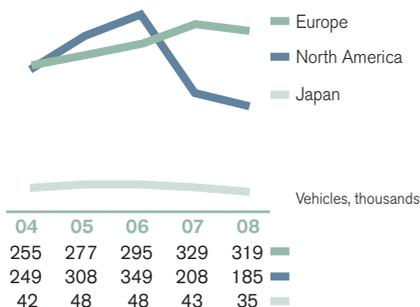
## Strengthened position in important markets

Since long, the Volvo Group has an established, strong position in Western Europe and North America. Since the fastest growth is occurring outside these regions, in markets in which as recently as 10 years ago the Group had limited operations, the Volvo Group has for some time also focused on these 'new' markets. Through the acquisitions of Japanese truck manufacturer Nissan Diesel, Chinese wheel-loader manufacturer Lingong, the Ingersoll Rand division for road construction equipment, and through the formation of a joint-venture for the production of trucks and buses with India-based Eicher Motors, also now Asia is an home market for the Volvo Group. At the same time, by strengthening the dealer and service network, the Volvo Group has positioned itself well in Eastern Europe.

To meet the challenges and distribute development costs, for instance for engines, over large volumes, consolidation is occurring among manufacturers. Mergers and acquisitions have been common in both North America and Europe. In the past few years attention has increasingly focused on Asia, where the Volvo Group had a head start with several significant acquisitions.



### Heavy truck registrations, >16 tons



### Volvo Group - Acquisitions and Divestments

- 2008 Joint venture within trucks and buses with Eicher Motors in India
- 2007 Acquisition of Ingersoll Rand's road construction operations
- 2007 Acquisition of Chinese wheel loader manufacturer Lingong
- 2006 Acquisition of Nissan Diesel of Japan, completed in 2007.
- 2005 Sale of the service company Celerio Support
- 2004 Acquisition of remaining 50% of the Canadian bus manufacturer Prevost
- 2004 Sale of axle-manufacturing operations to ArvinMeritor
- 2003 Acquisition of the truck and construction equipment operations of Bilia
- 2001 Sale of the insurance operations in Volvoia to If
- 2001 Acquisition of the truck manufacturers Mack and Renault VI
- 1999 Sale of Volvo Cars to Ford
- 1998 Acquisition of the excavator operations of Samsung Heavy Industries

## Strategy focusing on creating value

The Volvo Group's strategy is based on customers' requirements and focused on profitable growth, product renewal and internal efficiency.

### Customer requirements

The customers of the Volvo Group are primarily involved in transport-related operations. They place high demand on products and services. In a market characterized by intense competition, customer satisfaction is a key factor, as it represents an assurance of future sales and is a condition of good profitability.

The products and services have high performance characteristics, quality, safety, flexibility and total economy. Customers are offered solutions adapted to their operations, regardless of whether they involve a single product or a full program involving products and financing, insurance and various service contracts.

The products and services are developed in close cooperation with customers, with the goal of contributing to improving the customers' productivity and profitability, and thus creating value. Volvo strives to increase the proportion of sales coming from services and soft products.

The level of quality of the offering is also determined by how customers are treated and how the services are performed. In the past few years, the Volvo Group has intensified its relationships with key customers. The advantages are many. The Group can support customers' growth in an even better way than previously, and intensified relationships result in increased penetration of both the product and the service range.

The extended offering creates advantages for both the Volvo Group and its customers.

### Strategy

#### Profitable growth

The Volvo Group's aim is to continue to grow while focusing on profitability. Growth is to occur globally, both organically and through acquisitions. The aim is to grow by 10% a year over a complete business cycle. More than half of the growth is to be organic, while the remaining portion is to come from acquisitions. The acquisitions are to take place in strategic markets and in strategic product segments. The goal is to grow at a higher pace in new markets.

Profitable growth is a necessary condition of the Volvo Group's continuing to strengthen its competitiveness and develop as a cooperation partner to customers with high demands. There is particularly strong growth potential in supplemental business relating to service and to services in which significant effort is invested to give the customer a more complete offering. Profitability is essential to assure investments in research and the development of new products and services, as well as a favorable return for the shareholders.

#### Product renewal

The ongoing renewal of the Group's product range and creation of new and better products and services is both a matter of survival and a challenge. Intense competition, new environmental standards and safety and quality requirements involve significant demands on the entire product development process.

The development of new, innovative technology is key to the success of future product generations, and to maintaining market-leading positions. Efforts are constantly under way within the Group to improve the performance of products – this strengthens current competitiveness. At the same time, research looking further into the future is conducted to achieve new technical breakthroughs that will contribute to reduced environmental impact and meet future requirements. The Volvo Group has a unique strength in its global network in product development, which is a strong base for meeting future demands.

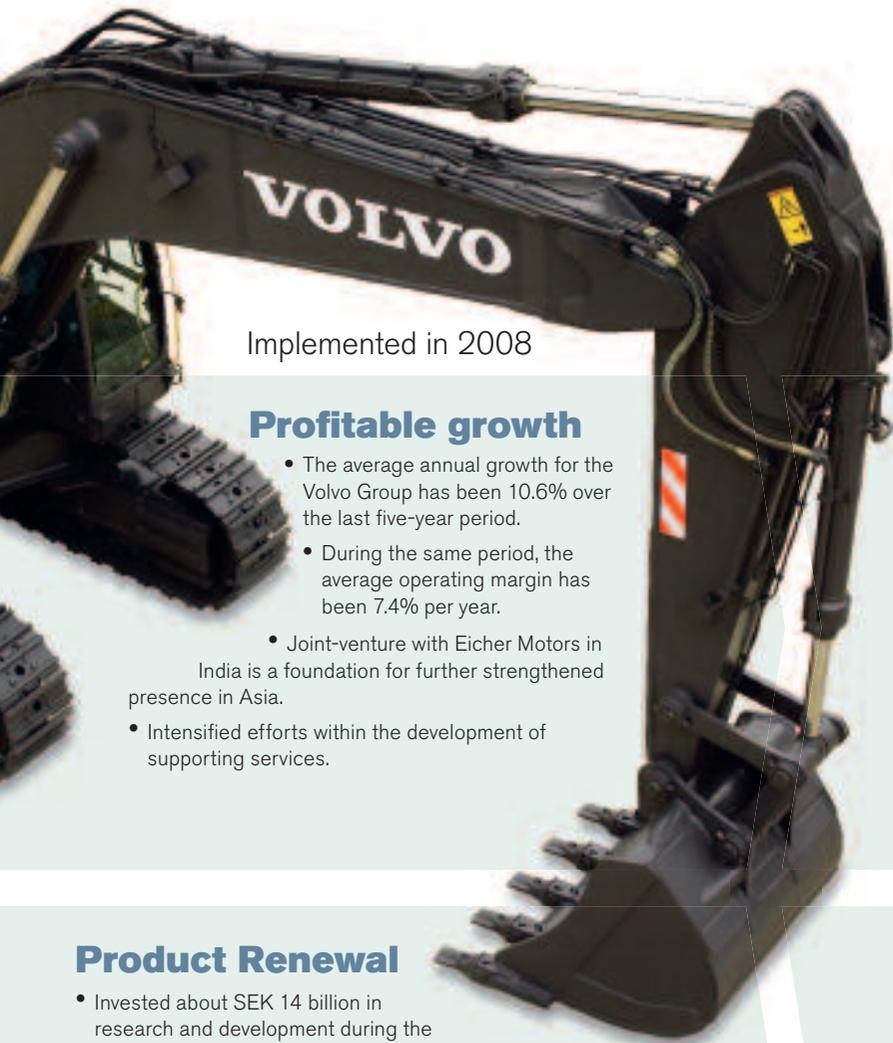
The Group sets aside a portion of the resources within research and development to soft products with the aim of meeting customer needs through the entire product life cycle.

#### Internal efficiency

The Volvo Group has a clear focus on efficiency, particularly in relation to profitability and customer satisfaction. The Group strives to optimize cost-efficiency and productivity in all sectors of its operations.

Part of the internal cost-efficiency work involves reducing production costs and sales and administration costs. Product costs must be constantly monitored to create competitiveness without compromising on quality. Getting it right from the start increases customer satisfaction, saves time and energy and keeps costs down. The Volvo Group's capacity to handle development projects, combined with its ability to rapidly introduce processes for new ways of working, contributes to increased profitability. Employee development is a key part of the work with internal efficiency.





Implemented in 2008

### Profitable growth

- The average annual growth for the Volvo Group has been 10.6% over the last five-year period.
- During the same period, the average operating margin has been 7.4% per year.
- Joint-venture with Eicher Motors in India is a foundation for further strengthened presence in Asia.
- Intensified efforts within the development of supporting services.

Aims for 2009

### Profitable growth

- Focus on flexibility and quick adjustment of costs to lower demand.
- Increased focus on services relating to financing and aftermarket.
- Expansion of the dealer and service networks.
- Focus on further capitalizing on the presence in Asia.
- Regularly evaluate potential acquisitions that could strengthen the position in strategic markets and in specific product segments.

### Product Renewal

- Invested about SEK 14 billion in research and development during the year, including soft products.
- CO<sub>2</sub>-neutral trucks showcased on several markets.
- Cooperation regarding the development of the biofuel DME (dimethylether).
- Commercially viable offering of hybrid city buses.
- Volvo Aero signed contracts regarding taking part in a number of large engine programs with light-weight technology.

### Product renewal

- Continued investments in research and development to create new products with increased customer value and to meet environmental demands with better fuel economy.
- Deliver economies of scale within research and development.
- Launch of new products including hybrids.
- Further develop the service range, to help balance sales of vehicles and equipment, which are more cyclical in nature.

### Internal Efficiency

- Continued focus on improvements in productivity and efficiency.
- A number of strategic restructuring measures in the industrial system carried out.
- Continued work with integrating the newly-acquired operations.

### Internal efficiency

- Further increase the focus on productivity improvements.
- Increased economies of scale within shared services.
- Measures to promote competitiveness through lowered product cost.
- A gradual implementation of Volvo Production System (VPS), including parts of the administration.
- Establish and execute on rolling three-year plans for the development of employees' skills and leadership.

# Leading pro

The Volvo Group has products with strong brand names that have been built up over a long time. The Volvo Group's mission includes "using our combined expertise to create transport-related products and services of superior quality, safety and environmental care, for demanding customers in selected segments."

By constantly developing and improving its products and services in close cooperation with customers, the Group strengthens its competitiveness while creating value for customers and thus helping to generate future shareholder value.

## The Volvo Group's brands

The Volvo brand has been built over decades and is one of the world's most well-known and respected brands in trucks, buses, construction equipment, marine engines, industrial engines and the aerospace industry.

The Volvo Group's acquisition of Renault Trucks and Mack in 2001 created Europe's largest and the world's second largest heavy-duty truck manufacturer, with a very broad product program. Mack is one of the most well-known truck brands in North America and Renault Trucks enjoys a particularly strong position in southern Europe.

Nissan Diesel is one of the world's leading manufacturers of trucks and buses.

Prevost is owned by Volvo Buses and is North America's leading manufacturer of premium touring coaches and bus shells for high-end motorhomes and specialty conversions. Nova Bus is considered to be one of North America's leading companies in city buses.

Through its partly-owned companies and joint-ventures, the Volvo Group also sells construction equipment under Lingong's brand SDLG mainly in China, trucks and buses under the brand Eicher mainly in India and buses under the brands Sunwin and Silver in China.

## World-class products

The Volvo Group is the world's largest manufacturer of heavy diesel engines for commercial use and a significant manufacturer of drivelines for heavy vehicles. The Group has production, research and development facilities for drivelines on three continents, and the products are sold to customers in more than 180 markets worldwide.

The drivelines are designed so they can be adapted to a large number of applications in most of the Group's products. The diesel engines are used in trucks, buses and construction equipment, as well as in boats and industrial applications, such as generator units.

The strongest driver of the development of drivelines is customer requirements and preferences as well as new legislation with stricter emissions requirements. Products with reliability, sustainability, drivability, fuel economy and high environmental parameters help boost customers' productivity and profitability.

## New products

After implementing comprehensive product renewal in recent years, the Volvo Group continued to launch more new products in 2008 and now has its most competitive product program to date. The customer offering will be further strengthened in the next few years by focusing intensely on the development of future generations of products and services that create value for customers.

Hybrid technology is one of the most promising and competitive technologies of the future for commercial vehicles. Last autumn, the Volvo Group introduced the fourth-generation hybrid solution on a broad front for buses, trucks and construction equipment. Read more about the Volvo Group's hybrid products on page 16.



# ducts...



## **Volvo Trucks**

In the summer of 2008, Volvo Trucks launched a new generation of trucks in Europe. Both the Volvo FH, the company's bestselling truck for long haulage, and the Volvo FH16, the flagship with the highest torque in the business, received substantial upgrades. Among the news were also a new Volvo FM with an 11-liter engine.



## **Renault Trucks**

In early 2008, Renault Trucks introduced a new version of the heavy-duty truck Renault Magnum, which is Renault Trucks' flagship. The main news was an improved interior with increased driver comfort. Among other news was the Renault Kerax with a 13-liter engine.



## **Nissan Diesel**

Nissan Diesel introduced the heavy-duty truck Quon, which is distinguished by its fuel efficiency, on the important export market in South Africa. Export of Quon trucks commenced in 2007 when Singapore and Hong Kong, countries with Euro IV emission demands, were the first ones out.



## **Mack Trucks**

Mack introduced a new prestige truck with a 16-liter engine, the Titan by Mack. The model, developed specifically for heavy haulage and construction work, is equipped with the new 16-liter Mack MP10 engine.



## **Volvo Buses**

At the major IAA bus and truck show in Hanover, Germany, Volvo Buses launched the first commercially viable hybrid bus on the market, the Volvo 7700 Hybrid. With up to 30% lower fuel consumption and hybrid components from Volvo, bus operators can earn a very competitive payback on their investment.



## **Volvo Construction Equipment**

At the major ConExpo fair in Las Vegas, Volvo Construction Equipment showcased its revolutionary hybrid wheel loader prototype. Furthermore the new line of road machinery and close to 30 other newly launched products from the company's entire product range were on show. During the autumn, two new medium-sized wheel loaders in Volvo Construction Equipment's F-series were introduced.



## **Volvo Penta**

Volvo Penta continued the launch of Volvo Penta IPS – the acclaimed drive system with forward-facing propellers and steerable drive units. With new and larger drive units connected to the Volvo Group's 11-liter engine, Volvo Penta has expanded its IPS offering with two new power classes: IPS800 and IPS900.



## **Volvo Aero**

Volvo Aero signed an agreement with Rolls-Royce, under which Volvo Aero will develop and manufacture a key component for the Trent XWB, the engine in Airbus's forthcoming aircraft. Volvo Aero also entered into an agreement with Pratt & Whitney regarding the development and manufacturing of three major components for both the Mitsubishi Regional Jet (MRJ) and the Bombardier CSeries.



# ...and world-cla



It is not enough to manufacture and sell high-quality products for the Volvo Group to realize its vision to become world leader in commercial transport solutions.

Many customers want long-term cooperation around total solutions to execute their work as efficiently as possible with maximum profitability and up-time. Consequently, when choosing suppliers of vehicles or machinery, the offering of supplementary services combined with excellent products and high availability is to a great extent crucial.

Accordingly, the Volvo Group is offering such services as financing and insurance, various forms of service agreements, accessories and spare parts to support core products. The Volvo Group's increasingly broad range of these so called soft products now has evolved into a more distinct competitive advantage.

Strengthening the soft products offering is an important way for the Volvo Group to:

- Satisfy customers' demands and requirements throughout the entire lifecycle of the

product and thus create a closer, long-term relationship with them.

- Increase sales of supplementary services and products with sustainable profitability.
- Enhance earnings stability by increasing the share of revenues that is less cyclical than sales of new "hard" products.
- Differentiate itself compared with competitors by adding customer value throughout the entire product lifecycle.

### Growing aftermarket business

The Volvo Group's soft products include various types of financing solutions, insurance, rental services, used vehicles, spare parts, preventive maintenance, service agreements, assistance services and IT services. The range and flexibility of the offering means that the

### Related products and services

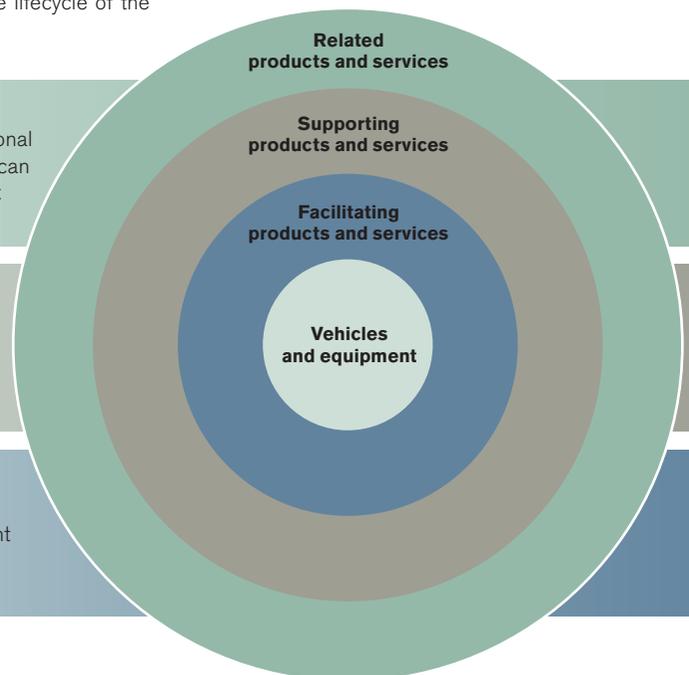
Products and services that have no traditional linkage to the hard product offer and that can be sold to both core and non-core product customers.

### Supporting products and services

Products and services used to increase the value of the hard products and/or to differentiate the offer from the competition.

### Facilitating products and services

Products and services required for efficient use of the hard products.



# SS services

solutions can be customized for each customer. In many cases, the Volvo Group is the forerunner in terms of developing new and attractive overall solutions to simplify customers' operations.

Since a large part of the accessories, spare parts and services in the aftermarket business is requested as long as products are being used, they contribute to balancing the fluctuations in the economy. By strengthening the aftermarket offering, profitability and revenues sustainability for the Group throughout the entire economic cycle can improve.

## Develop and increase interface with customers

The majority of Volvo Group's customers are companies within the transportation and construction industries. The Group's products are vital and highly crucial to their success and profitability.

The goal is that Volvo Group companies are regarded as number one in customer satisfaction, in terms of both products and services.

The Volvo Group must also be number one when the dealers' customers assess customer satisfaction. The strength in the dealer and service network is vital to the Volvo Group and contributes to strengthening the Group's various brands.

The development of new services and products is driven by customers' demands for access to vehicles and machinery that are rarely affected by unplanned stoppages and a competitive total cost during the product's entire service life.

## Vital element of growth strategy

The strategy to increase sales of soft products is an important element in the Volvo Group's effort to achieve targets for profitability and growth, both in mature markets and in the Group's new markets. During 2008, products and services in the aftermarket business represented approximately 26% of the Group's total sales, and the portion is expected to grow further in the years ahead.



**Tony Helsham, new head of soft products development**

Sales of soft products are a high-priority area and increasingly more significant for the Volvo Group. In September,

Tony Helsham was appointed to the new position as Senior Vice President responsible for the Group's efforts to increase sales of soft products. Tony Helsham was previously President of Volvo Construction Equipment.

"Our ambition is, over the business cycle, to increase the sales of soft products much faster than the sales of our sole new machines, vehicles or engines," says Tony Helsham.

Focusing on soft products is the best way to strengthen the ties with customers and increase their satisfaction and loyalty. "But it requires significant efforts to understand the customers' operations, translate that knowledge into specifications covering the complete lifecycle of our products, develop and finally deliver products with built-in serviceability".

For example, the machines from Volvo Construction Equipment are designed to increase productivity for work involving the most challenging types of terrain, and at any conceivable construction site. Tony Helsham confirms by experience: "To ensure that the machinery is optimally utilized, an increasing number of customers are purchasing service contracts tailored to suit their particular requirements. In addition they are asking for our CareTrack telematics solution to get remote access to information on the real time performance of their machines."

Today, many of the Volvo Group's customers are expecting their suppliers to come up with solutions securing and improving the profitability of their own operations. "We have a complete portfolio of products and services to offer and we need to increase our ability to combine them in the best interest of our customers, together with them and better than the competition," concludes Tony Helsham.



IT Services



Logistics services



Research and advanced engineering



Merchandise



Real estate services



Used vehicles and equipment



Remanufacturing



Rental



Accessories



Aero spare parts sales



Consulting Training



Transport and vehicle management

## FINANCIAL SERVICES

Credit cards, Vehicle and equipment insurance. Customer and dealer financing



Superstructures



Attachments



Parts



Repair and maintenance agreements



Customer assistance



Workshop services

# Hybrids on

It saves fuel. It reduces emissions. And it can be used together with alternative fuels. Hybrid technology is one of the most promising and competitive technologies for commercial vehicles.



**D**uring the year, the Volvo Group showcased the fourth-generation hybrid solution on a broad front in buses, trucks and construction equipment.

"Our hybrid solution for heavy vehicles is completely different from anything that has existed in the market to date," says CEO Leif Johansson. "As a result of our volumes and resources, we have succeeded in developing a more standardized platform solution, which is a prerequisite



site for the hybrid technology's ability to have a widespread commercial impact in the market for heavy vehicles."

Volvo has been testing various types of hybrid solutions since the 1980s and unveiled the first commercially viable hybrid solution for heavy vehicles in March 2006. Volvo's solution is based on a concept known as I-SAM (Integrated Starter, Alternator and Motor).

Unlike a series hybrid system, a powertrain based on a parallel hybrid system can be used

as a pure conventional diesel powered system or as an electric powertrain system or in a mixed mode. This flexibility ensures highest possible system efficiency irrespective of driving condition and a much improved overall fuel efficiency compared to the series hybrid system.

#### **Fourth generation**

"We call this the fourth-generation hybrid technology. In the future, hybrid technology will not be a special solution but a technology found in most new city buses and distribution trucks. The fourth-generation hybrid technol-

# broad front



ogy has the potential to make this possible," says Leif Johansson.

The favorable commercial prospects for Volvo's hybrid technology derive from the fact that it is based on a platform solution containing many shared components. This makes volume manufacturing feasible and lowers the production cost. Another advantage with an adaptable platform solution, such as the Volvo Group's, is that it can be used for a variety of different products and applications, which further increases the volumes and reduces product cost.

"Volvo believes that the prospects are favor-

able for developing hybrid technology for all commercial vehicle segments, everything from buses and construction equipment to trucks for distribution and long-haul traffic," says Leif Johansson.

#### **Volvo Trucks**

During the autumn, a number of the Group's hybrid vehicles were displayed at various trade shows, including IAA in Hanover, Germany. Volvo Trucks showcased the world's first heavy hybrid refuse truck, the Volvo FE Hybrid. The truck, which was premiered in April 2008, is one of two hybrid refuse trucks tested in oper-

ation in Sweden by the Renova and RagnSells refuse collection companies.

The use of these trucks can result in fuel savings of 15–20% and a corresponding decrease in CO<sub>2</sub> emissions. In addition, the hybrid refuse truck is totally exhaust-free and silent during electrical powering, a factor that is important for refuse collection vehicles, which often work in urban areas early in the morning.

In December, it was announced that Volvo Trucks will deliver four refuse trucks with hybrid power to Veolia Propreté, one of the world's largest companies in refuse handling. In the

## The Volvo Group's hybrid solutions

- Reduces fuel consumption by up to 20% in refuse trucks
- Reduces CO<sub>2</sub> emissions by up to 20% in distribution trucks and up to 30% in city buses
- Decreases fuel consumption in wheel loaders by up to 50%
- Makes trucks and buses virtually noiseless when running on the electric motor at low speeds
- Enables zero emissions of NO<sub>x</sub> and particulates when running on electric motor
- Enables CO<sub>2</sub> neutral transports when operating on biofuel

Volvo hybrid system  
- the superior choice

Fits wide range of the  
Volvo Group vehicles  
Excellent performance  
Lower cost compared to  
other hybrid systems  
Double electrical power  
and torque capacity  
True system optimization  
through full control



autumn of 2009, the four hybrid trucks will start operating in France and England.

### Volvo Buses

At IAA Volvo Buses launched its new hybrid bus, the Volvo 7700 Hybrid. Production of the new bus, which is based on the Volvo Group's hybrid technology, is scheduled to start in 2009. This hybrid technology provides fuel savings of up to 30%. In spite of a higher price, over time these buses provide a lower operating cost per kilometer thanks to the substantially improved fuel efficiency.

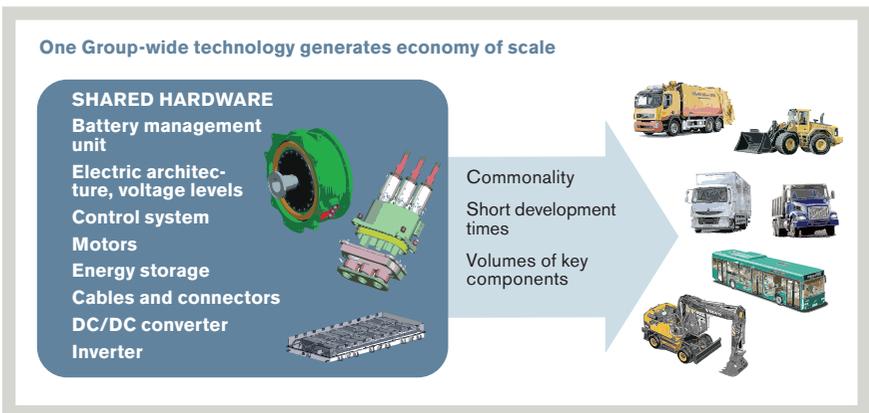
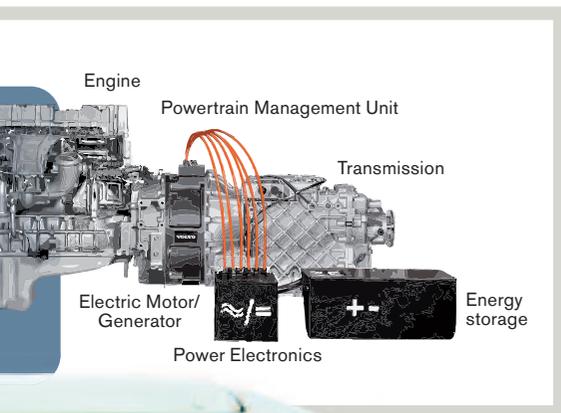
In October, Volvo Buses received its first order for the company's new hybrid bus, Volvo 7700 Hybrid. Sales-Lentz, a bus operator in Luxembourg, has ordered six hybrid buses with delivery starting in 2009. The buses will be used in normal route traffic, predominantly on routes with frequent stops so that the hybrid technology can be fully utilized. The bus stores braking energy in batteries and uses this energy to power the electric motor. The diesel engine is shut down at bus stops and the bus drives away from the stop emission free and nearly noiseless powered by the elec-

tric motor. When the bus reaches 15–20 kph, the diesel engine starts up again.

Volvo Buses is also carrying out field tests with six hybrid-powered double-decker buses in London, an investment that will be of great importance for the future demand for hybrid buses in London.

### Volvo Construction Equipment

Volvo Construction Equipment is also at the leading edge of development in the field of hybrid technology. At the ConExpo trade show in Las Vegas in March 2008, Volvo Construc-



tion Equipment scored a success with its hybrid wheel loader prototype, the first of its kind in the world. Up to 10% lower fuel consumption is one of the advantages this hybrid system can offer in the market for construction equipment.

Volvo Construction Equipment also expects to be able to develop the hybrid solution so that also the hydraulic system is hybridized and thus further reduce fuel consumption – up to 50%. A couple of Volvo CE's key customers will have the opportunity to test drive the hybrid wheel loader toward the end of 2009.

#### Renault Trucks

Tests with hybrid refuse trucks in Lyon shows that a 15–20% reduction in fuel consumption and therefore in CO<sub>2</sub> emissions can be achieved by Renault Premium Distribution Hybrys Tech and its equipment. Renault Premium Distribution Hybrys Tech is mainly suited for city distribution and other urban applications. Production of the new trucks is expected to begin towards the end of 2009.

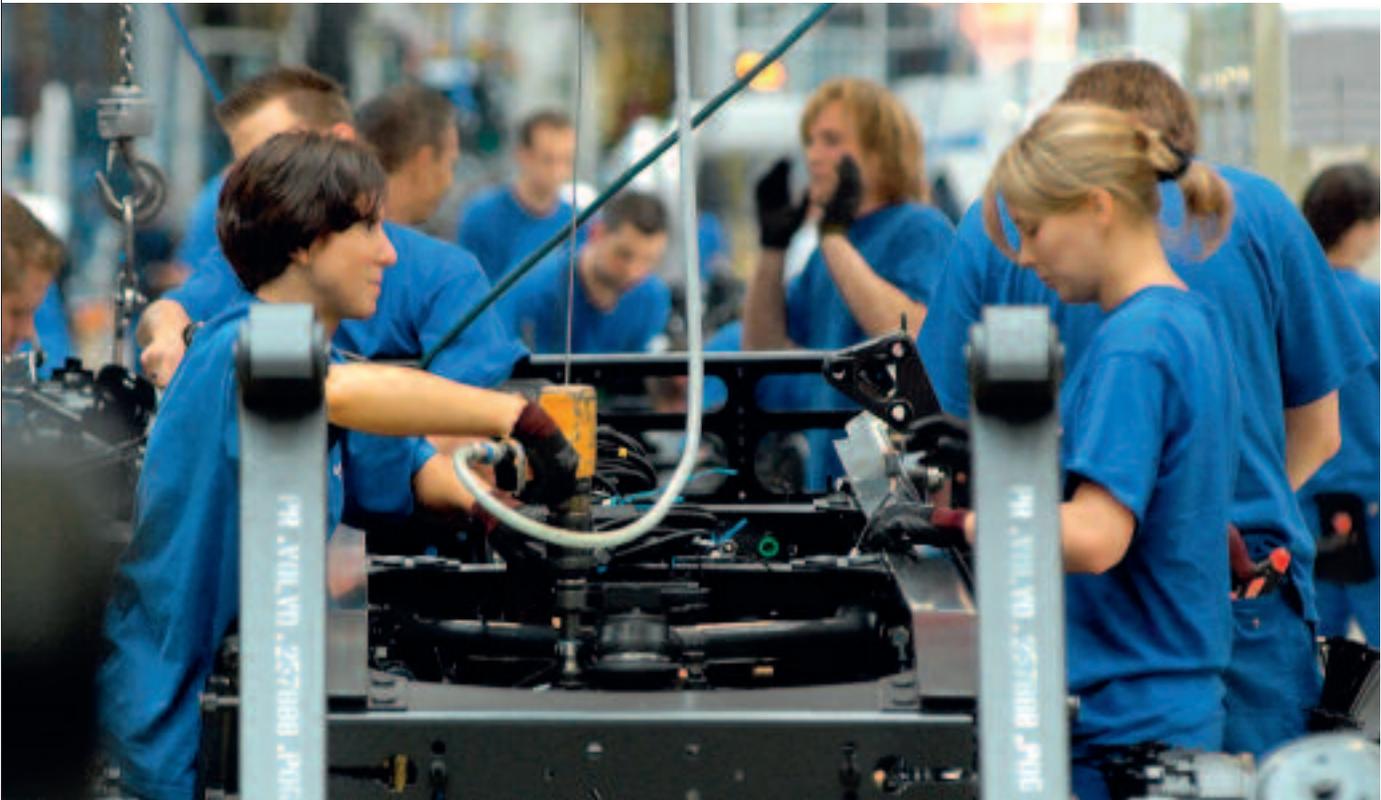
#### Mack Trucks

Mack Trucks has built five diesel electric hybrid trucks for the U.S. Air Force, including a MACK

TerraPro Low Entry refuse truck. The trucks are in operation around the country and provide significant fuel savings of up to 30%. There are over 80,000 refuse trucks in operation in the U.S. and each truck travels as much as 120,000 kilometers every year, so the potential fuel savings are substantial. The hybrid refuse trucks are also quieter than regular refuse trucks, which adds to an improved urban environment.

# VPS—our way

More colleagues, more facilities and a broader cultural diversity strengthen the need for common values and goals to pursue. This is one of the reasons why the Volvo Group in spring 2008 began to establish the common Group-wide Volvo Production System (VPS). The first to implement were the production units, but VPS is also successively being incorporated in the administrative functions.



**V**PS is based on the values presented in The Volvo Way. It involves a common approach to reduce production costs and increase quality through identifying what creates customer value, doing it even better and avoiding unnecessary work. Already today, the Volvo Group has a good productivity, but with the stiff competition in the market place a continuous work with pro-

ductivity-increasing measures is needed to further increase competitiveness.

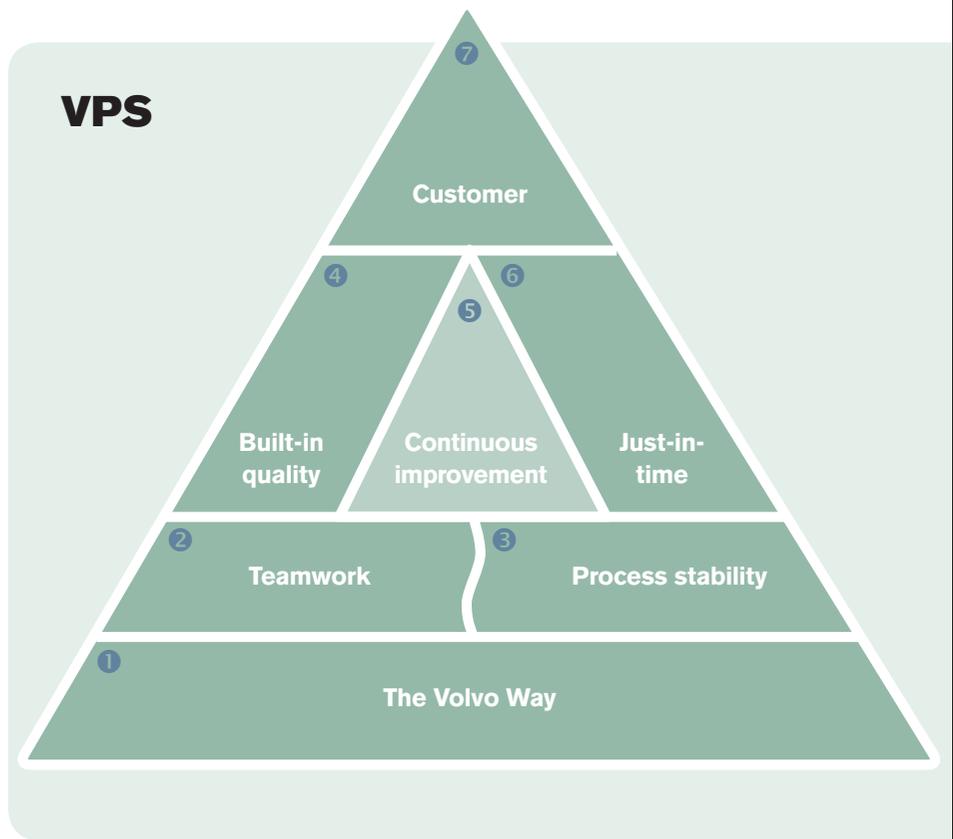
#### **More efficient work**

The foundation of VPS is more effective production where the customer is always the focal point. VPS is designed to eliminate all unnecessary work, work that creates no value for the customers. In production for example, assembly workers, should not have to spend time looking for components or unpacking boxes.

“Adding value for the customer is our main task. So we must always think about which activities are value-adding and which activities drive inefficiencies. We want all employees to take part in the work on improvements to eliminate inefficiencies,” explains Katarina Lindström, head of global production at Volvo Powertrain, who leads the work of introducing the Volvo Production System.

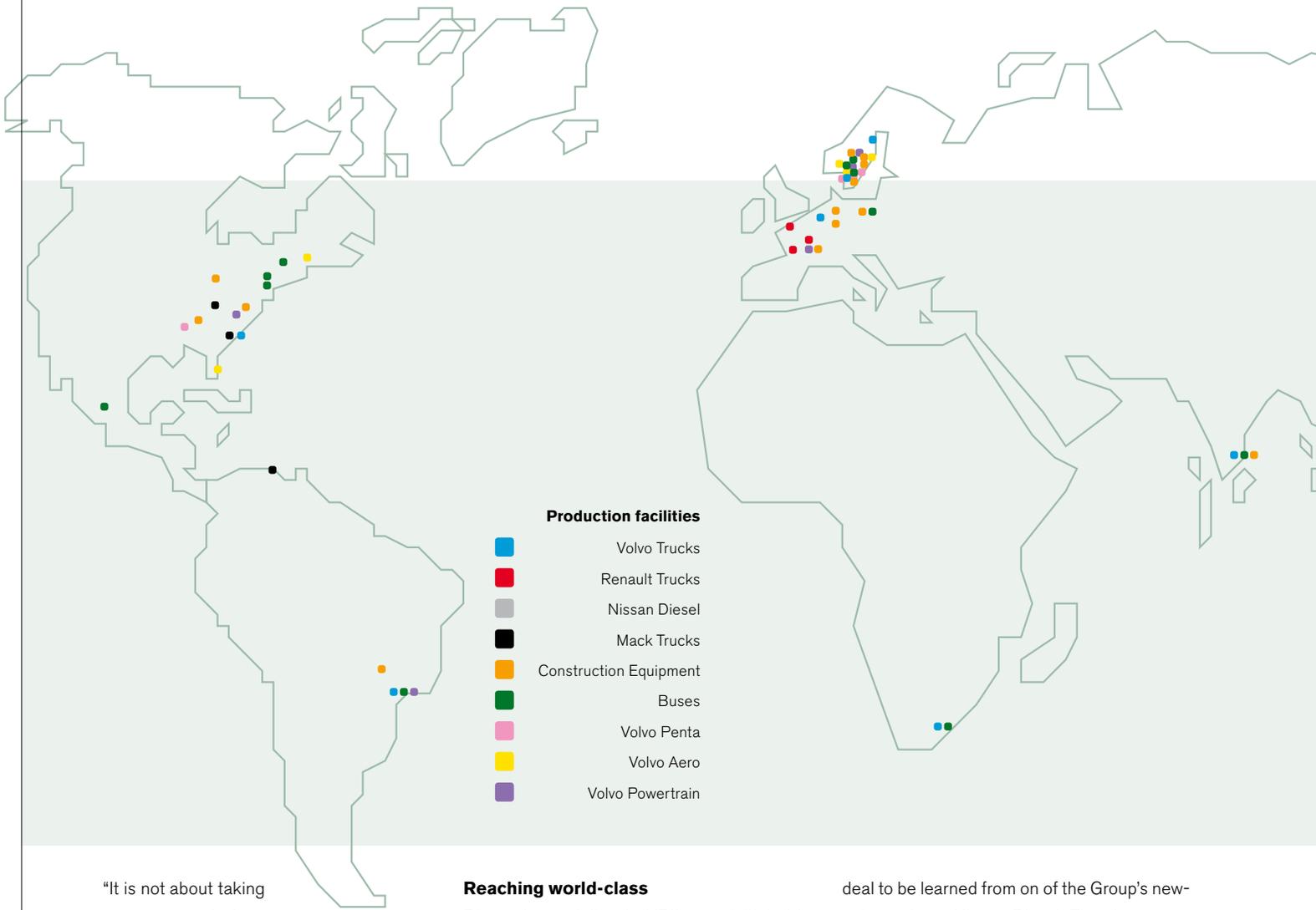
Concepts and discussions relating to efficient production systems are nothing new. A

# of working



number of large companies work according to this model and many suppliers have introduced similar systems and approaches. The acquisition-driven growth of recent years has made the work with VPS even more important. At the same time, it has created new opportunities and broadened the competence base. There are a great many good examples within the Group. Instead of everyone developing their own systems and toolboxes, the co-operation within the Group has developed considerably.

**1 The VPS is based on The Volvo Way:** the Volvo Group's values, culture and leadership. The system then comprises five principles or guidelines which will characterize the work. **2 Teamwork:** target-oriented teams that work to bring about cross-border improvements. Everyone is aware of his/her role and involvement. **3 Process stability:** eliminate disruptions to processes and ensure good organization. **4 Built-in quality:** get things right from the start. **5 Continuous improvement:** a long-term program to develop the process. **6 Just-in-time:** get the right things done at the right time. **7 The focus for the whole of VPS,** the top of the pyramid: is the customer and value for the customer.



"It is not about taking over someone else's way of working. It is all about us using all the knowledge and experience from other companies and within the Group to create something even better. What's most important is that the Volvo Group's system is based on the Group's principles and values," says Katarina Lindström.

#### Reaching world-class

Discussions relating to VPS were initiated in 2004 and were included in the strategic objectives for 2007–2009 to drive and follow-up progress.

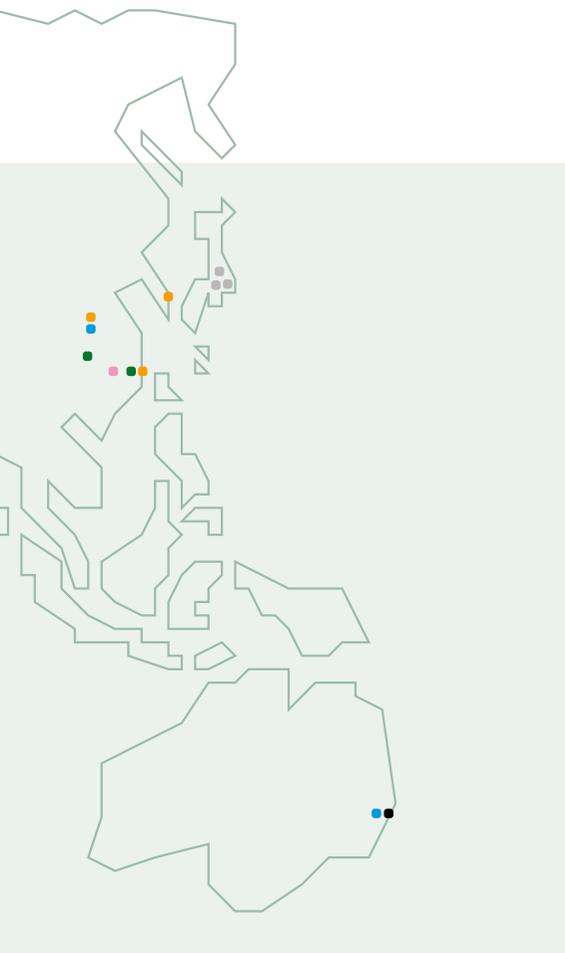
Many have pointed to Volvo Trucks in Curitiba, Brazil, as one of the Group's role models. At the start of this century, the plant in Curitiba began developing a system for more effective production has contributed to a favorable productivity increase. There is also a great

deal to be learned from on of the Group's newest members, Nissan Diesel. They have considerable experience regarding efficient production systems with high quality.

#### VPS Academy

Work on the VPS is being led by the VPS Academy, which has the task of ensuring that the system is introduced. With the Group's combined experience as the starting point, the objective is to have a common basic system for

# The work with VPS is never finished

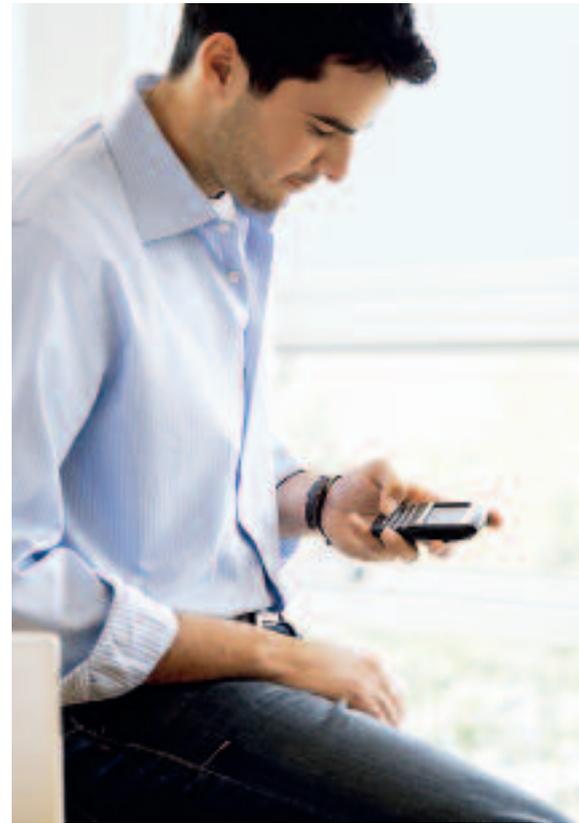
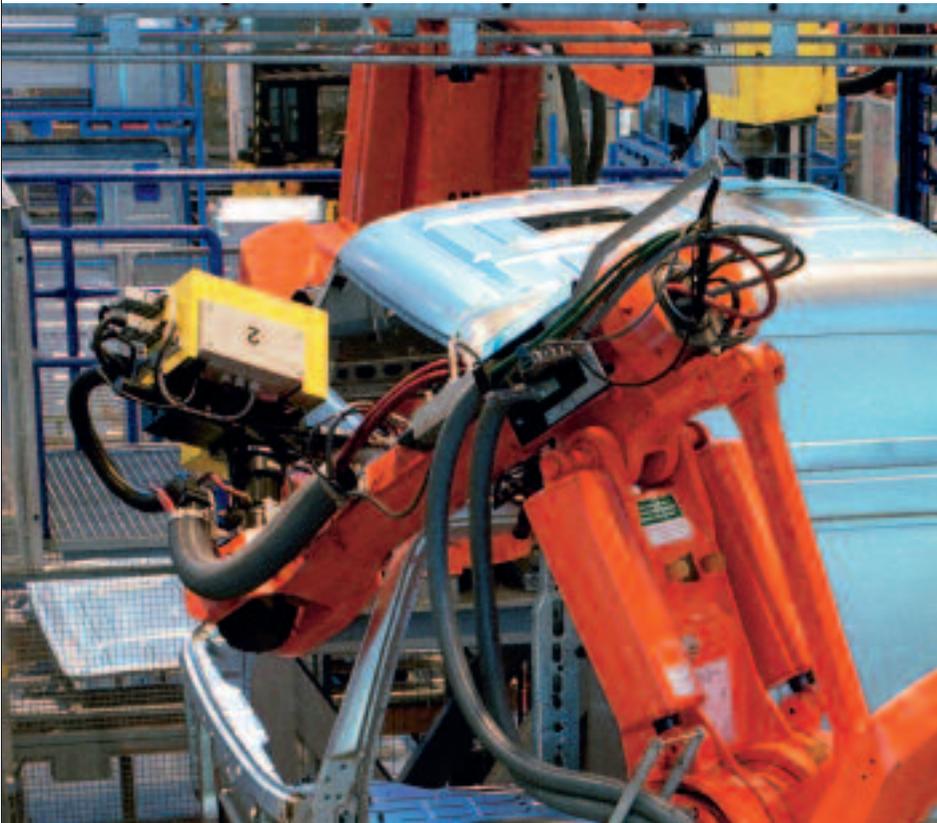


everyone to use. Based on that, everyone can then adapt it to match their unique conditions.

The work with VPS is never finished. This is not a new campaign that will lose focus after a while. It's a way of thinking. A program that will continue at all time. The production plants have come the farthest in the development, but VPS is gradually being introduced also in the other functions of the Volvo Group.

## Strong start to the year

– but a significant downturn during the autumn



### The first quarter

- Strong sales, +26%
- Operating income increased 12%
- Negative operating cash flow in Industrial Operations in an amount of SEK 3.3 billion
- Strong growth and good profitability in the truck operations

1

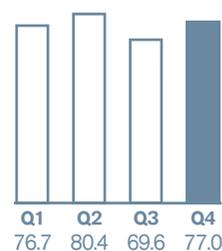
### The second quarter

- Net sales increased by 13%
- Operating income increased by 17%
- Operating cash flow in Industrial Operations SEK 4.9 billion
- Improved profitability in truck operations
- Cautiousness in Europe

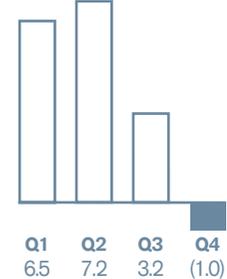
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Net sales, quarter, SEK billion



Operating income, quarter, SEK billion



### The third quarter

- Net sales increased by 2%
- Operating income decreased by 37%
- Operating cash flow in Industrial Operations negative in an amount of SEK 6.1 billion
- Sharp downturn – lower profitability
- Adjustments to lower demand

# 3

### The fourth quarter

- Net sales decreased by 9%
- Operating income was negative in an amount of SEK 999 M
- Inventory reduction contributed to positive operating cash flow of SEK 1.8 billion in Industrial Operations
- Weak demand in most markets

# 4

## Significant events



2008 was an intensive year with a new joint-venture in India, strong sales and earnings growth during the first half of the year and a significant weakening in demand, sales and profitability during the second half.

### The first quarter

#### Strike at New River Valley plant

On February 1, The United Auto Workers (UAW) union called a strike for the slightly more than 2,600 members at the New River Valley assembly plant in Dublin, Virginia, USA. The strike stopped practically all production in the plant for almost two months. In total, the strike had a negative impact on operating income during the first quarter amounting to approximately SEK 250 M.

On March 15, it was announced that employees represented by the UAW had ratified a new three-year agreement that ended the strike. Employees returned to work on March 24, when the plant began ramping up production to make up for the production that was lost during the strike.

However, given the weak demand in the North American truck market, in April a decision was taken to adjust production to a level more consistent with market demand. Originally, the production adjustment was planned to take place in February, before the strike broke out. The adjustment entailed moving from two shifts to one in May and consequently about 1,000 employees were laid-off.

#### Volvo Buses restructuring in Finland

In March, it was announced that Volvo Buses intended to close the bus body plant in Tampere, Finland. The plant was closed in August. There were also plans to reorganize operations at the body plant in Turku to increase the competitiveness. In total, 237 employees was affected. Volvo Buses had an overcapacity in its European bus body production system and foresaw that this would be the case also in the coming years. The adjustment of production capacity was a part of the strategy to strengthen Volvo Buses' profitability. During the first quarter, a provision amounting to SEK 120 M was made regarding Volvo Buses' adjustment of the production capacity.

Subsequently in August, Volvo Buses divested the Turku plant. The Turku plant manufactured the body for Volvo 9700 and was the smallest body plant in Volvo Buses.

#### AB Volvo reached settlement with US authorities

In March, it was announced that AB Volvo had entered into a consent agreement with the U.S. Securities and Exchange Commission and a deferred prosecution agreement with the U.S. Department of Justice resolving issues related to the activities of two of its

subsidiaries in Iraq under the Oil-for-Food Program. The settlements included a total of approximately SEK 117 M in fines, disgorgement of past profits and interest. The effect of the financial settlements on the operating income for the first quarter was approximately SEK 60 M.

### Annual General Meeting of AB Volvo

At the Annual General Meeting of AB Volvo held on April 9, 2008, the Board's proposal was approved to pay an ordinary dividend to the shareholders of SEK 5.50 per share.

Peter Bijur, Tom Hedelius, Leif Johansson, Finn Johnsson, Philippe Klein, Louis Schweitzer, Ying Yeh and Lars Westerberg were re-elected members of the Board of AB Volvo and Ravi Venkatesan was newly elected. Finn Johnsson was elected Board Chairman. Per-Olof Eriksson was not available for re-election.

The Board's Chairman Finn Johnsson, Carl-Olof By, representing AB Industrivärden, Lars Förberg, representing Violet Partners LP, Anders Oscarsson, representing SEB funds/Trygg Försäkring and Thierry Moulouguet, representing Renault s.a.s. were elected members of the Election Committee. The Meeting resolved to adopt new guidelines for remuneration to senior executives. In addition, the Meeting resolved to adopt a new share-based incentive program during the second quarter of 2008 for senior executives in the Volvo Group. So that Volvo shall be able to meet its commitment in accordance with the program, with limited cash flow effect, the Meeting further resolved that Volvo may transfer own shares (treasury stock) to the participants in the program.



### Europe's first hybrid refuse truck presented

In April 2008, Volvo Trucks took an important step towards commercialization of the fuel-

saving hybrid technology for heavy vehicles by presenting two hybrid refuse trucks that will be tested in regular daily operations in Sweden by refuse collection firms Renova and Ragn-Sells. The hybrid refuse trucks are expected to use 15–20% less fuel and thus cut carbon dioxide emissions by a corresponding amount. What is more, one of the trucks is equipped with an extra battery pack that drives the refuse compactor, and this is charged via the main electrical system when the truck is parked overnight. Its total reduction in carbon dioxide emissions is expected to be up to 30%, giving this approach a better eco-effect than for instance a truck powered by natural gas. Electric power has the added advantage of being entirely exhaust-free and emitting low noise.

## The second quarter



### Final agreement with Indian vehicle manufacturer Eicher Motors

In May, the Volvo Group signed a final agreement with the Indian vehicle manufacturer Eicher Motors covering establishment of a new Indian joint-venture company. As announced previously, the joint venture, VE Commercial Vehicles Ltd., comprises Eicher Motors' entire truck and bus operations and its components business as well as operations within technical consulting. The Volvo Group will transfer its Indian truck sales operations and service network for trucks and buses. Volvo has a direct ownership of 45.6% of the joint-venture company. Volvo also acquired 8.1% of Eicher Motors Limited from the majority owner and consequently gained a direct and indirect ownership interest of 50% in VE Commercial Vehicles. Volvo's 50% interest in the joint-venture company was consolidated during the third quarter 2008.

### Volvo Group entered into a SEK 6.2 billion loan agreement

In July, Volvo Treasury AB, a subsidiary in the Volvo Group, successfully entered into a SEK 6.2 billion (YEN 110 billion) cross-border syndicated loan agreement. Volvo Treasury decided to use syndicated lending from Japanese financial institutions to diversify its funding source.



### Volvo Aero entered into two major engine programs

In July, it was announced that Volvo Aero had entered into an agreement with aircraft engine manufacturer Pratt & Whitney to join P&W's Geared Turbofan engine program. Volvo Aero will be responsible for three major components in the aircraft engines for both the Mitsubishi Regional Jet (MRJ) and the Bombardier CSeries. For Volvo Aero the agreement is expected to result in sales of SEK 50 billion over 40 years, the company's largest involvement in a commercial engine program ever.

Also in July, it was announced that Volvo Aero and Rolls-Royce had entered into a risk and revenue sharing agreement for the Trent XWB engine for the Airbus A350XWB aircraft, under which Volvo Aero will develop and manufacture the intermediate compressor case, a key engine component. Volvo Aero estimates the value of the contract to be approximately SEK 40 billion over 40 years.

## The third quarter



### Volvo CE moves motor grader business as part of North American consolidation plan

Volvo Construction Equipment (Volvo CE) will move its North American

motor grader activities currently located in Goderich, Ontario, Canada, to the company's facility in Shippensburg, Pennsylvania, USA. Volvo CE incurred a restructuring cost of SEK 300 M which was recorded in the third quarter of 2008.



#### **Volvo Group moves ahead in hybrids**

During the autumn, the Volvo Group introduced the fourth-generation hybrid solution on a broad front in buses, trucks and construction equipment.

At the IAA trade show in Hannover in September, Volvo Buses showcased the market's first commercially viable hybrid bus, the Volvo 7700 Hybrid with up to 30% lower fuel consumption and hybrid components from Volvo.



#### **Mack and Volvo Trucks launched North American optimization plan**

Mack Trucks and Volvo Trucks North America jointly formulated a plan for increasing the efficiency of their North American operations. The plan includes the relocation of Mack's head office from Allentown, Pennsylvania, to Greensboro in North Carolina, and a concentration of Mack's truck production to the plant in Macungie, Pennsylvania. The transfer of production has been put on hold awaiting a new labor agreement with UAW.

## **The fourth quarter**

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#### **Credit rating**

On October 31, 2008 Moody's Investors Service changed AB Volvo's A3 long term rating outlook to negative from stable.

#### **First order received for new Volvo 7700 Hybrid bus**

In October, Volvo Buses received its first order for the company's new hybrid bus, Volvo 7700 Hybrid. Sales-Lentz, a bus operator in Luxembourg, ordered six hybrid buses with delivery starting in 2009. As a result of hybrid components developed by Volvo and fuel savings of up to 30%, it is an economically attractive hybrid bus. Many of Europe's bus operators have shown major interest in the new hybrid bus.

## **Events after balance sheet date**

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#### **Credit ratings**

On January 9, 2009 Moody's placed AB Volvo's A3 rating under review for possible downgrade. On February 13, Moody's changed the rating to Baa1 with stable outlook.

On January 23, 2009, Standard & Poor's initiated an official rating on AB Volvo. Standard & Poor's assigned an "A-" long-term corporate credit rating with stable outlook for AB

Volvo and affirmed the A2 short-term rating. In their credit report Standard & Poor's says the assigned rating reflects AB Volvo's "leading market positions worldwide" and the fact that "Volvo also benefits from a conservative financial profile and high financial flexibility". On February 20, Standard & Poor's changed the outlook to negative for the long-term rating.

#### **Renault Trucks to distribute Renault Traffic**

Renault Trucks intends to start distributing the light-duty vehicle Renault Traffic through its dealer network in France, Belgium, the Netherlands, Luxembourg, Switzerland and Austria, then gradually in Renault Trucks' remaining European network. Renault Traffic, which is manufactured by Renault SA, will further strengthen Renault Trucks' customer offer of light trucks while at the same time add service and spare parts revenue to Renault Trucks and its dealer network.

## Business cycle management

The Volvo Group's business areas operate in cyclical industries. Consequently, the Group has already for many years worked in a structured manner to deal with upswings and downturns in demand. The different phases of a business cycle place demands on specific measures to ensure efficiency and profitability.

### Sharp cutbacks

Against the background of the sharp fall in global demand during the second half of 2008, the Volvo Group was forced to implement substantial production cutbacks within many business areas.

In the first step, flexible work time was utilized, including time banks and releasing temporary employees. When the downturn worsened during the second half of the year, this resulted in notices of redundancy being given to a large number of permanent employees, while at the same time production was halted a large number of days during the fourth quarter of 2008. During 2008 and the beginning of 2009, a total of 16,255 permanent and temporary employees as well as consultants received notice that they would be leaving the Group, of which 7,670 in Sweden, 2,223 in France, 2,328 in the US and 4,034 in the rest of the world. During 2008, 5,800 of these left the Group.

Concurrently, extensive savings programs were introduced to offset the effects of lower sales volumes.

### Structural efficiency measures

The Volvo Group works continuously with enhancing operational efficiency to create long-term strengthened competitiveness and profitability.

During the year, it was announced that the Volvo Group planned to restructure the North American truck operations. The plan aims at increasing the efficiency of operations as well as to create better conditions for capitalizing on the possibilities offered in the North American market. Mack's head office with support functions will be transferred from Allentown, Pennsylvania to Greensboro, North Carolina where Volvo Trucks' North American operations are already gathered. Plans also include reorganization of the distribution network for

spare parts that serves all business areas in North America.

Volvo CE decided to move production of motor graders from Canada to an existing plant for motor graders in the US to improve the costs structure. Volvo CE also decided to transfer production of backhoe loaders for the North American market from Poland to Mexico.

Volvo Buses decided to restructure operations in Finland as part of improving the efficiency of operations in Europe, which resulted in closure of the body plant in Tampere and the sale of the body plant in Turku.

## Financial strategy

The purpose of Volvo's long-term financial strategy is to ensure the best use of Group funds in providing shareholders with a favorable return and offering creditors reliable security. The Volvo Group's three financial targets are: Growth, Operating Margin and Capital Structure.

### Focus on commercial transport solutions

The streamlining of the Volvo Group, which commenced with the sale of passenger car operations in 1999 and continued in the form of a number of acquisitions, has created a strong group with a focus on commercial vehicles and equipment. The Volvo Group's new composition has provided resources which have been reinvested in product development, acquisitions and efforts for geographic expansion. In turn, this has resulted in geographic and product diversification that has also reduced risk in the company. Moreover, the Volvo Group's stronger focus on aftermarket operations, which are less sensitive to economic trends, has contributed to reducing risk.

The organization with business units with Group-wide responsibility for engines and product development, purchasing and product planning has fuelled in-house efficiency programs to ensure the realization of considerable potential synergies that have been created. Individually, the Group's business areas have strong positions in their particular markets, in part thanks to capitalizing fully on the potential offered for coordination and cooperation deriving from the dramatically higher volumes of engines and other products.

### Financial strategy

The purpose of Volvo's long-term financial strategy is to ensure the best use of Group funds in providing shareholders with a favorable return and offering creditors reliable security.

A prerequisite for the long-term competitive development of the company is the availability of sufficient financial resources to secure investments, thereby maintaining a strategically competitive position in all business areas.

The Volvo Group's capital is intended for organic growth, the financing of acquisitions and for maintaining a high level of financial flexibility.

### Long-term credit rating

The purpose of Volvo's capital structure is to balance expectations from the shareholders and other financial stakeholders. Each year, Volvo meets with credit rating institutes to discuss the lender's view of the company and to assess the Group's future ability to repay loans. The Group's goal is to maintain good credit ratings as a base for favorable financing through loans.

On January 23, 2009 Standard & Poor's assigned an "A-" long-term corporate credit rating with stable outlook for AB Volvo and affirmed the A2 short-term rating. In their credit report Standard & Poor's says the assigned rating reflects AB Volvo's "leading market positions worldwide" and the fact that "Volvo also benefits from a conservative financial profile and high financial flexibility". On February 20, Standard & Poor's changed the outlook to negative.

On February 13, the credit rating company Moody's Investor Services lowered AB Volvo's long-term credit rating from A3 to Baa1 with stable outlook and maintained the short-term P-2 rating with stable outlook.

A high long-term credit rating provides access to additional sources of financing and improved access to the financial market.

### Funding

The financial crisis that dominated the second half of 2008 and the beginning of 2009, and the associated credit crunch, has resulted in a high level of cautiousness among customers with regard to investment decisions, which has led to lower demand for Volvo's products.

The turbulence on the global financial markets affects the availability of credit lines and loan financing, which may adversely affect customers, suppliers, distributors and the Volvo Group. Volvo is working actively to achieve an appropriate balance between its short-term and long-term borrowing, and ensuring financial preparedness in the form of credit facilities to satisfy the future financing requirements of the Volvo Group.

### Financial targets

- Growth in net sales should increase by at least 10% annually over a business cycle.
- Operating margin should exceed 7% for the Group's industrial operations over the business cycle.
- Net debt including provisions for post-employment benefits in the industrial operations should be a maximum of 40% of shareholders' equity.

The growth target of 10% annually shall be achieved through organic growth and through acquisitions.

The Volvo Group's profitability target is that

operating margin is to exceed a 7% annual average over a business cycle. The target covers all Group operations, except Financial Services, which over time is, expected to contribute approximately one additional percentage point.

### Financial Services

The target for Financial Services is a return on shareholders' equity of 12–15% and an equity ratio above 8%. At the end of 2008, the equity ratio was 8.2%. The return on shareholders' equity amounted to 12.6% for 2008.

### Growth

Volvo Group's growth target is that net sales should increase by a minimum of 10% annually. This objective will be achieved through organic growth and acquisitions. During 2008, net sales increased by 6%. During 2004–2008, the average growth was 10.6% annually.

### Operating margin

The Volvo Group's profitability target is that operating margin for the industrial operations is to exceed an average of 7% annually over a business cycle. In 2008, the operating margin amounted to 5.2%.

The average annual operating margin for the Volvo Group was 7.4% from 2004 to 2008.

### Capital structure

The capital structure target is set to a net debt including provisions for post-employment benefits for the industrial operations of a maximum of 40% of shareholders' equity under normal conditions.

As of December 31, 2008, the Volvo Group's industrial operations had a net financial debt position corresponding to 39.7% of shareholders' equity.

Net sales growth, %



Operating margin, %



Net financial position as percentage of shareholders' equity, %



1) Excluding adjustment of goodwill in 2006. 2006 included a reversal of a valuation reserve for deferred taxes and an adjustment of goodwill. As an effect, operating income in 2006 was negatively affected in the amount of SEK 1,712 M, while income taxes decreased by SEK 2,048 M. The total effect on income for the period was positive in an amount of SEK 336 M.

## The share

The world's leading stock markets were characterized by weak trends during 2008. AB Volvo's AGM will be held in Göteborg on Wednesday, April 1, 2009.

The Volvo share is listed on the Nasdaq OMX Nordic Exchange in Stockholm, Sweden. In Stockholm, the Volvo A and B shares are traded in blocks of 100 shares each. One Volvo A share entitles the holder to one vote at Annual General Meetings and one Volvo B share entitles the holder to one tenth of a vote. Dividends are the same for both classes of shares.

In December 2007, Volvo's American Depositary Receipt (ADR) was delisted from the NASDAQ exchange in the US. Following the delisting, all official trading in Volvo shares is concentrated to the Nasdaq OMX Nordic Exchange.

The Volvo share is included in a large number of indexes that are compiled by Dow Jones, FTSE, S&P and Nasdaq OMX Nordic.

### Weak trend on the stock market

The development on the world's leading stock exchanges was characterized by significant uncertainty in the world's financial markets during 2008. On Nasdaq OMX Nordic, the OMXSPI index dropped 41% in 2008.

Trading in Volvo A shares on Nasdaq OMX Nordic increased by 79% compared to 2007. The share price declined by 60% and was SEK 43.70 per share at year-end. The highest price paid was SEK 109 on January 2, 2008.

Trading in Volvo B shares on Nasdaq OMX Nordic increased by 15% compared to 2007. The share price declined by 60% and was SEK 42.90 per share at year-end. The highest price paid was SEK 109.25 on January 2, 2008.

In 2008, a total of 3,438 million (2,885) Volvo shares were traded in Stockholm, corresponding to a daily average of 13.6 million (11.5). At year-end 2008, Volvo's market capitalization totaled SEK 92 billion (231).

### Dividend

The Volvo Group's dividend has been maintained or raised every year between 1992 and 2007. The dividend level is evaluated on a regular basis by the Board of Directors.

In order to maintain a good financial stability and to be able to continue to invest in the development of products for the future, the Board of Directors proposes that the Annual General

Meeting approves that the ordinary dividend be lowered to SEK 2,00 per share for fiscal year 2008. That corresponds to a cut of 64% compared to the previous year when the dividend was SEK 5,50.

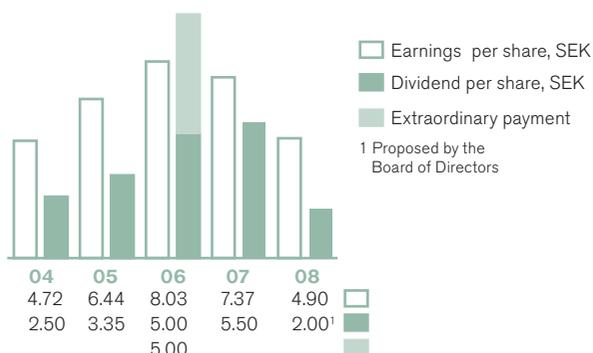
The dividend of SEK 2.00 per share corresponds to a yield of 4.7%, based on the share price at year-end.

### Communication with the shareholders

Dialog with the shareholders is important for Volvo. In addition to the Annual General Meeting and a number of large-scale activities aimed at professional investors, private shareholders and stock market analysts, the relationship between Volvo and the stock market is maintained through such events as press and telephone conferences in conjunction with the publication of interim reports, investor meetings and road shows in Europe, the US and Asia.

On the website [www.volvogroup.com](http://www.volvogroup.com) it is possible to access financial reports for the past 10 years and search for information concerning the share, insider trading in Volvo and

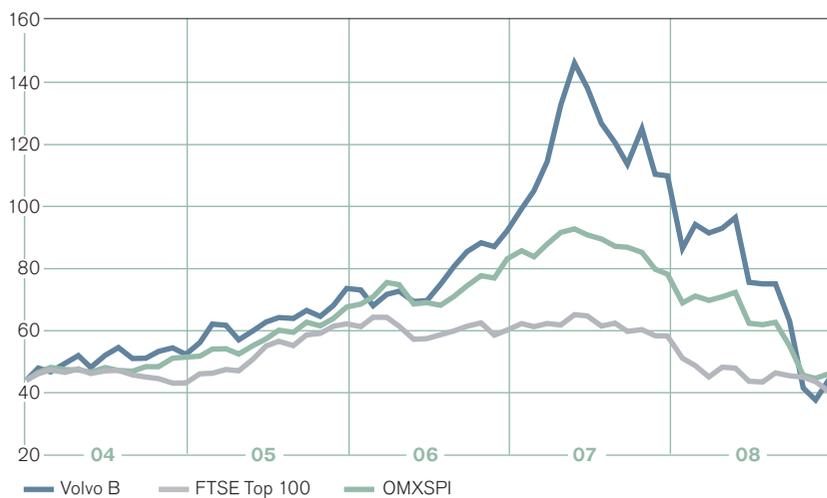
### Earnings and dividend per share



### Total return, Volvo B



### Price trend, Volvo Series B shares, SEK



Source: OMX/FTSE

statistics for truck deliveries. It is also possible to access information concerning the Group's governance, including information about the Annual General Meeting, the Board of Directors, Group Management and other areas that are regulated in the "Swedish Code of Corporate Governance." This website also invites shareholders to personally determine the information to be received from Volvo.

### The largest shareholders in AB Volvo, December 31, 2008<sup>1</sup>

	Voting rights, %
Renault SA	21.3
Industrivärden	8.8
Violet Partners LP	5.5
AFA Insurance	4.9
SHB	4.6

<sup>1</sup> Following the repurchase of its own shares, AB Volvo held 20,728,135 class A shares and 80,310,082 class B shares comprising in total 4.75% of the number of registered shares on December 31, 2008.

### Share capital, December 31, 2008

Registered number of shares <sup>1</sup>	2,128,420,220
of which, Series A shares <sup>2</sup>	677,601,630
of which, Series B shares <sup>3</sup>	1,450,818,590
Quota value, SEK	1.20
Share capital, SEK M	2,554
Number of shareholders	220,192
Private persons	207,046
Legal entities	13,146

More details on the Volvo share, see note 23.

<sup>1</sup> Following the repurchase of the Group's own shares, the number of outstanding shares was 2,027,382,003.

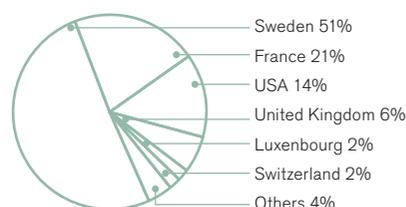
<sup>2</sup> Series A shares carry one vote each.

<sup>3</sup> Series B shares carry one tenth of a vote each.

### Credit rating at February 24, 2009

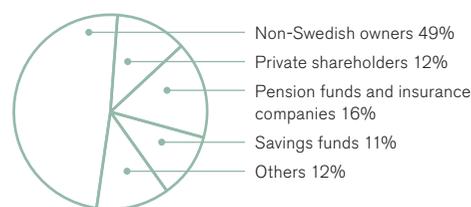
	Short term	Long term
Moody's	P-2 stable	Baa1 stable
Standard & Poor's	A2 stable	A- negative
DBRS	R-1 (low) stable	N/A
R&I (Japan)	a-1	A+ stable

### Ownership by country<sup>1</sup>, %



1) Share of capital, registered shares.

### Ownership categories<sup>1</sup>, %



1) Share of capital, registered shares.

The employees' ownership of shares in Volvo through pension foundations is remote.

More details on the Volvo share are provided in note 23 to the financial statements and on the page Volvo share statistics.

## Sustainable development

The Volvo Group's mission is to create value for its shareholders by creating value for its customers. Volvo views sustainable development, both in environmental and social terms, as a vital condition for long-term profitability and increased customer and shareholder value.

The Volvo Group's vision is to be valued as the world's leading supplier of commercial transport solutions. Transports are necessary for the development of society, and as a manufacturer the Group has a great responsibility for both the environment and to contribute to sustainable development. This is a responsibility that is taken very seriously.

### An active approach to sustainability

The Volvo Group strives to conduct responsible business based on its Code of Conduct, corporate values and other established guidelines. The Code of Conduct, adopted in 2003, underscores the principles by which the Group conducts its relations with employees, business partners and other stakeholders. It applies to all employees and to the Board of Directors. Suppliers, dealers, consultants and other business partners are also encouraged to follow these principles. The principles in the

Code of Conduct are based on the principles in the UN's initiative Global Compact.

It is vitally important that all employees are familiar with, and follow, the principles that are stated in the Group's Code of Conduct. An Internet based training program and discussion material have been produced to raise awareness of values. Of the Group's employees, 81% state that they have received information on the Code of Conduct.

### The Volvo Group's social responsibility

The Volvo Group has a significant impact on the communities in which it operates. The Group's companies are major employers and also generate employment for numerous suppliers. The Volvo Group strives to be a good partner to customers, suppliers, other business partners and entities in society as well as a good employer for its employees.

The Volvo Group strives to take responsibility through such actions as imposing demands on its suppliers. Since 2006, social issues have been an integral part of supplier evaluations and in 2008 a Groupwide project was implemented for the purpose of further focusing on this area.

### Sustainability organization

Responsibility for the Volvo Group's efforts surrounding corporate social responsibility issues is coordinated at the head office in line with the respective operational responsibilities. Work on core values is coordinated by a Group Council for the respective core values. Council members consist of the heads of each business area and business unit.

### Dialog with stakeholders

The Volvo Group strives to maintain straightforward, open communications with the world at large and participates in the active exchange of information with stakeholders on many different levels and in many different contexts. The Group strives to consider different viewpoints and evaluate these against our own internal strategies for the purpose of achieving sustainable development. With the aim of being an active player in social development and to find business opportunities, it is essential that the Group is informed about the surrounding. It is with that in mind that the Volvo Group analyzes social trends and follows the development of new legislation in regions in which the Group is active.

AB Volvo published its first environmental report in 1990. From 2002–2006 the Sustainability Report was part of the Annual Report. Since 2007, a separate Sustainability Report, inspired by GRI (Global Reporting Initiative), has been published. Detailed environmental data is reported annually in a separate report.

## Environmental responsibility

### High demands on production and products

Environmental management is a cornerstone of the Group's efforts to promote long-term sustainability. Volvo's environmental work focuses on reducing environmental impact from both the production and the use of the products.

### Dow Jones Sustainability Indexes

The Volvo Group has enjoyed high sustainability ratings in several surveys including the Dow Jones Sustainability Index.



### The Global Compact

The Volvo Group supports the UN's Global Compact, which was designed to promote responsible business enterprise worldwide, and commits itself to implementing and integrating ten principles regarding human rights, working conditions and the environment in its operations.



## Guidance and control in the environmental area

One of the most important elements for guidance of environmental issues at the Volvo Group is the common environmental policy. The policy forms the basis for the Group's environmental management systems, strategies, goals, audits and actions.

The environmental policy states that environmental efforts shall be marked by a holistic view, continuous improvements, technical innovation and efficient use of resources. The policy is, in turn, divided into strategies and goals for the organization.

The first environmental management system was certified already in 1995. At the end of 2008, 96% of the employees worked in production units in accordance with certified environmental management systems, primarily ISO 14001:2004. Other aspects of the value chain – such as product development and marketing – also have management systems. Most employees work in operations that have quality management systems certified in accordance with ISO 9001:2000.

The Group's environmental goals are used to monitor the entire organization, and they are closely linked to business plans. The environmental goals can be summarized through the following challenges.

Production goals include:

- Reducing energy consumption by 50% per unit manufactured by 2008, compared with 2003. The energy consumption per unit manufactured decreased by 43%.



- Doubling the use of CO<sub>2</sub>-neutral energy by 2008, compared with 2003. The use of CO<sub>2</sub>-neutral energy has increased from approximately 100 GWh to some 300 GWh.

- Discontinuing all use of oil and coal for the heating of facilities. The use has been reduced from 11 plants to 5 plants.

Product use goals include:

- Achieving high fuel efficiency and low emissions throughout the entire life cycle
- Making comparisons with the best
- Consistent implementation of activities to become the industry leader
- Generating environmental data for follow-up and communication during the development of every new product
- Implementing a strategy for fuels of the future
- Including alternative fuels and alternative drivetrains in the product portfolio.

The environmental program also includes partners. Environmental requirements have been used since 1996 as an integral component of supplier evaluations and follow-up of various purchasing organizations.

## Requirements on facilities

All production units must meet Group-wide minimum requirements regarding the use of chemicals, energy consumption, emissions to air and water, waste management, environmental organization and improvement efforts. If local laws and regulations are more comprehensive they must be followed. Since 1989, environmental audits have been carried out to ensure that all plants comply with the environmental policy. Newly acquired companies and properties are subjected to an examination of environmental factors and risks.

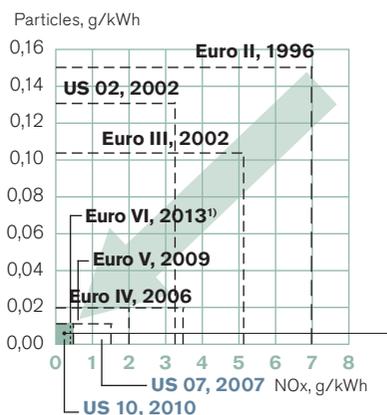
All the Group's production facilities have the requisite environmental permits. In Sweden, there are 16 facilities that require permits. These permits encompass waste, noise and emissions to air, ground and water. Three environmental permits were renewed in 2008 and no permits are due for renewal in 2009.

The existence of polluted land on the Group's properties is cataloged every year. This pollution generally has historic origins. In 2008, cleaning-up activities were conducted on two properties.

No major environmental incidents occurred in 2008 and no environmental disputes took place.

The Volvo Group's operations generate transport to and from the plants. These flows are continuously reviewed to identify potential improvement measures to reduce environmental impact.

## Emissions regulations for trucks and buses



The currently applicable emissions standards are Euro IV in Europe and US 07 in North America. The difference between Euro III and Euro IV is considerable. Emissions of particles have been reduced by 80%, and of NO<sub>x</sub>, by 30%. During 2009, emission regulations will be lowered further with the Euro V implementation. Euro V will entail a 50% reduction of NO<sub>x</sub> emissions compared to Euro IV.

1) NO<sub>x</sub> value measured according to ECT.

**What's good for the environment can be good for the economy**

Various projects are in progress throughout the Group with the aim of reducing energy consumption in our facilities. The method of attack differs among the various facilities, depending on local conditions. They have one element in common, however, which is the initial investment required. A couple of years ago, when the Volvo Group decided to create the world's first CO<sub>2</sub>-neutral plant, the primary goal was not to save money but to reduce the Group's CO<sub>2</sub> emissions. Over the short term higher costs were anticipated, but it rather quickly became clear that it was a favorable economic investment. Today, it is clear that over the long term, it will generate considerable cost savings.

**Greatest environmental impact during use**

The greatest environmental impact caused by the products occurs during use. Lifecycle analyses show that 80–90% of the total environmental impact arises during use.

Climate change and access to energy sources may strongly affect the Volvo Group. It is therefore vital to prepare for use of fuels other than crude oil. These efforts focus largely on the development of new drivelines, energy efficiency and alternative fuels.

**More efficient engines lead to reduced emissions**

The products use mainly diesel engines, since they have high energy efficiency and low emissions. In many countries, government agencies are imposing increasingly strict requirements of reduced emissions, particularly of nitrous oxides

and particle matters. In order to comply with these requirements, the Group is developing new engine technology that reduces consumption and emissions. Reduced fuel consumption benefits both the environment and customers' profitability, since fuel accounts for a large proportion of their costs. Since 1975, the fuel consumption of Volvo's trucks has declined by approximately 40% at the same time as the emissions of NO<sub>x</sub> and PM have been reduced. Over the past 30 years, diesel engines have seen a hundredfold reduction of regulated emissions of NO<sub>x</sub> and PM.

The Volvo Group has the world's most state-of-the-art program for heavy diesel engines.

**Vehicles with hybrid driveline**

The Volvo Group is the leading manufacturer of hybrid technology for heavy trucks. The Volvo Group's I-SAM concept is based on a diesel engine and an electric motor, a so-called parallel hybrid. The Volvo Group has a unique process that involves developing and manufacturing its own hybrid solution. This enables the Group to coordinate and optimize products and components so that it can achieve the most efficient driveline. Hybrid technology works best in a vehicle that has a driving pattern involving numerous starts and stops. Fuel savings for a delivery truck with this sort of driving pattern is estimated at between 15–20%. Extensive work is currently under way to develop and test hybrid solutions.

**CO<sub>2</sub>-neutral transports**

As part of the efforts with alternative fuels, the Volvo Group was the first vehicle manufacturer

to develop seven different demonstration trucks that all can be driven without net emissions of climate-impacting carbon dioxide. The vehicles can operate on biodiesel, biogas, biogas combined with biodiesel, ethanol/methanol, dimethyl ether (DME), synthetic diesel and hydrogen gas combined with biogas. These fuels are produced from renewable raw materials and therefore do not result in a net increase in carbon dioxide upon combustion. In this way, the Volvo Group has shown that it is prepared for the fuels of the future, regardless of which alternative authorities choose to invest in.

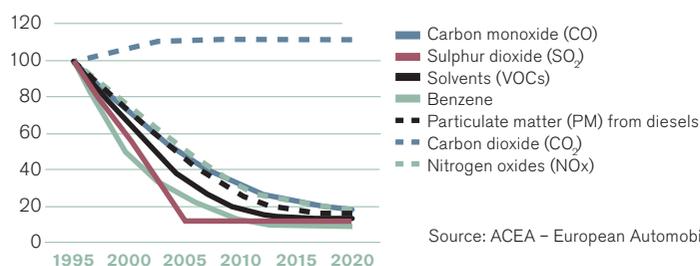
These activities resulted in the launch of the BioDME project in 2008. The goal of the project is to involve the entire production chain in the production and distribution of DME from biomass until it is used as fuel in vehicles. The project is being financed by the EU and the Swedish Energy Agency. Volvo's role in the project is to serve as project coordinator and to build 14 vehicles for field-testing.

**Social responsibility**

A key factor in realizing the Group's vision is the contribution of the employees and their knowledge and expertise.

The Volvo Group aims to create a favorable work environment that contributes to the development of its competitiveness and attractiveness. As part of this aim, an increasing number of its operations are being certified in accordance with the international standard for work-environment management systems, OHSAS 18001. In recent years, efforts to promote health and reduce sick leave have been inten-

**Road transport emissions in the EU**



Source: ACEA – European Automobile Manufacturers' Association.

Within the EU all road transport emissions except for CO<sub>2</sub> are expected to decrease in the future. This is the result of stringent emission regulations.

**Geographic distribution of employees, %**



sified. These efforts encompass work-place ergonomics, health risks, support programs and medical examinations.

The Volvo Group Attitude Survey is an annual Groupwide survey. In the survey, employees express their views on their work and areas that need improvement. The results of the survey are discussed in each team and used to identify key improvement areas. The proportion of satisfied employees has steadily improved in recent years. In 2008, the proportion of satisfied employees was 86%, compared with 84% in the preceding year.

### The Volvo Group as employer

The Group strives to be an attractive employer, both for current and future employees. At the end of 2008, a total of 101,380 people were employed by the Group. Every employee is expected to take an active role in the Group's development, process of change and future. The Group is working in a number of different areas, such as fitness programs, skill development, work environment and leadership support in an effort to be an attractive employer.

### Cutbacks in production

The past years have been characterized by strong demand and record sales, which has resulted in the Group having significant recruitment need. Against the background of the rapid slowdown of the world economy and corresponding sharply reduced demand, measures are being taken to lower cost levels within the Group. These measures include a reduction in personnel and a review of all expenses. As a



result of the weak demand, a total of 16,255 permanent employees, temporary employees and consultants received layoff notices during 2008 and the beginning of 2009. Before going so far as redundancy notices, a host of other measures were taken, including the utilization of flexible time banks. The Volvo Group is following national regulations in conjunction with terminations of employment and is cooperating closely with the unions.

### Increased diversity - a strategic goal

One of the Volvo Group's strategic goals is to raise awareness about and capitalize on the diversity that exists throughout the organization. For an international group it is essential that the organization reflects its customers and understands the conditions prevailing in local markets, different cultures and future employees' requirements. Diversity generates creativity, which in turn leads to innovation: a prerequisite for success.

### Product quality and safety

Safety issues are a natural component of the

development of world-leading commercial transport solutions. The Group strives to minimize the risk and consequences of accidents and improve driver safety and work environment. Human errors or misjudgments are a decisive or strongly contributory factor in most accidents, a fact that reflects the importance of good visibility, driving characteristics and brakes.

The Group is also a leader in designing vehicles that protect the driver and passengers in the event of a collision. Safety solutions include rollover-tested cabs and bodies, frontal collision protection, deformation zones, seat belts, deformable fittings and airbags.

The Group is also a leader in improving safety for other road-users. As early as 1996, the company introduced the Front Underrun Protection System to prevent passenger cars from becoming wedged beneath trucks in a frontal collision. This protection system has been fitted as standard to Volvo's trucks in the EU since 2001, and in 2003 the protection system became a legal requirement in EU countries.

#### Key figures

	2007	2008
Number of employees at year-end	101,700	101,380
Share of women, %	17	17
Share of women, Board Members, %	11	10
Share of women, Presidents and other senior executives, %	15	17
<b>Absence due to illness of regular working hours, %</b>		
Total absence due to illness of regular working hours, %	5.1	4.6
of which continuous sick leave for 60 days or more, %	46.2	39.1
Absence due to illness (as percentage of regular working hours) by gender		
Men, %	4.8	4.4
Women, %	6.3	5.4
Absence due to illness (as percentage of regular working hours) by age		
29 years or younger, %	4.6	4.6
30-49 years, %	5.1	4.6
50 years and older, %	5.5	4.8

**Volvo Group Sustainability Report** report will be available on [www.volvogroup.com](http://www.volvogroup.com) in mid-April.

**Volvo Group's environmental performance** For information on the Volvo Group's environmental performance see the Eleven-year summary on page 151.

## Financial performance

Net sales increased by 6% to SEK 303.7 billion, while operating income declined by 29% to SEK 15.9 billion. Income for the year amounted to SEK 10.0 billion, down 33%. Basic and diluted earnings per share was SEK 4.90 (7.37).

### Net sales by business area

SEK M	2007	2008	%
Trucks	187,892	203,235	8
Construction Equipment	53,633	56,079	5
Buses	16,608	17,312	4
Volvo Penta	11,719	11,433	(2)
Volvo Aero	7,646	7,448	(3)
Eliminations and other	(703)	(575)	(18)
<b>Industrial operations<sup>1</sup></b>	<b>276,795</b>	<b>294,932</b>	<b>7</b>
Customer Finance	7,705	8,485	10
Reclassifications and eliminations	905	250	-
<b>Volvo Group</b>	<b>285,405</b>	<b>303,667</b>	<b>6</b>

<sup>1</sup> Adjusted for acquired and divested units and changes in currency rates, net sales for Industrial operations increased by 4%.

### Net sales by market area

SEK m	2007	2008	%
Western Europe	124,239	123,881	0
Eastern Europe	27,116	28,126	4
North America	49,435	47,600	(4)
South America	15,638	19,553	25
Asia	42,429	55,641	31
Other markets	17,938	20,131	12
<b>Total Industrial operations</b>	<b>276,795</b>	<b>294,932</b>	<b>7</b>

### Operating income (loss) by business area

SEK M	2007	2008
Trucks	15,193	12,167
Construction Equipment	4,218	1,808
Buses	231	(76)
Volvo Penta	1,173	928
Volvo Aero	529	359
Eliminations and other	(761)	(732)
<b>Industrial operations</b>	<b>20,583</b>	<b>14,454</b>
Customer Finance	1,649	1,397
<b>Volvo Group</b>	<b>22,231</b>	<b>15,851</b>

## The Volvo Group

### Net sales

Net sales for the Volvo Group increased by 6% to SEK 303,667 M in 2008, compared with SEK 285,405 M in 2007.

### Operating income

Volvo Group operating income decreased by 29% in 2008 to SEK 15,851 M compared with SEK 22,231 M in the year-earlier period.

Operating income for the Industrial operations declined by 30% to SEK 14,454 M compared with SEK 20,583 M in the preceding year. The Customer Finance operations achieved an operating income of SEK 1,397 M (1,649) a decline of 15%. Since return on shareholders' equity for the Volvo Group exceeded 12% in 2008, a provision of SEK 150 M was made for the Group's global profit-sharing system for employees.

### Net financial items

Net interest expense was SEK 764 M, compared with SEK 170 M in 2007. The increased interest expense is partly attributable to increased debt level and it was also negatively impacted by approximately SEK 200 M primarily from adjustments in pension liabilities related to the closure of the plant in Goderich, Canada.

During the year, market valuation of derivatives mainly used for the customer financing portfolio had a negative effect on Other financial income and expenses in an amount of SEK 1,029 M (neg. SEK 384 M). The negative impact is mainly due to long-term interest rates decreasing sharply during the last quar-

ter, with the two-year euro interest rate dropping 1.80 percentage points and the two-year US interest rate coming down 2.07 percentage points. Volvo intends to keep these derivatives to maturity, why, over time, the market valuation will not affect the result or cause any cash flow. The derivatives are mainly held to match the lending in the customer financing portfolio. It is however not practically possible to apply hedge accounting in accordance with IAS 39 due to the fact that the customer finance portfolio consists of a large number of contracts.

### Income Taxes

The income tax expense for the year amounted to SEK 3,994 M corresponding to a tax rate of 29%. During 2007 the income tax expense amounted to SEK 6,529 M and a tax rate of 30%.

### Income for the period and earnings per share

Income for the period amounted to SEK 10,016 M (15,028), corresponding to a basic earnings per share of SEK 4.90 (7.37). Diluted earnings per share was SEK 4.90 (7.37). The return of shareholders' equity was 12.1% (18.1).

## Industrial Operations

In 2008, net sales for the Volvo Group's Industrial Operations increased by 7% to SEK 294,932 M (276,795). Adjusted for changes in currency exchange rates and acquired and divested operations, net sales increased by 4%.

The positive sales trend continued in South America, parts of Asia including the Middle East and on other international markets for most part of the year. Following a strong first six months, the downturn in Europe was more rapid than previously expected, aggravated by the financial crisis. In North America demand weakened further compared with the already low levels of the preceding year. Towards year-end almost all markets were affected by the financial crisis and the global economic downturn.

### Operating income decreased

In 2008, operating income for the Volvo Group's Industrial Operations amounted to SEK 14,454 M, which was 30% lower than in 2007. The operating margin for the Industrial Operations amounted to 4.9% (7.4).

In North America profitability decreased considerably due to weaker demand and a lower level of deliveries of trucks and construction equipment in combination with low capacity utilization and low productivity in the industrial system.

In 2008, there was a significant negative impact from cost inflation relating to higher costs for raw materials and components, estimated at approximately SEK 2.2 billion compared with 2007, of which the majority impacted Construction Equipment. The increased purchasing costs haven't been fully compensated by increased prices on the Group's products.

As a consequence of rapidly weakening demand primarily in Europe, deliveries of products decreased in the third and fourth quarters. In order to adjust to market demand, production rates have been reduced with lower capacity utilization as a result. Staffing levels in Europe are being lowered and operating expenses reduced to meet lower demand.

Production rates have been reduced at a more rapid pace than the adaptation of the cost structure within manufacturing. This resulted in under-absorption of costs. The cost structure will gradually be adapted to the lower

### Income Statement Volvo Group

SEK M	2007	2008	Change in %
<b>Net sales Volvo Group</b>	<b>285,405</b>	<b>303,667</b>	<b>6</b>
<b>Operating Income Volvo Group</b>	<b>22,231</b>	<b>15,851</b>	<b>(29)</b>
Operating income Industrial operations	20,583	14,454	(30)
Operating income Customer Finance	1,649	1,397	(15)
Interest income and similar credits	952	1,171	23
Interest expense and similar credits	(1,122)	(1,935)	72
Other financial income and costs	(504)	(1,077)	114
<b>Income after financial items</b>	<b>21,557</b>	<b>14,010</b>	<b>(35)</b>
Income taxes	(6,529)	(3,994)	(39)
<b>Income for the period</b>	<b>15,028</b>	<b>10,016</b>	<b>(33)</b>

### Income Statement Industrial operations

SEK M	2007	2008	Change in %
Net sales	276,795	294,932	7
Cost of sales	(214,160)	(232,247)	8
<b>Gross income</b>	<b>62,635</b>	<b>62,685</b>	<b>0</b>
Gross margin, %	22.6	21.3	
Research and development expenses	(11,059)	(14,348)	30
Selling expenses	(24,671)	(25,597)	4
Administrative expenses	(7,092)	(6,921)	(2)
Other operating income and expenses	249	(1,457)	-
Income from investments in associated companies	428	23	(95)
Income from other investments	93	69	(26)
<b>Operating income Industrial operations</b>	<b>20,583</b>	<b>14,454</b>	<b>(30)</b>
Operating margin, %	7.4	4.9	

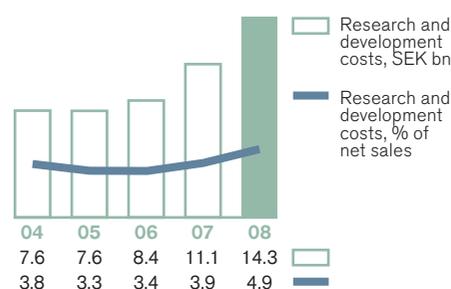
### Income Statement Customer Finance

SEK M	2007	2008	Change in %
Finance and lease income	7,705	8,485	10
Finance and lease expenses	(4,535)	(5,082)	12
<b>Gross income</b>	<b>3,170</b>	<b>3,403</b>	<b>7</b>
Selling and administrative expenses	(1,437)	(1,551)	8
Credit provision expenses	(125)	(483)	286
Other operating income and expenses	41	28	(32)
<b>Operating income</b>	<b>1,649</b>	<b>1,397</b>	<b>(15)</b>
Income taxes	(502)	(356)	(29)
<b>Income for the period</b>	<b>1,147</b>	<b>1,041</b>	<b>(9)</b>
Return on Equity, 12 month moving values, %	15.9	12.6	

production rates which will lead to continued under absorption of costs during the first half of 2009. The adjustment of the cost structure had a negative impact of SEK 750 M during the fourth quarter in layoff-related costs.

In 2008, research and development expenses amounted to SEK 14,348 M (11,059). The cost increase is primarily a consequence of increased spending ahead of upcoming

### Research and development costs



### Operating margin

%	2007	2008
Trucks	8.1	6.0
Construction Equipment	7.9	3.2
Buses	1.4	(0.4)
Volvo Penta	10.0	8.1
Volvo Aero	6.9	4.8
<b>Industrial operations</b>	<b>7.4</b>	<b>4.9</b>
<b>Volvo Group</b>	<b>7.8</b>	<b>5.2</b>

### Change in operating income

SEK bn	2008
<b>Operating income 2007</b>	<b>22.2</b>
Improvement of gross margins	4.5
Lower volumes	(0.6)
Lower capacity utilization, lay-off related costs etc.	(3.9)
Income from acquired and divested operations	(0.4)
Higher warranty costs	(0.6)
Additional provisions for residual value commitments	(0.6)
Changes in currency exchange rates	(0.9)
Lower capitalization of development costs	(0.1)
Higher research and development expenditures	(2.0)
Higher selling and administrative expenses	(0.2)
Higher restructuring costs	(0.5)
Gain on sale of Petro Stopping Centers and Sörred Energi in 2007	(0.5)
Other	(0.5)
<b>Operating income 2008</b>	<b>15.9</b>

### Impact of exchange rates on operating income

Compared with preceding year, SEK bn	
Net sales <sup>1</sup>	2.5
Cost of sales	(2.4)
Research and development expenses	0.0
Selling and administrative expenses	(0.1)
Other operating income and expenses	(0.9)
Income from investments in shares	0.0

### Total effect of changes in exchange rates on operating income (0.9)

<sup>1</sup> Group sales are reported at average spot rates and the effects of currency hedges are reported among "Other operating income and expenses".

### Operating net flow per currency

SEK M	2007	2008
USD	19,000	23,600
EUR	17,800	15,700
GBP	8,700	7,700
CAD	2,000	1,900
Other currencies	15,800	12,200
<b>Total</b>	<b>63,300</b>	<b>61,100</b>

emission regulations in Europe, USA and Japan in 2009 and 2010 as well as spending on projects for the launch of diesel-electric hybrids the next few years. The net of research and development expense capitalization and amortization had a negative impact of SEK 800 M compared with a negative impact of SEK 400 M in 2007.

### Impact of exchange rates on operating income

The combined effect of changed exchange rates, particularly for the USD, had an adverse effect on operating income of approximately SEK 900 M in 2008, compared with 2007. The main reason is that the USD was weak during most of 2008.

## Customer Finance Operations

Total new financing volume in 2008 amounted to SEK 44.5 billion (41.4). In total, 47,986 new Volvo vehicles and machines (46,686) were financed during the year. In the markets where financing is offered, the average penetration rate was 25% (24).

At December 31, 2008 total assets in Customer Finance amounted to SEK 118 billion (95). Excluding the Nissan diesel receivables, the credit portfolio grew by 12.7% (12.6), adjusted for exchange-rate movements. The

funding of the credit portfolio is fully matched with lending in terms of maturity, interest rates and currencies.

Operating income amounted to SEK 1,397 M (1,649). Return on shareholders' equity was 12.6% in 2007 (15.9). The equity ratio at the end of the year was 8.2% (8.1).

The write-off ratio was 0.54% (0.29). On December 31, 2008, the total credit reserves were 1.37% of the credit portfolio (1.59).

### Stable growth and profitability

The turmoil in the financial markets poses a challenge, but the customer finance operations within Volvo Financial Services (VFS) continues to provide vital financial services to Volvo Group customers and dealers throughout the world, focusing on strong credit discipline and a close working relationship with dealers, customers and the other business areas in the Volvo Group.

At the same time, opportunities arise in this part of the business cycle. As evidenced by the strong volume and good penetration levels, VFS was successful in a number of markets. VFS provided financing to a larger portion of the Group's customers while improving operational processes and maintaining credit standards.

In North America, the economy continued to be weak during 2008, and in Europe the markets are showing similar difficulties. The global financial crisis and the tightening of credit that it has brought about has exacerbated the downturn in a number of markets.

### Key ratios

Financial Services	2007	2008
Credit portfolio net, SEK bn	91.1	112.3
Operating income, SEK M	1,649	1,397
Return on shareholders' equity, %	15.9	12.6
Market penetration, %	24.1	24.9

### Penetration by business area, %

Volvo CE	34	36
Volvo Trucks	29	29
Renault Trucks	16	18
Buses	13	14
Mack Trucks	18	16

## Financial position

Total assets in the Volvo Group amounted to SEK 372.4 billion at December 31, 2008, an increase of SEK 50.8 billion compared to year-end 2007. The increase is mainly a result of currency movements, which in total increased total assets by SEK 39.7 billion.

The net debt in the Group's Industrial Operations amounted to SEK 29.8 billion at December 31, 2008, equal to 39.7% of shareholders' equity. Excluding provisions for post-employment benefits net debt amounted to SEK 20.5 billion, which was equal to 27.4% of shareholders' equity.

The Group's liquid funds, cash and cash equivalents and marketable securities combined, amounted to SEK 23.6 billion at December 31, 2008, of which SEK 0.7 billion was restricted for use by the Volvo Group and SEK 2.7 billion constituted liquid funds in countries where exchange controls or other legal restrictions apply. In addition to this, the Volvo Group had granted but unutilized credit facilities amounting to SEK 26.7 billion.

The Group's intangible assets amounted to SEK 43.9 billion at December 31, 2008. The net value of development costs amounted to SEK 12.4 billion at the end of the year. The Group's total goodwill amounted to SEK 24.8 billion at December 31, 2008, an increase by SEK 4.8 billion since year-end 2007. The increase is mainly a result of currency movements and the consolidation of VE Commercial Vehicles, Ltd. from August 1, 2008.

The Group's tangible assets increased during 2008 by SEK 13.0 billion, mainly as a result of currency movements. Property, plant and equipment increased by SEK 10.1 billion and assets under operational leasing by SEK 2.9 billion.

Shares and participations amounted to SEK 2.0 billion at December 31, 2008, a decrease by SEK 0.2 billion since year-end 2007, mainly as a result of lower fair value of the holdings of shares and participations.

### Net financial position

SEK M	Industrial operations		Volvo Group	
	2007	2008	2007	2008
Long-term customer-finance receivables	-	-	40,486	50,432
Long-term interest-bearing receivables	1,808	149	1,019	694
Short-term customer-finance receivables	-	-	38,361	48,057
Short-term interest-bearing receivables	9,773	3,476	1,380	1,965
Marketable securities	16,488	5,901	16,490	5,902
Cash and bank	13,538	16,674	14,544	17,712
<b>Total financial assets</b>	<b>41,607</b>	<b>26,200</b>	<b>112,280</b>	<b>124,762</b>
Interest-bearing liabilities	38,286	46,749	108,318	145,727
<b>Net financial position excl. post employment benefits</b>	<b>3,321</b>	<b>(20,549)</b>	<b>3,962</b>	<b>(20,965)</b>
Provision for post employment benefits, net	7,626	9,246	7,643	9,263
<b>Net financial position incl. post employment benefits</b>	<b>(4,305)</b>	<b>(29,795)</b>	<b>(3,681)</b>	<b>(30,228)</b>

### Change in net financial position, Industrial operations

SEK bn	2007	2008
<b>Beginning of period<sup>1</sup></b>	<b>23.1</b>	<b>(4.3)</b>
Cash flow from operating activities	24.4	9.7
Investments in fixed assets	(10.3)	(13.0)
Disposals	1.1	0.6
<b>Operating cash-flow</b>	<b>15.2</b>	<b>(2.7)</b>
Investments and divestments of shares, net	0.4	0.0
Acquired and divested operations, net	(25.9)	(1.3)
Capital injections to/from Customer Finance operations	2.1	(0.2)
Currency effect	1.0	(9.1)
Payment to AB Volvo shareholders	(20.3)	(11.1)
Revaluation of loans	-	(0.9)
Other	0.1	(0.2)
<b>Total change</b>	<b>(27.4)</b>	<b>(25.5)</b>
<b>Net financial position at end of period</b>	<b>(4.3)</b>	<b>(29.8)</b>

<sup>1</sup> 2006 is restated according to new reporting structure for the Volvo Group. Net financial position for Industrial Operations as of December 31, 2006 changed from SEK 24.7 billion to SEK 23.1 billion.

Provisions for post-employment benefits amounted to SEK 11.7 billion at December 31, 2008, an increase of SEK 1.9 billion compared to year-end 2007, mainly generated by currency movements. Prepaid pensions amounted to SEK 2.4 billion, an increase of SEK 0.3 billion. As a result, the net value of assets and

liabilities related to pensions and similar obligations amounted to SEK 9.3 billion at December 31, 2008. Post-employment benefits valued at SEK 9.8 billion were reported outside of the Group's balance sheet, an increase of SEK 7.2 billion compared to December 31, 2007,

## Balance Sheets Volvo Group

Mkr	Industrial operations		Customer Finance		Elim. and reclassifications		Total	
	Dec 31 2007	Dec 31 2008	Dec 31 2007	Dec 31 2008	Dec 31 2007	Dec 31 2008	Dec 31 2007	Dec 31 2008
<b>Assets</b>								
<b>Non-current assets</b>								
Intangible assets	36,441	43,909	67	49	0	0	36,508	43,958
Tangible assets								
Property, plant and equipment	47,132	57,185	78	86	0	0	47,210	57,270
Assets under operating leases	13,850	16,967	288	330	8,364	8,132	22,502	25,429
Financial assets								
Shares and participation	2,189	1,935	30	18	0	0	2,219	1,953
Long-term customer-financing receivables	444	467	47,870	59,189	(7,828)	(9,224)	40,486	50,432
Deferred tax assets	8,434	10,976	346	204	3	0	8,783	11,180
Other long-term receivables	5,601	5,631	39	38	(861)	489	4,779	6,159
<b>Total non-current assets</b>	<b>114,091</b>	<b>137,070</b>	<b>48,718</b>	<b>59,914</b>	<b>(322)</b>	<b>(603)</b>	<b>162,487</b>	<b>196,381</b>
<b>Current assets</b>								
Inventories	43,264	54,084	381	961	0	0	43,645	55,045
Short-term receivables								
Customer-financing receivables	789	508	42,695	52,436	(5,123)	(4,887)	38,361	48,057
Current tax assets	1,660	1,749	43	61	0	0	1,703	1,810
Other receivables	53,976	48,286	1,713	1,902	(11,272)	(2,677)	44,417	47,512
Marketable securities	16,488	5,901	2	2	0	0	16,490	5,902
Cash and cash equivalents	13,538	16,674	1,053	2,245	(47)	(1,207)	14,544	17,712
<b>Total current assets</b>	<b>129,715</b>	<b>127,202</b>	<b>45,887</b>	<b>57,607</b>	<b>(16,442)</b>	<b>(8,771)</b>	<b>159,160</b>	<b>176,038</b>
<b>Total assets</b>	<b>243,806</b>	<b>264,272</b>	<b>94,605</b>	<b>117,521</b>	<b>(16,764)</b>	<b>(9,374)</b>	<b>321,647</b>	<b>372,419</b>
<b>Shareholders' equity and liabilities</b>								
Equity attributable to the equity holders of the parent company	74,550	74,416	7,652	9,594	0	0	82,202	84,010
Minority interests	579	630	0	0	0	0	579	630
<b>Total shareholders' equity</b>	<b>75,129</b>	<b>75,046</b>	<b>7,652</b>	<b>9,594</b>	<b>0</b>	<b>0</b>	<b>82,781</b>	<b>84,640</b>
Non-current provisions								
Provisions for post-employment benefits	9,746	11,677	28	28	0	0	9,774	11,705
Provisions for deferred taxes	7,868	6,557	1,259	1,703	0	0	9,127	8,260
Other non-current provisions	7,067	8,869	95	62	139	135	7,301	9,066
Non-current liabilities	41,339	43,062	42,285	53,155	(11,895)	(3,609)	71,729	92,608
Current provisions	10,437	11,589	129	83	90	78	10,656	11,750
Current liabilities								
Loans	40,539	56,178	4,382	6,501	(49)	(48)	44,872	62,631
Trade payables	52,376	50,622	287	404	0	0	52,663	51,025
Current tax liabilities	0	1,044	451	160	0	0	451	1,204
Other current liabilities	(695)	(372)	38,037	45,831	(5,049)	(5,930)	32,293	39,530
<b>Total shareholders' equity and liabilities</b>	<b>243,806</b>	<b>264,272</b>	<b>94,605</b>	<b>117,521</b>	<b>(16,764)</b>	<b>(9,374)</b>	<b>321,647</b>	<b>372,419</b>
Contingent liabilities							8,153	9,427

among other factors as an effect of currency movements.

The value of inventories increased during 2008 by SEK 11.4 billion. Adjusted for currency changes, the increase amounted to SEK 5.8 billion. The increase is mainly related to the truck operations and to construction equipment and is an effect of the rapidly weakening

demand during the second half of the year. During the year, the value of finished products rose by SEK 11.1 billion and production and other material by SEK 0.3 billion.

Customer financing receivables amounted to SEK 98.5 billion at December 31, 2008. In total, customer financing receivables increased by SEK 19.6 billion since year-end 2007,

mainly as a result of higher levels of financial leasing and installment credits. Currency adjusted, the increase in customer financing receivables amounted to SEK 9.7 billion.

At the end of the year, the equity ratio in the Industrial Operations was 28.4% and in the Volvo Group 22.7%. Shareholder's equity amounted to SEK 84.6 billion.

## Cash-flow statement

Operating cash flow in the Industrial Operations decreased to a negative SEK 2.7 billion (positive 15.2). The decreased cash flow was mainly due to higher working capital and lower earnings.

### Cash flow

During 2008, the Industrial operations' operating cash flow amounted to negative SEK 2.7 billion compared to positive SEK 15.2 billion 2007. The negative development during 2008 was mainly related to the lower operating income, increased investments in fixed assets and an increase of the working capital. The increase is mainly an effect of lower pace in production and higher levels of inventories. In order to reduce the capital tied-up in inventory, a number of shutdown days in production were carried out during the end of year. Measures aimed at selling primarily trucks and construction equipment in inventory were prioritized. These measures have continued during the beginning of 2009.

### Investments

The industrial operations' investments in fixed assets including capitalized development costs during 2008 amounted to SEK 12.6 billion (10.1).

Capital expenditures in Trucks amounted to SEK 8.3 billion (5.3). The capital expenditures within Trucks consist of investments in cab plants, assembly in Umeå, Sweden, as well

assembly and painting in Blainville, France, aiming for increased capacity, productivity and flexibility. There are also significant investments in manufacturing of engines and gearboxes, mainly in Köping and Skövde, Sweden, in order to meet long term capacity needs. The new assembly facility for trucks in Russia has been completed during the year and the expansion of dealer network and workshops, mainly in Europe, has continued during 2008. Product related investments refer to Euro V and US10 emission standards as well as the introduction of the new range of Volvo trucks and other renewals in the product program.

Capital investments for Construction Equipment decreased to SEK 2.0 billion from SEK 2.6 billion previous year. The main part of the investments refers to productivity and capacity increases in manufacturing for the articulated haulers and excavator business as well as within the axle and transmission production. It also includes a new paint shop for the cab production in Hallsberg, Sweden. Product related investments during the year refer mainly to the new L45F and L50F wheel loaders as well as the expansion of the C-series and short swing excavator range.

The investments made within Volvo Aero was reduced to SEK 0.9 billion from SEK 1.0 billion last year. The main part of the investments refers to phase two of the new GEnx engine in cooperation with General Electric together with investments in production facilities in order to secure the capacity required for the GEnx program.

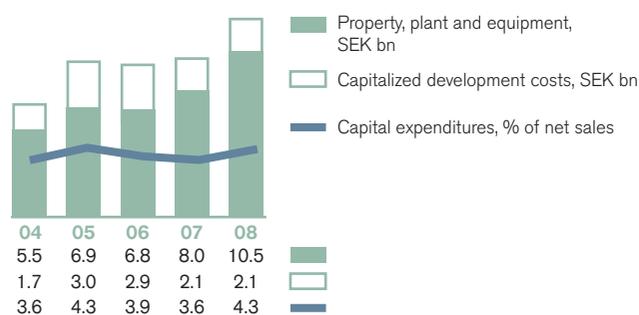
The investments in Buses were SEK 0.2 billion (0.3) and relate mainly to various product related investments as US07 engine installation in the Volvo 9700 Coach for the US market.

The level of investments in Volvo Penta remained at a level of SEK 0.4 billion and consist mainly of capacity increasing investments in the Vara plant in Sweden and product project related investments in tooling and other development activities.

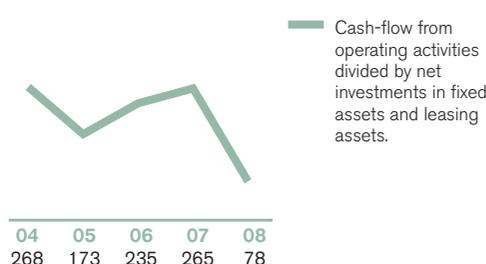
For 2009 the forecast for investments in property, plant and equipment amount to SEK 7-8 billion, which is a decrease compared to 2008. However, in the process of planning the investments for the coming years the Group is, due to the current market situation, also re-prioritizing and reviewing already approved investments.

Investments in leasing assets amounted to SEK 0.4 billion (0.2).

Capital expenditures, Industrial operations



Self-financing ratio, Industrial operations, %



### Acquisitions and divestments

Investments and divestments in shares and participation had an impact on cash flow of SEK 0.0 billion (positive 0.4).

Acquired and divested companies 2008 had a negative impact on cash flow of SEK 1.3 billion (negative 15.0).

### Financing and dividend

Net borrowings increased cash and cash equivalents by SEK 18.2 billion during 2008.

In 2008, SEK 11.1 billion, corresponding to SEK 5.50 per share, was paid to AB Volvo's shareholders.

### Change in cash and cash equivalents

The Group's cash and cash equivalents increased by SEK 3.2 billion during the year amounting to SEK 17.7 billion at December 31, 2008.

### Consolidated cash-flow statements

SEK bn	Industrial operations		Customer Finance		Elim. and reclassifications		Volvo Group Total	
	2007	2008	2007	2008	2007	2008	2007	2008
<b>Operating activities</b>								
Operating income	20.6	14.5	1.7	1.4	(0.1)	0.0	22.2	15.9
Depreciation and amortization	10.3	11.8	0.1	0.1	2.1	1.6	12.5	13.5
Other non-cash items	(0.4)	(0.7)	0.1	0.4	(0.2)	0.1	(0.5)	(0.2)
Change in working capital	(0.1)	(10.9)	(10.2)	(12.8)	0.4	0.4	(9.9)	(23.3)
Financial items and income taxes paid	(6.0)	(5.0)	(0.4)	(0.2)	0.5	0.0	(5.9)	(5.2)
<b>Cash flow from operating activities</b>	<b>24.4</b>	<b>9.7</b>	<b>(8.7)</b>	<b>(11.1)</b>	<b>2.7</b>	<b>2.1</b>	<b>18.4</b>	<b>0.7</b>
<b>Investing activities</b>								
Investments in fixed assets	(10.1)	(12.6)	0.0	(0.1)	0.0	0.0	(10.1)	(12.7)
Investment in leasing assets	(0.2)	(0.4)	(0.3)	(0.2)	(4.3)	(4.8)	(4.8)	(5.4)
Disposals of fixed assets and leasing vehicles	1.1	0.6	0.4	0.1	1.4	2.2	2.9	2.9
<b>Operating cash flow</b>	<b>15.2</b>	<b>(2.7)</b>	<b>(8.6)</b>	<b>(11.3)</b>	<b>(0.2)</b>	<b>(0.5)</b>	<b>6.4</b>	<b>(14.5)</b>
Investments and divestments of shares, net							0.4	0.0
Acquired and divested operations, net							(15.0)	(1.3)
Interest-bearing receivables including marketable securities							3.6	10.9
<b>Cash-flow after net investments</b>							<b>(4.6)</b>	<b>(4.9)</b>
<b>Financing activities</b>								
Change in loans, net							28.7	18.2
Payment to AB Volvo shareholders							(20.3)	(11.1)
Payment to minority shareholders							(0.1)	(0.1)
Other							0.1	0.1
<b>Change in cash and cash equivalents excluding translation differences</b>							<b>3.8</b>	<b>2.2</b>
Translation difference on cash and cash equivalents							0.0	1.0
<b>Change in cash and cash equivalents</b>							<b>3.8</b>	<b>3.2</b>

## Risks and uncertainties

All business operations involve risk – managed risk-taking is a condition of maintaining a sustained favorable profitability.

Risk may be due to events in the world and can affect a given industry or market. Risk can be specific to a single company. At Volvo work is carried out daily to identify, measure and manage risk – in some cases the Group can influence the likelihood that a risk-related event will occur. In cases in which such events are beyond the Group's control, the Group strives to minimize the consequences.

**External-related risks** – such as the cyclical nature of the commercial vehicles business, intense competition, changes in prices for commercial vehicles and government regulations;

**Financial risks** – such as currency fluctuations, interest levels fluctuations, valuations of shares or similar instruments, credit risk and liquidity risk and;

**Operational risks** – such as market reception of new products, reliance on suppliers, protection and maintenance of intangible assets, complaints and legal actions by customers and other third parties and risk related to human capital.

In 2008 a new Group-wide risk management model based on the Enterprise Risk Management concept was introduced.

### Short-term risk factors

The financial turmoil and credit tightening has led to an extreme cautiousness among customers when it comes to deciding on investments, which in turn may cause a decrease in demand for Volvo products.

The development of the financial markets during the second half of the year has led to an intensification of Volvo's work with financial risks. The credit risks are continuously managed through active credit monitoring and there are regular controls that provisions are made on incurred losses for doubtful receivables in accordance with applicable accounting principles.

The present market conditions also limit the accessibility to credits and loan financing, which may negatively affect customers, suppliers, dealers as well as the Volvo Group. Suppliers' financial instability could result in delivery disturbances. A sound balance between

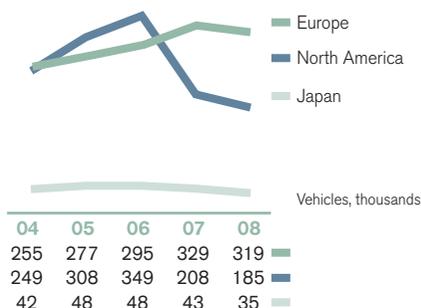
short- and long-term borrowing, as well as borrowing preparedness in the form of overdraft facilities, is intended to meet the long-term financing needs of the Volvo Group.

In the course of its operations, Volvo is exposed to residual value risks through operating lease agreements and sales combined with repurchase agreements. The estimated net realizable value of the products is continuously monitored on an individual basis. A decline in prices for used trucks and equipment may negatively affect the consolidated operating income.

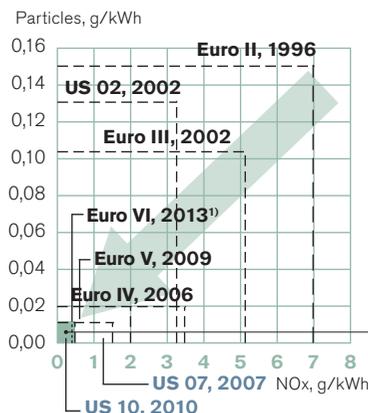
High inventories in the truck industry and the construction equipment industry and low demand may have a negative impact on the prices of used trucks and construction equipment.

The reported amounts for contingent liabilities reflect Volvo's risk exposure. Total contingent liabilities at December 31, 2008, amounted to SEK 9.4 billion, an increase of SEK 1.2 billion compared to December 31, 2007. Included in the total is a contingent liability of SEK 0.6 billion pertaining to a claim on Volvo Powertrain to pay penalties following a

### Heavy truck registrations, > 16 tons



### Emissions regulations for trucks and buses



The currently applicable emissions standards are Euro IV in Europe and US 07 in North America. The difference between Euro III and Euro IV is considerable. Emissions of particles have been reduced by 80%, and of NOx, by 30%. During 2009, emission regulations will be lowered further with the Euro V implementation. Euro V will entail a 50% reduction of NOx emissions compared to Euro IV.

1) NOx value measured according to ECT.

demand by the US Environmental Protection Agency (EPA). The demand is a consequence of dissenting opinions on whether an agreement between EPA and Volvo Powertrain regarding lower emitting engines also should include engines sold by Volvo Penta.

The former labour agreement between Mack Trucks, Inc. and the United Auto Workers Union ("UAW") expired on September 30, 2007. Since that time, the parties have been operating under a mutually agreed upon day-by-day extension of the previous agreement. Negotiations on a new labor agreement are ongoing. Both Mack Trucks, Inc. and the UAW are parties to similar lawsuits filed in the U.S. federal courts addressing the issue of retiree healthcare benefits. Mack Trucks' lawsuit, the first of the two lawsuits filed, seeks a declaration from the court that it is permitted to unilaterally amend the terms of the existing retiree health care plan. The lawsuit filed by the UAW in response to the Mack lawsuit, seeks a ruling from the court that the plan of benefits must remain unchanged. On request by Mack, the two cases have been consolidated. At present, it is not possible to estimate the outcome of the negotiations or the pending lawsuits, but there is a risk that the outcome may have a significant negative effect on the consolidated operating income.

Volvo verifies annually, or more frequently if necessary, the goodwill value of its business areas for possible impairment. The size of the overvalue differs between the business areas and they are, to a varying degree, sensitive to changes in the business environment.

The annual goodwill tests performed for all business areas in the fourth quarter have not resulted in any write-down. A continued financial crisis and volatility in interest and currency rates could lead to indications of impairment for some business areas in the forthcoming periods, which would require goodwill valuation tests to be performed for those areas as long as indications remain.

## General risks

### External-related risk

#### The commercial vehicles industry is cyclical

The Volvo Group's markets have undergone significant changes in demand as the general economic environment has fluctuated. Investments in infrastructure, major industrial projects, mining and housing construction all impact the Group's operations, since its products are central to these sectors. The cyclical demand for the Group's products makes the financial result of the operations dependable on the Group's ability to react to changes in demand, and in particular to the ability to adapt production levels and production and operating expenses.

#### Intense competition

Continued consolidation in the industry is expected to create fewer but stronger competitors. Our major competitors are Daimler, Paccar, Navistar, MAN, Scania, Caterpillar, Komatsu, Cummins and Brunswick. In recent

years, new competitors have emerged in Asia, particularly in China. These new competitors are mainly active in their domestic markets, but are expected to increase their presence in other parts of the world.

#### Prices may change

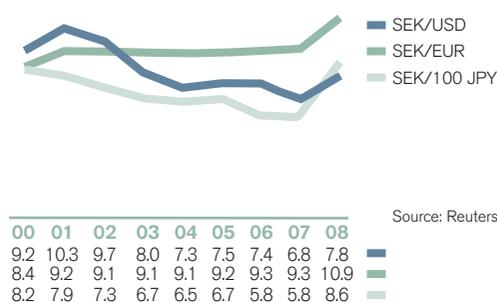
The prices of commercial vehicles have, at times, changed considerably in certain markets over a short period. This instability is caused by several factors, such as short-term variations in demand, shortages of certain component products, uncertainty regarding underlying economic conditions, changes in import regulations, excess inventory and increased competition. Overcapacity within the industry can occur if there is a lack of demand, potentially leading to increased price pressure.

#### Extensive government regulation

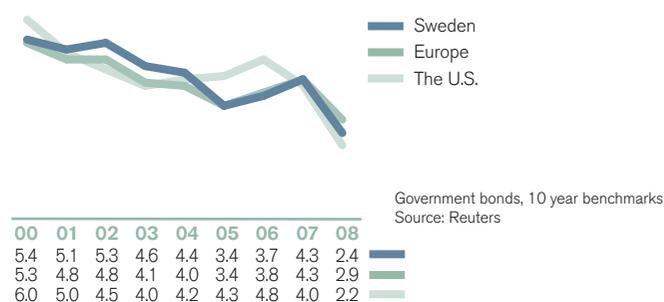
Regulations regarding exhaust emission levels, noise, safety and levels of pollutants from production plants are extensive within the industry.

Most of the regulatory challenges regarding products relate to reduced engine emissions. The Volvo Group is a significant player in the commercial vehicle industry and one of the world's largest producer of heavy-duty diesel engines. The product development capacity within the Volvo Group is well consolidated to be able to focus resources for research and development to meet tougher emission regulations. Future product regulations are well known, and the product development strategy is well tuned to the introduction of new regulations.

Currencies



Interest rates in Sweden, Europe and the US, %



## Financial risk

In its operations, the Volvo Group is exposed to various types of financial risks. Group-wide policies, which are updated and decided upon annually, form the basis of each Group company's management of these risks. The objectives of the Group's policies for management of financial risks are to optimize the Group's capital costs by utilizing economies of scale, to minimize negative effects on income as a result of changes in currency or interest rates, to optimize risk exposure and to clarify areas of responsibility. Monitoring and control that established policies are adhered to is continuously conducted. Most of the Volvo Group's financial transactions are carried out through Volvo's in-house bank, Volvo Treasury, which conducts its operations within established risk mandates and limits. Credit risks are mainly managed by the different business areas.

The nature of the various financial risks and objectives and policies for the management of these risks are described in detail in notes 36 and 37. Volvo's accounting policies for financial instruments are described in note 1. Various aspects of financial risk are described separately in the following paragraphs. The overall impact on a company's competitiveness is also affected however by how various macro-economic factors interact.

### Currency-related risk

More than 90% of the net sales of the Volvo Group are generated in countries other than Sweden. Changes in exchange rates have a direct impact on the Volvo Group's operating income, balance sheet and cash flow, as well as an indirect impact on Volvo's competitiveness, which over time affects the Group's earnings. Currency-associated risk in Volvo's business operations relates to changes in the value of contracted and expected future payment flows (commercial currency exposure), changes in the value of loans and investments (financial currency exposure) and changes in the value of assets and liabilities of foreign subsidiaries (currency exposure of sharehold-

ers' equity). In addition, currency movements can affect Volvo's pricing of products sold and materials purchased in foreign currencies. Since Volvo has substantial manufacturing operations in Sweden and generates a substantial portion of its revenues in currencies other than the Swedish krona, Volvo's earnings in Swedish kronor could be positively affected short-term by an depreciation of the Swedish krona against other currencies.

The objective of the Volvo Group's currency risk management is to minimize the short-term negative effects. The Volvo Group employs forward contracts and currency options to hedge the value of future payment flows in foreign currencies.

### Interest-related risk

Interest-related risk includes risks that changes in interest rates will impact the Group's income and cash flow (cash flow risks) or the fair value of financial assets and liabilities (price risks). Interest-rate risk can be minimized through "matching" of the fixed interest terms of financial assets and liabilities. Interest rate swaps are used to adjust the fixed interest terms of the Group's financial assets and liabilities. Currency interest rate swaps make it possible to borrow from different markets in foreign currencies without assuming currency-associated risk. Volvo also holds standardized futures and forward rate agreements. The majority of these contracts are used to hedge interest rate levels for short-term borrowing or investment.

### Market risk from investments in shares or similar instruments

The Volvo Group is indirectly exposed to market risks from shares and other similar instruments as a result of managed capital transferred to independent pension plans being partly invested in instruments of these types.

### Credit-related risk

Volvo's extension of credit is governed by Group-wide policies and rules for classifying

customers. Efforts are made to ensure that the credit portfolio is reasonably diversified among different customer categories and industries. Credit-associated risk is managed by actively monitoring credit, routines for follow up and in certain cases repossession of products. Additionally, continuous and necessary reserves are monitored in cases involving uncertain receivables. An important part of the Group's credit risk is related to how the financial assets of the Group have been placed. The majority are placed in Swedish Government bonds and interest-bearing bonds issued by Swedish real estate financing institutions.

### Liquidity risk

Volvo ensures its financial preparedness by always maintaining a certain portion of revenues in liquid assets. A healthy balance between short- and long-term borrowing and access to credit in the form of credit facilities are intended to meet the long-term financial needs.

## Operational risk

### The profitability depends on successful new products

The Volvo Group's long-term profitability depends on the Company's ability to successfully launch and market its new products. Product life cycles continue to shorten, putting increased focus on the success of the Group's product development.

### Reliance on suppliers

Volvo purchases raw materials, parts and components from numerous external suppliers. A significant part of the Group's requirements for raw materials and supplies is filled by single-source suppliers. The effects of delivery interruptions vary depending on the item or component. Certain items and components are standard throughout the industry, whereas others are internally developed and require unique tools that are time-consuming to replace.

The Volvo Group's costs for raw materials and components can vary significantly over a

business cycle. Cost variations may be caused by changes in world market prices for raw materials or by an inability of our suppliers to deliver.

#### **Intangible assets**

AB Volvo owns or otherwise has rights to patents and brands that refer to the products the Company manufactures and markets. These have been acquired over a number of years and are valuable to the operations of the Volvo Group. Volvo does not consider that any of the Group's operations are heavily dependent on any single patent or group of patents.

Through Volvo Trademark Holding AB, AB Volvo and Volvo Car Corporation jointly own the brand Volvo. AB Volvo has the exclusive right to use the Volvo name and trademark for its products and services. Similarly, Volvo Personvagnar AB has the exclusive right to use the name and trademark Volvo for its products and services.

The Volvo Group's rights to use the Renault brand are restricted to the truck operations only and are regulated by a license from Renault SA, which owns the Renault brand.

The Nissan brand is owned by Nissan Motor and the Volvo Group has limited rights to use the Nissan Diesel brand.

#### **Complaints and legal actions**

The Volvo Group could be the target of complaints and legal actions initiated by customers, employees and other third parties alleging health, environmental, safety or business related issues, or failure to comply with applicable legislation and regulations. Even if such disputes were to be resolved successfully, without having adverse financial consequences, they could negatively impact the Group's reputation and take up resources that could be used for other purposes.

#### **Risk related to human capital**

A decisive factor for the realization of the Volvo Group's vision is our employees and their knowledge and competence. Future development depends on the company's ability to maintain its position as an attractive employer. To this end, the Volvo Group strives for a work environment in which energy, passion and respect for the individual are guiding princi-

ples. Every year a Group-wide survey is conducted, and according to the survey the number of satisfied employees has continually increased.

#### **Contractual conditions related to take over bids**

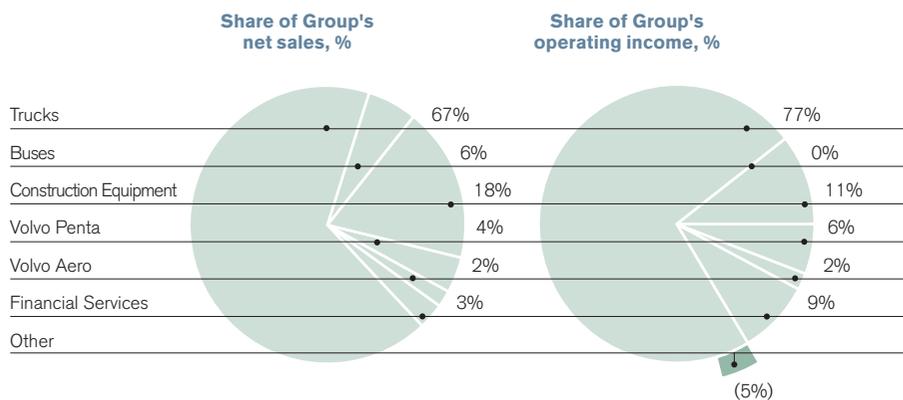
Some of AB Volvo's long term loan agreements contain conditions stipulating a right for the bondholder to request repayment in advance under certain conditions following a change of the control of the company. In Volvo's opinion it has been necessary to accept those conditions in order to receive financing on otherwise acceptable terms. Note 34 Personnel contains information concerning rules regarding severance payments applicable for the Group Executive Committee and certain other senior executives.

Further risk information is provided in note 2, note 29 and note 36.

## The Group's business areas

- together they are the world leader in commercial transport solutions

Backed by strong product programs and increasingly more complete offerings including total solutions with spare parts, workshops, service packages, financing and leasing, the Volvo Group's business areas have established leading positions on a global market.



**T**he Volvo Group has an established, strong position in Western Europe, North America and South America. Through the acquisitions of Japanese truck manufacturer Nissan Diesel during 2007, Chinese wheel-loader manufacturer Lingong, the Ingersoll Rand division for road construction equipment in the same year, and through the formation of a joint-venture company for the production of trucks and buses with India-based Eicher Motors in 2008, the Volvo Group now has a significant industrial presence also

in Asia. By strengthening the dealer and service network, the Volvo Group has grown at a rapid pace in Eastern Europe in recent years.

During 2008, the truck operations accounted for 67% of the Group's net sales and for 77% of Group operating income. Construction Equipment accounted for 18% of net sales and for 11% of operating income.

In 2008, the largest market was Europe, which accounted for 52% of the Volvo Group's net sales. Asia accounted for 18%, North America for 16%, South America for 7% and Other markets for 7%.



# Business area overview



VOLVO TRUCKS



RENAULT TRUCKS



NISSAN DIESEL



MACK TRUCKS



BUSES



CONSTRUCTION EQUIPMENT



VOLVO PENTA



VOLVO AERO



FINANCIAL SERVICES

## Business areas

**Volvo Trucks** manufactures, sells and services medium-heavy to heavy trucks for long-haul, regional transport, and construction operations.

Number of employees: 20,472

**Renault Trucks** offers many types of vehicles from light trucks for delivery to heavy trucks for long haulage.

Number of employees: 10,100

**Nissan Diesel's** products range from medium-heavy to heavy trucks used for long-haul, regional transport, and construction operations.

Number of employees: 7,817

**Mack Trucks** manufactures heavy-duty trucks primarily for construction, refuse and heavy regional transports.

Number of employees: 2,663

**Buses** has a product range comprising city and intercity buses, coaches and chassis.

Number of employees: 8,019

**Construction Equipment** manufactures equipment for construction applications and related industries.

Number of employees: 16,460

**Volvo Penta** provides engines and power systems for leisure and commercial craft, as well as for industrial applications such as gensets and water pumps.

Number of employees: 1,595

**Volvo Aero** offers advanced components for aircraft engines and space applications with a focus on light-weight technology for reduced fuel consumption. Services for the aerospace industry are also offered.

Number of employees: 3,262

**Financial Services** Conducts operations in customer and dealer financing.

Number of employees: 1,290

## Position on world market

In total, the Volvo Group is Europe's largest and the world's second largest manufacturer of heavy trucks.

The business area is one of the world's largest producers of buses.

Volvo CE is the world's largest manufacturer of articulated haulers and wheel loaders, and one of the world's largest manufacturers of excavation equipment, road development machines and compact construction equipment.

Volvo Penta is the world's largest producer of diesel engines for leisure boats and a leading, independent producer of industrial engines.

Volvo Aero holds a leading position as an independent producer, with engine components in about 90% of all large commercial aircraft delivered in 2008.

Financial Services cooperates closely with the other business areas to strengthen the Group's competitiveness.

	Net sales as percentage of Volvo Group's sales	Operating income as percentage of Volvo Group's operating income	Net sales <sup>1)</sup>	Operating income	Operating margin
			 04 05 06 07 08 SEK bn 136.9 155.4 171.3 187.9 203.2 1)	 04 05 06 07 08 SEK bn 9.0 11.7 14.8 15.2 12.2 1) 2)	 04 05 06 07 08 % 6.6 7.5 8.7 8.1 6.0 1) 2)
			 04 05 06 07 08 SEK bn 12.7 16.6 17.3 16.6 17.3 1) 3)	 04 05 06 07 08 SEK M 253 470 745 231 (76) 1) 3)	 04 05 06 07 08 % 2.0 2.8 4.3 1.4 (0.4) 1) 3)
			 04 05 06 07 08 SEK bn 29.4 34.8 42.1 53.6 56.1 1)	 04 05 06 07 08 SEK bn 1.9 2.8 4.1 4.2 1.8 1)	 04 05 06 07 08 % 6.5 7.9 9.7 7.9 3.2 1)
			 04 05 06 07 08 SEK bn 9.1 9.8 10.8 11.7 11.4 1)	 04 05 06 07 08 SEK M 940 943 1,106 1,173 928 1)	 04 05 06 07 08 % 10.4 9.6 10.3 10.0 8.1 1)
			 04 05 06 07 08 SEK bn 6.9 7.5 8.2 7.6 7.4 1)	 04 05 06 07 08 SEK M 403 836 359 529 359 1)	 04 05 06 07 08 % 5.8 11.1 4.4 6.9 4.8 1)
				 04 05 06 07 08 SEK M 1,365 2,033 1,686 1,649 1,397 4)	

1. Years starting 2006 are reported according to a new reporting structure. See note 7.

2. Excluding adjustment of goodwill in 2006.

3. Excluding write-down of shares in Henlys Group 2004.

4. Years starting 2006 are reported according to a new reporting structure, in which Volvo Group Real Estate and Volvo Treasury are not included in VFS. See note 7.



In total, the Volvo Group is the world's second largest manufacturer of heavy trucks.

## Trucks

– significant weakening in all markets

The global market for heavy trucks continued to grow during most of the year. In the first half of the year, demand remained strong in Europe, parts of Asia and South America, but the market weakened very sharply during second half in the wake of a global recession that was deepened by the crisis on financial markets. The North American market weakened further from the already low level in 2007. The same trend was noted on the Japanese market.

### Total market

The total market for heavy trucks in 2008 in the EU's 27 countries plus Norway and Switzerland amounted to about 318,700 vehicles, a decline of 3%. All truck manufacturers implemented measures to adapt production to a newer, much lower demand level. The total European market for heavy trucks is projected at 180,000 to 220,000 vehicles in 2009.

In the medium-heavy segment (10–15.9 tons) in Western Europe, the market decreased by 18% to 29,200 trucks compared to 2007.

The continued weak development in the North American economy affected the mar-

ket adversely. The total market declined 11% to 184,900 trucks, compared with 208,000 trucks a year earlier. The North American market in 2009 is expected to be characterized by continued weak demand during the first half of the year and amount to 165,000-185,000 vehicles for the full year.

Although showing growth for the full year, demand weakened sharply also in other markets during the second half of the year. In Brazil, the total market rose 35% to 78,600 heavy trucks. Among the major markets in Asia, China rose the most with 11% to a record level of about 550,000 trucks (>14 tons), compared with 490,000 a year earlier. The market for heavy trucks in India amounted to 159,600 vehicles in 2008 (193,000). The total market for heavy trucks in Japan declined 18% to 34,900 vehicles (43,000). The Japanese market for heavy and medium-heavy trucks is expected to decline by 10–15% in 2009.

### Market shares

During 2008, Volvo Trucks' market share in Europe for heavy trucks rose to 14.8% (14.6). Renault Trucks' market share in Europe increased to 10.8% for heavy trucks (9.7). In the medium-heavy truck segment (10–15.9 tons), Renault Trucks market share in Western Europe was 15.1% (12.5) and Volvo Trucks' 6.7% (5.7).

### Key ratios

Trucks	2007	2008
Net sales as percentage of Volvo Group's sales	66	67
Net sales, SEK bn	187.9	203.2
Operating income, SEK bn	15.2	12.2
Operating margin, %	8.1	6.0

### Net sales by market

Trucks, SEK M	2007	2008
Europe	108,651	109,914
North America	27,255	26,588
South America	11,483	14,680
Asia	26,593	37,515
Other markets	13,910	14,538
<b>Total</b>	<b>187,892</b>	<b>203,235</b>

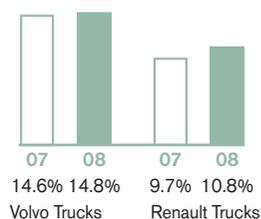
### Deliveries by market

Trucks	2007	2008
Western Europe	100,106	95,969
Eastern Europe	27,964	25,878
North America	33,280	30,146
South America	15,264	18,092
Asia	39,916	60,725
Other markets	19,826	20,341
<b>Total</b>	<b>236,356</b>	<b>251,151</b>

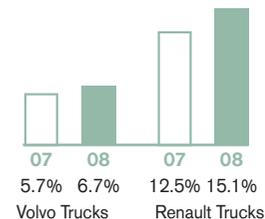
Volvo Trucks' market share in North America in 2008 declined to 8.9% (9.3), while Mack Trucks' market share was unchanged at 7.3% (7.3).

In Japan, Nissan Diesel's market share for heavy trucks rose to 22.6% (21.6). Volvo's share of heavy trucks on the Brazilian market declined to 12.9% (13.6).

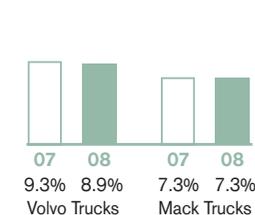
Market shares in Europe, heavy trucks



Market shares in Europe, medium-duty trucks



Market shares in North America, heavy trucks



Market shares in Japan, heavy trucks





In 2008, Volvo Trucks introduced new versions of the heavy-duty trucks Volvo FH, Volvo FH16 and Volvo FM.

## Earnings

Net sales of the truck operations in 2008 rose 8% to SEK 203,235 M (187,892). Operating income amounted to SEK 12,167 M (15,193), while the operating margin was 6.0% (8.1).

The lower operating earnings is an effect of higher prices for raw materials and components, particularly in the first half of the year, increased costs for research and development in response to new emission legislation and significant under absorption of costs following the rapid deceleration of the production pace toward year-end. In addition, earnings were affected adversely by about SEK 450 M in costs related to personnel downsizing during the latter part of the year and by impairment losses on the value of used trucks in inventory and increased provisions for residual value commitment.

## Joint-venture with Eicher Motors in India

During the year, AB Volvo and Eicher Motors formed the joint-venture company VE Commercial Vehicles (VECV). As of August 1, 2008, 50% of the joint-venture company is consolidated in the Volvo Group. VECV comprises the entire Eicher Motors truck and bus operations, while concurrently the Volvo Group is contributing its Indian sales operations in the truck segment and the service operations for trucks and buses.

Established in 1984, Eicher Motors develops and sells a broad product range comprising light, medium-heavy and heavy trucks and buses as well as truck chassis, engines and engine components. With a market share of nearly 30% in the medium-heavy (5-12 tons) truck segment, Eicher is India's third largest manufacturer of commercial vehicles. Eicher's production facilities are in Pithampur in central India as well as in other markets. The Indian market weakened significantly during the year and is expected to decline also in 2009. During August 1 and December 31, 2008 deliveries of 2,744 trucks are consolidated in the Volvo Group. VECV continues to invest in new products, higher quality and expansion to new markets.

## Volvo Trucks

– a record year in a declining market

2008 was one of Volvo Trucks most successful year so far, with very high customer satisfaction, a strong position in the market and a new competitive product range.

However, the global downturn led to a rapid decline in orders during the second half of the year.

### Deliveries by model

Volvo Trucks	2007	2008
Volvo FL, FE, FM	31,570	32,379
Volvo FH, FH16	48,366	53,098
Volvo NH	24	0
Volvo VN, VHD, VT	16,565	15,788
Volvo VM	3,584	4,687
<b>Total</b>	<b>100,109</b>	<b>105,952</b>

### Deliveries by market

Volvo Trucks	2007	2008
Western Europe	41,009	41,025
Eastern Europe	18,456	17,162
North America	16,692	15,887
South America	10,166	12,890
Asia	9,002	13,440
Other markets	4,784	5,548
<b>Total</b>	<b>100,109</b>	<b>105,952</b>

## Retail a core business

Volvo Trucks' new retail strategy has further improved customer understanding. Volvo Trucks has further developed the service business with a broader customer offering and with improved complete solutions adapted to customer requirements. Focus is on supporting customer productivity and profitability by providing service, lease and maintenance contracts. The parts and aftermarket business contributes to improving Volvo Trucks financial performance by being more stable compared to the sale of new trucks.

## VOLVO TRUCKS

### Ambitions 2008

- Continued expansion of delivery capacity to meet the strong demand for trucks in virtually all markets outside North America.
- Manage inflation and strong cost focus. Maintain a high level of preparedness for economic and demand trends.
- Launch new generation of trucks, Volvo FH and Volvo FM by summer.
- Manage a continued weak demand in North America.

### Outcome 2008

- Record first six months of the year.
- Dealt with the downturn in the market. Quick adjustment from eliminating bottlenecks to instead reducing production, lowering costs and freeing tied-up capital during the third and fourth quarter.
- Launch of new, competitive product range with Volvo FH, Volvo FH16 and Volvo FM11 with focus on safety, driver comfort and new drivelines. Field tests with hybrid refuse trucks.
- Plans for restructuring the North American business.
- Volvo do Brasil named best employer in Brazil.

### Ambitions 2009

- Handle the downturn so that the market position is strengthened and flexibility increased.
- Roll out the new generation of products (Volvo FH, Volvo FH16 and Volvo FM11). Launch of Volvo FH16 700.
- Continue to develop sales of services supporting the truck according to the customer segmentation strategy.
- Increase efficiency in North American operations.
- Continued focus on selling and administration costs and on cash flow.
- Gradual start-up of production in the new factory in Kaluga, Russia.



During the year, field tests were commenced with the hybrid refuse truck Renault Premium Distribution Hybrys Tech.

### Product renewal with comprehensive safety solutions

During 2008, Volvo Trucks renewed its product range. Focus has been on safety, driver comfort and new drivelines. The new safety features have been developed to help the driver avoid accidents in stressful traffic situations. Almost 90% of all accidents are due to the human factor. When looking at single accidents, 10–20% is due to tired drivers. Accordingly, Volvo Trucks introduced features like the Driver Alert Support System and the Lane Changing Support to reduce these figures. Volvo Trucks have also started field tests with hybrid refuse trucks – an example of technology breakthrough.

### The positive trend for “business around the truck” continues

Total service solutions to support the truck customer account for about one fourth of Volvo Trucks' total sales. The share grows continuously. A positive effect is that the aftermarket business is less volatile and it can therefore to some extent balance a downturn in new truck volumes.

The weak development in the global economy affected Volvo Truck customers in different ways. Lack of liquidity and difficulties in getting loans was a reality for many of them. Volvo Trucks works closely together with Volvo

Financial Services to be able to offer finance solutions in the difficult market environment.

### Active role in societal development

Volvo Trucks' ambition is to take an active part in the debate regarding the development of transport solutions for a sustainable society. This encompasses all main areas where transportation impacts society. One example is the work with alternative fuels and hybrid solutions. Another is the fulfilment of the latest emission requirements. In this area great attention is devoted to the development of new engines and to all main production sites being CO<sub>2</sub>-neutral by the end of 2009.

### Dealing with the rapid downturn

After a number of years with strong growth, demand started to weaken in most of Volvo Trucks' markets around the world during the autumn. The growth in demand for transportation declined and uncertainty regarding the development of the world economy increased.

Volvo Trucks implemented a number of measures aimed at cutting costs and reducing tied-up capital. Rapid changes from high utilization and extra shifts to drastically lower volumes were needed in the industrial system. The development has been a challenge for everyone involved and significant reductions in staffing levels necessary.

#### Deliveries by model

Renault Trucks	2007	2008
Renault Maxity	6,507	4,427
Renault Master	11,033	9,583
Renault Mascott	6,223	7,295
Renault Kerax	8,336	8,901
Renault Midlum	11,819	10,467
Renault Premium ranges	27,404	28,330
Renault Magnum	8,088	7,455
Other	32	21
<b>Total</b>	<b>79,442</b>	<b>76,479</b>

#### Deliveries by market

Renault Trucks	2007	2008
Western Europe	59,097	54,944
Eastern Europe	9,488	8,699
North America	517	494
South America	1,107	1,172
Asia	4,216	5,252
Other markets	5,017	5,918
<b>Total</b>	<b>79,442</b>	<b>76,479</b>

The downturn makes it necessary to increase efficiency and streamline internal processes while providing opportunities for strong companies to advance their positions on the market.

## Renault Trucks – a year of contrasts

During the beginning of 2008 production rates were at levels never reached before,

### RENAULT TRUCKS

#### Ambitions 2008

- Improve service for all customers.
- Increase production capacity.
- Successful launch of new models.
- Achieve breakthrough for cost reductions.

#### Outcome 2008

- Improvement of service quality well underway.
- Production capacity increased to record rate, then adjusted to lower demand.
- New models in construction segment and roomier Renault Magnum.
- Cost reductions in line with the strategic objectives.

#### Ambitions 2009

- Defend profitability by managing downturn.
- Maintain high product and service quality.
- Optimize production flexibility.
- Develop market share.



Nissan Diesel's heavy-duty truck Quon is at the forefront with engines characterized by low fuel consumption and low emission levels.

accompanied by a boost in deliveries, which raised expectations that the year would be even better than the record year 2007.

But by late spring the first signs of an upcoming downturn began to be noticeable in the slower pace of order bookings. Renault Trucks had foreseen a possible decline in demand and at mid-year decided to gradually cut production rates and reduce the number of temporary employees during the second half of the year.

During the third and fourth quarter, as the economy was dramatically weakening due to the impact of the global financial crisis, the order book began to decrease, due to low order intake and an increase in cancellations from cautious customers. As a consequence, Renault Trucks started implementing a new streamlined organization and continued working on measures aimed at cutting costs.

Towards the end of the year, additional measures were announced to further adapt to the business to the declining demand. The measures included shutdown days in the production during November and December and the beginning of 2009.

### New products

Renault Trucks continued its active work to further strengthen the product portfolio and the competitiveness. During the first half of the year,

Renault Trucks launched a new version of its long-haul truck Renault Magnum with a roomier and higher cab, full of stowage volumes.

In the construction segment the product offering was complemented by a new Renault Kerax with a 500 hp 13-liter engine and a new Renault Premium Lander 8x4.

### Solutions for the future

In September, Renault Trucks took the opportunity to present a vision of sustainable urban distribution at the European Transport Forum in Brussels. The event also provided an opportunity to unveil the Optifuel Lab, an experimental tractor truck aimed at cutting fuel consumption and CO<sub>2</sub> emission by more than 10%, thanks to improved aerodynamics.

Also on display were:

- The Premium Distribution Hybrys-Tech, a hybrid refuse truck geared at fuel savings of up to 30%. The refuse truck is being field-tested in the Lyon area of France.
- The Maxity Electric Concept vehicle.
- The FIDEUS Demonstrator; a low-emission and low-noise vehicle perfectly suited for delivery in urban environments at night.
- The CVIS/SAFESPOT Demonstrator; an intelligent vehicle communicating with other vehicles and infrastructure.

### Deliveries by segment

Nissan Diesel <sup>1</sup>	2007	2008
Light trucks (under 7 tons)	12,338	18,661
Medium trucks (7-15.9 tons)	12,342	15,095
Heavy trucks (over 16 tons)	13,504	15,607
<b>Total</b>	<b>38,184</b>	<b>49,363</b>

<sup>1</sup> Nissan Diesel was consolidated in the Volvo Group on April 1, 2007.

### Deliveries by market

Nissan Diesel <sup>1</sup>	2007	2008
Western Europe	-	-
Eastern Europe	20	9
North America	2,479	1,608
South America	808	933
Asia	26,455	39,089
Other markets	8,422	7,724
<b>Total</b>	<b>38,184</b>	<b>49,363</b>

<sup>1</sup> Nissan Diesel was consolidated in the Volvo Group on April 1, 2007.

## Nissan Diesel

– develops together with customers

Nissan Diesel develops and sells trucks and services designed to support the customers' operations. In sales as well as development, Nissan Diesel strives to improve the trucks performance and features to suit customer needs.

Nissan Diesel became a part of the Volvo Group in 2007 and for more than 70 years, Nissan Diesel has developed and marketed a broad

## NISSAN DIESEL

### Ambitions 2008

- Focused efforts on sales activities for the Quon in Japan and on activities for assisting customers in improving their efficiency.
- Conduct more eco-driving workshops so as to contribute to reducing fleet operating costs and to curbing CO<sub>2</sub> emissions.
- Expand sales in Asia as the core company of the Group's strategy in Asia.
- Maintain strong exports to resource-rich countries such as South Africa.
- Drive projects to create synergies with the rest of the Volvo Group.

### Outcome 2008

- Nissan Diesel helped customers improve the efficiency of their businesses through sales of the Quon heavy-duty truck series, UD Telematics, UD-TRUST and other products.
- Eco-driving workshops were held to assist customers in reducing their truck operating costs and CO<sub>2</sub> emissions.
- Truck sales were increased in the Asian region.
- The Quon heavy-duty truck series was launched in South Africa, an important export market.
- Nissan Diesel completed the integration into the Volvo Group.

### Ambitions 2009

- Build an efficient manufacturing system that can respond flexibly to declining truck demand.
- Improve the company's service organization in Japan and focus efforts on aftermarket sales.
- Strengthen the company's business in the Asian region.
- Concentrate efforts on increasing sales in resource-rich countries.

range of light, medium-heavy and heavy trucks, as well as buses, bus chassis, engines, vehicle components and specialized vehicles.

During 2008, demand in Japan weakened further and, after a strong start to the year, most of Nissan Diesel's export markets were also affected by the global economic downturn during the second half of the year.

#### **UD TRUST**

Nissan Diesel offers a service initiative called UD-TRUST together with a vehicle lease. Under this service, Nissan Diesel handles all the paperwork associated with the insurance, taxes and other procedures for a single truck, as well as vehicle management assistance regarding regular inspections, oil changes and other maintenance tasks. This integrated service is offered in response to customer desires to streamline the necessary paperwork and vehicle maintenance work involved in owning and operating trucks.

Purchasing this service frees customers from various necessary tasks associated with the use of their trucks. In addition, customers' trucks receive maintenance and inspections using the latest vehicle service technologies possessed by Nissan Diesel dealers, thereby reducing the possibility that a truck might break down during operation. Customers can also streamline their operations because the paperwork and vehicle maintenance tasks for each of their trucks are greatly reduced.

The UD-TRUST service was launched in 2004 and 26,795 leased trucks are now covered under this program.

#### **UD Telematics**

Nissan Diesel markets the UD Telematics system as a comprehensive vehicle management tool incorporating an internal communication module. UD Telematics uses two-way communi-

cation and real-time data to support efficient truck operation. The system also incorporates Nissan Diesel's NENPIOH function that supports eco-driving by providing real-time voice guidance concerning fuel-saving driving actions.

In addition, UD Telematics also has functions for preparing eco-driving and safe driving reports, as well as a function for collecting vehicle data needed for monitoring vehicle conditions and for maintenance management. Moreover, the system enables offices that oversee fleet operations to monitor their vehicles in real time, including the operating status, work details, present position, driving logs and other information needed for improving the efficiency of vehicle dispatch and delivery operations.

Since UD Telematics sales were launched in 2006, a total of 5,476 units of the system have been sold.

#### **Increased service competence**

Customers want their trucks to be inspected and maintained properly so that breakdowns can be avoided. Providing services that meet customer requirements demands high levels of technical skills. Since 1970, Nissan Diesel has been conducting a contest for service parts personnel and service technicians at dealers to improve their technical skills and customer interface ability. The 34th contest was held on November 9, 2008. In addition to contestants from all Nissan Diesel dealers in Japan, representatives from sales companies in South Africa, Hong Kong and Australia also took part.

Nissan Diesel ranked highest in overall customer satisfaction in both the 2008 Japan Heavy-Duty Truck Ownership Satisfaction Study and the Light-Duty Truck Ownership Satisfaction Study conducted by J.D. Power and Associates.

Nissan Diesel's fundamental philosophy of placing priority on close ties with customers is

a universal business principle. Nissan Diesel will be working harder than ever in sales, engineering and service activities to support customers' business operations from the widest possible perspective concerning their use of Nissan Diesel trucks.

## **Mack Trucks**

– weak North American truck market

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The low demand for heavy-duty trucks experienced in the second half of 2007 continued in the first half of 2008, driven by ongoing weakness in the U.S. economy and a continuing decline in housing construction, and it was then exacerbated by an unprecedented escalation in fuel prices.

An anticipated start to a turnaround in the second half of the year failed to materialize as the U.S. economy remained sluggish and then grew markedly weaker with the onset of the global credit and liquidity crisis. With the existing population of trucks quite old by historical standards, there is pent-up replacement demand in the market.

After several years of steady growth, Mack's international business volumes were slightly lower in 2008 primarily due to challenges experienced in two key markets – Venezuela and Australia. Mack export business outside these two countries increased approximately 37%. But there is a degree of uncertainty moving forward with the impact of the credit crunch being experienced around the world.

An increased focus on government and military business resulted in a series of contracts with the U.S. Army totaling approximately SEK 300 M over the next three years.

The negotiations on a new agreement with the United Auto Workers that were launched in



The expression "Built like a Mack truck" is often used and an acknowledgement of the trucks' strength and endurance.

the third quarter of 2007 continued through the end of the year.

### Restructuring

A plan launched in August 2008 aimed at optimizing the Volvo Group's North American truck operations includes the relocation of Mack's head office and all support functions including product planning, product development and purchasing from Allentown, Pennsylvania to the Volvo Group's facility in Greensboro, North Carolina, and a concentration of Mack's truck production to the plant in Macungie, Pennsylvania.

### Strong dealers

The company's dealer network has been strengthened in recent years, thanks in part to significant investments in new facilities. Mack ranked highest in customer satisfaction for dealer service, according to the J.D. Power and Associates 2008 Heavy-Duty Truck Customer Satisfaction Study. For the most part dealers continue to do quite well thanks to their parts and service operations.

### Product development

In early 2008, a new prestige truck, Titan by Mack, was introduced. The model, developed specifically for heavy haulage and construction work, is equipped with the new 16-liter

Mack MP10 engine certified to the US'07 emissions standards. This truck puts driver environment and comfort in focus and is designed to handle the toughest conditions – for example, at mines, in forestry work and on construction sites. Delivery of the Titan by Mack began in late 2008.

Customer response to all of the new Mack products, especially the MP engine series as a whole and the fuel economy improvements they deliver in particular, continued to be very positive.

Mack is well advanced in all aspects of the implementation of new emission regulations in 2010. A significant number of trucks equipped with Selective Catalytic Reduction (SCR) were placed in customer hands for testing in 2008, with excellent results.

### Capacity adjustments

A strike in the first quarter of 2008 by UAW at the New River Valley plant stopped practically all production there for almost two months. Once a new agreement was reached and production lost as a result of the strike made up, capacity at the NRV plant as well as the plants in Macungie, PA and Hagerstown, MD was adjusted to a level consistent with market demand. Approximately 1,300 employees in the American production system were laid off towards the end of the second quarter with

### Deliveries by model

Mack Trucks	2007	2008
Mack CH / CHN	149	1,144
Mack Vision	1,885	1,370
Mack Granite	8,888	6,469
Mack Pinnacle	4,210	3,906
Mack LE	608	1,289
Mack MR	1,689	1,689
Other	1,192	746
<b>Total</b>	<b>18,621</b>	<b>16,613</b>

### Deliveries by market

Mack Trucks	2007	2008
Europe	0	8
North America	13,592	12,157
South America	3,183	3,097
Asia	243	200
Other markets	1,603	1,151
<b>Total</b>	<b>18,621</b>	<b>16,613</b>

additional downward adjustments made at year end.

### Buses

– the city bus of the future is already here

Volvo Buses took a major step towards a cleaner urban environment when the company during the year introduced two bus models equipped with the Volvo Group's new hybrid technology. Within a few years, hybrid buses are expected to dominate the city bus market.

### MAC K TRUCKS

#### Ambitions 2008

- Prepare for US'10 introduction and promote SCR technology.
- Improve aftermarket profitability.
- Develop soft product business.
- Continue growth of the business outside North America.
- Launch a product cost-reduction project to address and offset increasing raw materials prices and emissions-related technology costs.

#### Outcome 2008

- All aspects of US'10 project well advanced; response to SCR test trucks very positive.
- Lower overall truck fleet utilization and the continuing weak construction industry impacted aftermarket.
- Growth of international business impacted by challenges in two key markets.
- Comprehensive North American restructuring plan to improve efficiency and effectiveness.
- Financial condition of Mack dealer network strong despite low new truck sales levels.

#### Ambitions 2009

- Execute on cost reduction and adjust production to ensure inventory levels in line with demand.
- Focus on optimizing cash flow.
- Remain aggressive on price realization.
- Implement key aspects of restructuring plan with an eye towards long-term efficiency.
- Ensure smooth transition to US'10 emission standards and leverage completely renewed, highly fuel efficient Mack products.



Volvo 7700 Hybrid is available from 2009. The hybrid technology brings fuel savings of up to 30%.

Demands on the transportation industry for substantially improved fuel economy is growing ever stronger – for a number of reasons. One of the most important is the need to reduce the CO<sub>2</sub> emissions that affect the climate. Another is the price of fuel, which is expected to be considerably higher in the future. Thanks to catalytic converters with SCR-technology, Volvo Buses has succeeded in significantly reducing emission levels while at the same time lowering fuel consumption by 5–10%. But this is only the beginning.

#### Leading the way in hybrid buses

Thanks to hybrid technology, customers can expect fuel savings of up to 30%. During 2008, Volvo Buses launched the low-floor Volvo 7700 Hybrid and the doubledecker Volvo B5L Hybrid. The company immediately received its first orders for the new model, which will begin serial production at the turn of the year 2009/2010. Volvo has developed a parallel hybrid in which a small diesel engine and an electric motor work together and where braking energy is recovered. At bus stops, the diesel engine is turned off and the bus starts using only the electric motor. The price is kept down, thanks to Volvo mainly using components that have been developed inhouse and which are common for buses, trucks and con-

struction equipment. For the first time there is a commercially viable hybrid bus in the market.

#### Limited impact from financial crisis

The total world bus market continued to be stable for the main part of 2008, in spite of the financial crisis and the recession. Towards the end of the year, a softening of demand was noted in some markets and in particular segments. This pertained mainly to the coach market for which order intake declined in Europe as well as North America and Asia. At the same time, the city bus market continued to be strong in most parts of the world.

#### Increased deliveries

Volvo delivered 9,937 buses (9,916) and chassis during 2008. Sales increased in important markets such as the UK, Germany, Mexico and India while they declined somewhat in among others China and the Nordic countries. Volvo Buses continues to be the market leader in the UK and the Nordic countries.

#### Increased sales

In 2008, net sales increased to SEK 17,312 M (16,608). Operating income declined from SEK 231 M to an operating loss of SEK 76 Mkr. Operating income was impacted by a one-time cost of SEK 110 M in relation to the

#### Key ratios

Buses	2007	2008
Net sales as percentage of Volvo Group sales	6	6
Net sales, SEK bn	16.6	17.3
Operating income, SEK M	231	(76)
Operating margin, %	1.4	(0.4)

#### Deliveries by market

Buses	2007	2008
Western Europe	3,377	3,140
Eastern Europe	371	173
North America	1,547	1,884
South America	1,318	995
Asia	2,757	3,033
Other markets	546	712
<b>Total</b>	<b>9,916</b>	<b>9,937</b>

#### Net sales by market

Buses, SEK M	2007	2008
Europe	7,767	7,321
North America	4,630	5,355
South America	1,623	1,571
Asia	1,802	2,094
Other markets	786	971
<b>Total</b>	<b>16,608</b>	<b>17,312</b>

closure of the plant in Tampere, Finland. An important factor behind the operating loss is an unfavorable currency mix. Volvo Buses has production in countries such as Canada, Brazil and Poland, whose currencies have strengthened in relation to currencies in which sales take place, primarily the US dollar, which for most part of the year was weak. The company

## BUSES

### Ambitions 2008

- Strong focus on cost control and decreased product costs.
- Further strengthen aftermarket support for customers.
- Guarantee successful introduction of hybrid technology buses.
- Focused strategy for expansion in North America.

### Outcome 2008

- More efficient production system in Europe as one plant has been closed and one sold. Profitability programs have lowered the product cost for a number of models.
- Increased competence regarding buses in the Group's service workshops through extensive training. Spare parts availability increased, in terms of geographic coverage and number of parts.
- Volvo 7700 Hybrid and Volvo B5L Hybrid launched. First order received. Delivery starts in 2009.
- Nova Bus started building a new city bus plant in the US for introduction in 2009. Volvo 9700 from Mexico ready for launch in the US and Canada in 2009.

### Ambitions 2009

- Strong focus on cash flow.
- Secure a successful introduction of buses with Euro V engines and hybrid buses.
- Increased efforts in developing soft offers.
- Continued work with profitability program focused on selective expansion and reduced costs.



Volvo CE's launch of new excavators for pipelaying was one of many important product launches.

also had high research and development costs because of the development of hybrids.

The global profitability program aimed at cost reduction continued with full force and started to yield positive results.

### Closure and investments in plants

As a part of activities aimed at strengthening the company's profitability, adjustments in capacity were made in the European production system. The plant in Tampere, Finland was closed and the plant in Turku, Finland was sold.

During the spring of 2008, construction of a new plant in Plattsburgh, New York, USA was started. In the plant Nova Bus will during 2009 start production in order to be able to sell city buses in the U.S. In the beginning of the year the company's new body plant in India was inaugurated, which has contributed to increased sales in the country.

## Construction Equipment

– significant slowdown in global demand

After a first and second quarter with record sales and income, Volvo Construction Equipment (Volvo CE) saw sales decelerate rapidly during the third and fourth quarters of 2008.

Continued weakness in North America and a sharp decline in Europe were partly offset by growth in other markets, such as Asia and in particular China. This helped the company achieve increased sales and operating income during the first half of the year, although high raw material prices, unfavorable exchange rates and integration costs of acquired businesses put pressure on operating margins.

In the latter half of the year the cyclical slowdown in the construction equipment industry was greatly exacerbated by the global financial crisis. To mitigate the impact of reduced demand, Volvo CE focused on avoiding inventory build up by lowering production capacity, reducing head count and cutting operational costs. Volvo CE also decided to move the motor grader production from Canada to an existing facility in the U.S.

### Total market development

The global construction equipment industry registered a sharp drop during the third and fourth quarter of 2008 as the financial crisis hit the real economy worldwide, resulting in the global construction equipment market recording a volume-drop of 11% in 2008.

### Deliveries and sales

During 2008 Volvo CE sold 64,000 machines, which was more or less flat compared to 2007.

### Key ratios

Construction Equipment	2007	2008
Net sales as percentage of Volvo Group sales	19	18
Net sales, SEK bn	53.6	56.1
Operating income, SEK bn	4.2	1.8
Operating margin, %	7.9	3.2

### Net sales by market

Construction Equipment, SEK M	2007	2008
Europe	25,294	25,192
North America	11,170	10,159
South America	2,155	2,913
Asia	12,179	13,738
Other markets	2,835	4,077
<b>Total</b>	<b>53,633</b>	<b>56,079</b>

Net sales increased by 5% to SEK 56,079 M (53,633). Operating income amounted to SEK 1,808 M (4,218) and the operating margin was 3.2% (7.9%).

The lower operating income is an effect of sharply falling volumes during the second half of the year, which had a negative impact on gross profit. The lower volumes also meant that there was under-absorption of costs when production in the factories was at low levels. Furthermore, operating income was negatively affected by increased costs for raw materials and components, costs of about SEK 100 M related to personnel reductions and unfavorable exchange rate developments.

## CONSTRUCTION EQUIPMENT

### Ambitions 2008

- Integrate and develop road machinery product offering.
- Maximize opportunity of Lingong business in China.
- Focused strategy for India, Russia, China.
- Strengthen compact equipment product offering.
- Continue research on biofuels and hybrid technology.
- Continue to develop specialist application focused equipment.
- Execute investments for increased capacity and improved productivity.

### Outcome 2008

- Road machinery product offering is developing according to plan.
- Firm strategic plans for Lingong in place.
- Further developed distribution base in emerging markets.
- Expanded segment coverage in oil-and gas and forestry with the launch of pipe layers and feller bunchers.
- Increased industrial capacity in components.
- New compact equipment launched.
- Hybrid wheel loader prototype launched.

### Ambitions 2009

- Adjust production capacity to market demand.
- Focus on cash flow.
- Improve internal efficiency.
- Continue to lead the development of fuel-efficient solutions.
- Continue to focus on emerging market opportunities.
- Continue integration of Lingong and road machinery businesses.

### Focus on integration

Integration work of both the Chinese wheel loader manufacturer Lingong and the road machinery business line is going according to plan. The road machinery product portfolio has been fully Volvo branded.

### Investments

The ongoing investment that began in 2007 to eliminate capacity bottlenecks in the component production facility in Eskilstuna, Sweden started to take effect in 2008.

During the year it was also announced that the production of centre-mounted backhoe loaders would move from Poland to Mexico. This will speed delivery times to the North and Latin American markets, where the product is particularly popular, and decrease the impact of currency fluctuations.

Furthermore, there were investments announced in new paint shops in the company's articulated hauler plant in Braås, Sweden and in its cab factory in Hallsberg, Sweden. These will lead to a reduced environmental impact and quality improvements.

### The product portfolio

Volvo CE continues to evolve as a total solution provider and to develop its segmentation approach to customer needs. In line with the Group's strategy to increase to grow within

soft products, Volvo CE continues to expand its soft products offering, including remote machine monitoring systems and uptime services.

The rental business has expanded with 15 new rental stores in North America, Europe and Other markets.

Products launched in 2008 included:

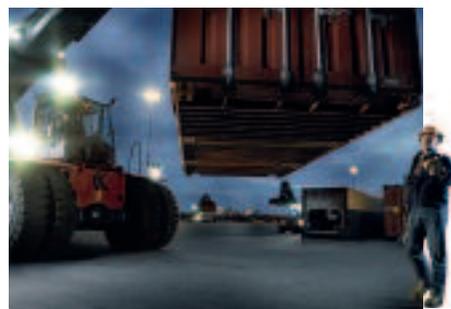
- L220F Hybrid wheel loader prototype
- L45F and L50F mid-sized wheel loaders
- EC60C and EW210C mid-sized excavators
- L180F HL high lift wheel loader
- Feller bunchers for the forestry segment.

### Fuel-efficient technology

At the ConExpo exhibition held in Las Vegas in March 2008, Volvo CE showcased the industry's first prototype hybrid wheel loader, the Volvo L220F Hybrid. The diesel-electric hybrid drive system offers improved performance characteristics and reduces emissions and fuel consumption. To meet the environmental requirements and emission legislations of the future Volvo CE is developing a range of Tier IV engines and has the technology in place to meet expected bio-fuel environmental legislation.

### New President

Olof Persson was named Volvo Construction Equipment's new President in September. He



Kalmar Industries is a world-leading manufacturer of different machines for materials handling and one of Volvo Penta's largest industrial engine customers.

### Key ratios

Volvo Penta	2007	2008
Net sales as percentage of Volvo Group sales	4	4
Net sales, SEK bn	11.7	11.4
Operating income, SEK M	1,173	928
Operating margin, %	10.0	8.1

### Net sales by market

Volvo Penta, SEK M	2007	2008
Europe	6,798	6,554
North America	2,674	1,947
South America	274	364
Asia	1,624	2,082
Other markets	349	486
<b>Total</b>	<b>11,719</b>	<b>11,433</b>

### Engine volumes

Volvo Penta, No. of units	2007	2008
Marine engines	67,333	51,270
Industrial engines	23,728	26,061
<b>Total</b>	<b>91,061</b>	<b>77,331</b>

has an extensive international experience from ABB, Bombardier and Daimler Chrysler and was most recently President of Volvo Aero.

## Volvo Penta

– continues to capture market share

Volvo Penta offers complete drive systems and service for leisure boats, workboats and industrial applications such as diesel-powered

### VOLVO PENTA

#### Ambitions 2008

- Focus on delivery capacity to ensure favorable product supply in the market.
- Intensify work to ensure a positive product cost development.
- Establishment of a new global dealer network structure.
- Continued introduction of soft products and service programs.

#### Outcome 2008

- Continued investments in a new, global logistics system.
- New European dealer structure implemented.
- Expanded customer offering of soft products.

#### Ambitions 2009

- Secure favorable profitability also in weaker market conditions.
- Secure successful implementation of new, global logistics structure.
- Continue to expand industrial engine business to improve balance between business segments.

gensets and container handling equipment.

Volvo Penta contributes with substantial synergies and economies of scale to the Volvo Group's total production of diesel engines. During 2008, Volvo Penta sold approximately 30,000 marine and industrial engines based on the Group's diesel engine platforms. The majority of these volumes consist of industrial engines – a business that Volvo Penta has expanded considerably in recent years. With unique performance characteristics and low emissions Volvo Penta's drive systems contribute to strengthening the competitiveness of industrial engine customers such as Kalmar Industries, Sandvik and Atlas Copco.

This type of customer, with operations worldwide, can have global support for its operation through the Volvo Group's complete product and service offering.

On the marine engine side, Volvo Penta delivers engines and drive systems to world-leading boat builders such as Fairline, Sunseeker, Riviera, Four Winns, Jeanneau/Beneteau and Cranchi. With innovative technological solutions and integrated drive systems, Volvo Penta creates considerable advantages for the customer in the form of lower fuel consumption and shorter installation times.

During the year, Volvo Penta continued the launch of Volvo Penta IPS – the acclaimed drive system with forward-facing propellers and steerable drive units. With new and larger drive units connected to the Volvo Group's 11-liter engine, Volvo Penta has expanded its IPS offering with two new power classes: IPS800 and IPS900. With multi installations of these systems, Volvo Penta can offer drive systems for boats up to 100 feet.

For sailboats, Volvo Penta during the year launched a new series of diesel engines with very low emission and noise levels. Standard

engines from the same engine family are installed in all of the yachts taking part in the Volvo Ocean Race.

#### **Total market**

The total market for marine engines weakened in Europa, while demand for industrial engines continued to be relatively stable.

In North America, the weakening trend of recent years in the marine engine market continued. Following the financial crisis during the second half of the year, boat sales in North America declined to historically low levels.

In Asia and many markets in other parts of the world, for instance the Middle East and South America, demand for industrial engines and marine engines continued to be favorable.

#### **Market share development**

With aggressive investments in product development and product renewal, Volvo Penta has created a modern and complete product portfolio that is in demand from a growing number of boat builders and industrial engine customers around the world.

Volvo Penta has consolidated and strengthened its market share in most market segments, not least thanks to continued great success for Volvo Penta IPS, which to an ever greater extent replaces traditional shaft installations in the inboard segment.

#### **Financial performance**

In total, net sales amounted to SEK 11,433 M, compared to SEK 11,719 M in the preceding year. Operating income amounted to SEK 928 M compared to SEK 1,173 M the preceding year. Operating margin amounted to 8.1% (10.0).

Operating income was negatively impacted by sharply lower volumes during the second half of the year, increased under-absorption of

costs in production and one-time costs of about SEK 100 M associated with carried-out adjustments of operations to lower demand.

#### **Production and investments**

During the year, Volvo Penta invested approximately SEK 100 M in a new logistics system that fully implemented will enable substantial efficiency improvements in the entire chain from order to delivery.

Production in the plants in Vara, Sweden and Lexington, Tennessee, USA was gradually lowered in line with falling demand for marine engines. Towards the end of the year, Volvo Penta was forced to implement personnel reductions in both factories and central administration to adjust the company to a significantly lower demand as a consequence of a weaker world market.

## **Volvo Aero**

### **– leader in lightweight designs**

Volvo Aero has for a long time played an important part as a manufacturing partner in the aircraft engine industry. This role has in recent years changed as Volvo Aero has assumed greater responsibility as a partner in the development of new engine programs.

Today, Volvo Aero develops its own unique technologies which are important to partners and other customers in the aerospace industry. The technology development is mainly concentrated on lightweight designs.

#### **Highly-interesting technologies**

Lightweight design has a tremendous importance for engines' fuel consumption and thus for emissions. This makes Volvo Aero's technologies highly interesting, since the oil price



Many aircraft the world over have components from Volvo Aero.

has had an ever increasing impact on airlines' total costs while the climate and environmental concerns have increased demand for engines with lower emissions.

By using Volvo Aero's knowledge of light-weight design, simulation and new, patented production methods, engine manufacturers can shorten lead times for the development of new engines while at the same time produce engines that are lighter and less noisy.

Through the acquisition of ACAB in 2007 Volvo Aero was able to complement the light-weight knowledge with composite technologies, which are expected to have a great importance for future aircraft engines.

#### Largest contracts so far

Lowered weight and lowered production costs were success factors when Volvo Aero signed its largest engine contracts to date with the engine manufacturers Pratt & Whitney and Rolls-Royce. The involvement in the two engine programs is expected to lead to net sales for Volvo Aero of approximately SEK 90 billion in the coming 40 years. The contracts are important successes for Volvo Aero's lightweight technology since the contracts were signed in stiff competition from conventional technologies.

During the year, an important milestone was passed for another new and important aircraft

engine: the GENx, which received certification from the U.S. Federal Aviation Administration. Volvo Aero has been responsible for the development of three important components but in total manufactures six parts of the engine.

The important testing of Volvo Aero composite technology in EU's VITAL environmental project was successful. The Fan Blade Out test is crucial in order to demonstrate the ability of the components to cope with maximum strain.

During the year, Volvo Aero and Boeing extended their marketing and distribution partnership agreement for an additional 10 years. Volvo Aero's aftermarket company in the US will continue to provide services to support the distribution of aircraft parts for a wide range of Boeing aircraft.

#### Declining air traffic

World airline passenger traffic increased somewhat during the first eleven months of 2008. However, almost all regions showed a clear decline towards the end of the year. The domestic North American market in particular had a significant downturn.

According to IATA, the airlines' financial problems increased in 2008. In spite of this, order backlog for large commercial jets increased. The order backlog increased from 6,848 aircraft at the beginning of 2008 to

#### Key ratios

Volvo Aero	2007	2008
Net sales as percentage of Volvo Group sales	3	2
Net sales, SEK bn	7,6	7,4
Operating income, SEK M	529	359
Operating margin, %	6.9	4.8

#### Net sales by market

Volvo Aero, SEK M	2007	2008
Europe	3,462	3,497
North America	3,723	3,534
South America	127	58
Asia	234	234
Other markets	100	125
<b>Total</b>	<b>7,646</b>	<b>7,448</b>

7,429 at the end of the year. Airbus and Boeing received 1,586 new orders and delivered 858 new aircraft.

#### Lower profitability

In 2008, Volvo Aero's sales amounted to SEK 7,448 M compared to SEK 7,646 M the preceding year, a decline of 3%.

Operating income amounted to SEK 359 M, a decline of 32% compared to SEK 529 M in 2007. Operating margin declined from 6.9% to 4.8%. The lower profitability is mainly attributable to lower sales and lower margins in the American aftermarket business, while delays in new aircraft programs at both Boeing and Airbus impacted profitability through lower production volumes and lower capacity utilization.

### VOLVO AERO

#### Ambitions 2008

- Develop composite offerings for cold structures within the framework of the acquisition of ACAB.
- Meet increased volumes through improved productivity and lower product costs.
- Continued improvements in volumes and profitability within the aftermarket business.

#### Outcome 2008

- The development of composite structures has been running according to plan.
- Successful FBO test (FanBlade Out) conducted in Derby together with Rolls-Royce.
- The work to meet higher volumes with increased productivity and lower product cost has developed according to plan, but will continue in 2009.
- Successful activities in the aftermarket business, but the sharp decline among airlines resulted in the American aftermarket business not reaching its goals.

#### Ambitions 2009

- Adjust operations to the expected downturn and lower volumes.
- Continue working on improving productivity and lowering product cost.
- Handle the development of components to the new engine programs Trent XWB and PW1000G.
- Increase volumes and profitability in the aftermarket business.
- Continue to expand the customer offer of composites for cold structures.



Volvo Financial Services offers financing to both dealers and end-customers and contributes to strengthen the relationship with customers.

In order to adjust to an expected downturn with lower volumes, Volvo Aero in 2008 made reductions of staff in Kongsberg, Norway, and Boca Raton, Florida, US, and in January, the company initiated negotiations regarding redundancy of 250 blue-collar employees in Trollhättan, Sweden and more than 100 white-collar positions through planned retirement and a reduced number of consultants. All in all, the reduction comprises about 420 positions at Volvo Aero.

#### New president

On November 1, Staffan Zackrisson assumed the position as President of Volvo Aero. Staffan Zackrisson has worked for Volvo Aero for a number of years and in recent years he has been a member of the business area's management team.

## Financial Services

– a vital and trusted partner

Volvo Financial Services supports the Volvo Group's product range with vital financing solutions and related offerings to help customers acquire the products that they need. The expanded range of services and customer financing operations intensify cooperation,

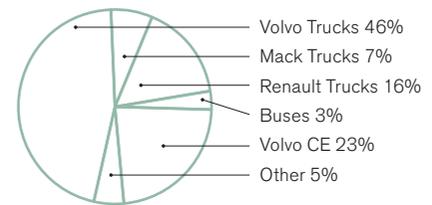
build retention and add value to Volvo Group's customers.

2008 was a very challenging year with the financial markets overall experiencing extremely restricted liquidity in the last quarter of 2008. Volvo Financial Services (VFS) continued to provide vital financial services to Volvo Group customers and dealers throughout the world, focusing on strong credit discipline and a close working relationship with dealers, customers and the other business areas in the Volvo Group.

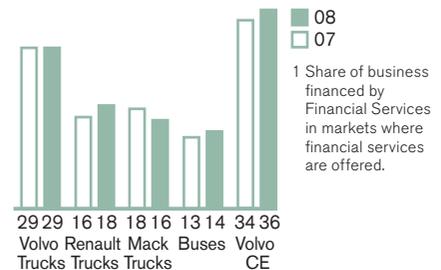
During 2008, VFS continued its strategy of geographical expansion as it commenced retail financing in Chile and Hungary. The organic growth continued with a new financing volume of SEK 44.5 billion (41.4) and a penetration level of 25% (24) for the full year.

Volvo Financial Services reached a portfolio milestone during 2008 of more than SEK 100 billion in managed assets. VFS has been successful in a number of markets, which is reflected in good volumes and favorable penetration, while at the same time maintaining strict underwriting policies. In recent years VFS has focused very much on improving the credit mix of the portfolio, the diversity of the products financed and the geographical distribution of assets under management.

Credit portfolio by business area, %



Penetration by business area<sup>1</sup>, %



### FINANCIAL SERVICES

#### Ambitions 2008

- Expand and integrate commercial offering.
- Controlled growth in new, organic and acquisition markets.
- Extend brand awareness.
- Business cycle vigilance.
- Employee recruitment, development and retention.

#### Outcome 2008

- Developed integrated solutions with the other business areas.
- Commenced customer financing activities in Chile, Hungary, Slovakia and Australia.
- Further integration of Road Machinery.
- Enhanced the brands through marketing campaigns.
- Maintained stability and control in a difficult economic environment.
- Improved recruitment and retention activities and implemented key skills development programs.

#### Ambitions 2009

- Ensure sustained profitability in the global recession.
- Secure efficient funding and execute on capital management strategies.
- Continue optimizing growth by more tailored customer solutions.
- Secure key competencies and global mobility.

## Corporate Governance Report

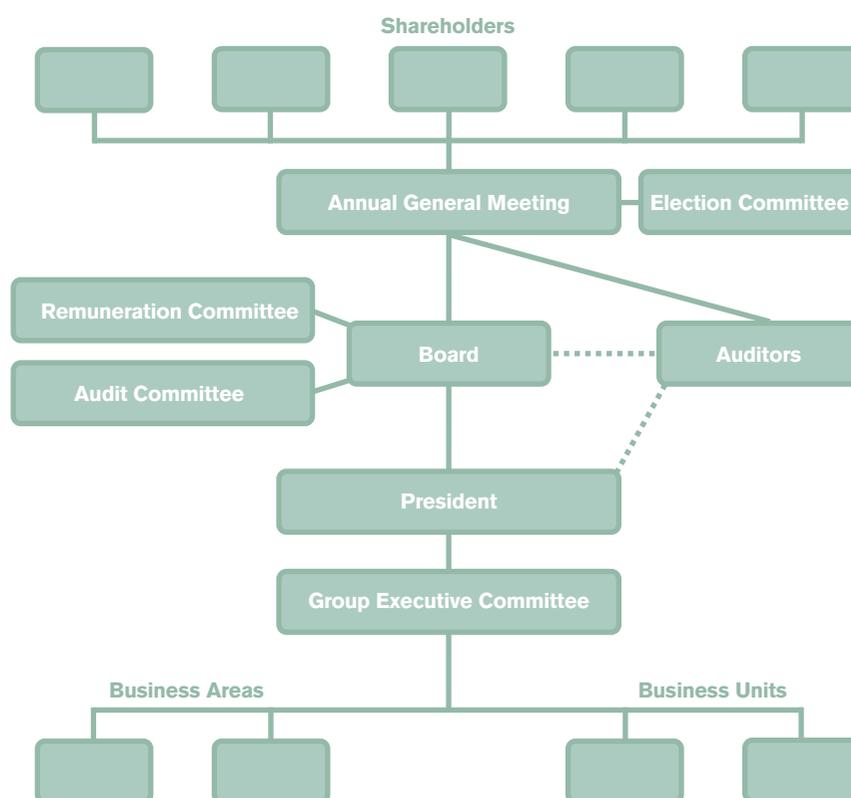
During 2008, the Board focused specifically on adapting the Group's operations to the present market conditions; initially to a very strong demand for the Group's products and during the second half to a significantly weaker development. The Board has furthermore focused specifically on issues pertaining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

### Corporate bodies in corporate governance

The governance and control of the Volvo Group is carried out through a number of corporate bodies. At the Annual General Meeting, the shareholders exercise their voting rights with regard, for example, to the composition of the Board of Directors of AB Volvo and election of external auditors. An Election Committee proposes candidates to serve as Board members, Board Chairman and external auditors. The Board is responsible for the Group's long-term development and strategy as well as controlling and evaluating the company's operations. In addition, the Board appoints the President of AB Volvo, who is also the Chief Executive Officer (CEO). The duties of the Board are partly exercised through its Audit Committee and its Remuneration Committee. The CEO is in charge of the daily management of the Group in accordance with guidelines and instructions provided by the Board.

The CEO is in charge of the daily management of the Group through primarily two different bodies, the Group Executive Committee and the business areas' and business units' Boards of Directors. The Group Executive Committee comprises those who report directly to the CEO. The Group Executive Committee meetings, which are led by the CEO, deal with Group-wide issues and issues affecting more than one business area/unit, and sharing of information concerning the Group's performance. The CEO or another member of the Group Executive Committee is the Chairman of the Boards of all business areas and

### The Volvo Group Corporate Governance Model



business units and these comprise mainly of other members of the Group Executive Committee. The Boards of the business areas and business units effect control and follow-ups of business areas' and business units' financial development, business plans and goals as well as make decisions regarding, for example, investments.

### Swedish Code of Corporate Governance

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

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

This Corporate Governance Report has not been reviewed by the company's auditors.

### Election Committee

The Election Committee is the shareholders' body responsible for submitting to the Annual General Meeting the names of candidates to serve as Chairman and other members of the Board as well as proposal for fees and other compensations to be paid to the Board members. In the years in which election of auditors for Volvo shall be held, the Election Committee presents proposals for election of auditors and proposal for fees to be paid to the auditors based on the preparations carried out by Volvo's Audit Committee.

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

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

The Election Committee, which was appointed at Volvo's Annual General Meeting in 2008 in accordance with the new instructions, comprised Volvo's Chairman Finn Johnsson, Carl-Olof By, representing AB Industrivärden, Lars Förberg, representing Violet Partners LP, Anders Oscarsson, representing SEB Fonder / Trygg Försäkring and Thierry Moulouguet, representing Renault. The Election Committee elected Thierry Moulouguet as Chairman. Later during 2008, the Election Committee offered Svenska Handelsbanken together with SHB Pension Fund, SHB Pensionskassa, SHB Employee Fund and Oktagon and AMF Pension to appoint one representative each as a member of the Election Committee. Handelsbanken and others appointed Håkan Sandberg and AMF Pension appointed Christer Elmehegen. When Christer Elmehegen in December 2008 retired from AMF Pension, he also retired from the Election Committee.

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

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

<sup>1</sup> Resigned from the Board in conjunction with the 2008 Annual General Meeting.

<sup>2</sup> Elected to the Board at the 2008 Annual General Meeting.

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

### The Board

In 2008, AB Volvo's Board of Directors consisted of nine members elected by the Annual General Meeting. In addition, the Board had three members and two deputy members appointed by employee organizations. The CEO, Leif Johansson, was a member of the Board.

During 2008, six regular meetings, one statutory meeting and one extraordinary meeting were held.

The Board has adopted work procedures for its activities that contain rules pertaining to the distribution of work between the Board members, the number of Board meetings, matters to be handled at regular meetings of the Board and duties incumbent on the Chairman.

In addition thereto, the work procedures contain directives concerning the tasks of the Audit Committee and the Remuneration Committee respectively. The Board has also issued written instructions specifying how financial information should be reported to the Board as well as the distribution of duties between the Board and the President.

The Annual General Meeting decides on the fees to be paid to the Board members elected by the shareholders. The Annual General Meeting held on April 9, 2008 approved a total fee to the Board, for the time until the end of the next Annual General Meeting, of SEK 5,725,000 to be distributed among the Board Members according to the following. The Chairman of the Board should receive a fee of SEK 1,500,000 and each of the remaining members should receive a fee of SEK 500,000, with the exception of the President. In addition, the Chairman of Audit Committee should receive SEK 250,000 and the other two members of the Audit Committee SEK 125,000 each and the members of the Remuneration Committee SEK 75,000 each.

During the year, the Board reviewed the business plans and strategies for the various businesses in the Volvo Group. The Board also reviewed the financial positions of AB Volvo and the Volvo Group on a regular basis and acted in order to ascertain that there are efficient systems in order to follow-up and control the business and financial position of the Volvo Group. In connection therewith, the Audit Committee was responsible for preparing for the Board's work to assure the quality of the company's financial reporting through reviewing the interim reports and the annual report. In connection therewith, the Board met with the company's auditors during 2008. The Board continuously evaluated the performance of the CEO.

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

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

The Board's work is mainly performed through Board meetings and through meetings in the respective committees of the Board. In addition thereto, the Chairman of the Board is in regular contact with the CEO in order to discuss on-going business and to ensure that the decisions taken by the Board are executed. An account of each Board member's age, main education, professional experience, assignments in the Company and other important board memberships, own and related parties ownership of shares in Volvo as of March 4, 2009 and the years of membership on the Volvo Board, is presented on the Board and auditors page.

During 2008, the Board performed its yearly evaluation of the Board's work. The Chairman has informed the Election Committee on the result of the evaluation.

#### **Independence requirements**

The Board of Directors of Volvo must meet independence requirements pursuant to the rules of the OMX Nordic Exchange Stockholm (the "Stockholm Exchange"), and the Code. Below follows a short description of the rules of the Stockholm Exchange and the Code. The independence requirements mainly mean that only one person from the company's management may be a member of the Board, that a majority of the Board members elected by the General Meeting shall be independent of the company and the company management and that at least two of the Board members elected by the General Meeting that are independent from the company and the company's management shall also be independent of the company's major shareholders. In addition, the Code demands that a majority of the members in the Audit Committee shall be independent of the company and the company management and that at least one member shall be independent

of the company's major shareholders. A member of the Board who is a member of the company management shall not be a member of the Audit Committee. With regard to the Remuneration Committee, the Code sets the requirement that members of the Remuneration Committee, with the exception of the Board Chairman if a member of the Remuneration Committee, shall be independent of the company and company management.

Considering the above demands regarding the Board's independence, the Election Committee has reported to the company the following understanding about the independence from the company and the company management as well as the company's largest shareholders with regard to the Board members who were elected at the Annual General Meeting in 2008:

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

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

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

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

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



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

#### **Audit Committee**

In December 2002, the Board established an Audit Committee primarily for the purpose of overseeing the accounting and financial reporting processes and the audit of the financial statements. The Audit Committee is responsible for preparing the Board's work to assure the quality of the company's financial reporting through reviewing the interim reports and the annual report. In addition, the Audit Committee's task is to establish guidelines specifying what other services than audit the company may procure from the company's auditors and to provide guidelines for and decisions on trans-

actions with companies and persons closely associated with Volvo. The Audit Committee is also responsible for evaluating the internal and external auditors' work as well as to provide the Election Committee with the results of the evaluation and to assist in preparing proposals for auditors. Finally the Audit Committee shall evaluate the quality, relevance and efficiency of the Group's system for internal controls, internal audit and risk management.

At the statutory Board meeting following the 2008 Annual General Meeting, Peter Bijur, Lars Westerberg and Ying Yeh were appointed members of the Audit Committee. Lars Westerberg was appointed Chairman of the Audit Committee.

The Audit Committee met with the external auditors and Head of Internal Audit at the meetings of the Audit Committee. The Audit Committee has also met separately with the external auditors and the Head of Internal Audit without the presence of the company management. The Audit Committee and the external auditors have among other things discussed the external audit plan and risk management. The Audit Committee held three meetings during 2008.

#### **Remuneration Committee**

In April 2003, the Board established a Remuneration Committee primarily for the purpose of preparing and deciding on issues relating to remuneration to senior executives in the Group. The duties of the Committee include presenting recommendations for resolution by the Board regarding terms of employment and remuneration for the President of AB Volvo, principles for remuneration, including pensions and severance payment for other members of the Group Executive Committee, and principles for variable salary systems, share-based incentive programs, pensions and severance payment for other senior executives in the Group. In addition, the Remuneration Committee decides the individual terms of employment for the other members of the Group Executive Committee in accordance with the principles established by the Board.

In 2008, the Remuneration Committee comprised Board members Tom Hedelius, Louis Schweitzer and Finn Johnsson, Chairman. The Remuneration Committee held four meetings during the year.

### **Group Executive Committee**

An account of their respective age, principal education, Board memberships, own and related parties' ownership of shares in Volvo as of March 4, 2009, and year of joining Volvo for the CEO and each member of the Group Executive Committee is presented in the Group Executive Committee section.

### **External auditing**

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

The external auditors discuss the external audit plan and risk management with the Audit Committee. The Auditors review the interim report for the period January 1 to June 30 and the annual report. The auditors report their findings as regards the annual report to the shareholders through the audit report, which they present to the Annual General Meeting of the shareholders. In addition, the auditors report detailed findings from their reviews to the Audit Committee twice a year and, once a year, to the full Board of Directors.

When PwC is retained to provide services other than the audit, it is done in accordance with rules decided by the Audit Committee pertaining to pre-approval of the nature of the services and the fees.

### **Disclosure Committee**

A Disclosure Committee was established in 2004. The Committee contributes to ensuring that Volvo fulfills its obligations according to applicable legislation as well as to listing rules to timely disclose to the financial market all share price sensitive information.

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

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

### **Outstanding share- and share-price-related incentive programs**

An account of outstanding share- and share price-related incentive programs is provided in Note 34 Employees in the Group's notes.

### **The Board's report on the key aspects of the company's system for internal controls and risk management regarding financial reports**

The Board is responsible for the internal controls according to the Swedish Companies Act and the Swedish Code of Corporate Governance (the Code). The purpose of this report is to provide shareholders and other interested parties an understanding of how internal control is organized at Volvo with regard to financial reporting.

The report has been prepared in accordance with the Code and the guidance issued by the Confederation of Swedish Enterprise and FAR SRS and is thus limited to internal control over financial reporting. This report is included as a section in the Corporate Governance Report, but does not comprise a portion of the formal annual report. This report has not been reviewed by the company's external auditors.

#### *Introduction*

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

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

which were implemented when the Group had to comply with the SOX-regulations. Volvo primarily applies internal control principles introduced by the Committee of Sponsoring Organizations of the Treadway Commission (COSO). The COSO principles consist of five interrelated components. The components are: control environment, risk assessment, control activities, information and communication and follow-up.

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

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

#### *Control environment*

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

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

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

#### *Risk assessment*

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

#### *Control activities*

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

Several control activities are applied in the ongoing business processes to ensure that potential errors or deviations in the financial reporting are prevented, discovered and corrected. Control activities range from review of

outcome results in management group meetings to specific reconciliation of accounts and analyses of the ongoing processes for financial reporting. CFOs in Group companies are ultimately responsible for ensuring that control activities in the financial processes are appropriate and in accordance with the Group's policies and instructions. They are also responsible for ensuring that authority structures are designed so that one person can't perform an activity and then perform the control of the same activity. Control activities within IT security and maintenance are a key part of Volvo's internal control over financial reporting.

#### *Information and communication*

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

#### *Follow-up*

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

# Group Management

## **Leif Johansson** **President and CEO**

Born 1951. M. Sc. Engineering. President of AB Volvo and Chief Executive Officer of the Volvo Group since 1997. With Volvo since 1997. **Board member:** Bristol-Myers Squibb Company, Svenska Cellulosa Aktiebolaget SCA, Confederation of Swedish Enterprise and The Association of Swedish Engineering Industries. Member of the Royal Swedish Academy of Engineering Sciences. Member of the Volvo Board since 1997. **Holdings in Volvo, own and related parties:** 540,810 shares, including 349,023 Series B shares.

## **Stefano Chmielewski** **President of Renault Trucks**

Born 1952. MA M. Sc. Electronics/Automation. President of Renault Trucks since 2003. Member of the Group Executive Committee since 2003. With Volvo since 2001. **Holdings in Volvo, own and related parties:** None.

## **Satoru Takeuchi** **President of Nissan Diesel**

Born 1946. President of Nissan Diesel since 2007. Member of the Group Executive Committee since 2007. With Volvo since 2007. **Holdings in Volvo, own and related parties:** None.

## **Olof Persson** **President of Volvo Construction Equipment**

Born 1964. Bachelor of Business Administration. President of Volvo Aero Corporation 2006–2008. President of Volvo Construction Equipment since November 1, 2008. Member of the Group Executive Committee since 2006. With Volvo since 2006. **Holdings in Volvo, own and related parties:** 42,250 Series B shares.

## **Staffan Zackrisson** **President of Volvo Aero Corporation**

Born 1953. Master of Science & Engineering. President of Volvo Aero Corporation since November 1, 2008. Has held various positions at Volvo Aero 1979–87 and since 1989. With Uddevalla Invest AB 1987–89. Member of the Group Executive Committee since November 1, 2008. With Volvo 1979–87 and since 1989. **Holdings in Volvo, own and related parties:** 10,333 series B shares.

## **Staffan Jufors** **President of Volvo Truck Corporation**

Born 1951. Master of Business Administration. President of Volvo Truck Corporation since 2004. President of Volvo Penta 1998–2004. Member of the Group Executive Committee since 1998. With Volvo since 1975. **Board member:** Seco Tools AB. **Holdings in Volvo, own and related parties:** 40,457 shares, including 34,687 Series B shares.

## **Dennis Slagle** **President and CEO of Mack Trucks, Inc**

Born 1954. Bachelor of Science. President and CEO of Mack Trucks, Inc. since 2008. President and CEO of Volvo Construction Equipment North America 2003–2008. Previously President of L.B. Smith, Inc. Member of the Group Executive Committee since 2008. With Volvo since 2000. **Holdings in Volvo, own and related parties:** 8,838 Series B shares.

## **Håkan Karlsson** **President of Volvo Bus Corporation**

Born 1961. M. Sc. Engineering. President of Volvo Bus Corporation since 2003. President of Volvo Logistics 2000–2003. Member of the Group Executive Committee since 2003. With Volvo since 1986. **Holdings in Volvo, own and related parties:** 37,177 shares, including 35,842 Series B shares.

## **Göran Gummeson** **President of Volvo Penta**

Born 1947. President of Volvo Penta since 2004. Has held various positions at Volvo Penta since 1991, head of Volvo Penta's European operations 1998–2004. Member of the Group Executive Committee since 2004. With Volvo since 1991. **Holdings in Volvo, own and related parties:** 108,862 Series B shares.

## **Salvatore L. Mauro** **President of Volvo Financial Services**

Born 1960. Bachelor of Science in Accounting. President of Volvo Financial Services since 2001. President of Volvo Car Finance Europe 1999–2001. Member of the Group Executive Committee since 2001. With Volvo since 1985. **Holdings in Volvo, own and related parties:** 22,015 Series B shares.





**Peter Karlsten**  
President of Volvo Powertrain

Born 1957. M. Sc. Electrical Engineering. President of Volvo Powertrain since 2007. Senior Vice President Technology for the Volvo Group since 2007. Head of Volvo Trucks in Brazil 2001–2003. Head of Volvo's North American truck operations 2003–2007. Member of the Group Executive Committee since 2007. With Volvo since 2001. **Holdings in Volvo, own and related parties:** 142,250 series B shares.

**Pär Östberg**  
Senior Vice President and Chairman Trucks Asia

Born 1962. Master of Business Administration. Senior Vice President of AB Volvo since 2005. Has held various senior positions in the financial areas in the Volvo Group since 1990, most recently as CFO of the Volvo Group 2005–2008, prior to that as Senior Vice President and CFO of Renault Trucks 2004–2005. Member of the Group Executive Committee since 2005. With Volvo since 1990. **Chairman:** Nissan Diesel. **Holdings in Volvo, own and related parties:** 165,667 Series B shares.



**Stefan Johnsson**  
Senior Vice President

Born 1959. Master of Business Administration. Senior Vice President of AB Volvo responsible for business units and human resources. Senior Vice President of AB Volvo and CFO of the Volvo Group 1998–2005. President of Volvo Group Finance Sweden 1994–1998. Member of the Group Executive Committee since 1998. With Volvo since 1987. **Board member:** The Chalmers University of Technology Foundation. **Holdings in Volvo, own and related parties:** 149,042 shares, including 148,667 Series B shares.

**Mikael Bratt**  
Senior Vice President and CFO

Born 1967. Senior Vice President of AB Volvo and CFO of the Volvo Group since February 2008. Responsible for finance, strategy and business development. Has held various senior positions in the financial areas in the Volvo Group since 1988, most recently as Vice President & Head of Corporate Finance at AB Volvo. Member of the Group Executive Committee since 2008. With Volvo since 1988. **Holdings in Volvo, own and related parties:** 73,802 shares, including 72,967 Series B shares.



**Eva Persson**  
Senior Vice President

Born 1953. Master of Laws. Senior Vice President of AB Volvo and General Counsel of the Volvo Group. Responsible for legal, tax and security matters. Member of the Group Executive Committee since 1997. With Volvo since 1988. Secretary to the Board of Volvo since 1997. **Board member:** Handelsbanken Region Väst, Second Swedish National Pension Fund. Member of the Swedish Industry and Commerce Stock Exchange Committee. **Holdings in Volvo, own and related parties:** 74,667 shares, including 73,407 Series B shares.

**Per Löjdquist**  
Senior Vice President

Born 1949. Senior Vice President of AB Volvo, responsible for corporate communications and brand management. Member of the Group Executive Committee since 1997. With Volvo since 1973. **Board member:** Nilörgruppen AB. **Holdings in Volvo, own and related parties:** 194,142 shares, including 177,362 Series B shares.



**Tony Helsham**  
Senior Vice President

Born 1954. Bachelor of Engineering. Senior Vice President of AB Volvo responsible for soft products. President of Volvo Construction Equipment 2000–2008. President and CEO of Euclid Hitachi Heavy Equipment 1995–1998. President of Volvo Construction Equipment Korea 1998–2000. Member of the Group Executive Committee since 2000. With Volvo since 1985. **Holdings in Volvo, own and related parties:** None.

**Jan-Eric Sundgren**  
Senior Vice President

Born 1951. M. Sc. Engineering, PhD in solid state Physics, Professor in materials science. Senior Vice President of AB Volvo responsible for public and environmental affairs. Member of the Group Executive Committee since 2006. With Volvo since 2006. **Board member:** Hogia AB, Lindholmen Science Park AB, Meritea AB, SAFER. Member of the Royal Swedish Academy of Engineering Sciences. **Holdings in Volvo, own and related parties:** 25,202 Series B shares.

**Changes in Group Executive Committee**

**Pär Östberg**, CFO of the Volvo Group, assumed responsibility for the Group's Asian truck operations after **Jorma Halonen**, Executive Vice President and deputy CEO, who retired on April 30, 2008.

On January 15, 2008, **Dennis Slagle** was appointed President of Mack Trucks Inc. and member of the Group Executive Committee as of April 1, 2008. **Dennis Slagle** took over after Paul Vikner, who became Vice Chairman in Mack Trucks Inc. as of April 1, 2008. Paul Vikner remained a member of the Group Executive Committee until July 1, 2008.

**Mikael Bratt** was appointed the successor to **Pär Östberg** on February 11, 2008 as CFO of the Volvo Group. He assumed the post immediately, also joining Volvo's Group Executive Committee. Mikael Bratt has been Vice President and Head of Corporate Finance at AB Volvo since 2002 and has worked for the Volvo Group since 1988. He has held management positions in Volvo Treasury North America and Volvo Trucks' operations in Brazil.

**Olof Persson**, President of Volvo Aero, was appointed to take over after **Tony Helsham** as Presi-

dent of Volvo Construction Equipment as of November 1, 2008. Tony Helsham remain a member of the Group Executive Committee with a responsibility to support the growth of soft products in the Group. **Staffan Zackrisson** assumed the position as President of Volvo Aero as of November 1, 2008 and then also becoming a member of the Group Executive Committee. Staffan Zackrisson was head of Marketing, Programs and Sales in Volvo Aero prior to the appointment as President.

# Board of Directors and Auditors

## Board members elected by the Annual General Meeting

### Finn Johnsson

**Chairman of the Board**  
**Chairman of the Remuneration Committee**

Born 1946. Master of Business Administration.  
**Board Chairman:** West Sweden Chamber of Commerce and Industry, Luvata Oy, Thomas Concrete Group AB, KappAhl AB, City Airline and EFG European Furniture Group AB. **Board member:** Skanska AB and AB Industrivärden. Member of the Volvo Board since 1998. Chairman since 2004. **Holdings in Volvo, own and related parties:** 60,000 shares, including 40,000 Series B shares.

Principal work experience: Machine Division at Swedish Match; President Arenco Machine Co., USA; President Swedish Match Europe and Swedish Match Asia; President Tarket AB; Executive Vice President Stora AB; President Industri AB Euroc; President United Distillers, UK; CEO of Mölnlycke Health Care AB.

### Ravi Venkatesan

Born 1963. MBA and M Sc Industrial Engineering. Board chairman of Microsoft Corporation (India) Pvt. Ltd, and responsible for the company's marketing, operational and business development in India.  
**Board Chairman:** Junior Achievement India, Non profit organisation. **Board member:** Non Profit Advisory Board Harvard Business School, Advisory Board Indian Institute of Technology. Member of the Volvo Board since 2008. **Holdings in Volvo, own and related parties:** 700 Series B shares.

Principal work experience: Several leading positions within the American engine manufacturer Cummins.

### Leif Johansson

Born 1951. Master Sc Engineering. President of AB Volvo and Chief Executive Officer of the Volvo Group since 1997. With Volvo since 1997. Member of the Volvo Board since 1997. **Board member:** Bristol-Myers Squibb Company, Svenska Cellulosa Aktiebolaget SCA, Confederation of Swedish Enterprise and The Association of Swedish Engineering Industries. Member of the Royal Swedish Academy of Engineering Sciences. **Holdings in Volvo, own and related parties:** 539,477 shares, including 347,690 Series B shares.

Principal work experience: Project consultant Indevo; Assistant to President Centro Maskin Morgårdshammar; President Husqvarna Motorcyklar; Division Manager Office Machines Facit Sweden; President Facit; Division Manager AB Electrolux Major Appliances; Division President AB Electrolux Major Appliances; Executive Vice President AB Electrolux; President AB Electrolux; CEO Electrolux Group.

### Louis Schweitzer

**Member of the Remuneration Committee**

Born 1942. Bachelor of Laws. **Board Chairman:** Renault, AstraZeneca Plc. Chairman of the Supervisory Board of Le Monde. **Board member:** BNP-Paribas, Véoila, L'Oréal. Member of the Volvo Board since 2001. **Holdings in Volvo, own and related parties:** 10,000 Series B shares.

Principal work experience: Official at French Budget Department; Chief of Staff of Mr Laurent Fabius (Minister of Budget, then Minister for Industry and Research, and Prime Minister), Chairman, French Commission for Equality (since 2005); numerous positions with Renault SA (Chief Financial Officer and Executive Vice President Finance and Planning, President and Chief Operating Officer, Chairman and Chief Executive Officer).

### Peter Bijur

**Member of the Audit Committee**

Born 1942. MBA Marketing, BA Political Science. **Board member:** Gulfmark Offshore Inc. Member of the Volvo Board since 2006. **Holdings in Volvo, own and related parties:** 3,000 Series B shares.

Principal work experience: Numerous positions with Texaco Inc, retired as Chairman and Chief Executive Officer in 2001.



### Tom Hedelius

**Member of the Remuneration Committee**

Born 1939. Master of Business Administration, Hon. Dr. of Economics. **Board Chairman:** AB Industrivärden, B&B Tools AB, Anders Sandrews Stiftelse and Jan Wallanders and Tom Hedelius Stiftelse. **Honorary Chairman:** Svenska Handelsbanken. **Vice Chairman:** Addtech AB and Lagercrantz Group AB. **Board member:** Svenska Cellulosa Aktiebolaget SCA and Lundbergs AB. Member of the Volvo Board since 1994. **Holdings in Volvo, own and related parties:** 13,465 shares, including 3,465 Series B shares.

Principal work experience: AB Industrikkredit; numerous positions with Svenska Handelsbanken (Credit Director, Executive Vice President, President and CEO, Chairman).



### Philippe Klein

Born 1957. Executive Vice President, Planning, Programs and Control, Renault. Member of the Volvo Board since 2006. **Holdings in Volvo, own and related parties:** 2,250 Series B shares.

Principal work experience: Various positions within Renault (from Engine Engineer to Senior Vice President CEO's Office Renault SA and member of the Renault Management Committee); Vice President, CEO's Office at Nissan; Senior Vice President, CEO/COO Office and Corporate Administration, Nissan Motor Co., Ltd.



### Ying Yeh

**Member of the Audit Committee**

Born 1948. BA, Literature & International Relations. President and Chairman of Kodak North Asia Region. 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.





**Lars Westerberg**  
**Chairman of the Audit Committee**  
 Born 1948. M Sc Engineering, Bachelor Business Administration.  
**Board Chairman:** Autoliv Inc., Husqvarna AB and Vattenfall AB.  
**Board member:** SSAB and Plastal AB. Member of the Volvo Board since 2007.  
**Holdings in Volvo, own and related parties:** 60,000 Series A shares.  
 Principal work experience: President and CEO of Gränges AB, ESAB and Autoliv Inc.

## Board members and deputies appointed by employee organisations



**Martin Linder**  
 Employee representative. Born 1973. With Volvo since 1994. Member of Volvo Board since 2004.  
**Holdings in Volvo, own and related parties:** None.



**Olle Ludvigsson**  
 Employee representative. Born 1948. With Volvo since 1968. Deputy member of Volvo Board 1983–1988; member since 1988. **Holdings in Volvo, own and related parties:** 775 shares, including 525 Series B shares.



**Johnny Rönnkvist**  
 Employee representative. Born 1947. With Volvo since 1965. Member of the Volvo Board since 1999.  
**Holdings in Volvo, own and related parties:** 915 shares, including 250 Series B shares.



**Berth Thulin**  
 Employee representative. Born 1951. With Volvo since 1975. Deputy member of the Volvo Board since 1999.  
**Holdings in Volvo, own and related parties:** 1,175 Series B shares.



**Margareta Öhlin**  
 Employee representative. Born 1947. With Volvo since 1983. Deputy member of Volvo Board since 2005.  
**Holdings in Volvo, own and related parties:** 250 Series B shares.

## Secretary to the Board

**Eva Persson**  
 Born 1953, Master of Laws. Senior Vice President of AB Volvo and General Counsel of the Volvo Group. Secretary to the Volvo Board since 1997.  
**Holdings in Volvo, own and related parties:** 74,667 shares, including 73,407 Series B shares.

## Auditors

PricewaterhouseCoopers AB

**Göran Tidström**  
 Authorized Public Accountant  
 Lead Partner

Auditor since 2006

Other assignments: Auditor of Securitas, Telia Sonera och Trelleborg. Chairman of the Board of EFRAG (European Financial Reporting Advisory Group) and Board member of IFAC (International Federation of Accountants).

Born 1946

**Olov Karlsson**  
 Authorized Public Accountant  
 Partner

Auditor since 1998

Other assignments: Auditor of Trelleborg AB.

Born 1949

# Financial information 2008

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# Consolidated income statements

SEK M		2007	2008
<b>Net sales</b>	Note 7	285,405	<b>303,667</b>
Cost of sales		(219,600)	<b>(237,578)</b>
<b>Gross income</b>		65,805	<b>66,089</b>
Research and development expenses	Note 7	(11,059)	<b>(14,348)</b>
Selling expenses		(26,068)	<b>(27,129)</b>
Administrative expenses		(7,133)	<b>(6,940)</b>
Other operating income and expenses	Note 8	163	<b>(1,915)</b>
Income from investments in associated companies	Note 7, 9	430	<b>25</b>
Income from other investments	Note 10	93	<b>69</b>
<b>Operating income</b>	Note 7	22,231	<b>15,851</b>
Interest income and similar credits		952	<b>1,171</b>
Interest expenses and similar charges		(1,122)	<b>(1,935)</b>
Other financial income and expenses	Note 11	(504)	<b>(1,077)</b>
<b>Income after financial items</b>		21,557	<b>14,010</b>
Income taxes	Note 12	(6,529)	<b>(3,994)</b>
<b>Income for the period</b>		15,028	<b>10,016</b>
Attributable to:			
Equity holders of the parent company		14,932	<b>9,942</b>
Minority interests	Note 13	96	<b>74</b>
		15,028	<b>10,016</b>
Basic earnings per share, SEK	Note 23	7.37	<b>4.90</b>
Diluted earnings per share, SEK	Note 23	7.37	<b>4.90</b>

# Consolidated balance sheets

SEK M		December 31, 2007	December 31, 2008
<b>Assets</b>			
Non-current assets			
Intangible assets	Note 14	36,508	<b>43,958</b>
Tangible assets	Note 14		
Property, plant and equipment		46,054	<b>56,248</b>
Investment property		1,156	<b>1,022</b>
Assets under operating leases		22,502	<b>25,429</b>
Financial assets			
Associated companies	Note 15	657	<b>652</b>
Other shares and participations	Note 15	1,562	<b>1,301</b>
Long-term customer-financing receivables	Note 16	40,486	<b>50,432</b>
Deferred tax assets	Note 12	8,783	<b>11,180</b>
Other long-term receivables	Note 17	4,779	<b>6,159</b>
Total non-current assets		162,487	<b>196,381</b>
Current assets			
Inventories	Note 18	43,645	<b>55,045</b>
Short-term receivables			
Customer-financing receivables	Note 19	38,361	<b>48,057</b>
Current tax assets		1,703	<b>1,810</b>
Other receivables	Note 20	44,417	<b>47,512</b>
Marketable securities	Note 21	16,490	<b>5,902</b>
Cash and cash equivalents	Note 22	14,544	<b>17,712</b>
Total current assets		159,160	<b>176,038</b>
<b>Total assets</b>		<b>321,647</b>	<b>372,419</b>
<b>Shareholders' equity and liabilities</b>			
Shareholders' equity	Note 23		
Share capital		2,554	<b>2,554</b>
Additional contributed capital		-	<b>-</b>
Reserves		2,146	<b>5,078</b>
Retained earnings		62,570	<b>66,436</b>
Income for the period		14,932	<b>9,942</b>
Equity attributable to the equity holders of the parent company		82,202	<b>84,010</b>
Minority interests		579	<b>630</b>
Total shareholders' equity		82,781	<b>84,640</b>
Non-current provisions			
Provisions for post-employment benefits	Note 24	9,774	<b>11,705</b>
Provisions for deferred taxes	Note 12	9,127	<b>8,260</b>
Other non-current provisions	Note 25	7,301	<b>9,066</b>
Non-current liabilities			
Bond loans	Note 26	42,298	<b>35,798</b>
Other loans		21,149	<b>47,299</b>
Other long-term liabilities		8,282	<b>9,511</b>
Current provisions			
	Note 25	10,656	<b>11,750</b>
Current liabilities			
Loans	Note 27	44,872	<b>62,631</b>
Trade payables		52,663	<b>51,025</b>
Current tax liabilities		451	<b>1,204</b>
Other current liabilities		32,293	<b>39,530</b>
<b>Total shareholders' equity and liabilities</b>		<b>321,647</b>	<b>372,419</b>
Assets pledged	Note 28	1,556	<b>1,380</b>
Contingent liabilities	Note 29	8,153	<b>9,427</b>

# Changes in consolidated Shareholders' equity

SEK M	Shareholders' equity attributable to equity holders of the parent company					Minority interests	Total equity <sup>1</sup>
	Share capital	Other reserves <sup>2</sup>	Translation reserve	Retained earnings	Total		
<b>Balance at December 31, 2006</b>	<b>2,554</b>	<b>987</b>	<b>677</b>	<b>82,686</b>	<b>86,904</b>	<b>284</b>	<b>87,188</b>
Translation differences	-	-	1,163	-	1,163	3	1,166
Translation differences on hedge instruments of net investments in foreign operations	-	-	(123)	-	(123)	-	(123)
Available-for-sale investments:	Note 15, 23						
Valuation gains/(losses) taken to equity	-	(222)	-	-	(222)	-	(222)
Change in hedge reserve	Note 23						
	-	(338)	-	-	(338)	-	(338)
<b>Net income recognized directly in equity</b>		<b>(560)</b>	<b>1,040</b>	<b>0</b>	<b>480</b>	<b>3</b>	<b>483</b>
Income for the period	-	-	-	14,932	14,932	96	15,028
<b>Total recognized income and expense for the period</b>		<b>(560)</b>	<b>1,040</b>	<b>14,932</b>	<b>15,412</b>	<b>99</b>	<b>15,511</b>
Share reduction	(426)	-	-	426	0	-	0
Bonus issue	426	-	-	(426)	0	-	0
Dividends and payment for redemption of shares to Volvo's shareholders	-	-	-	(20,255)	(20,255)	(78)	(20,333)
Share based payments	Note 34						
	-	-	-	176	176	-	176
Change in consolidation of Nissan Diesel <sup>1</sup>	-	-	-	(44)	(44)	-	(44)
Minority regarding new acquisitions	-	-	-	-	-	267	267
Other changes	-	8	(6)	7	9	7	16
<b>Balance at December 31, 2007</b>	<b>2,554</b>	<b>435</b>	<b>1,711</b>	<b>77,502</b>	<b>82,202</b>	<b>579</b>	<b>82,781</b>
Translation differences	-	-	6,126	-	6,126	23	6,149
Translation differences on hedge instruments of net investments in foreign operations	-	-	(414)	-	(414)	-	(414)
Accumulated translation difference reversed to income	-	-	(82)	-	(82)	-	(82)
Available-for-sale investments:	Note 15, 23						
Valuation gains/(losses) taken to equity	-	(459)	-	-	(459)	-	(459)
Change in hedge reserve	Note 23						
	-	(2,239)	-	-	(2,239)	(10)	(2,249)
<b>Net income recognized directly in equity</b>		<b>(2,698)</b>	<b>5,630</b>	<b>-</b>	<b>2,932</b>	<b>13</b>	<b>2,945</b>
Income for the period	-	-	-	9,942	9,942	74	10,016
<b>Total recognized income and expense for the period</b>	<b>-</b>	<b>(2,698)</b>	<b>5,630</b>	<b>9,942</b>	<b>12,874</b>	<b>87</b>	<b>12,961</b>
Dividends	-	-	-	(11,150)	(11,150)	(54)	(11,204)
Share based payments	Note 34						
	-	-	-	73	73	-	73
Minority regarding new acquisitions	-	-	-	-	-	(62)	(62)
Other changes	-	-	-	11	11	80	91
<b>Balance at December 31, 2008</b>	<b>2,554</b>	<b>(2,263)</b>	<b>7,341</b>	<b>76,378</b>	<b>84,010</b>	<b>630</b>	<b>84,640</b>

1 Refers to change in consolidation method (neg SEK 25 M) and change in minority interests for Nissan Diesel between the AB Volvo acquisition date and the redemption of the remaining minority (neg SEK 19 M).

2 For specification of other reserves please see Note 23.

# Consolidated cash-flow statements

SEK M		2007	2008	
<b>Operating activities</b>				
Operating income		22,231		<b>15,851</b>
Depreciation and amortization	Note 14	12,474		<b>13,524</b>
Other items not affecting cash	Note 30	(458)		<b>(133)</b>
Changes in working capital:				
(Increase)/decrease in receivables		(2,692)		<b>3,209</b>
(Increase)/decrease in customer finance receivables		(10,031)		<b>(10,174)</b>
(Increase)/decrease in inventories		(4,436)		<b>(6,664)</b>
Increase/(decrease) in liabilities and provisions		7,166		<b>(9,675)</b>
Interest and similar items received		1,077		<b>1,100</b>
Interest and similar items paid		(832)		<b>(1,302)</b>
Other financial items		(139)		<b>109</b>
Income taxes paid		(5,970)		<b>(5,076)</b>
<b>Cash-flow from operating activities</b>		<b>18,390</b>		<b>769</b>
<b>Investing activities</b>				
Investments in fixed assets		(10,150)		<b>(12,664)</b>
Investments in leasing assets		(4,800)		<b>(5,440)</b>
Disposals of fixed assets and leasing assets		2,945		<b>2,905</b>
Shares and participations, net	Note 30	436		<b>(29)</b>
Acquired and divested subsidiaries and other business units, net	Note 4, 30	(15,013)		<b>(1,317)</b>
Interest-bearing receivables including marketable securities		3,554	(23,028)	<b>10,882</b>
<b>Cash-flow after net investments</b>		<b>(4,638)</b>		<b>(4,894)</b>
<b>Financing activities</b>				
Increase/(decrease) in bond loans and other loans		28,746		<b>18,230</b>
Cash payment to AB Volvo shareholders'		(20,255)		<b>(11,150)</b>
Dividends to minority shareholders		(78)		<b>(54)</b>
Other		(3)	8,410	<b>8</b>
<b>Change in cash and cash equivalents, excluding translation differences</b>		<b>3,772</b>		<b>2,140</b>
Translation difference on cash and cash equivalents		15		<b>1,028</b>
<b>Change in cash and cash equivalents</b>		<b>3,787</b>		<b>3,168</b>
<b>Cash and cash equivalents, January 1</b>	Note 22	<b>10,757</b>		<b>14,544</b>
<b>Cash and cash equivalents, December 31</b>	Note 22	<b>14,544</b>		<b>17,712</b>

The effects of major acquisitions and divestments of subsidiaries in each year have been excluded from other changes for the balance sheet items in the cash-flow statement. The effects of currency move-

ments in translation of foreign Group companies have also been excluded since these effects do not affect cash flow. Cash and cash equivalents include cash and bank balances.

# Notes to consolidated financial statements

Amounts in SEK M unless otherwise specified. The amounts within parentheses refer to the preceding year, 2007.

## Note 1 Accounting principles

The consolidated financial statements for AB Volvo and its subsidiaries have been prepared in accordance with International Financial Reporting Standards (IFRS) issued by the International Accounting Standards Board (IASB), as adopted by the EU. The portions of IFRS not adopted by the EU have no material effect on this report. This annual report is prepared in accordance with IAS 1 Presentation of Financial Statements and in accordance with the Swedish Companies Act. In addition, RFR 1.1 Supplementary Rules for Groups, has been applied, issued by the Swedish Financial Reporting Board.

In the preparation of these financial statements, the company management has made certain estimates and assumptions that affect the value of assets and liabilities as well as contingent liabilities at the balance sheet date. Reported amounts for income and expenses in the reporting period are also affected. The actual future outcome of certain transactions may differ from the estimated outcome when these financial statements were issued. Any such differences will affect the financial statements for future accounting periods. The key sources of estimation uncertainty are set out in note 2.

### Changes of accounting principles

Effective in 2005 Volvo has applied International Financial Reporting Standards (IFRS) in its financial reporting. In accordance with the IFRS transition rules in IFRS 1, Volvo applies retroactive application from the IFRS transition date at January 1, 2004. The details of the transition from Swedish GAAP to IFRS are set out in Note 3 in the annual reports of 2005 and 2006. Refer to the 2004 Annual Report for a description of the previous Swedish accounting principles applied by Volvo.

#### New accounting principles in 2008

Two new interpretations from IFRIC take effect as of 1 January 2008: IFRIC 11 'IFRS 2 Group and Treasury Share Transactions' and IFRIC 14 'IAS 19 The limit on a defined benefit asset, minimum funding requirements and their interaction'. Their implementation have not had any significant impact on the Group's financial statements.

The amendments to IAS 39 and IFRS 7 effective from 1 July 2008, published and endorsed in October 2008, have not had a significant effect on the Group's financial statements.

#### New accounting principles 2009 and 2010

When preparing the consolidated accounts as of December 31, 2008, a number of standards and interpretations have been published, but have not yet become effective. The following is a preliminary assessment of the effect that the implementation of these standards and statements could have on the Volvo Group's financial statements.

#### *IFRS 8 Operating segments*

The standard becomes effective on January 1, 2009 and applies for the fiscal years beginning on that date. The standard addresses the distribution of the company's operations in different segments. In accordance with the

standard, the company shall adopt an approach based on the internal reporting structure and determine the reportable segments based on this structure. Volvo does not expect the adoption of IFRS 8 to result in any change in the identification of segments. Volvo will however, in connection to the implementation of IFRS 8, remove the reclassification of leases from operating to finance leases within the Customer Finance segment. Volvo will also reclassify currency exchange effects that are now reported in operating income to be reported in gross income from 1 January 2009. See note 3 for further details.

#### *IAS 23 amendment Borrowing costs*

The amendment becomes effective on January 1, 2009 and applies to fiscal years beginning on or after that date. The amendment states that borrowing costs that are directly attributable to the acquisition, construction or production of an asset that necessarily takes a substantial period of time to get ready for its intended use or sale, should form part of the cost of that asset. The Group will apply the amendment as of January 1, 2009. According to the current accounting principle applied by Volvo, borrowing costs are expensed. The amendment will result in a change of accounting principle for the Volvo group, but is not expected to have a significant impact on the Group's financial statements.

#### *IAS 1 amendment Presentation of financial statements*

The amendment becomes effective on January 1, 2009 and applies to fiscal years beginning on or after that date. The amendment concerns the form for presentation of financial position, comprehensive income and cash flow and contains a requirement for statement of comprehensive income. The Group will apply the amendment as of January 1, 2009, which will not have a significant impact on the Group's financial statements, but only to a limited extent affect the form of presentation for the Group financial statements.

#### *Revised IFRS 3 Business combinations\**

The standard becomes effective on July 1, 2009 and applies to fiscal years beginning on or after that date. The standard entails changes to the reporting of future acquisitions regarding for example the accounting of transaction costs, any contingent considerations and step acquisitions. The Group will apply the amendment as of January 1, 2010. The application will prospectively affect the accounting for business combinations made from the application date.

#### *IAS 27 amendment Consolidated and separate financial statements\**

The standard becomes effective on July 1, 2009, as a consequence of the revised IFRS 3, and applies to fiscal years beginning on or after that date. The amendment brings about changes in IAS 27 regarding for example how to report changes to the ownership in cases where the parent company retains or loses the control of the owned entity. The

## Notes to consolidated financial statements

Group will apply the amendment as of January 1, 2010. The application will prospectively affect the accounting for business combinations made from the application date.

In addition to the above-mentioned, the below standards and interpretations from IFRIC are applicable for the Volvo Group going forward, but are not expected to have a significant impact on the Group's financial statements. Changes as a consequence of the IASB's annual improvements project are not expected to significantly affect the Volvo Group's financial statement.

To be applied by Volvo starting from January 1, 2009:

*IFRIC 12 Service Concession Arrangements\**

*IFRIC 13 Customer Loyalty Programmes*

*IFRIC 15 Agreements for the construction of Real Estate\**

*IFRIC 16 Hedges of a net investment in a foreign operation\**

*IFRS 2 amendment Sharebased payments: Vesting conditions and cancellations*

*IAS 32 and IAS 1 amendment Puttable financial instruments and obligations arising on liquidation\**

*IFRS 1 and IAS 27 amendment Cost of an investment in a subsidiary, jointly-controlled entity or associate on a first time adoption\**

To be applied by Volvo starting from January 1, 2010:

*IFRIC 17 Distribution of non-cash assets to owners\**

*IAS 39 amendment Financial instruments: Recognition and Measurement: Eligible Hedged items\**

### Consolidated financial statements

#### Principles for consolidation

The consolidated financial statement have been prepared in accordance with the principles set forth in IAS 27, Consolidated and Separate Financial Statements. Accordingly, intra-Group transactions and gains on transactions with associated companies are eliminated. The consolidated financial statements comprise the parent company, subsidiaries, joint ventures and associated companies.

– Subsidiaries are defined as companies in which Volvo holds more than 50% of the voting rights or in which Volvo otherwise has a controlling interest.

– Joint ventures are companies over which Volvo has joint control together with one or more external parties. Joint ventures are reported by use of the proportionate method of consolidation.

– Associated companies are companies in which Volvo has a significant influence, which is normally when Volvo's holdings equals to at least 20% but less than 50% of the voting rights. Holdings in associated companies are reported in accordance with the equity method. The Group's share of reported income in such companies is included in the consolidated income statement in Income from investments in associated companies, reduced in appropriate cases by depreciation of surplus values and the effect of applying different accounting principles. Income from associated companies is included in operating income as the Volvo investments are of operating nature. For practical reasons, most of the associated companies are included in the consolidated accounts with a certain time lag, normally one quarter. Dividends from associated companies are not included in consolidated income. In the consolidated balance sheet, the book value of shareholdings in associated companies is affected by Volvo's share of the company's net income, reduced by depreciation of surplus values and by the amount of dividends received.

Volvo applies IFRS 3, Business Combinations for acquisitions after January 1, 2004, in accordance with the IFRS 1 transition rules. All business combinations are accounted for in accordance with the purchase method. Volvo decided not to restate prior acquisitions. Volvo

values acquired identifiable assets, tangible and intangible, and liabilities at fair value. Surplus amounts compared to the purchase consideration are reported as goodwill. Any lesser amount, so-called negative goodwill, is reported in the income statement. Transactions with the minority are reported as transactions with external parties to the group. Divestments to the minority may result in gains or losses in the income statement. Acquisitions from the minority may result in goodwill corresponding to the difference between considerations paid and acquired part of net asset value in the acquired subsidiary. Companies acquired during the year are consolidated as of the date of acquisition. Companies that have been divested are included in the consolidated financial statements up to and including the date of divestment.

#### Translation to Swedish kronor when consolidating companies using foreign currencies

AB Volvo's functional currency is the Swedish krona. All reporting in group companies for group purposes is made in the currency, in which the company has the majority of its revenues and expenses; normally the currency of the country where the company is located. AB Volvo's and the Volvo Group's presentation currency is Swedish kronor. In preparing the consolidated financial statements, all items in the income statements of foreign subsidiaries and joint ventures (except for subsidiaries in highly inflationary economies) are translated to Swedish kronor at the average exchange rates during the year (average rate). All balance sheet items are translated at exchange rates at the respective year-ends (closing rate). The differences in consolidated shareholders' equity, arising as a result of variations between closing rates, for the current and previous year are charged or credited directly to shareholders' equity as a separate component.

The accumulated translation difference related to a certain subsidiary, joint venture or associated company is reversed to income as a part of the gain/loss arising from the divestment or liquidation of such a company.

IAS 29, Financial Reporting in Hyperinflationary Economies, is applied to financial statements of subsidiaries operating in highly inflationary economies. Volvo applies reporting based on historical value. Translation differences due to inflation are charged against earnings for the year. Currently, Volvo has no subsidiaries with a functional currency that could be considered a hyperinflationary currency.

#### Receivables and liabilities in foreign currency

In the individual Group companies as well as in the consolidated accounts, receivables and liabilities in foreign currency are valued at closing rates. Translation differences on operating assets and liabilities are recognized in operating income, while translation differences arising in financial assets and liabilities are charged to other financial income and expenses. Financial assets and liabilities are defined as items included in the net financial position of the Volvo Group (see Definitions at the end of this report). Currency swap contracts are reported at fair value, unrealized gains on exchange rates are reported as short term receivables and unrealized losses on exchange rates are reported as short term liabilities. Exchange rate differences on loans and other financial instruments in foreign currency, which are used to hedge net assets in foreign subsidiaries and associated companies, are offset against translation differences in the shareholders' equity of the respective companies. Exchange rate gains and losses on payments during the year and on the valuation of assets and liabilities in foreign currencies at year-end are credited to, or charged against, income in the year they arise. The more important exchange rates applied are shown in the table on the next page.

\* These standards/interpretations have not been adopted by the EU at this time. Accordingly, stated dates for adoption may change as a consequence of decisions within the EU endorsement process.

## Exchange rates

Country	Currency	Average rate		Closing rate	
		2007	2008	2007	2008
Brazil	BRL	3.4724	3.6152	3.6800	3.2490
Canada	CAD	6.3098	6.1723	6.5960	6.3060
China	CNY	0.8876	0.9464	0.8900	1.1300
Denmark	DKK	1.2423	1.2895	1.2716	1.4691
Euro	EUR	9.2564	9.6142	9.4828	10.9448
Great Britain	GBP	13.5369	12.0975	12.9113	11.2538
Japan	JPY	0.0575	0.0641	0.0573	0.0861
Norway	NOK	1.1555	1.1716	1.1885	1.1045
South Korea	KRW	0.0073	0.0060	0.0069	0.0061
United States	USD	6.7631	6.5821	6.4688	7.7538

## Net sales and revenue recognition

The Group's reported net sales pertain mainly to revenues from sales of goods and services. Net sales are reduced by the value of discounts granted and by returns.

Income from the sale of goods is recognized when significant risks and rewards of ownership have been transferred to external parties, normally when the goods are delivered to the customers. If, however, the sale of goods is combined with a buy-back agreement or a residual value guarantee, the sale is accounted for as an operating lease transaction if significant risks of the goods are retained in Volvo. Revenues are then recognized over the period of the residual value commitment. If the residual value risk commitment is not significant, independent from the sale transaction or in combination with a commitment from the customer to buy a new Volvo product in connection to a buy-back option, the revenue is recognized at the time of sale and a provision is reported to reflect the estimated residual value risk (see Provisions below).

Revenue from the sale of workshop services is recognized when the service is provided. Interest income in conjunction with finance leasing or installment contracts are recognized during the underlying contract period. Revenue for maintenance contracts are recognized according to how costs associated with the contracts are distributed during the contract period.

Interest income is recognized on a continuous basis and dividend income when it is received.

## Leasing

### Volvo as the lessor

Leasing contracts are defined in two categories, operating and finance leases, depending on the contract's financial implications. Operating leasing contracts are reported as non-current assets in Assets under operating leases. Income from operating leasing is reported equally distributed over the leasing period. Straight-line depreciation is applied to these assets in accordance with the terms of the undertaking and the deprecation amount is adjusted to correspond to the estimated realizable value when the undertaking expires. Assessed impairments are charged to the income statement. The product's assessed realizable value at expiration of the undertaking is reviewed continuously on an individual basis.

Finance leasing agreements are reported as either Non-current or current receivables in the customer finance operations. Payments from finance leasing contracts are distributed between interest income and amortization of the receivable in the customer finance operations.

In accordance with IAS 14, Segment reporting, operating leasing contracts should be reclassified to finance leases in the segment

reporting of Customer Finance if the residual value in these contracts is guaranteed to Customer Finance by another Volvo business area. In the Volvo Group's consolidated balance sheet, these leasing agreements are reported as operating leases. Reclassification from operating to financial leasing contract also affects the income statement with regards to sales and depreciation. Customer Finance's sales are reduced as a result of the reclassification as well as depreciation, which affect cash flow from operating activities. However, the consolidated balance sheet and income statement still recognize leasing contracts as operating and, accordingly, report higher sales and depreciation compared to sales and depreciation reported within the Customer Finance segment.

### Volvo as the lessee

Volvo evaluates leasing contracts in accordance with IAS 17, Leases. In those cases in which risks and benefits that are related to ownership are substantially held by Volvo, so called finance leases, Volvo reports the asset and related obligation in the balance sheet at the lower of the leased asset's fair value or the present value of minimum lease payments. Future leasing fee commitments are reported as loans. The lease asset is depreciated in accordance with Volvo's policy for the respective non-current asset. The lease payments when made are allocated between amortization and interest expenses. If the leasing contract is considered to be a so called operational lease, lease payments are charged to the income statement over the lease contract period.

## Reporting of financial assets and liabilities

Financial assets treated within the framework of IAS 39 are classified either as

- Financial assets at fair value through profit and loss,
- Investments held to maturity,
- Loans and receivables, or as
- Available-for-sale financial assets

Financial liabilities are reported at amortized cost.

Purchases and sales of financial assets and liabilities are recognized on the transaction date. A financial asset is derecognized (extinguished) in the balance sheet when all significant risks and benefits linked to the asset have been transferred to a third party. The same principles are applied for financial assets in the segment reporting of Volvo Group.

The fair value of assets is determined based on the market prices in such cases they exist. If market prices are unavailable, the fair value is determined for each asset using various valuation techniques. Transaction expenses are included in the asset's fair value except in cases in which the change in value is recognized in the income state-

## Notes to consolidated financial statements

ment. The transaction costs arising in conjunction with assuming financial liabilities are amortized over the term of the loan as a financial cost.

Embedded derivatives are detached from the related main contract, if applicable. Contracts containing embedded derivatives are valued at fair value in the income statement if the contracts' inherent risk and other characteristics indicate a close relation to the embedded derivative.

### Financial assets at fair value through profit and loss

All of Volvo's financial assets that are recognized at fair value in the income statement are classified as held for trading. Included are derivatives that are not part of an evidently effective hedge accounting. Gains and losses on these assets are recognized in the income statement. Short-term investments that are reported at fair value through profit and loss mainly consist of interest-bearing financial instruments and are reported in note 21.

Derivatives used for hedging interest-rate exposure in the customer financing portfolio are included in this category as it is not practically possible to apply hedge accounting in accordance with IAS 39 due to the large number of contracts that the customer finance portfolio consist of. Volvo intends to keep these derivatives to maturity, why, over time, the market valuation will be offset as a consequence of the interest-rate fixing on borrowing and lending for the customer finance operations, and accordingly not affect result or cash flow.

### Financial assets held to maturity

Held-to-maturity investments are non-derivative assets with fixed payments and term and that Volvo intends and is able to hold to maturity. After initial recognition, these assets are measured in accordance with the effective interest method, with adjustment for any impairment. Gains and losses are recognized in the income statement when assets are divested or impaired as well as in pace with the accrued interest being reported. At year end 2008 Volvo did not have any financial instruments classified in this category.

### Loan receivables and other receivables

Loans and receivables are non-derivative financial assets with fixed or determinable payments, originated or acquired, that are not quoted in an active market. After initial recognition, loans and receivables are measured in accordance with the effective interest method. Gains and losses are recognized in the income statement when the loans or receivables are divested or impaired as well as in pace with the accrued interest being reported.

Accounts receivables are recognized initially at fair value, which normally corresponds to the nominal value. In the event that the payment terms exceed one year, the receivable is recognized at the discounted present value.

### *Assessment of impairment – loan receivables and other receivables*

Volvo conducts routine controls to ensure that the carrying value of assets valued at amortized cost, such as loans and receivables, has not decreased, which would result in an impairment loss reported in the income statement. Allowances for doubtful receivables are continuously reported based on an assessment of a possible change in the customer's ability to pay.

Impairments consist of the difference between carrying value and current value of the estimated future payment flow attributable to the specific asset with consideration to the fair value of any collateral. Discounting of future cash flow is based on the effective rate used initially. Initially, the impairment requirement is evaluated for each respective asset. If, based on objective grounds, it cannot be determined that one or more assets are subject to an impairment loss, the assets are grouped in units based, for example, on similar credit risks to evaluate the impairment loss requirement collectively. Individually

written down assets or assets written down during previous periods are not included when grouping assets for impairment test. If the conditions for a completed impairment loss later prove to no longer be present, and that can be related to a specific event after the impairment event, the impairment loss is reversed in the income statement as long as the carrying value does not exceed the amortized cost at the time of the reversal.

Volvo discloses loan receivables and accounts receivables in the notes 16, 17, 19 and 20.

### Available-for-sale assets

This category includes assets available for sales or those that have not been classified in any of the other three categories. These assets are initially measured at fair value. Fair value changes are recognized directly in shareholders' equity. The cumulative gain or loss that was recognized in equity is recognized in profit or loss when an available-for-sale financial asset is sold. Unrealized value declines are recognized in equity, unless the decline is significant or prolonged. Then the impairment is recognized in the income statement. If the event causing the impairment no longer exists, impairment can be reversed in the income statement if it does not involve an equity instrument.

Earned or paid interest attributable to these assets is recognized in the income statement as part of net financial items in accordance with the effective interest method. Dividends received attributable to these assets are recognized in the income statement as Income from other investments.

Volvo reports shares and participations in listed companies at market value on the balance-sheet date, with the exception of investments classified as associated companies and joint ventures. Holdings in unlisted companies for which a market value is unavailable are recognized at acquisition value. Volvo classifies these types of investments as assets available for sale. See note 15 for Volvo's holdings of shares and participations in listed companies.

### *Assessment of impairment – available-for-sale assets*

If an asset available for sale is to be impaired, it shall be effected by taking the difference between the asset's acquisition value (adjusted for any accrued interest if it involves that type of asset) and its fair value. If it instead involves equity instruments such as shares, a completed impairment shall not be reversed in the income statement. On the other hand, impairments that have been made on debt instruments (interest-bearing instruments) shall in whole or part be reversed in the income statement, in those instances where an event that is proven to have occurred after the impairment was performed is identified and impacts the valuation of that asset.

### Hedge accounting

In order to apply hedge accounting in accordance with IAS 39, the following criteria must be met: the position being hedged is identified and exposed to market value movements, for instance related to exchange-rate or interest-rate movements, the purpose of the loan/instrument is to serve as a hedge and the hedging effectively protects the underlying position against changes in the fair value. Financial instruments used for the purpose of hedging future currency flows are accounted for as hedges if the currency flows are considered highly probable to occur.

– Volvo applies hedge accounting for hedging against currency-rate risk and interest-rate risks pertaining to commercial assets and liabilities. For financial instruments used to hedge forecasted internal commercial cash flows and forecasted electricity consumption, the fair value is debited or credited to a separate component of equity to the extent the requirements for cash-flow hedge accounting are fulfilled. To the extent that the requirements are not met, the unrealized gain or loss will be charged to the income statement. Unrealized and

realized gains and losses on hedges are reported in operating income within Other operating income and expenses.

– Volvo applies hedge accounting for financial instruments used to hedge interest and currency risks on loans only for cases when hedge accounting requirements are fulfilled. For cases where hedge accounting is not considered to be fulfilled, unrealized gains and losses up until the maturity date of the financial instrument will be charged to the financial net in the income statement.

– Volvo applies hedge accounting for certain net investments in foreign operations. The current result for such hedges is reported in a separate component in shareholders' equity. In the event of a divestment, the accumulated result from the hedge is recognized in the income statement.

See note 37 for the valuation of all financial instruments in the Volvo Group and for details and further description on principles for hedge accounting.

### Research and development expenses

Volvo applies IAS 38, Intangible Assets, for reporting of research and development expenses. In accordance with this standard, expenditures for development of new products, production systems and software shall be reported as intangible assets if such expenditures with a high degree of certainty will result in future financial benefits for the company. The acquisition value for such intangible assets shall be amortized over the estimated useful life of the assets. In order for these development expenditures to be reported as assets, a number of criteria must be met. For example, it must be possible to prove the technical functionality of a new product or software prior to its development being reported as an asset. In normal cases, this means that expenditures are capitalized only during the industrialization phase of a product development project. Other research and development expenses are charged to income as incurred.

### Tangible and intangible non-current assets

Volvo applies acquisition values for valuation of intangible and tangible assets. Borrowing costs during the acquisition period for a non-current asset are expense.

Information regarding estimated value of investment property is based on discounted cash flow projections. The estimation is performed by the Group's Real Estate business unit. The required return is based on current property market conditions for comparable properties in comparable locations.

In connection with participation in industrial cooperation projects together with other companies, such as the aircraft engine projects that Volvo Aero participates in, Volvo pays in certain cases an entrance fee to participate. These entrance fees are capitalized as intangible assets.

### Depreciation, amortization and impairment

Depreciation is made on a straight-line basis based on the acquisition value of the assets, adjusted in appropriate cases by write-downs, and estimated useful lives. Impairment tests for depreciable non-current assets are performed if there are indications of impairment at the balance sheet date.

Goodwill is reported as an intangible non-current asset with indefinite useful life. For non-depreciable non-current assets such as goodwill, impairment tests are performed annually, as well as if there are indications of impairments during the year, through calculation of the asset's recovery value. If the calculated recovery value is less than the carrying value, a write-down is made to the asset's recovery value. See note 14 for goodwill.

### Depreciation periods

Capitalized type-specific tools	2 to 8 years
Operational leases	3 to 5 years
Machinery	5 to 20 years
Buildings and Investment property	25 to 50 years
Land improvements	20 years
Trademarks	20 years
Distribution networks	10 years
Product and software development	3 to 8 years

### Non-current assets held for sale and discontinued operations

Volvo applies IFRS 5, Non-current Assets Held for Sale and Discontinued Operations. Processes are continuously ongoing regarding the sale of assets or groups of assets at minor values. In cases in which the criteria for being classified as a non-current asset held for sale are fulfilled and the asset or group of assets is not of minor value, the asset or group of assets and the related liabilities are reported on a separate line in the balance sheet. The asset or group of assets are tested for impairment and, if impaired valued at fair value after deduction for selling expenses.

### Inventories

Inventories are reported at the lower of cost, in accordance with the first-in, first-out method (FIFO), or net realizable value. The acquisition value is based on the standard cost method, including costs for all direct manufacturing expenses and the apportionable share of the capacity and other related manufacturing costs. The standard costs are tested regularly and adjustments are made based on current conditions. Costs for research and development, selling, administration and financial expenses are not included. Net realizable value is calculated as the selling price less costs attributable to the sale.

### Share-based payments

Volvo applies IFRS 2, Share-based Payments for share-based incentive programs. IFRS 2 distinguishes between "cash-settled" and "equity-settled", in Volvo's case, shares, components of share-based payments. The Volvo program includes both a cash-settled and an equity-settled part. The value of the equity-settled payments is determined at the grant-date, recognized as an expense during the vesting period and credited to equity. The fair value is calculated according to share price reduced by dividend connected to the share before the allotment. The additional social costs are reported as a liability, revalued at each balance sheet date in accordance with UFR 7, issued by the Swedish Financial Reporting Board. The cash-settled payment is revalued at each balance sheet day and is reported as an expense during the vesting period and as a short term liability. An assessment whether the terms for allotment will be fulfilled is made continuously. If the assessment changes, the expense will be adjusted. The employee stock option program is accounted for in accordance with the transition principles of IFRS 2, meaning that the equity-settled part is accounted for at fair value at each reporting period and provided for as an accrued expense over the vesting period. See note 34.

### Provisions

Provisions are reported on balance when a legal or constructive obligation exists as a result of a past event and it is probable that an outflow of resources will be required to settle the obligation and the amount can be reliably estimated.

## Notes to consolidated financial statements

### Pensions and similar obligations (Post-employment benefits)

Volvo applies IAS 19, Employee Benefits, for pensions and similar obligations. In accordance with IAS 19, actuarial calculations should be made for all defined-benefit plans in order to determine the present value of obligations for benefits vested by its current and former employees. The actuarial calculations are prepared annually and are based upon actuarial assumptions that are determined close to the balance sheet date each year. Changes in the present value of obligations due to revised actuarial assumptions and experience adjustments are treated as actuarial gains or losses. These are amortized according to function over the employees' average remaining service period to the extent they exceed the corridor value for each plan. Deviations between expected return on plan assets and actual return are also treated as actuarial gains or losses. Provisions for post-employment benefits in Volvo's balance sheet correspond to the present value of obligations at year-end, less fair value of plan assets, unrecognized actuarial gains or losses and unrecognized unvested past service costs. See note 24.

As a supplement to IAS 19, Volvo applies UFR 4, in accordance with the recommendation from the Swedish Financial Reporting Board in calculating the Swedish pension liabilities.

For defined contribution plans premiums are expensed as incurred over the income statement according to function.

### Provisions for residual value risks

Residual value risks are attributable to operating lease contracts or sales transactions combined with buy-back agreements or residual value guarantees. Residual value risks are the risks that Volvo in the future would have to dispose used products at a loss if the price development of these products is worse than what was expected when the contracts were entered. Provisions for residual value risks are made on a continuing basis based upon estimations of the used products' future net realizable values. The estimations of future net realizable values are made with consideration to current prices, expected future price development, expected inventory turnover period and expected direct and indirect selling expenses. If the residual value risks are pertaining to products that are reported as tangible assets in Volvo's balance sheet, these risks are reflected by depreciation or write-down of the carrying value of these assets. If the residual value risks are pertaining to products, which are not reported as assets in Volvo's balance sheet, these risks are reflected under the line item current provisions.

### Contingent liabilities

A contingent liability is reported for a possible obligation, for which it is not yet confirmed that a present obligation exists that could lead to an outflow of resources; or for a present obligation that do not meet the definitions of a provision or a liability as it is not probable that an outflow of resources will be required to settle the obligation or when a sufficiently reliable estimate of the amount cannot be made.

### Warranty expenses

Estimated costs for product warranties are charged to operating expenses when the products are sold. Estimated costs include both expected contractual warranty obligations as well as expected goodwill warranty obligations. Estimated costs are determined based upon historical statistics with consideration of known changes in product quality, repair costs or similar. Costs for campaigns in connection with specific quality problems are charged to operating expenses when the campaign is decided and announced.

### Restructuring costs

Restructuring costs are reported as a separate line item in the income statement if they relate to a considerable change of the Group structure. Other restructuring costs are included in Other operating income and expenses. A provision for decided restructuring measures is reported when a detailed plan for the implementation of the measures is complete and when this plan is communicated to those who are affected.

### Income taxes

Tax legislation in Sweden and other countries sometimes contains rules other than those identified with generally accepted accounting principles, pertaining to the timing of taxation and measurement of certain commercial transactions. Deferred taxes are reported on differences that arise between the taxable value and reported value of assets and liabilities (temporary differences) as well as on tax-loss carryforwards. However, with regard to the valuation of deferred tax assets, that is, the value of future tax reductions, these items are recognized provided that it is probable that the amounts can be utilized against future taxable income.

Deferred taxes on temporary differences on participations in subsidiaries and associated companies are only reported when it is probable that the difference will be recovered in the near future.

Tax laws in Sweden and certain other countries allow companies to defer payment of taxes through allocations to untaxed reserves. These items are treated as temporary differences in the consolidated balance sheet, that is, a split is made between deferred tax liability and equity capital. In the consolidated income statement an allocation to, or withdrawal from, untaxed reserves is divided between deferred taxes and net income for the year.

### Cash-flow statement

The cash-flow statement is prepared in accordance with IAS 7, Cash flow statement, indirect method. The cash-flow statements of foreign Group companies are translated at the average rate. Changes in Group structure, acquisitions and divestments, are reported net, excluding cash and cash equivalents, in the item Acquisition and divestment of subsidiaries and other business units and are included in cash flow from Investing activities.

Cash and cash equivalents include cash, bank balances and parts of marketable securities, with date of maturity within three months at the time for investment. Marketable securities comprise interest-bearing securities, the majority of which with terms exceeding three years. However, these securities have high liquidity and can easily be converted to cash. In accordance with IAS 7, certain investment in marketable securities are excluded from the definition of cash and cash equivalents in the cash-flow statement if the date of maturity of such instruments is later than three months after the investment was made.

### Earnings per share

Earnings per share is calculated as the income for the period attributed to the shareholders of the parent company, divided with the average number of outstanding shares per reporting period. To calculate the diluted earnings per share, the average number of shares in the denominator is adjusted with the average number of shares that would be issued as an effect of ongoing sharebased incentive programs and employee stock option programs that have been exercised or cancelled during the period. See note 23

## Note 2 Key sources of estimation uncertainty

Volvo's significant accounting principles are set out in note 1, Accounting Principles and conform to IFRS as endorsed by the EU. The preparation of Volvo's Consolidated Financial Statements requires the use of estimates, judgements and assumptions that affect the reported amounts of assets, liabilities and provisions at the date of the financial statements and the reported amounts of sales and expenses during the periods presented. In preparing these financial statements, Volvo's management has made its best estimates and judgements of certain amounts included in the financial statements, giving due consideration to materiality. The application of these accounting principles involves the exercise of judgement and use of assumptions as future uncertainties and, accordingly actual results could differ from these estimates. In accordance with IAS 1, preparers are required to provide additional disclosure of accounting principles in which estimates, judgments and assumptions are particularly sensitive and which, if actual results are different, may have a material impact on the financial statements. The accounting principles applied by Volvo that are deemed to meet these criteria are discussed below:

### Impairment of goodwill, other intangible assets and other non-current assets

Property, plant and equipment, intangible assets, other than goodwill, and certain other non-current assets are amortized and depreciated over their useful lives. Useful lives are based on management's estimates of the period that the assets will generate revenue. If, at the date of the financial statements, there is any indication that a tangible or intangible non-current asset has been impaired, the recoverable amount of the asset should be estimated. The recoverable amount is the higher of the asset's net selling price and its value in use, estimated with reference to management's projections of future cash flows. If the recoverable amount of the asset is less than the carrying amount, an impairment loss is recognized and the carrying amount of the asset is reduced to the recoverable amount. Determination of the recoverable amount is based upon management's projections of future cash flows, which are generally made by use of internal business plans or forecasts. While management believes that estimates of future cash flows are reasonable, different assumptions regarding such cash flows could materially affect valuations. Intangible and tangible non-current assets amounted to 126,657 (106,220) whereof 24,813 (19,969) represents goodwill. For Goodwill and certain other intangible assets with indefinite useful lives, an annual impairment review is performed. Such an impairment review will require management to determine the fair value of Volvo's cash generating units, on the basis of projected cash flows and internal business plans and forecasts. Volvo has since 2002 performed a similar impairment review. No impairment charges were required for the period 2002 until 2008. See note 14 for the allocation and impairment tests of goodwill.

### Revenue recognition

Revenue from the sale of goods is recognized when significant risks and rewards of ownership have been transferred to external parties, normally when the goods are delivered to the customers. If, however, the sale of goods is combined with a buy-back agreement or a residual value guarantee, as described below regarding residual value risks, the sale is accounted for as an operating lease transaction under the condition that significant risks of the goods are retained by Volvo. In certain cases Volvo enters into a buy-back agreement or residual

value guarantee after Volvo sold the product to an independent party or in combination with an undertaking from the customer that in the event of a buy-back to purchase a new Volvo product. In such cases, there may be a question of judgement regarding whether or not significant risks and rewards of ownership have been transferred to the customer. If it is determined that such an assessment was incorrect, Volvo's reported revenue and income for the period will decline and instead be distributed over several reporting periods.

### Residual value risks

In the course of its operations, Volvo is exposed to residual value risks through operating lease agreements and sales combined with repurchase agreements. Residual value commitments amount to SEK 16.422 million at December 31, 2008. Residual value risks are reflected in different ways in the Volvo consolidated financial statements depending on the extent to which the risk remains with Volvo.

In cases where significant risks pertaining to the product remain with Volvo, the products, primarily trucks, are generally recognized in the balance sheet as assets under operating leases. Depreciation expenses for these products are charged on a straight-line basis over the term of the commitment in amounts required to reduce the value of the product to its estimated net realizable value at the end of the commitment. The estimated net realizable value of the products at the end of the commitments is monitored individually on a continuing basis. In monitoring estimated net realizable value of each product under a residual value commitment, management makes consideration of current price-level of the used product model, value of options, mileage, condition, future price deterioration due to expected change of market conditions, alternative distribution channels, inventory lead-time, repair and reconditioning costs, handling costs and overhead costs in the used product divisions. Additional depreciations and estimated impairment losses are immediately charged to income.

The total risk exposure for assets under operating lease is reported as current and non-current residual value liabilities. See notes 26 and 27.

If the residual value risk commitment is not significant, independent from the sale transaction or in combination with a commitment from the customer to buy a new Volvo product in connection to a buy-back option, the asset is not recognized on balance. Instead, the risk exposure is reported as a residual value provision equivalent to the estimated residual value risk. See note 25. To the extent the residual value exposure does not meet the definition of a provision, the remaining residual value risk exposure is reported as a contingent liability. See note 29.

### Deferred taxes

Under IFRS, deferred taxes are recognized for temporary differences, which arise between the taxable value and reported value of assets and liabilities as well as for unutilized tax-loss carryforwards. Volvo records valuation allowances for deferred tax assets where management does not expect such assets to be realized based upon current forecasts. In the event that actual results differ from these estimates or management adjusts these estimates in future periods, changes in the valuation allowance may be needed that could materially impact the financial position and the income for the period. At December 31, 2008, the valuation allowance amounted to 245 (156) for the value of deferred tax assets. Net of this valuation allowance, deferred tax assets net of 16,003 (12,208) were recognized in the Group's balance sheet.

## Notes to consolidated financial statements

### Inventory obsolescence

Inventories are reported at the lower of cost, in accordance with the first-in, first-out method (FIFO), and net realizable value. The estimated net realizable value includes management consideration of out-dated articles, over-stocking, physical damages, inventory-lead-time, handling and other selling costs. If the estimated net realizable value is lower than cost, a valuation allowance is established for inventory obsolescence. The total inventory value, net of inventory obsolescence allowance, is per December 31, 2008, 55,045 (43,645).

### Credit loss reserves

The establishment of credit loss reserves on customer financing receivables is dependent on estimates including assumptions regarding past dues, repossession rates and the recovery rate on the underlying collaterals. At December 31, 2008, the total credit loss reserves in the segment Customer Finance segment amounted to 1.37% (1.59) of the total credit portfolio in the segment. See note 36 for a description of the credit risk.

### Pensions and other post-employment benefits

Provisions and costs for post-employment benefits, mainly pensions and health-care benefits, are dependent on assumptions used by actuaries in calculating such amounts. The appropriate assumptions and actuarial calculations are made separately for the respective countries of Volvo's operations. The assumptions include discount rates, health care cost trends rates, inflation, salary growth, long-term return on plan assets, retirement rates, mortality rates and other factors. According to IAS 19, actuarial assumptions such as the discount rate shall be based on market expectations at the balance sheet date for the period over which the obligations are to be settled and reflect the time-value of money but not the actuarial or investment risk. The market situation at the end of the financial year 2008 makes discount rate assumptions specially difficult to determine. Volvo's assumptions regarding discount rate are presented in note 24. Health care cost trend assumptions are developed based on historical cost data, the near-term outlook, and an assessment of likely long-term trends. Inflation assumptions are based on an evaluation of external market indicators. The salary growth assumptions reflect the long-term actual experience, the near-term outlook and assumed inflation. Retirement and mortality rates are based primarily on officially available mortality statistics. The actuarial assumptions are reviewed on an annual basis and modifications are made to them when it is deemed appropriate to do so. Actual results that differ from management's assumptions are

accumulated and amortized over future periods. See Note 24 for more information regarding costs and assumptions for post-employment benefits. At December 31, 2008 net provisions for post-employment benefits amounted to 9,264 (7,643).

### Product warranty costs

Estimated costs for product warranties are charged to cost of sales when the products are sold. Estimated warranty costs include contractual warranty and goodwill warranty (warranty cover in excess of contractual warranty or campaigns which is accepted as a matter of policy or normal practice in order to maintain a good business relation with the customer). Warranty provisions are estimated with consideration of historical claims statistics, the warranty period, the average time-lag between faults occurring and claims to the company and anticipated changes in quality indexes. Differences between actual warranty claims and the estimated claims generally affect the recognized expense and provisions in future periods. Refunds from suppliers, that decrease Volvo's warranty costs, are recognized to the extent these are considered to be certain. At December 31, 2008 warranty cost provisions amounted to 10,354 (9,373).

### Legal proceedings

Volvo recognizes obligations in the Group accounts as provisions or other liabilities only in cases where Volvo has a present obligation from a past event, where a financial responsibility is probable and Volvo can make a reliable estimate of the size of the amount. In instances where these criteria are not met, a contingent liability may be disclosed in the notes to the accounts.

Volvo regularly reviews the development of significant outstanding legal disputes in which Group companies are parties, both civil law and tax disputes, in order to assess the need for provisions and contingent liabilities in the financial statements. Among the factors that Volvo considers in making decisions on provisions and contingent liabilities are the nature of the dispute, the amount claimed, the progress of the case, the opinions or views of legal counsels and other advisers, experience in similar cases, and any decision of Volvo's management as to how Volvo intends to handle the dispute. The actual outcome of a legal dispute may deviate from the expected outcome of the dispute. The difference between actual and expected outcome of a dispute might materially affected future financial statements, with an adverse impact upon our results of operation, financial position and liquidity. See note 29 for the Volvo Group's gross exposure to contingent liabilities.

### Note 3 Restatement of 2008 for comparison numbers

As stated in note 1 Accounting principles, a revised standard for segment reporting, IFRS 8 Operating Segments, will be applied by the Volvo Group from 1 January 2009. IFRS 8 introduces a 'management approach' to identify and measure the financial performance of an entity's operating segments. Reported segment information should be based on the information used internally by the chief operating decision maker, the Volvo Group Executive Committee in the case of Volvo. Under the current standard, IAS 14, which is applied for the last time in these financial statements, segment information is reported strictly according to IFRS measures.

Volvo will not change its composition of reportable segments due to the revision of the standard. See note 7 for the identification of segments in Volvo Group. However, in connection to the application of

IFRS 8 in 2009, Volvo will no longer reclassify operating leases on a consolidated level to finance leases in the segment reporting of Customer Finance (see Note 1 for explanation). The reclassification has been done in order to reflect the strict IFRS interpretation of transfer of risk and rewards in internal transactions. Also, starting from January 1, 2009, Volvo will report currency effects within Gross income, that are currently reported in Other operating income.

These changes will result in a need to restate comparison information for the financial year 2008, in the financial reports during 2009 and going forward. Please see below tables for restated numbers to be used for comparison 2009. Detailed information per segments as well as restated numbers for isolated and accumulated quarters during 2008 will be published on [www.volvogroup.com](http://www.volvogroup.com).

#### Income Statement

Volvo Group	Industrial operations			Customer Finance			Elim and reclassifications			Volvo Group Total		
	Reported	Adjust-ment	Restated	Reported	Adjust-ment	Restated	Reported	Adjust-ment	Restated	Reported	Adjust-ment	Restated
SEK M												
<b>Net sales</b>	294,932	904	295,836	8,485	2,588	11,073	250	(2,518)	(2,268)	303,667	975	304,642
Cost of sales	(232,247)	(1,267)	(233,514)	(5,082)	(2,601)	(7,683)	(250)	2,518	2,268	(237,578)	(1,350)	(238,928)
<b>Gross income</b>	<b>62,685</b>	<b>(363)</b>	<b>62,322</b>	<b>3,403</b>	<b>(13)</b>	<b>3,390</b>	<b>0</b>	<b>0</b>	<b>0</b>	<b>66,089</b>	<b>(376)</b>	<b>65,713</b>
Research and development expenses	(14,348)	0	(14,348)	0	0	0	0	0	0	(14,348)	0	(14,348)
Selling expenses	(25,597)	0	(25,597)	(1,532)	0	(1,532)	0	0	0	(27,129)	0	(27,129)
Administrative expenses	(6,921)	0	(6,921)	(19)	0	(19)	0	0	0	(6,940)	0	(6,940)
Other operating income and expenses	(1,457)	363	(1,094)	(457)	13	(444)	0	0	0	(1,915)	376	(1,539)
Income from investments in associated companies	23	0	23	2	0	2	0	0	0	25	0	25
Income from other investments	69	0	69	0	0	0	0	0	0	69	0	69
<b>Operating income</b>	<b>14,454</b>	<b>0</b>	<b>14,454</b>	<b>1,397</b>	<b>0</b>	<b>1,397</b>	<b>0</b>	<b>0</b>	<b>0</b>	<b>15,851</b>	<b>0</b>	<b>15,851</b>
Interest income and similar credits	1,297	0	1,297	0	0	0	(126)	0	(126)	1,171	0	1,171
Interest expenses and similar charges	(2,061)	0	(2,061)	0	0	0	126	0	126	(1,935)	0	(1,935)
Other financial income and expenses	(1,077)	0	(1,077)	0	0	0	0	0	0	(1,077)	0	(1,077)
<b>Income after financial items</b>	<b>12,612</b>	<b>0</b>	<b>12,612</b>	<b>1,397</b>	<b>0</b>	<b>1,397</b>	<b>0</b>	<b>0</b>	<b>0</b>	<b>14,010</b>	<b>0</b>	<b>14,010</b>
Income taxes	(3,638)	0	(3,638)	(356)	0	(356)	0	0	0	(3,994)	0	(3,994)
<b>Income for the period*</b>	<b>8,974</b>	<b>0</b>	<b>8,974</b>	<b>1,041</b>	<b>0</b>	<b>1,041</b>	<b>0</b>	<b>0</b>	<b>0</b>	<b>10,016</b>	<b>0</b>	<b>10,016</b>

## Notes to consolidated financial statements

### Balance Sheets

#### Volvo Group

SEK M	Industrial operations			Customer Finance			Elim and reclassifications			Volvo Group Total		
	Reported	Adjust- ment	Restated	Reported	Adjust- ment	Restated	Reported	Adjust- ment	Restated	Reported	Adjust- ment	Restated
<b>Assets</b>												
<b>Non-current assets</b>												
Intangible assets	43,909	0	43,909	49	0	49	0	0	0	43,958	0	43,958
Tangible assets												
Property, plant and equipment	57,185	0	57,185	86	0	86	0	0	0	57,270	0	57,270
Assets under operating leases	16,967	0	16,967	330	12,908	13,238	8,132	(12,908)	(4,776)	25,429	0	25,429
Financial assets												
Shares and participations	1,935	0	1,935	18	0	18	0	0	0	1,953	0	1,953
Long term customer financing receivables	467	0	467	59,189	(8,729)	50,460	(9,224)	8,729	(495)	50,432	0	50,432
Deferred tax assets	10,976	0	10,976	204	0	204	0	0	0	11,180	0	11,180
Other long-term receivables	5,631	0	5,631	38	0	38	489	0	489	6,159	0	6,159
<b>Total non-current assets</b>	<b>137,070</b>	<b>0</b>	<b>137,070</b>	<b>59,914</b>	<b>4,179</b>	<b>64,093</b>	<b>(603)</b>	<b>(4,179)</b>	<b>(4,782)</b>	<b>196,381</b>	<b>0</b>	<b>196,381</b>
<b>Current assets</b>												
Inventories	54,084	0	54,084	961	0	961	0	0	0	55,045	0	55,045
Short-term receivables												
Customer-financing receivables	508	0	508	52,436	(4,054)	48,382	(4,887)	4,054	(833)	48,057	0	48,057
Current tax assets	1,749	0	1,749	61	0	61	0	0	0	1,810	0	1,810
Other receivables	48,286	0	48,286	1,902	0	1,902	(2,677)	0	(2,677)	47,512	0	47,512
Marketable securities	5,901	0	5,901	2	0	2	0	0	0	5,902	0	5,902
Cash and cash equivalents	16,674	0	16,674	2,245	0	2,245	(1,207)	0	(1,207)	17,712	0	17,712
<b>Total current assets</b>	<b>127,202</b>	<b>0</b>	<b>127,202</b>	<b>57,607</b>	<b>(4,054)</b>	<b>53,553</b>	<b>(8,771)</b>	<b>4,054</b>	<b>(4,717)</b>	<b>176,038</b>	<b>0</b>	<b>176,038</b>
<b>Total assets</b>	<b>264,272</b>	<b>0</b>	<b>264,272</b>	<b>117,521</b>	<b>125</b>	<b>117,646</b>	<b>(9,374)</b>	<b>(125)</b>	<b>(9,499)</b>	<b>372,419</b>	<b>0</b>	<b>372,419</b>
<b>Shareholders' equity and liabilities</b>												
<b>Shareholders' equity</b>												
Equity attributable to the equity holders of the parent company	74,416	0	74,416	9,594	0	9,594	0	0	0	84,010	0	84,010
Minority interests	630	0	630	0	0	0	0	0	0	630	0	630
<b>Total shareholders' equity</b>	<b>75,046</b>	<b>0</b>	<b>75,046</b>	<b>9,594</b>	<b>0</b>	<b>9,594</b>	<b>0</b>	<b>0</b>	<b>0</b>	<b>84,640</b>	<b>0</b>	<b>84,640</b>
Non-current provisions												
Provisions for post-employment benefits	11,677	0	11,677	28	0	28	0	0	0	11,705	0	11,705
Provisions for deferred taxes	6,557	0	6,557	1,703	0	1,703	0	0	0	8,260	0	8,260
Other non-current provisions	8,869	0	8,869	62	85	147	135	(85)	50	9,066	0	9,066
Non-current liabilities	43,062	0	43,062	53,155	0	53,155	(3,609)	0	(3,609)	92,608	0	92,608
Current provisions	11,589	0	11,589	83	40	123	78	(40)	38	11,750	0	11,750
Current liabilities	107,472	0	107,472	52,896	0	52,896	(5,978)	0	(5,978)	154,390	0	154,390
<b>Total shareholders' equity and liabilities</b>	<b>264,272</b>	<b>0</b>	<b>264,272</b>	<b>117,521</b>	<b>125</b>	<b>117,646</b>	<b>(9,374)</b>	<b>(125)</b>	<b>(9,499)</b>	<b>372,419</b>	<b>0</b>	<b>372,419</b>

## Note 4 Acquisitions and divestments of shares in subsidiaries

AB Volvo's holding of shares in subsidiaries as of December 31, 2008 is shown in the table, **AB Volvo's holding of shares**. Significant acquisitions, formations and divestments within the Group are listed below.

### Acquisitions in 2008

#### VE Commercial Vehicles Ltd.

The Volvo Group finalized, in the third quarter 2008, the deal with Eicher Motors for the establishment of a new Indian joint venture, VE Commercial Vehicles Ltd. The joint venture comprises Eicher Motors' entire truck and bus operations and the Volvo Group is currently in the process of transferring its Indian truck sales operations and service network for trucks and buses, to the joint venture.

Volvo paid 1,845 for the direct and indirect ownership in the joint venture and contributed to the joint venture its Indian truck sales operations fair valued at 530, whereof 234 equivalent to 50% of the over-value, was recognized as a gain in the Volvo Group in the third quarter.

In connection to the acquisition, a preliminary purchase price allocation was made which includes goodwill of 855, other intangible assets of 564 and fair value adjustments on property, plant and equipment of 157. The monthly negative impact on operating income from amortization and depreciation on the purchase price allocation adjustments amounts to approximately 7.

The transaction has been approved by the requisite authorities and Volvo's 50% interest in the joint-venture company is consolidated according to the proportionate method in the Volvo Group from August 1 2008. Short term, the transaction is expected to have only marginal effect on the Volvo Group's profitability, financial position and earnings per share.

In addition to that, the Volvo Group has only made minor acquisitions and divestments in 2008 that have not had a significant impact on the Group's financial statements.

### Acquisitions in 2007

Comparison numbers for 2007 include the purchase price allocations for the acquisition of Ingersoll Rand's road development division, Nissan Diesel and Shandong Lingong Construction Machinery Co.

#### Ingersoll Rand's road development division

On April 30 2007, Volvo completed the acquisition of American Ingersoll Rand's road development division, with the exception of the operations in India, which followed on May 4, 2007. Ingersoll Rand's road development division is a world-leading manufacturer of heavy construction equipment for road and soil work, and the acquisition was mainly an acquisition of assets; accounts receivables, inventory and plant and equipment. The purchase consideration amounted to SEK 9.2 billion. The goodwill arising from the acquisition is mainly related to synergies at the operating income level, attributed to sales and distribution. The effect of the acquisition on the Volvo Group cash and cash equivalents was a negative SEK 9.2 billion. The division is con-

solidated in the Volvo Group from May 1, 2007. Ingersoll Rand's road development division is reported in the Construction Equipment segment.

#### Nissan Diesel

The acquisition of Nissan Diesel was achieved in stages during 2006 and 2007. At the beginning of 2007, the reported value for Nissan Diesel amounted to 5,445, which was equivalent to holdings of 19%. The holdings were then reported as an associated company, since according to Volvo's assessment, Volvo held significant control. On March 29, 2007, Volvo acquired additional shares in Nissan Diesel, worth SEK 7.4 billion. This brought the total holdings to 96% of the shares outstanding at the end of the first quarter 2007. The minority was then acquired during the fourth quarter 2007.

Nissan Diesel is consolidated in the consolidated balance sheet of the Volvo Group as of the end of first quarter of 2007. As Volvo consolidated Nissan Diesel according to the purchase method, the holdings previously-reported as an associate company was reversed. Sales and earnings are reported as from the beginning of second quarter 2007. The operations of Nissan Diesel are reported in the Trucks segment. The goodwill arising from the acquisition of Nissan Diesel is related to integration gains as a result of increased purchasing volumes and positive effects within product development, engines and drivelines.

The effect of the acquisition on the Volvo Group cash and cash equivalents amounted to a negative SEK 11.9 billion.

#### Shandong Lingong Construction Machinery Co.

In January 2007, the acquisition of 70% of the shares in the Chinese manufacturer of construction equipment, Shandong Lingong Construction Machinery Co. (Lingong), was completed, after having obtained all the requisite approvals from the Chinese authorities. Lingong is China's third-largest manufacturer of wheel-loaders, with an extensive dealership network in the country. Volvo Construction Equipment paid CNY 328 M, corresponding to slightly more than 300, for 70% of the shares in Lingong. The transaction had a limited effect on Volvo's financial position. In the fourth quarter 2008, Volvo increased its holdings to 85% by a shareholder's contribution.

#### Other divestment and acquisitions

During the fourth quarter 2007, Volvo Aero acquired the composite company Applied Composites AB, ACAB, as a part of the investment in lightweight technologies. The transaction had a limited impact on the Volvo Group.

During the second quarter 2007, Volvo divested its ownership in U.S. truck stop chain Petro Stopping Centers Holding L.P. and the former subsidiary Sörred Energi. The two transactions resulted in a total capital gain of 516.

In addition to this, only a few dealerships were acquired or divested during 2007. These transactions did not have a material impact on the Volvo Group.

## Notes to consolidated financial statements

### Acquisitions

The effects on the Volvo Group's balance sheet and cash flow statement in connection with the acquisition of subsidiaries and other business units are specified in the following table based on valuations on the respective acquisition dates:

	2007	2008
<b>Intangible assets</b>		
Product development	3,356	201
Trademarks	2,587	0
Distribution network	803	302
Other intangible assets	107	82
<b>Other assets and liabilities</b>		
Property plant and equipment	11,226	898
Shares and participations	939	(113)
Inventories	4,885	278
Current receivables	7,205	186
Liquid funds	2,090	819
Other assets	6,285	261
Provisions	(6,215)	(284)
Loans	(12,099)	(347)
Other liabilities	(8,909)	(499)
Minority interests	(179)	95
	12,081	1,879
Goodwill	11,418	1,028
<b>Total net assets</b>	<b>23,499</b>	<b>2,907</b>
Less: minority interests	(82)	-
<b>Total acquired net assets</b>	<b>23,417</b>	<b>2,907</b>
Cash and cash equivalents paid	(22,957)	(2,672)
Cash and cash equivalents according to acquisition analysis	2,090	819
<b>Effect on Group cash and cash equivalents in the period<sup>1</sup></b>	<b>(20,867)</b>	<b>(1,853)</b>
Cash to be paid	(460)	0
<b>Effect on Group cash and cash equivalents</b>	<b>(21,327)</b>	<b>(1,853)</b>

The purchase price allocations for acquisitions made during 2008 are preliminary and are expected to be finalized within 12 months from the acquisition date

<sup>1</sup> Whereof the effect on the consolidated cash flow during 2007 amounts to SEK 15.4 billion.

### Acquisitions after the end of the period

Volvo has not made any acquisitions after the end of the period that have had a significant impact on the Volvo Group.

### Divestments

The effects on the Volvo Group's balance sheet and cash-flow statement in connection with the divestment of subsidiaries and other business units are specified in the following table:

	2007	2008
<b>Divestments</b>		
Intangible assets	-	(3)
Property, plant and equipment	(96)	(445)
Assets under operating lease	(11)	0
Inventories	(79)	(513)
Other receivables	(48)	(90)
Cash and cash equivalents	0	(41)
Provisions	17	21
Other liabilities	42	644
<b>Divested net assets</b>	<b>(175)</b>	<b>(427)</b>
Cash and cash equivalents received	408	577
Cash and cash equivalents, divested companies	0	(41)
<b>Effect on Group cash and cash equivalents</b>	<b>408</b>	<b>536</b>

### Non-Current Assets Held for Sale

Volvo Group reports no non-current assets held for sale for the financial year 2008 or the comparison year 2007.

## Note 5 Joint ventures

Joint ventures are companies over which Volvo has joint control together with one or more external parties. Joint ventures are reported by applying the proportionate consolidation method, in accordance with IAS 31 Joint ventures. Group holdings of shares in joint ventures are listed below.

	Dec 31, 2008
	Holding percentage
<b>Shares in joint ventures</b>	
Shanghai Sunwin Bus Corp., China	50
Xian Silver Bus Corp., China	50
Dong Feng Nissan Diesel Motor Co., Ltd., China	50
VE Commercial Vehicles, Ltd., India	50

Dong Feng Nissan Diesel Motor Co., Ltd. consolidated according to the proportionate method from July 1, 2008. The direct and indirect ownership in VE Commercial Vehicles, Ltd. is consolidated from August 1, 2008.

<b>Volvo's share of joint ventures' income statements</b>	2007	2008
Net sales	654	1,326
Operating income	3	(71)
Income after financial items	(3)	(60)
Income taxes	-	14
<b>Income of the period</b>	<b>(3)</b>	<b>(46)</b>

<b>Volvo's share of joint ventures' balance sheets</b>	2007	2008
Non-current assets	121	2,207
Current assets	454	1,794
<b>Total assets</b>	<b>575</b>	<b>4,001</b>
Shareholders' equity	167	2,681
Provisions	12	304
Long-term liabilities	2	78
Current liabilities	394	938
<b>Total shareholders' equity and liabilities</b>	<b>575</b>	<b>4,001</b>

At the end of 2008 guarantees amounting to 110 (88) were issued for the benefit of joint ventures by AB Volvo. At the same date Volvo's share of contingent liabilities issued by its joint ventures amounted to 5 (0).

<b>Average number of employees</b>	2007		2008	
	Number of employees	of which women, %	Number of employees	of which women, %
Shanghai Sunwin Bus Corp.	473	21	470	21
Xian Silver Bus Corp.	245	8	212	17
Dong Feng Nissan Diesel Motor Co., Ltd.	-	-	142	12
VE Commercial Vehicles, Ltd.	-	-	765	2
<b>Total number of employees</b>	<b>718</b>	<b>17</b>	<b>1,589</b>	<b>11</b>

## Note 6 Associated companies

The following table presents summarized financial information for the associated companies partly owned by Volvo. Volvo consolidates the associated companies according to the equity method. For more information about Volvo's shareholding, see notes 9 and 15.

<b>Income statement data</b>	2007	2008
Net sales	7,401	6,479
Cost of sales	(7,293)	(6,439)
Financial income and expense	(18)	(22)
<b>Income before taxes</b>	<b>90</b>	<b>18</b>
Income taxes	(24)	(6)
<b>Income of the period</b>	<b>66</b>	<b>12</b>

<b>Balance sheet data</b>	Dec 31, 2007	Dec 31, 2008
Property, plant and equipment, net	1,460	1,474
Other non-current assets	130	198
Current assets	4,904	5,147
<b>Total Assets</b>	<b>6,494</b>	<b>6,819</b>
Shareholders' equity	1,462	1,525
Provisions	44	59
Long-term liabilities	236	160
Current liabilities	4,752	5,075
<b>Total Shareholders' equity and liabilities</b>	<b>6,494</b>	<b>6,819</b>

## Notes to consolidated financial statements

### Note **7** Segment reporting

#### Reporting by business segment

The Volvo Group's operations are organized in nine business areas: Volvo Trucks, Renault Trucks, Mack Trucks, Trucks Asia, Buses, Construction Equipment, Volvo Penta, Volvo Aero and Customer Finance. In addition to the nine business areas, there are other operations consisting mainly of business units that are designed to support the business areas' operations. The business units include Volvo Powertrain, Volvo 3P, Volvo IT, Volvo Logistics and Volvo Parts. As the four truck brands share product development, production and other activities in business units such as Volvo 3P and Volvo Powertrain and also share certain infrastructure in distribution such as dealers, the four truck brands are reported as one business segment. The Volvo Group is thus reported divided in six segments where net sales and operating income are reported for each product area.

Each business area, except for Customer Finance, has total responsibility for its operating income, operating capital and operating cash flow. Volvo Financial Services within Customer Finance has responsi-

bility for its net income and total balance sheet within certain restrictions and principles that are established centrally. The supervision and coordination of treasury and tax matters is organized centrally to obtain the benefits of a Group-wide approach. The legal structure of the Volvo Group is based on optimal handling of treasury, tax and administrative matters and, accordingly, differs from the operating structure.

The business units are designated to support the business areas and are therefore not reportable business segments. As from January 1, 2007, the results from the synergies created in the business units are transferred back to the various product areas. The allocation is based on the degree to which individual product areas have utilized the services of the business units. The heading Other contains mainly earnings linked to corporate functions including the Group's treasury operations. The Group's real estate, held in Volvo Real Estate, is reported under industrial operations, and earnings are transferred back to the business areas.

<b>Net sales</b>	2007	2008
Trucks	187,892	203,235
Construction Equipment	53,633	56,079
Buses	16,608	17,312
Volvo Penta	11,719	11,433
Volvo Aero	7,646	7,448
Other and eliminations	(703)	(575)
<b>Industrial operations</b>	<b>276,795</b>	<b>294,932</b>

Customer Finance	7,705	8,485
Reclassifications and eliminations	905	250
<b>Volvo Group</b>	<b>285,405</b>	<b>303,667</b>

The above sales figures include internal sales in the following amounts:

<b>Net sales to Group companies</b>	2007	2008
Trucks	1,584	1,830
Construction Equipment	247	483
Buses	549	447
Volvo Penta	41	73
Volvo Aero	93	35
Other and eliminations	(1,261)	(976)
<b>Industrial operations</b>	<b>1,253</b>	<b>1,892</b>

Customer Finance	383	376
Eliminations	(1,636)	(2,268)
<b>Volvo Group</b>	<b>0</b>	<b>0</b>

Internal sales between business areas are generally made at standard cost of sales, including calculated interest and product improvement expenses. Internal sales from service companies are generally made at market prices.

<b>Operating income</b>	2007	2008
Trucks	15,193	12,167
Construction equipment	4,218	1,808
Buses	231	(76)
Volvo Penta	1,173	928
Volvo Aero	529	359
Other	(761)	(732)
<b>Industrial operations</b>	<b>20,583</b>	<b>14,454</b>

Customer Finance	1,649	1,397
<b>Volvo Group</b>	<b>22,231</b>	<b>15,851</b>

<b>Depreciation and amortization</b>	2007	2008
Trucks	7,601	8,575
Construction Equipment	1,502	1,927
Buses	385	393
Volvo Penta	417	454
Volvo Aero	346	387
Other	(465)	(707)
<b>Industrial operations</b>	<b>9,786</b>	<b>11,029</b>

Customer Finance	147	86
Reclassification Group versus segment Customer Finance	2,541	2,409
<b>Volvo Group total<sup>1</sup></b>	<b>12,474</b>	<b>13,524</b>

1 Of which write-down 57 (0).

<b>Research and development expenses</b>	2007	2008
Trucks	7,799	10,253
Construction Equipment	1,588	2,134
Buses	739	953
Volvo Penta	645	695
Volvo Aero	290	269
Other	(2)	44
<b>Volvo Group total</b>	<b>11,059</b>	<b>14,348</b>

<b>Income from investments in associated companies</b>	2007	2008
Trucks	403	40
Construction Equipment	0	0
Buses	11	8
Volvo Penta	0	0
Volvo Aero	0	0
Other	14	(25)
<b>Industrial operations</b>	<b>428</b>	<b>23</b>
Customer Finance	2	2
<b>Volvo Group total</b>	<b>430</b>	<b>25</b>

<b>Total assets</b>	2007	2008
Operating assets, Industrial operations: <sup>1</sup>		
Trucks	116,599	140,225
Construction Equipment	42,693	47,914
Buses	11,477	12,073
Volvo Penta	5,973	6,222
Volvo Aero	10,177	11,973
Other	1,405	1,831

<b>Total operating assets</b>	2007	2008
<b>Industrial operations</b>	<b>188,324</b>	<b>220,238</b>
Interest-bearing financial assets	43,727	28,631
Tax receivables	10,094	12,725
Total assets in Customer Finance	94,605	117,521
Other and eliminations	(15,103)	(6,696)
<b>Volvo Group total</b>	<b>321,647</b>	<b>372,419</b>

1 Defined as Total assets less Interest-bearing financial assets and Tax receivables.

## Notes to consolidated financial statements

<b>Total shareholders' equity and liabilities</b>	2007	2008
Operating liabilities, Industrial operations: <sup>1</sup>		
Trucks	77,975	85,366
Construction Equipment	18,310	18,137
Buses	6,072	6,531
Volvo Penta	3,254	3,517
Volvo Aero	4,137	4,975
Other	372	869
<b>Total operating liabilities</b>		
<b>Industrial operations</b>	<b>110,120</b>	<b>119,395</b>
Financial liabilities	48,032	58,426
Tax liabilities	8,519	8,242
Total liabilities in Customer Finance	86,953	107,927
Other and eliminations	(14,758)	(6,211)
<b>Total liabilities</b>	<b>238,866</b>	<b>287,779</b>
Shareholders' equity	82,781	84,640
<b>Volvo Group total</b>	<b>321,647</b>	<b>372,419</b>

<sup>1</sup> Defined as Total liabilities less Shareholders' equity, Financial liabilities and Tax liabilities.

<b>Investments in associated companies</b>	2007	2008
Trucks	292	266
Construction Equipment	-	-
Buses	55	64
Volvo Penta	-	-
Volvo Aero	1	1
Customer Finance	25	18
Other	284	303
<b>Volvo Group total</b>	<b>657</b>	<b>652</b>

<b>Capital expenditures</b>	2007	2008
Trucks	5,816	7,998
Construction Equipment	2,795	2,503
Buses	405	386
Volvo Penta	510	656
Volvo Aero	824	1,304
Other	31	359
<b>Industrial operations</b>	<b>10,381</b>	<b>13,206</b>
Customer Finance	291	246
Reclassification Group versus segment Customer Finance	4,266	4,840
<b>Volvo Group total</b>	<b>14,938</b>	<b>18,292</b>

### Reporting by geographical segment

<b>Net sales</b>	2007	2008
Europe	158,019	158,857
North America	50,651	48,514
South America	16,237	20,301
Asia	42,513	55,797
Other markets	17,985	20,198
<b>Volvo Group total*</b>	<b>285,405</b>	<b>303,667</b>

\*of which:

Sweden	13,987	13,855
United States	39,697	36,681
France	31,327	33,707

<b>Total assets</b>	2007	2008
Sweden	76,832	77,591
Europe excluding Sweden	110,806	129,325
North America	61,218	71,007
South America	13,521	15,704
Asia	51,879	70,439
Other markets	7,391	8,353
<b>Volvo Group total</b>	<b>321,647</b>	<b>372,419</b>

<b>Capital expenditures</b>	2007	2008
Sweden	3,444	5,358
Europe excluding Sweden	6,991	9,071
North America	2,806	2,147
South America	220	182
Asia	1,365	1,264
Other markets	112	270
<b>Volvo Group total</b>	<b>14,938</b>	<b>18,292</b>

## Note 8 Other operating income and expenses

	2007	2008
Gains/losses on currency related forward and options contracts	587	(1,375)
Exchange rate differences on trade receivables and payables	(38)	999
Gains/losses on divestment of group companies	324	471
Change in allowances and write-offs for doubtful receivables, customer financing	(121)	(484)
Change in allowances and write-offs for doubtful receivables, other	18	(282)
Expenses for closing Volvo operations in Bromma, Sweden	(62)	-
Damages and litigations	(61)	(269)
Restructuring cost	(44)	(554)
Volvo profit sharing program	(436)	(109)
Other income and expenses	(4)	(312)
<b>Total</b>	<b>163</b>	<b>(1,915)</b>

## Note 9 Income from investments in associated companies

Income from investments in associated companies are specified below:

Income/loss	2007	2008
Nissan Diesel Niigata Sales Co	-	13
JV Fonderie Venissieux	7	10
Merkavim Metal Works Ltd	11	8
Thomas Hardie Commercials Ltd	3	0
Nissan Diesel to April 1, 2007	76	-
Other companies	11	(16)
<b>Subtotal</b>	<b>108</b>	<b>15</b>
<b>Revaluation and write-down of shares</b>		
Other companies	(3)	0
<b>Subtotal</b>	<b>(3)</b>	<b>0</b>
<b>Gains (losses) on divestment of shares in associated companies</b>		
Petro Stopping Centers Holdings LP	325	10
<b>Subtotal</b>	<b>325</b>	<b>10</b>
<b>Total income (loss) from investments in associated companies</b>	<b>430</b>	<b>25</b>

## Note 10 Income from other investments

	2007	2008
<b>Dividends received</b>		
Deutz AG	0	30
Holdings of Nissan Diesel	8	12
Other	5	15
<b>Subtotal</b>	<b>13</b>	<b>57</b>
<b>Revaluation and write-downs of shares</b>		
Vindic Holding AB	-	(20)
Holdings of Volvo Technology Transfer <sup>1</sup>	(11)	(4)
Other	(2)	(9)
<b>Subtotal</b>	<b>(13)</b>	<b>(33)</b>
<b>Gain on divestment of shares</b>		
Volverinvest AB	-	23
Holdings of Volvo Technology Transfer <sup>1</sup>	44	17
Småföretagarinvest	46	-
Other	3	5
<b>Subtotal</b>	<b>93</b>	<b>45</b>
<b>Total</b>	<b>93</b>	<b>69</b>

<sup>1</sup> A Volvo venture-capital company.

## Note 11 Other financial income and expenses

SEK M	2007	2008
Financial instruments at fair value through profit or loss	(389)	(1,027)
Exchange rate gains and losses on financial assets and liabilities	(15)	(12)
Financial income and expenses related to taxes	(42)	24
Costs for Treasury function, credit facilities, etc	(58)	(62)
<b>Total</b>	<b>(504)</b>	<b>(1,077)</b>

For further information regarding financial instruments please see note 37.

## Notes to consolidated financial statements

### Note 12 Income taxes

Income taxes were distributed as follows:

	2007	2008
Current taxes relating to the period	(5,203)	(4,349)
Adjustment of current taxes for prior periods	(20)	(45)
Deferred taxes originated or reversed during the period	(1,548)	352
Recognition and derecognition of deferred tax assets	242	48
<b>Total income taxes</b>	<b>(6,529)</b>	<b>(3,994)</b>

Provisions have been made for estimated tax charges that may arise as a result of prior tax audits in the Volvo Group. Volvo evaluates tax processes on a regular basis and makes provisions for possible outcome when it is probable that Volvo will have to pay more taxes and when it is possible to make a reasonable assessment of the possible outcome. Tax claims for which no provision has been deemed necessary were reported as contingent liabilities.

Deferred taxes relate to income taxes payable or recoverable in future periods in respect of taxable temporary differences, deductible temporary differences, unused tax loss carryforwards or unused tax credit carryforwards. Deferred tax assets are recognized to the extent that it is probable that the amount can be utilized against future taxable income. At December 31, 2008, the valuation allowance attributable to deductible temporary differences, unused tax loss carryforwards and unused tax credit carryforwards for which no deferred tax asset was recognized amounted to 245 (156).

Deferred taxes of 899 (neg 70) have at December 31, 2008, been accounted for as a direct increase of equity. It is related to fair value of derivative instruments.

At year-end 2008, the Group had unused tax loss carryforwards amounting to 5,600 (3,900). These loss carryforwards expire according to the adjoining table.

Due date	2007	2008
Within 1 year	500	100
Within 2 years	200	100
Within 3 years	0	400
Within 4 years	100	100
Within 5 years	100	100
After 6 years	3,000	4,800
<b>Total</b>	<b>3,900</b>	<b>5,600</b>

The Swedish corporate income tax rate is 28%. The table below shows the principal reasons for the difference between this rate and the Group's tax rate, based on income after financial items.

	2007, %	2008, %
Swedish corporate income tax rates	28	28
Difference in tax rate in various countries	4	4
Capital gains	0	(1)
Other non-taxable income	(2)	0
Other non-deductible expenses	1	0
Adjustment of current taxes for prior years	(1)	0
Recognition and derecognition of deferred tax assets	(1)	0
Other, net	1	(2)
<b>Income tax rate for the Group</b>	<b>30</b>	<b>29</b>

**Specification of deferred tax assets and tax liabilities**

	2007	2008
Deferred tax assets:		
Unused tax loss carryforwards	1,257	1,839
Other unused tax credits	97	100
Intercompany profit in inventories	666	810
Valuation allowance for doubtful receivables	589	689
Provisions for warranties	1,510	1,596
Provisions for residual value risks	371	407
Provisions for post-employment benefits	2,876	3,197
Provisions for restructuring measures	23	123
Adjustment to fair value at company acquisitions	1,782	13
Fair value of derivative instruments	127	1,108
Other deductible temporary differences	3,066	6,366
<b>Deferred tax assets before deduction for valuation allowance</b>	<b>12,364</b>	<b>16,248</b>
Valuation allowance	(156)	(245)
<b>Deferred tax assets after deduction for valuation allowance</b>	<b>12,208</b>	<b>16,003</b>

	2007	2008
Deferred tax liabilities:		
Accelerated depreciation on property, plant and equipment	2,660	3,885
Accelerated depreciation on leasing assets	1,368	1,902
LIFO valuation of inventories	185	263
Capitalized product and software development	2,021	4,244
Adjustment to fair value at company acquisitions	2,885	503
Untaxed reserves	1,008	300
Fair value of derivative instruments	197	26
Other taxable temporary differences	2,228	1,960
<b>Deferred tax liabilities</b>	<b>12,552</b>	<b>13,083</b>
<b>Deferred tax assets/liabilities, net<sup>1</sup></b>	<b>(344)</b>	<b>2,920</b>

1 Deferred taxes are partially recognized in the balance sheet on a net basis after taking into account offsetting possibilities. Changes in tax rates during 2008 and 2009 have been considered when measuring deferred tax assets and deferred tax liabilities and have affected the income tax cost of the year. Deferred tax assets and liabilities have been measured to the tax rates that are expected to apply to the period when the asset is realized or the liability is settled. Changes in tax rates are mostly related to Sweden, and has had a positive effect of about 200.

The cumulative amount of undistributed earnings in foreign subsidiaries, which Volvo currently intends to indefinitely reinvest outside of Sweden and upon which deferred income taxes have not been provided is approximately SEK 45 billion (43) at year end. There are different taxation rules depending on country, in some countries dividends are not taxable and in some countries there are withholding taxes. See note 36 how Volvo handles equity currency risk.

## Note 13 Minority interests

Minority interests in income (loss) for the period and in shareholders' equity consisted mainly of the minority interests in Volvo Aero Norge A/S (22%), in Wuxi da Hao Power Co, Ltd (30%), in Berliet Maroc S.A (30%), in Shandong Lingong Construction Machinery Co, Ltd (15%) as well as in Nissan Diesel South Africa (Pty) Ltd (20%).

## Note 14 Intangible and tangible assets

	Goodwill <sup>1</sup>	Entrance fees, industrial programs	Product and software development	Other intangible assets	Total intangible assets
<b>Intangible assets, acquisition costs</b>					
Value in balance sheet 2007	19,969	3,168	19,123	5,387	<b>47,647</b>
Capital expenditures	0	399	2,150	326	<b>2,875</b>
Sales/scraping	0	0	(549)	(14)	<b>(563)</b>
Acquired and divested operations <sup>3</sup>	1,028	0	185	381	<b>1,594</b>
Translation differences	3,634	2	2,386	1,287	<b>7,309</b>
Reclassifications and other	182	0	(5)	(380)	<b>(203)</b>
<b>Value in balance sheet 2008</b>	<b>24,813</b>	<b>3,569</b>	<b>23,290</b>	<b>6,987</b>	<b>58,659</b>

## Notes to consolidated financial statements

<b>Accumulated depreciation and amortization</b>	Goodwill	Entrance fees, industrial programs	Product and software development	Other intangible assets	<b>Total intangible assets</b>
Value in balance sheet 2007	-	1,639	7,954	1,546	<b>11,139</b>
Depreciation and amortization	-	60	2,864	362	<b>3,286</b>
Write-downs	-	-	-	-	-
Sales/scraping	-	0	(547)	(12)	<b>(559)</b>
Acquired and divested operations <sup>3</sup>	-	0	(16)	0	<b>(16)</b>
Translation differences	-	0	633	209	<b>842</b>
Reclassifications and other	-	0	21	(12)	<b>9</b>
<b>Value in balance sheet 2008</b>	<b>0</b>	<b>1,699</b>	<b>10,909</b>	<b>2,093</b>	<b>14,701</b>
<b>Net carrying value in balance sheet 2008<sup>4</sup></b>	<b>24,813</b>	<b>1,870</b>	<b>12,381</b>	<b>4,894</b>	<b>43,958</b>

<b>Tangible assets, acquisition costs</b>	Buildings	Land and land improvements	Machinery and equipment <sup>2</sup>	Construction in progress, including advance payments	<b>Total investment property, plant and equipment</b>	Assets under operating leases	<b>Total tangible assets</b>
Value in balance sheet 2007	25,903	9,544	58,992	3,166	<b>97,605</b>	32,975	<b>130,580</b>
Capital expenditures	1,504	328	4,410	3,735	<b>9,977</b>	5,440	<b>15,417</b>
Sales/scraping	(319)	(118)	(2,567)	(3)	<b>(3,007)</b>	(5,397)	<b>(8,404)</b>
Acquired and divested operations <sup>3</sup>	66	196	532	(239)	<b>555</b>	0	<b>555</b>
Translation differences	4,218	2,603	8,055	297	<b>15,173</b>	3,359	<b>18,532</b>
Reclassifications and other	525	148	(278)	(1,609)	<b>(1,214)</b>	1,205	<b>(9)</b>
<b>Value in balance sheet 2008</b>	<b>31,897</b>	<b>12,701</b>	<b>69,144</b>	<b>5,347</b>	<b>119,089</b>	<b>37,582</b>	<b>156,671</b>

<b>Accumulated depreciation and amortization</b>	Buildings	Land and land improvements	Machinery and equipment <sup>2</sup>	Construction in progress, including advance payments	<b>Total investment property, plant and equipment</b>	Assets under operating leases	<b>Total tangible assets</b>
Value in balance sheet 2007	11,831	559	38,005	-	<b>50,395</b>	10,473	<b>60,868</b>
Depreciation and amortization <sup>5</sup>	983	65	4,670	-	<b>5,718</b>	4,520	<b>10,238</b>
Sales/scraping	(192)	(8)	(2,288)	-	<b>(2,488)</b>	(2,993)	<b>(5,481)</b>
Acquired and divested operations <sup>3</sup>	(13)	0	115	-	<b>102</b>	0	<b>102</b>
Translation differences	2,270	50	5,994	-	<b>8,314</b>	1,158	<b>9,472</b>
Reclassifications and other	(75)	5	(152)	-	<b>(222)</b>	(1,005)	<b>(1,227)</b>
<b>Value in balance sheet 2008</b>	<b>14,804</b>	<b>671</b>	<b>46,344</b>	<b>-</b>	<b>61,819</b>	<b>12,153</b>	<b>73,972</b>
<b>Net carrying value in balance sheet 2008<sup>4</sup></b>	<b>17,093</b>	<b>12,030</b>	<b>22,800</b>	<b>5,347</b>	<b>57,270</b>	<b>25,429</b>	<b>82,699</b>

1 Includes on the date of IFRS adoption, acquisition costs of 14,184 and accumulated amortization of 3,863.

2 Machinery and equipment pertains mainly to production equipment.

3 Includes subsidiaries and joint ventures that previously were accounted for according to the equity method.

4 Acquisition costs less accumulated depreciation, amortization and write-downs. 5 Of which write-down 57 (0).

"Reclassifications and other" mainly consist of "assets under operating leases" related to legal sales transactions, where revenue is deferred and accounted for as operating lease revenue. Assets classified as inventory will, when the operating lease model is applied for revenue recognition, be reclassified from "inventory" to "assets under operating leases", when the legal sales transaction occurs. If the product is returned after the lease period, there will again be a reclassifica-

tion from "assets under operating leases" to "inventory". When a buy-back agreement has expired, but the related product is not returned, the acquisition cost and the accumulated depreciation are reversed in "reclassification and other", within the line item "assets under operating leases". Some of the reclassifications within tangible assets relate to construction in progress, which are reclassified to the respective category within property, plant and equipment.

<b>Depreciation and amortization by type of asset</b>	2007	2008
Intangible assets	2,719	3,286
Property, plant and equipment	5,385	5,718
Assets under operating leases	4,370	4,520
<b>Total</b>	<b>12,474</b>	<b>13,524</b>

<b>Capital expenditures by type of asset</b>	2007	2008
Intangible assets	2,202	2,875
Property, plant and equipment	7,936	9,977
Assets under operating leases	4,800	5,440
<b>Total</b>	<b>14,938</b>	<b>18,292</b>

### Goodwill

Volvo verifies annually, or more frequently if necessary, the value of its operations to secure that they do not fall below the carrying value. If impairment is detected the carrying value, in the first place goodwill, has to be written down. Volvo's evaluation model is based on a discounted cash-flow model, with a forecast period of mainly four years. Evaluation is made on cash-generating units, identified as Volvo's business areas.

Goodwill assets are allocated to these cash-generating units on the basis of anticipated future utility. The evaluation is based on management's best estimation of the operations' development and has been performed with prudence due to the current financial environment. The basis for this estimation is long-term forecasts of the market's growth, two to four percent, in relation to the development of Volvo's operations. In the model, Volvo is expected to maintain stable capital efficiency over time. The evaluation is made on nominal values and the general rate of inflation, in line with the European target, is used. Volvo uses a discounting factor calculated to 12% before tax for 2008.

During 2008, the value of Volvo's operations has exceeded the carrying value of goodwill for all business areas, and accordingly, no impairment have been recognized. However, the positive margins in

the evaluation tests have decreased for some business areas, which make them, to a varying degree, sensitive to changes in the assumptions described above. Consequently, Volvo follows continuously the development of the business areas whose overvalue is dependent on the fulfilment of Volvo's assessments. A continued financial turmoil and volatility in interest and currency rates could lead to indications of impairment for some business areas in the forthcoming periods, which would require goodwill valuation tests to be performed as long as indications remain and could have a negative impact on the operating income for those areas.

The most important factors for the future operations of Volvo, are described on the Volvo business areas, as well as in the Risk management section.

<b>Goodwill per Business Area</b>	2007	2008
Volvo Trucks	4,307	4,356
Renault Trucks	2,331	2,723
Trucks Asia	3,397	6,243
Mack Trucks	824	985
Construction Equipment	7,592	9,007
Buses	1,148	1,124
Other business areas	370	375
<b>Total goodwill value</b>	<b>19,969</b>	<b>24,813</b>

### Investment property

Investment property is property owned for the purpose of obtaining rental income and/or appreciation in value. The acquisition cost of investment property was 1,603 (1,755) at year-end. Capital expenditures during 2008 amounted to 99 (80). Accumulated depreciation was 582 (599) at year-end, whereof 50 (57) during 2008. The estimated fair value of investment property was SEK 1.9 billion (2.0) at year-end, based on the yield. The required return is based on current property market conditions for comparable properties in comparable locations. All investment properties were leased out during the year. Net income for the year was affected by 275 (295) in rental income from investment properties and 50 (50) in direct costs.

## Notes to consolidated financial statements

### Note **15** Shares and participations

<b>Group holdings of shares and participations in non-Group companies</b>	Registration number	Percentage holding	Dec 31, 2007 Carrying value	Dec 31, 2008 Carrying value
<b>Shares in associated companies, equity method of accounting</b>				
Blue Chip Jet II HB, Sweden	969717-2105	50	266	286
Nissan Diesel Doto Sales Co.,Ltd., Japan	-	38	57	88
Nissan Diesel Niigata Sales Co.,Ltd., Japan	-	50	42	82
Merkavim Metal Works Ltd, Israel	-	27	46	54
JV Fonderie Venissieux, France	-	49	25	38
PK-UD Axle Co.,Ltd. (HangZhou), China	-	45	20	21
Diamond Finance Ltd, USA	-	40	25	18
Blue Chip Jet HB, Sweden	969639-1011	40	19	17
Thomas Hardie Commercials Ltd, Great Britain	-	24	15	13
Quingdao Sunwin Bus Corp, China	-	21	9	9
Arabian Vehicle & Truck Industry Ltd, Saudi Arabia	-	25	9	9
Dong Feng Nissan Diesel Motor Co.,Ltd., China	-	-	116	-
Other holdings	-	-	8	17
<b>Total shares and participations in associated companies<sup>1</sup></b>			<b>657</b>	<b>652</b>
<b>Shares and participations in other companies</b>				
Deutz AG, Germany	-	7	536	212
Nippon Express Co.,Ltd., Japan	-	1	140	138
Nippon Railroad Co Ltd, Japan	-	-	36	57
Sankyu Inc., Japan	-	1	60	48
Iron Planet.com Inc., USA	-	4	34	34
TBK Co.,Ltd., Japan	-	7	68	25
Vantage Equipment. LLC, USA	-	16	16	19
Scott Van Keppel, USA	-	40	13	16
Other holdings	-	-	659	752
<b>Total shares and participations in other companies<sup>1</sup></b>			<b>1,562</b>	<b>1,301</b>
<b>Total value of Group holdings of shares and participations in non-Group companies</b>			<b>2,219</b>	<b>1,953</b>

<sup>1</sup> Volvo's share of shareholders' equity in associated companies (incl. equity in untaxed reserves) amounted to 652 (657). Excess values amounted to 0 (54).

The carrying values of Volvo's holdings of shares and participations in listed companies as of December 31, 2008 are shown in the table below. Carrying values are equal to market values for holdings in listed companies.

	Carrying value
Deutz AG	212
Nippon Express Co.,Ltd., Japan	138
TBK Co.,Ltd., Japan	25
Sankyu Inc., Japan	48
Nishi-Nippon Railroad Co.,Ltd., Japan	57
Nippon Konpo Unyu Soko Co.,Ltd.	25
Fukuyama Transporting Co.,Ltd., Japan	16
Senko Co.,Ltd, Japan	42
Tonami Transportation Co.,Ltd., Japan	21
Yamato Holdings Co.,Ltd., Japan	21
Holdings in other listed companies	56
<b>Total holdings in listed companies</b>	<b>661</b>
Holdings in non-listed companies <sup>1</sup>	640
<b>Total shares and participations in other companies</b>	<b>1,301</b>

<sup>1</sup> Unlisted shares, for which a reliable fair value cannot be determined, are reported at the acquisition value reduced in appropriate cases by write-downs.

**Dong Feng Nissan Diesel Motor Co., Ltd**

The company is consolidated in the Volvo Group according to the proportionate method as from July 1, 2008.

**Petro Stopping Centers**

Volvo's holdings in the company were divested in 2007.

**Småföretagarinvest AB**

Volvo's holdings in the company were divested in 2007.

**Nissan Diesel**

Nissan Diesel is consolidated in the Volvo Group as of the first quarter of 2007.

<b>Changes in the Volvo Group's holdings of shares and participations:</b>	2007	2008
Balance sheet, December 31, preceding year	6,890	2,219
Change in Group structure	(5,535)	(88)
Acquisitions and divestments, net	907	16
Net of write-downs/revaluations	(15)	(33)
Capital contribution	155	56
Share of income in associated companies	108	15
Revaluation of shares to fair value	(204)	(546)
Translation differences	(39)	325
Dividends	0	(7)
Other	(48)	(4)
<b>Balance sheet, December 31</b>	<b>2,219</b>	<b>1,953</b>

## Note 16 Long-term customer-financing receivables

	2007	2008
Installment credits	19,836	23,029
Financial leasing	20,298	26,874
Other receivables	352	529
<b>Total</b>	<b>40,486</b>	<b>50,432</b>

Effective interest rate for Long-term customer-financing receivables was 7.20% as per December 31, 2008.

Long-term customer-financing receivables maturities	
2010	20,643
2011	15,653
2012	9,243
2013	3,552
2014 or later	1,341
<b>Total</b>	<b>50,432</b>

See notes 36 and 37 for financial instruments and goals and policies in financial risk management.

## Notes to consolidated financial statements

### Note 17 Other long-term receivables

	2007	2008
Other loans to external parties	177	219
Prepaid pensions	2,131	2,442
Other financial receivables	1,088	1,857
Other receivables	1,383	1,641
<b>Total</b>	<b>4,779</b>	<b>6,159</b>

### Note 18 Inventories

	2007	2008
Finished products	28,077	39,137
Production materials, etc.	15,568	15,908
<b>Total</b>	<b>43,645</b>	<b>55,045</b>

Inventories recognized as cost of sale during the period amounted to 223,986 (204,881).

<b>Increase (decrease) in allowance for inventory obsolescence</b>	2007	2008
Balance sheet, December 31, preceding year	2,015	2,837
Increase in allowance for inventory obsolescence charged to income	757	1,229
Scrapping	(239)	(325)
Translation differences	2	305
Reclassifications, etc. <sup>1</sup>	302	(524)
<b>Balance sheet, December 31</b>	<b>2,837</b>	<b>3,522</b>

1 (567) is related to reversal of the allowance for inventory obsolescence in Volvo Aero's operations in Bromma during 2008.

### Note 19 Short-term customer-financing receivables

	2007	2008
Installment credits	13,620	16,747
Financial leasing	10,494	14,324
Dealer financing	13,191	16,135
Other receivables	1,056	851
<b>Total</b>	<b>38,361</b>	<b>48,057</b>

Effective interest rate for Short-term customer-financing receivables was 6.89% as per December 31, 2008.

See notes 36 and 37 for financial instruments and goals and policies in financial risk management.

## Note 20 Other short-term receivables

	2007	2008
Accounts receivable	30,504	30,523
Prepaid expenses and accrued income	2,855	3,032
VAT receivables	2,884	3,348
Loans to external parties	403	121
Other financial receivables <sup>1</sup>	2,903	4,791
Other receivables	4,868	5,697
<b>Total, after deduction of valuation allowances for doubtful accounts receivable</b>	<b>44,417</b>	<b>47,512</b>

<sup>1</sup> Fair value financial derivatives.

<b>Change of valuation allowances for doubtful accounts receivable</b>	2007	2008
Balance sheet, December 31, preceding year	939	923
New valuation allowance charged to income	152	357
Reversal of valuation allowance charged to income	(231)	(149)
Utilization of valuation allowance related to actual losses	(70)	(172)
Acquired and divested operations	114	3
Translation differences	16	287
Reclassifications, etc.	3	500
<b>Balance sheet, December 31</b>	<b>923</b>	<b>1,749</b>

See notes 36 and 37 for financial instruments and goals and policies in financial risk management.

## Note 21 Marketable securities

Marketable securities consist mainly of interest-bearing securities, distributed as shown below:

	2007	2008
Government securities	778	298
Banks and financial institutions	6,293	504
Real estate financial institutions	9,419	5,100
<b>Total</b>	<b>16,490</b>	<b>5,902</b>

## Note 22 Cash and cash equivalents

	2007	2008
Cash in banks	10,262	10,889
Time deposits in banks	4,282	6,823
<b>Total</b>	<b>14,544</b>	<b>17,712</b>

Cash and cash equivalents at December 31, 2008, include SEK 0.7 billion restricted for use by the Volvo Group and SEK 2.7 billion that are liquid funds in countries where exchange controls or other legal restrictions apply.

## Note 23 Shareholders' equity

The share capital of the Parent Company is divided into two series of shares, A and B. Both series carry the same rights, except that each Series A share carries the right to one vote and each Series B share carries the right to one tenth of a vote. The shares quota value is SEK 1.20.

At the end of 2006 share capital amounted to 2,554 and was based on 425,684,044 registered shares. During 2007, following a decision at the Annual General Meeting, a 6:1 share split with automatic redemption was carried out, in which the sixth share was redeemed by AB Volvo for SEK 25.00 per share. Together with the

ordinary dividend a total of 20,255 was distributed to Volvo's shareholders. The decision also included a bonus issue without issuance of new shares through the transfer of 426 from unrestricted shareholders' equity to share capital which then was restored to the same level as prior to the redemption procedure. Following these transactions Volvo has a total of 2,128,420,220 registered shares.

Cash dividend decided by the Annual General Meeting 2008 was SEK 5.50 (25.00) per share or total 11,149.6 (10,127.5).

Unrestricted equity in the Parent Company at December 31, 2008 amounted to 27,678 (22,254).

## Notes to consolidated financial statements

Information regarding shares	2007	2008
Own Series A shares	20,728,135	20,728,135
Own Series B shares	82,054,652	80,310,082
<b>Total own shares</b>	<b>102,782,787</b>	<b>101,038,217</b>
Own shares in % of total registered shares	4.80	4.75
Outstanding Series A shares	656,873,495	656,873,495
Outstanding Series B shares	1,368,763,938	1,370,508,508
<b>Total outstanding shares</b>	<b>2,025,637,433</b>	<b>2,027,382,003</b>
Total registered Series A shares	677,601,630	677,601,630
Total registered Series B shares	1,450,818,590	1,450,818,590
<b>Total registered shares</b>	<b>2,128,420,220</b>	<b>2,128,420,220</b>
Average number of outstanding shares	2,025,279,790	2,026,977,937

### Changes in outstanding Volvo shares

Balance December 31, 2007	2,025,637,433
Share-based incentive program	1,744,570
	<b>2,027,382,003</b>

### Change in other reserves

	Hedge reserve	Available for sale-reserve	Total
Balance at January 1, 2008	182	253	435
Fair value gains in year	(3,671)	-	(3,671)
Tax on fair value gains	967	-	967
Transfers to income	792	-	792
Tax on transfers to income statement	(222)	-	(222)
Change in fair value of commodity contracts	(105)	-	(105)
Fair value adjustments regarding holding in Deutz	-	(324)	(324)
Fair value adjustments regarding shares held by Nissan Diesel	-	(110)	(110)
Fair value adjustments regarding holding in Vindic AB	-	(25)	(25)
Other	-	-	-
<b>Balance at December 31, 2008</b>	<b>(2,057)</b>	<b>(206)</b>	<b>(2,263)</b>

### Earnings per share

Earnings per share is calculated as income for the period, attributable to the Parent Company's shareholders, divided by the Parent Company's average number of shares outstanding for the fiscal year. Diluted earnings per share is calculated as income for the period attributable to the Parent Company's shareholders divided by the average number of shares outstanding plus the average number of shares that would be issued as an effect of ongoing share-based incentive programs and employee stock option programs. If during the year there were potential shares redeemed or expired during the period, these are also included in the average number of shares used to calculate the earnings per share after dilution.

The share-based incentive program creates a dilution effect when the non-market-based financial goals are achieved for the fiscal year. Similarly, the employee stock option program creates a dilution effect by taking into account the difference between the exercise price and the share's average market price to determine how many shares that are assumed to be issued without any payment. It is solely this number of shares that have an effect on the calculated diluted earnings. The number of shares that this value symbolizes is less than the total potential number of shares attributable to the employee stock option program.

	2007	2008
Number of shares, December 31, in millions	2,026	2,027
Average number of shares before dilution in millions	2,025	2,027
Average number of shares after dilution in millions	2,026	2,027
Average share price, SEK	118.39	73.80
Net income attributable to Parent Company shareholders	14,932	9,942
Basic earnings per share, SEK	7.37	4.90
Diluted earnings per share, SEK	7.37	4.90
Dilution effect, number of shares		
Share-based incentive program	143,073	-
Employee stock option program	462,477	188,822
Number of potential shares, December 31	605,550	188,822

The share-based incentive program is implemented if certain non-market based financial goals are fulfilled partly or wholly. As a result of the development of the share price no dilution effect arise between the grant date and year-end close 2008. The employee stock option program creates a dilution effect amounting to 188,822 shares. In this case, the difference between the exercise price and the share's average value under the actual period has been taken into account. Except for the programs described above no other transactions have occurred that affected, or will have an effect on, the compilation of the reported share capital.

## Note 24 Provisions for post-employment benefits

Post-employment benefits, such as pensions, healthcare and other benefits are mainly settled by means of regular payments to independent authorities or bodies that assume pension obligations and administer pensions through defined contribution plans. The remaining post-employment benefits are defined benefit plans; that is, the obligations remain within the Volvo Group or are secured by own pension foundations. Costs and the obligations at the end of period for defined benefit plans are calculated based on actuarial assumptions and measured on a discounted basis. The Volvo Group defined benefit plans relate mainly to subsidiaries in the US and comprise both pensions and other benefits, such as healthcare. Other large-scale defined benefit plans apply for salaried employees in Sweden (mainly through the Swedish ITP pension plan) and employees in France and Great Britain. See note 1 for further information about the accounting principles.

<b>Summary of provision for post-employment benefits</b>	2007	2008
Obligations	35,984	41,171
Fair value of plan assets	25,768	22,105
<b>Funded status</b>	<b>(10,216)</b>	<b>(19,066)</b>
Unrecognized actuarial (gains) and losses	2,220	9,320
Unrecognized past service costs	353	482
<b>Net provisions for post-employment benefits</b>	<b>(7,643)</b>	<b>(9,264)</b>

The following tables disclose information about defined benefit plans in the Volvo Group. Volvo reports the difference between the obligations and the plan assets adjusted for unrecognized actuarial gains and losses in the balance sheet. The information refers to assumptions applied for actuarial calculations, periodical costs and the value of obligations and plan assets at year-end. The tables also include reconciliation of obligations and plan assets during the year and the difference between fair values and carrying amounts reported on the balance sheet date. According to IAS 19, actuarial assumptions such as the discount rate shall be based on market expectations at the balance sheet date for the period over which the obligations are to be settled and reflect the time-value of money but not the actuarial or investment risk. The market situation at the end of the financial year 2008 makes discount rate assumptions especially difficult to determine.

<b>Assumptions applied for actuarial calculations, %</b>	December 31, 2007	December 31, 2008
<b>Sweden</b>		
Discount rate	4.50	4.50
Expected return on plan assets <sup>1</sup>	6.00	6.00
Expected salary increases	3.20	3.50
Inflation	2.00	2.00
<b>United States</b>		
Discount rate	5.75–6.25	5.75–6.25
Expected return on plan assets <sup>1</sup>	7.65	7.65
Expected salary increases	3.50	3.50
Inflation	2.50	2.50
<b>France</b>		
Discount rate	5.25	5.25
Expected salary increases	3.00	3.00
Inflation	2.00	2.00
<b>Great Britain</b>		
Discount rate	5.75	5.75
Expected return on plan assets <sup>1</sup>	5.30–6.10	4.60–5.50
Expected salary increases	4.20–4.90	3.60–4.90
Inflation	3.40	3.00

<sup>1</sup> Applicable for the following accounting period. These assumptions reflect the expected long-term return rate on plan assets, based upon historical yield rates for different categories of investments and weighted in accordance with the foundation's investment policy. The expected return has been calculated net of administrative expenses and applicable taxes.

## Notes to consolidated financial statements

<b>Pension costs</b>	2007	2008
Current year service costs	877	864
Interest costs	1,380	1,557
Expected return on plan assets	(1,653)	(1,655)
Actuarial gains and losses <sup>1</sup>	68	81
Past service costs		
- Unvested	15	14
- Vested	25	39
Curtailments and settlements	(4)	167
Termination benefits	147	21
<b>Pension costs for defined benefit plans</b>	<b>855</b>	<b>1,088</b>
Pension costs for defined contribution plans	3,080	3,462
<b>Total pension costs</b>	<b>3,935</b>	<b>4,550</b>

1 For each plan, actuarial gains and losses are reported as income or expenses, when the accumulated amount exceeds the so called corridor. The income or expenses are then recognized over the expected average remaining service period of the employees.

<b>Costs for post-employment benefits other than pensions</b>	2007	2008
Current year service costs	129	284
Interest costs	319	336
Expected return on plan assets	(11)	(3)
Actuarial gains and losses <sup>1</sup>	4	1
Past service costs		
- Unvested	5	(1)
- Vested	0	1
Curtailments and settlements	(2)	0
Termination benefits	32	0
<b>Total costs for post-employment benefits other than pensions</b>	<b>476</b>	<b>618</b>

1 For each plan, actuarial gains and losses are reported as income or expenses, when the accumulated amount exceed the so called corridor. The income or expenses are then recognized over the expected average remaining service period of the employees.

An increase of one percentage point per year in healthcare costs would change the accumulated post-employment benefit obligation as of December 31, 2008 by approximately 200, and the post-employment benefit expense by approximately 13. A decrease of one percentage point would decrease the accumulated value of obligations

by about 169 and reduce costs by approximately 11. Calculations made as of December 31, 2008 show an annual increase of 9% in the weighted average per capita costs of covered healthcare benefits; It is assumed that the percentage will decline gradually to 5% and then remain at that level.

<b>Obligations in defined benefit plans</b>	Sweden Pensions	United States Pensions	France Pensions	Great Britain Pensions	US Other benefits	Other plans	Total
<b>Obligations at January 1, 2007</b>	<b>7,142</b>	<b>12,017</b>	<b>1,571</b>	<b>4,987</b>	<b>6,199</b>	<b>2,824</b>	<b>34,740</b>
Acquisitions, divestments and other changes	57	688	(8)	-	216	1,949	<b>2,902</b>
Current year service costs	259	267	47	90	89	211	<b>963</b>
Interest costs	295	653	60	251	311	115	<b>1,685</b>
Past service costs							
- Unvested	-	2	457	-	-	(10)	<b>449</b>
- Vested	-	7	-	-	-	26	<b>33</b>
Termination benefits	165	-	-	-	-	36	<b>201</b>
Curtailments and settlements	7	(1)	(1)	-	-	(34)	<b>(29)</b>
Employee contributions	-	-	-	33	-	-	<b>33</b>
Actuarial (gains) and losses	822	(923)	(143)	(402)	(308)	(156)	<b>(1,110)</b>
Exchange rate translation	-	(706)	76	(206)	(354)	131	<b>(1,059)</b>
Benefits paid	(296)	(797)	(259)	(145)	(571)	(756)	<b>(2,824)</b>
<b>Obligations at December 31, 2007</b>	<b>8,451</b>	<b>11,207</b>	<b>1,800</b>	<b>4,608</b>	<b>5,582</b>	<b>4,336</b>	<b>35,984</b>
of which							
Funded defined benefit plans	7,847	10,928	-	4,050	3,617	1,884	<b>28,326</b>

<b>Obligations in defined benefit plans</b>	Sweden Pensions	United States Pensions	France Pensions	Great Britain Pensions	US Other benefits	Other plans	Total
Acquisitions, divestments and other changes	(13)	(226)	(2)	116	-	22	<b>(103)</b>
Current year service costs	265	224	55	72	269	263	<b>1,148</b>
Interest costs	383	672	93	250	327	168	<b>1,893</b>
Past service costs							
- Unvested	1	-	-	-	-	-	<b>1</b>
- Vested	6	27	-	-	-	6	<b>39</b>
Termination benefits	14	-	-	-	-	7	<b>21</b>
Curtailments and settlements	(34)	65	(2)	-	(42)	(11)	<b>(24)</b>
Employee contributions	-	-	-	29	-	(2)	<b>27</b>
Actuarial (gains) and losses	336	257	47	(304)	261	205	<b>802</b>
Exchange rate translation	-	2,212	281	(593)	1,151	891	<b>3,942</b>
Benefits paid	(312)	(790)	(185)	(143)	(577)	(552)	<b>(2,559)</b>
<b>Obligations at December 31, 2008</b>	<b>9,097</b>	<b>13,648</b>	<b>2,087</b>	<b>4,035</b>	<b>6,971</b>	<b>5,333</b>	<b>41,171</b>

of which

Funded defined benefit plans	8,675	13,322	-	4,035	3,224	2,179	<b>31,435</b>
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<b>Fair value of plan assets in funded plans</b>	Sweden Pensions	United States Pensions	France Pensions	Great Britain Pensions	US Other benefits	Other plans	Total
<b>Plan assets at January 1, 2007</b>	<b>6,394</b>	<b>12,226</b>	<b>-</b>	<b>4,880</b>	<b>139</b>	<b>1,588</b>	<b>25,227</b>
Acquisitions, divestments and other changes	-	643	-	-	-	49	<b>692</b>
Expected return on plan assets	384	849	-	275	1	97	<b>1,606</b>
Actuarial gains and (losses)	(182)	13	-	(45)	4	(12)	<b>(222)</b>
Employer contributions	52	-	-	135	54	144	<b>385</b>
Employee contributions	-	-	-	33	-	26	<b>59</b>
Exchange rate translation	-	(751)	-	(222)	(7)	115	<b>(865)</b>
Benefits paid	-	(785)	-	(145)	(55)	(129)	<b>(1,114)</b>
<b>Plan assets at December 31, 2007</b>	<b>6,648</b>	<b>12,195</b>	<b>-</b>	<b>4,911</b>	<b>136</b>	<b>1,878</b>	<b>25,768</b>
Acquisitions, divestments and other changes	-	(180)	-	95	-	1	<b>(84)</b>
Expected return on plan assets	397	886	-	275	3	97	<b>1,658</b>
Actuarial gains and (losses)	(1,578)	(3,695)	-	(715)	-	(220)	<b>(6,208)</b>
Employer contributions	-	-	-	147	10	147	<b>304</b>
Employee contributions	-	-	-	29	-	33	<b>62</b>
Exchange rate translation	-	2,226	-	(609)	18	64	<b>1,699</b>
Benefits paid	-	(760)	-	(141)	(63)	(130)	<b>(1,094)</b>
<b>Plan assets at December 31, 2008</b>	<b>5,467</b>	<b>10,672</b>	<b>-</b>	<b>3,992</b>	<b>104</b>	<b>1,870</b>	<b>22,105</b>

## Notes to consolidated financial statements

<b>Net provision for post-employment benefits</b>	Sweden Pensions	United States Pensions	France Pensions	Great Britain Pensions	US Other benefits	Other plans	Total
<b>Funded status at December 31, 2007</b>	<b>(1,803)</b>	<b>988</b>	<b>(1,800)</b>	<b>303</b>	<b>(5,446)</b>	<b>(2,458)</b>	<b>(10,216)</b>
Unrecognized actuarial (gains) and losses	1,616	(111)	115	255	67	278	<b>2,220</b>
Unrecognized past service costs	-	(1)	422	-	(66)	(2)	<b>353</b>
<b>Net provisions for post-employment benefits at December 31, 2007</b>	<b>(187)</b>	<b>876</b>	<b>(1,263)</b>	<b>558</b>	<b>(5,445)</b>	<b>(2,182)</b>	<b>(7,643)</b>
whereof reported as							
Prepaid pensions and other assets	12	1,226	-	558	242	93	<b>2,131</b>
Provisions for post-employment benefits	(199)	(350)	(1,263)	-	(5,687)	(2,275)	<b>(9,774)</b>
<b>Funded status at December 31, 2008</b>	<b>(3,630)</b>	<b>(2,976)</b>	<b>(2,087)</b>	<b>(43)</b>	<b>(6,867)</b>	<b>(3,463)</b>	<b>(19,066)</b>
Unrecognized actuarial (gains) and losses	3,476	4,021	207	604	382	630	<b>9,320</b>
Unrecognized past service costs	-	(1)	464	-	(8)	27	<b>482</b>
<b>Net provisions for post-employment benefits at December 31, 2008</b>	<b>(154)</b>	<b>1,044</b>	<b>(1,416)</b>	<b>561</b>	<b>(6,493)</b>	<b>(2,806)</b>	<b>(9,264)</b>
whereof reported as							
Prepaid pensions and other assets	14	1,422	0	561	320	124	<b>2,441</b>
Provisions for post-employment benefits	(168)	(378)	(1,416)	0	(6,813)	(2,930)	<b>(11,705)</b>
<b>Plan assets by category</b>				2007	%	2008	%
Shares and participation, Volvo				313	1	138	1
Shares and participations, other				12,422	48	9,046	41
Bonds				10,578	41	10,564	48
Property				427	2	732	3
Other				2,028	8	1,625	7
<b>Total</b>				<b>25,768</b>	<b>100</b>	<b>22,105</b>	<b>100</b>
<b>Actuarial gains and losses</b>						2007	2008
Experience-based adjustments in obligations						151	(871)
Experience-based adjustments in plan assets						(222)	(6,208)
Effects of changes in actuarial assumptions						959	69
<b>Actuarial gains and (losses), net</b>						<b>888</b>	<b>(7,010)</b>

Volvo's pension foundation in Sweden was formed in 1996 to secure obligations relating to retirement pensions for salaried employees in Sweden in accordance with the ITP plan (a Swedish individual pension plan). Plan assets amounting to 2,456 was contributed to the foundation at its formation, corresponding to the value of the pension obligations at that time. Since its formation, net contributions of 1,472 have been made to the foundation. The plan assets in Volvo's Swedish pension foundation are invested in Swedish and foreign stocks and mutual funds, and in interest-bearing securities, in accordance with a distribution that is determined by the foundation's Board of Directors. At December 31, 2008, the fair value of the foundation's plan assets amounted to 5,467 (6,648), of which 35% (43) was invested in shares or mutual funds. At the same date, retirement pension obligations attributable to the ITP plan amounted to 8,675 (7,847). In the valuation of Volvo's pension liability for the Swedish companies, the life-expectancy assumptions was changed during 2007. Men are now assumed to live about two years longer than previously. The increase for women is about one year. The changed life-expectancy assumptions increased the pension obligation by about 14% 2007. However, this increase did not immediately affected the carrying amount of the Volvo Group's liabilities for 2007 since Volvo applies the corridor approach to actuarial gains and losses. Swedish companies can secure new pension obligations through balance sheet provisions or pension fund contributions. Furthermore, a credit insurance must be

taken for the value of the obligations. In addition to benefits relating to retirement pensions, the ITP plan also includes, for example, a collective family pension, which Volvo finances through insurance with the Alecta insurance company. According to an interpretation from the Swedish Financial Reporting Board, this is a multi-employer defined benefit plan. For fiscal year 2008, Volvo did not have access to information from Alecta that would have enabled this plan to be reported as a defined benefit plan. Accordingly, the plan has been reported as a defined contribution plan. Alecta's funding ratio is 112% (152.0). Alecta's current funding ratio is below the target of 140%.

Volvo's subsidiaries in the United States mainly secure their pension obligations through transfer of funds to pension plans. At the end of 2008, the total value of pension obligations secured by pension plans of this type amounted to 13,322 (10,928). At the same point in time, the total value of the plan assets in these plans amounted to 10,672 (12,195), of which 50% (58) was invested in shares or mutual funds. The regulations for securing pension obligations stipulate certain minimum levels concerning the ratio between the value of the plan assets and the value of the obligations. During 2008, Volvo contributed 0 (0) to the pension plans.

During 2008 Volvo has made extra contributions to the pension-plans in Great Britain in the amount of 147 (135).

In 2009, Volvo estimate to transfer an amount of not more than SEK 1 billion to pension plans.

## Note 25 Other provisions

	Value in balance sheet 2007	Provisions and reversals	Utilizations	Acquired and divested companies	Translation differences	Reclassi- fications	Value in balance sheet 2008	Whereof due within 12 months	Whereof due after 12 months
Warranties	9,373	6,201	(5,982)	45	828	(111)	10,354	5,681	4,673
Provisions in insurance operations	387	135	(98)	-	77	8	509	9	500
Restructuring measures <sup>1</sup>	214	360	(207)	5	15	(19)	368	280	88
Provisions for residual value risks <sup>2</sup>	670	483	(321)	-	76	(10)	898	356	542
Provisions for service contracts	1,911	943	(827)	-	114	134	2,275	1,147	1,128
Dealer bonus	1,802	2,778	(2,791)	(1)	87	22	1,897	1,749	148
Other provisions	3,600	3,461	(3,034)	(18)	354	152	4,515	2,528	1,987
<b>Total</b>	<b>17,957</b>	<b>14,361</b>	<b>(13,260)</b>	<b>31</b>	<b>1,551</b>	<b>176</b>	<b>20,816</b>	<b>11,750</b>	<b>9,066</b>

1 whereof reversed not utilized provisions 65.

2 whereof reversed not utilized provisions 52.

## Note 26 Non-current liabilities

The listing below shows the Group's non-current liabilities in which the largest loans are distributed by currency. Most are issued by Volvo Treasury AB. Information on loan terms is as of December 31, 2008.

Volvo hedges foreign-exchange and interest-rate risks using derivative instruments. See Note 36.

<b>Bond loans</b>	Actual interest rate, Dec 31, 2008, %	Effective interest rate, Dec 31, 2008, %	2007	2008
EUR 2002-2008/2010-2017	3.18-6.14	3.22-6.23	27,070	21,903
SEK 2006-2008/2010-2017	3.59-6.33	3.64-6.43	13,378	12,183
JPY 2001/2011	2.90	2.90	1,203	86
USD 2007/2010	3.62-4.68	3.67-4.73	647	1,626
<b>Total<sup>1</sup></b>			<b>42,298</b>	<b>35,798</b>

1 Whereof loans raised to finance the credit portfolio of the customer financing operations 17,787 (26,311).

## Notes to consolidated financial statements

Other loans	Actual interest rate,	Effective interest rate,	2007	2008
	Dec 31, 2008, %	Dec 31, 2008, %		
USD 2004-2008/2010-2018	2.15-5.17	2.17-5.27	3,522	10,134
EUR 2003-2008/2010-2017	3.45-6.50	3.48-6.50	4,076	5,419
GBP 2005-2008/2010-2012	2.63-6.72	2.66-6.89	520	1,952
SEK 2007-2008/2010-2017	2.69-7.98	2.72-8.22	1,228	3,778
CAD 2004-2008/2010-2013	2.84-4.07	2.87-4.13	1,518	2,712
MXN 2005-2007/2010-2012	8.81-9.33	9.17-9.74	1,239	1,197
JPY 2005-2008/2010-2016	1.22-2.07	1.22-2.08	4,631	17,076
CHF 2006/2011	2.53	2.55	1,141	735
BRL 2003/2017	8.42	8.89	2,085	2,994
Other loans	4.85-6.73	4.94-7.89	1,189	1,302
<b>Total other non-current loans<sup>2</sup></b>			<b>21,149</b>	<b>47,299</b>
Deferred leasing income			2,894	2,508
Residual value liability			4,440	4,350
Other non-current financial liabilities			523	1,658
Other non-current liabilities			425	995
<b>Total</b>			<b>71,729</b>	<b>92,608</b>

2 Whereof loans raised to finance the credit portfolio of the customer financing operations 34,955 (13,449) and financial derivatives 198 (74).

Of the above long-term loans, 374 (541) was secured.

Long-term loans mature as follows:	
2010	23,951
2011	17,359
2012	6,703
2013	9,594
2014	4,500
2015 or later	20,990
<b>Total</b>	<b>83,097</b>

See note 16 for maturities of long-term customer financing receivables.

Of other non-current liabilities the majority will mature within five years.

At year-end 2008, credit facilities granted but not utilized and which can be used without restrictions amounted to approximately SEK 26.7 billion (23.2). These facilities consisted of stand-by facilities for loans with varying maturities through the year 2013. A fee is normally charged for the unused portion of credit facilities and is reported in the income statement under other financial income and expenses.

## Note 27 Current liabilities

Balance sheet amounts for loans were as follows:

	2007	2008
Bank loans	12,979	15,222
Other loans	31,893	47,409
<b>Total<sup>1</sup></b>	<b>44,872</b>	<b>62,631</b>

1 Whereof loans raised to finance the credit portfolio of the customer financing operations 47,180 (32,797) and derivatives 604 (242).

Bank loans include current maturities, 4,701 (2,975), of long-term loans. Other loans include current maturities of long-term loans, 26,336 (22,554), and commercial paper, 17,876 (6,547).

Non-interest-bearing liabilities accounted for 91,759 (85,406), or 59% (66) of the Group's total current liabilities.

Balance sheet amounts for Other current liabilities were as follows:

	2007	2008
Advances from customers	3,321	3,352
Wages, salaries and withholding taxes	6,703	6,978
VAT liabilities	1,524	1,455
Accrued expenses and prepaid income	12,161	13,440
Deferred leasing income	1,864	2,203
Residual value liability	1,928	2,138
Other financial liabilities	982	5,430
Other liabilities	3,810	4,534
<b>Total</b>	<b>32,293</b>	<b>39,530</b>

In Other current liabilities is also included trade payables that amounted to 51,025 (52,663) and current tax liabilities to 1,204 (451). Secured bank loans at year-end 2008 amounted to 312 (264). The corresponding amount for other current liabilities was 416 (590).

## Note 28 Assets pledged

	2007	2008
Property, plant and equipment – mortgages	202	190
Assets under operating leases	265	155
Chattel mortgages	364	369
Receivables	600	569
Cash, marketable securities	125	97
<b>Total</b>	<b>1,556</b>	<b>1,380</b>

The liabilities for which the above assets were pledged amounted at year-end to 1,102 (1,395).

## Note 29 Contingent liabilities

	2007	2008
Credit guarantees issued for customers and others	1,884	2,687
Tax claims	783	931
Other contingent liabilities	5,486	5,809
<b>Total</b>	<b>8,153</b>	<b>9,427</b>

The reported amounts for contingent liabilities reflect the Volvo Group's risk exposure on a gross basis. The reported amounts have thus not been reduced because of counter guarantees received or other collaterals in cases where a legal offsetting right does not exist. At December 31, 2008, the estimated value of counter guarantees received and other collaterals, for example the estimated net selling price of used products, amounted to 4,172 (3,934).

Tax claims amounted to 931 (783) pertain to charges against the Volvo Group for which provisions are not considered necessary. Other contingent liabilities pertain mainly to residual value guarantees.

### Legal proceedings

The former labor agreement between Mack Trucks, Inc. and the United Auto Workers Union ("UAW"), expired on September 30, 2007. Since that time, the parties have been operating under a mutually agreed upon extension of the previous agreement that can be terminated by either party on short notice. Negotiations on a new labor agreement are ongoing. Both Mack Trucks, Inc. and the UAW are parties to similar lawsuits filed in the U.S federal courts addressing the issue of retiree health benefits. Mack Trucks' lawsuit, the first of the two lawsuits filed, seeks a declaration from the court that it is permitted to unilaterally amend the terms of the existing retiree health care plan. The lawsuit filed by the UAW in response to the Mack lawsuit, seeks a ruling from the court that the plan of benefits must remain unchanged. The cases

have been consolidated to one trial on Mack's request. At present, it is not possible to estimate the outcome of the negotiations or the pending lawsuits, but there is a risk that the outcome may have a significant negative effect on the consolidated operating income.

In July 1999 Volvo Truck Corporation and Volvo Construction Equipment entered into a Consent Decree with the US Environmental Protection Agency (EPA.) The Consent Decree included, among other provisions, that new stricter emission requirements for certain engines that would come into force on January 1, 2006, should be applied by VTC and VCE from January 1, 2005. The Consent Decree was later transferred from VTC and VCE to Volvo Powertrain Corporation. During 2008, the EPA demanded stipulated penalties from Volvo Powertrain Corporation in the amount, including interest, of USD 72,006,337, alleging that the stricter standards under the Consent Decree should have been applied to engines manufactured by Volvo Penta during 2005. Volvo Powertrain disagrees with EPA's interpretation and is defending the case vigorously based on, among other grounds, that the Volvo Penta engines were not subject to the Consent Decree. The dispute was in January 2009 referred to a US court. The amount requested by the EPA is included in contingent liabilities.

Global actors like Volvo are occasionally involved in tax disputes of different proportions and in different stages. On a regular basis Volvo evaluates the exposure related to such disputes and, to the extent it is possible to reasonably estimate what the outcome will be, makes provisions when it is more likely than not that there will be additional tax to pay.

Volvo is involved in a number of other legal proceedings incidental to the normal conduct of its businesses. Volvo does not believe that any liabilities related to such proceedings are likely to entail any risk, in the aggregate, of having a material effect on the financial condition of the Volvo Group.

## Notes to consolidated financial statements

### Note 30 Cash-flow

<b>Other items not affecting cash amounted to:</b>	2007	2008
Risk provisions and losses related to doubtful receivables/customer – financing receivables	90	729
Capital gains/losses on the sale of subsidiaries and other business units	(558)	(395)
Unrealized exchange rate gains/losses on trade receivables and payables	(68)	(241)
Incentive program	210	17
Other changes	(132)	(243)
	<b>(458)</b>	<b>(133)</b>

<b>Investments in shares and participations:</b>	2007	2008
New issue of shares	(24)	(13)
Capital contribution	14	(43)
Acquisitions	0	(94)
Divestments	106	78
Revaluations	15	-
Other	325	43
	<b>436</b>	<b>(29)</b>

<b>Acquired and divested subsidiaries and other business units:</b>	2007	2008
Acquired subsidiaries and other business units	(15,421)	(1,853)
Divested subsidiaries and other business units	408	536
	<b>(15,013)</b>	<b>(1,317)</b>

### Note 31 Leasing

#### Volvo as a lessor

At December 31, 2008, future rental income from noncancellable financial and operating leases (minimum leasing fees) amounted to 63,233 (49,435). Future rental income is distributed as follows:

	Finance leases	Operating leases
2009	16,742	5,772
2010–2013	29,902	9,809
2014 or later	783	225
<b>Total</b>	<b>47,427</b>	<b>15,806</b>
Allowance for uncollectible future rental income	(459)	
Unearned rental income	(5,766)	
Present value of future rental income related to noncancellable leases	41,202	

#### Volvo as a lessee

At December 31, 2008, future rental payments (minimum leasing fees) related to noncancellable leases amounted to 4,206 (3,705).

Future rental payments are distributed as follows:

	Finance leases	Operating leases
2009	481	935
2010–2013	611	1,606
2014 or later	107	466
<b>Total</b>	<b>1,199</b>	<b>3,007</b>

Rental expenses amounted to:

	2007	2008
Finance leases:		
Contingent rents	0	(4)
Operating leases:		
Contingent rents	(10)	(19)
Rental payments	(1,053)	(959)
Sublease payments	13	8
<b>Total</b>	<b>(1,050)</b>	<b>(970)</b>

Book value of assets subject to finance lease:

	2007	2008
Acquisition costs:		
Buildings	139	131
Land and land improvements	69	65
Machinery and equipment	675	2,609
Assets under operating lease	403	392
<b>Total</b>	<b>1,286</b>	<b>3,197</b>
Accumulated depreciation:		
Buildings	(45)	(40)
Land and land improvements	-	-
Machinery and equipment	(207)	(1,769)
Assets under operating lease	(200)	(127)
<b>Total</b>	<b>(452)</b>	<b>(1,936)</b>
Book value:		
Buildings	94	91
Land and land improvements	69	65
Machinery and equipment	468	840
Assets under operating lease	203	265
<b>Total</b>	<b>834</b>	<b>1,261</b>

## Note 32 Transactions with related parties

The Volvo Group has transactions with some of its associated companies. The transactions consist mainly of sales of vehicles to dealers. Commercial terms and market prices apply for the supply of goods and services to/from associated companies.

	2007	2008
Sales to associated companies	1,096	1,222
Purchase from associated companies	98	116
Receivables from associated companies, Dec 31	397	273
Liabilities to associated companies, Dec 31	19	63

Group holdings of shares in associated companies are presented in note 15, Shares and participations.

The Volvo Group also has transactions with Renault and its subsidiaries. Sales to and purchases from Renault amounted to 113 (151) and 2,833 (2,950). Amounts due from and due to Renault amounted to 31 (40) and 539 (1,089) respectively, at December 31, 2008. The sales were mainly from Renault Trucks to Renault and consisted of components and spare parts. The purchases were mainly made by Renault Trucks from Renault and consisted mainly of light trucks. Renault Trucks has a license from Renault for the use of the trademark Renault.

## Note 33 Government grants

During 2008, government grants amounting to 492 (469) have been received and 465 (365) have been accounted for in the income statement. R&D credits are included with 237 (210). The grants were mainly received from the European Commission and the Swedish govern-

ment. During 2007 Volvo Buses received a grant of 116 from the Swedish Energy Agency for the development of hybrid technology. 48 (14) of the 116 have been accounted for during 2008.

## Notes to consolidated financial statements

### Note 34 Personnel

#### Remuneration policy decided at the Annual General Meeting in 2008

The Annual General Meeting of 2008 decided upon principles for remuneration and other employment terms for the members of Volvo's Group Executive Committee ("Remuneration Policy"). The accepted principles can be summarized as follows.

The guiding principle is that remuneration and other employment terms for company management, shall be competitive to ensure that Volvo can attract and retain skilled persons in the Group Executive Committee. The fixed salary shall be competitive and shall reflect the individual's area of responsibility and performance.

In addition to the fixed salary a variable salary may be paid. The variable salary may for the CEO amount to a maximum of 65% of the fixed salary and for the other senior executives a maximum of 50% of the fixed salary. The variable salary shall be based on the Volvo Group's and/or the executive's respective Business Area's or Business Unit's fulfilment of certain financial goals. These goals are decided by the Board of AB Volvo and may be related, for example, to operating income and/or cash flow.

In addition to fixed and variable salary, normally other customary benefits, such as company car and company healthcare are provided. In individual cases, accommodation benefits and other benefits may be provided.

In addition to pension benefits provided by law and collective bargain agreements, the members of the Group Executive Committee domiciled in Sweden are offered a defined-contribution pension plan whereby the amount of the individual's pensions comprises the premium paid and any return. Members of the Group Executive Committee domiciled outside Sweden are offered pension solutions that are competitive in the country in which the person is domiciled.

With regard to notice of termination of employment for members of the Group Executive Committee domiciled in Sweden, the notification period is 12 months if the company terminates the employment and six months if the individual terminates the employment. In addition, the employee is entitled to a severance pay of 12 months' salary if Volvo terminates the employment. Those members who are domiciled outside Sweden are offered terms in this respect that are competitive in the country in which the person is domiciled.

#### Fee paid to the Board of directors

In accordance with a resolution adopted at the Annual General Meeting 2008, the fee paid to the Board of Directors was SEK 5,725,000, to be distributed among the members as follows: SEK 1,575,000 to the Chairman, including fee in the capacity of being a member of the Remuneration Committee, and SEK 500,000 to each of the members; in addition, SEK 250,000 to the chairman of the Audit Committee and SEK 125,000 to other members of the Audit Committee and SEK 75,000 to each of the members of the Remuneration Committee. Apart from the board fee, the members of the Board of directors have not obtained any other remuneration.

#### Terms of employment and remuneration to the CEO

The President and Chief Executive Officer, Leif Johansson, is entitled to a remuneration consisting of a fixed annual salary and a variable salary. The variable salary is based on operating income and cash flow for the Volvo Group up to a maximum of 65% of his fixed annual salary. Leif Johansson also participates in the Volvo Group long-term incentive program and may receive shares to the extent the financial goals for the financial year are being met.

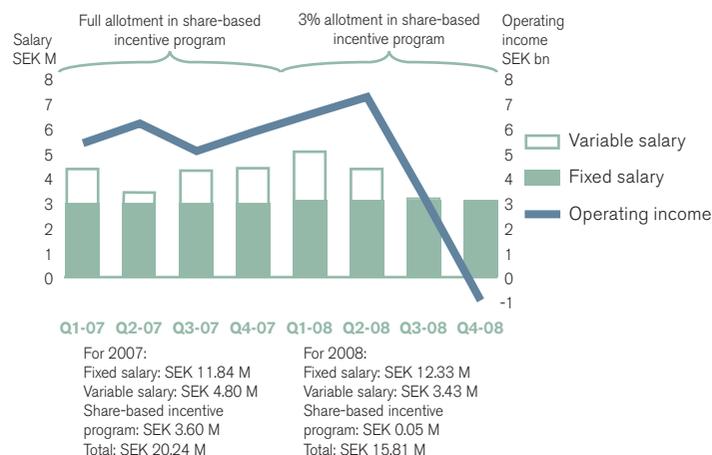
For the financial year 2008, Leif Johansson received a fixed salary of SEK 12,331,236 and a variable salary of SEK 3,432,043. The variable salary corresponded to 27.8% of the fixed annual salary and was mainly pertaining to the first six months of 2008. Leif Johansson received no variable salary from September to December 2008. The allotment of the share-based incentive program based on the 2008 financial goals was distributed during 2009 and resulted in the allotment of shares to the President and CEO corresponding to an amount of SEK 48,255. Other benefits, mainly pertaining to car and housing, amounted to SEK 628,045 in 2008.

For the financial year 2007, Leif Johansson received 40,000 shares since certain financial goals for 2007 were achieved. The shares were allotted in February 2008 and corresponded to a value of SEK 3,600,000.

The employee stock options were granted in 2003 based on the financial result of 2002. The allotment of the options were reported in the annual report 2003 and the holdings have been reported in the annual reports after that. The costs for the stock options have been reported in previous periods. The options exercised by the President and CEO at the end of the exercise period are valued at SEK 16,493,896 and resulted in an income of SEK 6,471,842 in the Volvo Group as a consequence of the lower share price at exercise date compared to the valuation of the obligation at the inception of the financial year.

Leif Johansson is covered by the Volvo executive pension plans, Volvo Management Pension (VMP) and Volvo Executive Pension (VEP). The retirement benefit is a defined contribution plan with refund protection. The disability pension is a defined benefit plan. Contributions to VMP and VEP are not tax deductible, the benefit from the insurance is not taxable to the company, but pension paid will be tax deductible. A defined time for retirement does not exist. The pensionable salary consists of the annual salary and the average of the variable salary for the previous five years. The premium for the VMP is SEK 30,000 plus 20% of the pensionable salary over 30 income base amounts and the premium for VEP is 10% of pensionable salary. There are no other commitments other than the payment of the premiums. The disability pension consists of 70% of pensionable salary.

#### Salary and share-based incentive program to CEO Leif Johansson for 2007 and 2008



up to 30 income base amounts and 40% of the pensionable salary between 30 and 50 income base amounts. The right to disability pension is conditional to employment and will cease upon termination of duty.

Pension premiums for the President and CEO amounted to SEK 4,903,292 for 2008.

Leif Johansson has a six-month notice of termination on his own initiative and 12 months notice of termination from AB Volvo. Leif Johansson is not entitled to severance payments.

### Remuneration to other senior executives

#### *Fixed and variable salaries*

Members of the Group Executive Committee and a number of senior executives receive variable salaries in addition to fixed salaries. Variable salaries are in most cases based on the fulfilment of certain financial targets. The targets are decided by the Board of Directors in AB Volvo and may relate to operating income and/or cash flow. During 2008, a variable salary could amount to a maximum of 50% of the fixed annual salary.

For the financial year 2008, fixed salaries amounted to SEK 55,249,098 and variable salaries amounted to SEK 11,721,674 for members in the Group Executive Committee, excluding the President and CEO. In addition to the CEO, the Group Executive Committee comprised of 17 members at the beginning and at the end of the year. Allotment of the share-based incentive program based on the 2008 financial goals was distributed in 2009 and resulted in the allotment of shares corresponding to a total amount of SEK 391,358 for other senior executives. Other benefits, mainly pertaining to car and housing, amounted to SEK 3,584,993 in 2008.

For the financial year 2007, other senior executives received SEK 19,874,970 related to allotted shares and SEK 8,487,861 pertaining to cash payments, for the GEC members not residing in Sweden, linked to the share-based incentive program 2007. This allotment, made in 2008, was based on the fulfillment of certain financial goals in 2007.

#### *Severance payments*

The employment contracts for members of the Group Executive Committee and certain other senior executives contain rules governing severance payments when the company terminates the employment. The rules provide that, when the company terminates the employment, an employee is entitled to severance pay equal to the employee's monthly salary for a period of 12 or 24 months, depending on age at date of severance.

In agreements concluded after the spring of 1993, severance pay is reduced, in the event the employee gains employment during the severance period, with an amount equal to 75% of the income from the new employment. In agreements concluded after the spring of 2004, severance pay is reduced by the full income from the new employment. Furthermore, age limit at date of notice of termination is removed and with few exceptions, severance pay is entitled for a period of 12 months.

#### *Pensions*

Previous pension agreements for certain senior executives stipulated that early retirement could be obtained from the age of 60. The defined pension benefits are vested and earned gradually over the years up to the employee's retirement age and are fully earned at age 60. During the period between ages of 60 and 65 the employee receives a pension equal to 70% of the pensionable salary. Agreements for retirement at age 60 are no longer signed, and are instead replaced by a defined-contribution plan without a definite time for retirement. The premium constitutes 10% of the pensionable salary.

Earlier defined-benefit pension plans, which entitled the employee

to 50% of the pensionable salary after normal retirement age, have also been replaced by a defined-contribution plan. The premium constitutes of SEK 30,000 plus 20% of the pensionable salary over 30 income base amounts. The pensionable salary consists of the annual salary and the average of the variable salary for the previous five years. Pension premiums amounted to SEK 46,183,160 for other senior executives in 2008.

### Total costs for remuneration and benefits to senior executives

Total costs for total remuneration and benefits to the members of the Group Executive Committee (GEC) in 2008 is pertaining to the following: fixed salary SEK 87 million (86); variable salary SEK 19 million (28); other benefits including allotted shares in the share incentive program SEK 49 million (58); employee stock options revenue of SEK 6 million (cost of 17) and pensions SEK 61 million (66). Total costs for members of the GEC include social fees on salaries and benefits, special pension tax and additional costs for other benefits. The remuneration model of the Volvo group is to a main part designed to follow changes in the profitability of the group, why the remuneration to the members of the GEC have declined significantly during the last six months of 2008.

### Incentive programs

During 2008, Volvo had two types of incentive programs for certain senior executives outstanding, one program for employee stock options (exercised 2006/2008) and a share-based incentive program (allotment in 2009).

#### Employee stock options program

The period to exercise the employee stock options was ongoing from May 2, 2006, up to and including May 1, 2008, and the employee stock option program is thus ended. The Volvo B share price, for options exercised during 2008, has in average been SEK 91 within a range from SEK 88 up to SEK 96. The Volvo B share price, for options exercised during 2007, has in average been SEK 116 within a range from SEK 110 up to SEK 148.

#### Share-based incentive program

In 2006 the Annual General Meeting approved a share-based incentive program for certain senior executives within the Volvo Group. Allotment of a value corresponding to 480,000 shares in the program was executed in March 2007 and was based on the fulfillment of certain financial goals determined by the Board for fiscal year 2006. The allotment was made from Volvo's treasury stock, with 263,667, and cash payment corresponding to 216,333 shares. The share price at allotment was SEK 560. The total costs for the share-based incentive program 2006/2007 amounted to SEK 276 million, whereof SEK 110 million during 2007 and SEK 166 million during 2006 and pertains to the costs for payments in shares and in cash.

The Annual General Meeting in 2007 decided on a similar program for allotment in 2008. In February 2008, allotment was made of a value corresponding to 2,443,333 shares and was based on the fulfillment of certain financial goals determined by the Board for fiscal year 2007. The allotment was made from Volvo's treasury stock, with 1,333,333 and cash payment corresponding to 1,110,000 shares. The share price at allotment was SEK 90,00. The total cost for Volvo for the share-based incentive program 2007/2008 amounted to SEK 304 million whereof SEK 249 million during 2007 and SEK 55 million during 2008 and pertains to the costs for payments in shares and in cash.

The Annual General Meeting in 2008 decided on a similar program

## Notes to consolidated financial statements

for allotment in 2009. Allotment was made in 2009 as certain financial goals determined by the Board for fiscal year 2008 had been fulfilled by the company. The cost for Volvo for the incentive program including social fees was approximately SEK 7 million, since the price of the Volvo B shares at the grant date, excluding dividend of SEK 5,50 for 2008, was SEK 91.50 and the share price was estimated to be SEK 35.50 at allotment date. The annual General Meeting decided that Volvo's own shares could be used for allotment in this program.

The Board of Directors intends to propose that the Annual General Meeting in 2009 approves a share-based incentive program for senior executives within the Volvo Group pertaining to the financial year 2009. Under the program, a maximum number of 2,950,000 Volvo shares type B may be allotted to a maximum number of 275 senior executives within the Volvo Group, including members of Volvo's Group Executive Committee and other executives appointed by the Board of Directors. The CEO and President may receive a maximum of 40,000 shares and the other participants a maximum of 10,000–20,000

shares each. Participants not resident in Sweden at the time of allotment may, to the extent AB Volvo considers it favourable from a cost or administrative perspective, instead of shares, receive an amount in cash corresponding to the market value of the shares at the time of allotment.

Shares will be allotted provided the Volvo Group's return on equity (ROE), calculated on the basis of the Volvo Group's annual report for 2009 is higher than 12%. Maximum allotment will be effected if ROE reaches 15% and shares will be allotted proportionally within the interval in accordance with the Board's instructions. Allotment will be made within six months after the end of 2009.

Assuming the maximum allotment of shares is made (2,950,000 shares), Volvo's costs for implementing the program, including social fees, will be maximum SEK 123 million, calculating with a share price of SEK 35.50. Another element of the proposal is that treasury shares held by AB Volvo may be used to fulfil the company's commitments in accordance with the program.

### Outcome of the sharebased incentive program decided at the Annual General Meeting 2008

	Shares <sup>1</sup>
CEO	1,333
Other members of GEC	10,811
Other senior executives	73,441
<b>Total</b>	<b>85,585</b>

<sup>1</sup> Of the total 85,585 shares, 45,022 shares have been allotted and a cash-settlement corresponding to 40,563 shares has been paid at allotment date.

### Summary of the option program, 2002, ended in May, 2008

	Allotment date	Total number of outstanding options		Exercise price	Exercise period	Value/ options	Vesting, years
		Dec 31, 2007	Dec 31, 2008				
2002, employee stock options <sup>1</sup>	May 2, 2003	137,195	–		May 2, 2006– May 1, 2008	–	3

<sup>1</sup> In January 2000, a decision was made to implement a new incentive program for senior executives within the Volvo Group in the form of so-called employee stock options. The decision covers allotment of options for 2000, 2001 and 2002. The executives have not made any payment for the options. The employee stock options gives the holders the right to exercise their options or alternatively receive the difference between the actual price at that time and the exercise price determined at allotment. The theoretical value of the options at allotment was set using the Black & Scholes pricing model for options. For the options allotted in 2003, the Annual General Meeting has decided that Volvo's own shares may be used for the program. Recalculation has taken place of the exercise price and the number of shares each option entitles the option holder to acquire. The exercise price was previously SEK 163 per share and each option entitled the option

holder to acquire one share. According to the terms and conditions of the option program, recalculation shall take place under certain circumstances such as extra dividends, issues of new shares and dividend of shares. At the AB Volvo Annual General Meeting in 2004, a decision was taken to distribute shares in Ainax AB to Volvo's shareholders. As a consequence hereof, a recalculation of the exercise price and the number of shares each option entitles the option holder to acquire has taken place. On April 26, Volvo's share split 6:1 with automatic redemption, in which the sixth share was redeemed by AB Volvo for SEK 25 per share took effect, which meant that the number of shares were fivefold. The exercise price is after that is SEK 30 per share and each option entitles the option holder to acquire 5.43041 Volvo B shares.

### Change in number of options

Number of options

December 31, 2007	137,195
Cancelled	–
Exercised	(137,195)
December 31, 2008	–

### Cost for incentive programs

Change in obligations related to the employee stock option programs is recorded in the income statement. The income 2008 for the employee stock option program amounted to SEK 19 M, the reason was a share price at SEK 108,50 in December 2007 and lower share price when the options was exercised during 2008 between SEK 88

to SEK 96. The cost 2008 for the share-based incentive program 2007/2008 was SEK 55 M and SEK 5 M for the share-based incentive program 2008/2009. Total cost for the three programs was for 2008 SEK 41 M (396). The cost for the incentive program includes both cash payments and costs for remuneration in shares, including social costs. At December 31, 2008, provisions related to the share-based incentive program amounted to SEK 5 M (216).

	2007		2008	
	Number of employees	of which women, %	Number of employees	of which women, %
<b>Average number of employees</b>				
<b>AB Volvo</b>				
Sweden	178	51	196	47
<b>Subsidiaries</b>				
Sweden	27,826	20	28,126	21
Western Europe	27,340	15	27,584	18
Eastern Europe	5,027	18	5,694	20
North America	11,716	19	10,625	19
South America	4,664	13	4,328	13
Asia	12,824	10	17,924	11
Other countries	2,685	20	2,553	13
<b>Group total</b>	<b>92,260</b>	<b>17</b>	<b>97,030</b>	<b>17</b>

	2007		2008	
	Number at year-end	of which women, %	Number at year-end	of which women, %
<b>Board members and chief officers</b>				
<b>AB Volvo</b>				
Board members	11	9	11	9
CEO and GEC	18	6	18	6
<b>Volvo Group</b>				
Board members	954	11	885	10
Presidents and other senior executives	1,678	15	1,701	17

	2007			2008		
	Board and Presidents <sup>1</sup>	of which variable salaries	Other employees	Board and Presidents <sup>1</sup>	of which variable salaries	Other employees
<b>Wages, salaries and other remunerations, SEK M</b>						
<b>AB Volvo</b>						
Sweden	37.9	14.0	165.4	31.0	9.8	195.7
<b>Subsidiaries</b>						
Sweden	79.2	30.6	10,426.3	78.3	30.7	11,550.3
Western Europe	495.9	24.3	10,482.3	514.3	10.2	10,628.7
Eastern Europe	56.8	7.3	863.5	50.1	11.8	1,087.2
North America	189.5	23.2	5,800.1	163.0	34.4	4,808.9
South America	15.3	1.7	766.7	26.5	16.5	974.1
Asia	168.3	13.0	3,564.5	125.3	16.6	4,840.1
Other countries	49.8	6.3	543.8	59.3	3.3	614.8
<b>Group total</b>	<b>1,092.7</b>	<b>120.4</b>	<b>32,612.6</b>	<b>1,047.8</b>	<b>133.3</b>	<b>34,699.8</b>

	2007			2008		
	Wages, salaries, remunerations	Social costs	of which pens. costs	Wages, salaries, remunerations	Social costs	of which pens. costs
<b>Wages, salaries and other remunerations and social costs, SEK M</b>						
<b>AB Volvo<sup>2</sup></b>	203.3	106.9	66.0	226.7	107.1	62.1
Subsidiaries	33,502.0	10,638.0	3,868.8	35,520.9	11,632.9	4,487.9
<b>Group total<sup>3</sup></b>	<b>33,705.3</b>	<b>10,744.9</b>	<b>3,934.8</b>	<b>35,747.6</b>	<b>11,740.0</b>	<b>4,550.0</b>

- 1 Including current and former Board members, Presidents and Executive Vice Presidents.
- 2 The Parent Company's pension costs, pertaining to Board members and Presidents are disclosed in Note 21 in the Parent Company.
- 3 Of the Group's pension costs, 170.8 (288.4) pertain to Board members and Presidents, including current and former Board members, Presidents and Executive Vice Presidents. The Group's outstanding pension obligations to these individuals amount to 246.4 (183.3).

The cost for non-monetary benefits in the Group amounted to 1,615.0 (1,500.9) of which 43.9 (41.0) to Board members and Presidents.

The cost for non-monetary benefits in the Parent company amounted to 13.0 (11.2) of which 1.8 (1.0) to Board members and Presidents.

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### Note 35 Fees to the auditors

Audit fees	2007	2008
Audit fees to PricewaterhouseCoopers	109	105
Audit fees to other audit firms	3	2
<b>Total</b>	<b>112</b>	<b>107</b>
<b>Other fees to PricewaterhouseCoopers</b>		
Fees for audit related services	97	12
Fees for tax services	12	17
<b>Total</b>	<b>109</b>	<b>29</b>
<b>Fees and other remuneration to external auditors total</b>	<b>221</b>	<b>136</b>

Auditing assignments involve examination of the annual report and financial accounting and the administration by the Board and the President, other tasks related to the duties of a company auditor and consultation or other services that may result from observations noted during such examination or implementation of such other tasks. All other tasks are defined as other assignments.

### Note 36 Goals and policies in financial risk management

Apart from derivatives, Volvo's financial instruments consist of bank loans, financial leasing contracts, accounts payable, accounts receivable, shares and participations, as well as cash and short-term investments.

The primary risks deriving from the handling of financial instruments are interest-rate risk, currency risk, liquidity risk and credit risk. All of these risks are handled in accordance with an established financial policy.

#### Interest-rate risk

Interest-rate risk refers to the risk that changed interest-rate levels will affect consolidated earnings and cash flow (cash-flow risks) or the fair value of financial assets and liabilities (price risks). Matching the interest-fixing terms of financial assets and liabilities reduces the exposure. Interest-rate swaps are used to change/influence the interest-fixing term for the Group's financial assets and liabilities. Currency interest-rate swaps permit borrowing in foreign currencies from different markets without introducing currency risk. Volvo also has standardized interest-rate forward contracts (futures) and FRAs (forward-rate agreements). Most of these contracts are used to hedge interest-rate levels for short-term borrowing or investment.

#### Cash-flow risks

The effect of changed interest-rate levels on future currency and interest-rate flows refers mainly to the Group's customer financing operations and net financial items. Within the customer finance operations the degree of matching interest-rate fixing on borrowing and lending is measured. The calculation of the matching degree excludes equity, which in the customer finance operations amount to between 8 and 10%. According to the Group's policy, the degree of matching for interest-rate fixing on borrowing and lending in the customer-financing operations must exceed 80%. At year-end 2008, the degree of such matching was 100% (100). A part of the short-term financing of the customer financing operations can however be pertaining to internal loans from the industrial operations, why the matching ratio in the Volvo group then may be slightly lower. At year-end 2008, in addition to the assets in its customer-financing operations, Volvo's interest-bearing assets consisted primarily of cash, cash equivalents and liquid assets invested in short-term interest-bearing securities. The objective is to achieve an interest-fixing term of six months for the liquid assets in Volvo's industrial operations through the use of derivatives. On December 31, 2008, after taking derivatives into account, the average interest on these assets was 2.9% (4.4). After taking

derivatives into account, outstanding loans had interest terms corresponding to an interest-rate fixing term of six months and the average interest at year-end amounted to 4.1% (4.5).

#### Price risks

Exposure to price risks as result of changed interest-rate levels refers to financial assets and liabilities with a longer interest-rate fixing term (fixed interest). A comparison of the reported values and the fair values of all of Volvo's financial assets and liabilities, as well as its derivatives, is provided in note 37, Financial instruments. After the transition to IFRS in 2005, the market values agree with the book values.

Assuming that the market interest rates for all currencies suddenly rose by one percentage point (100 interest-rate points) over the interest-rate level on December 31, 2008, for the next 12-month period, all other variables remaining unchanged, Volvo's net interest income would be negatively impacted by 88 (negatively 25) considering an interest rate fixing term of six months. Assuming that the market interest rates for all currencies fell in a similar manner by one percentage point (100 interest-rate points), Volvo's net interest income would be positively impacted by a corresponding amount.

The following table shows the effect on income in Volvo's key financing currencies if the interest-rate level were to increase by 1 percentage point, not considering interest rate fixing terms.

SEK M	Effect on income
SEK	62
USD	(17)
EUR	(130)
CAD	(12)
JPY	(125)
KRW	8

The above sensitivity analysis is based on assumptions that rarely occur in reality. It is not unreasonable that market interest rates change with 100 interest-rate points over a 12-month period. However, in reality, market interest rates usually do not rise or fall at one point in time. Moreover, the sensitivity analysis also assumes a parallel shift in the yield curve and an identical effect of changed market interest rates on the interest-rates of both assets and liabilities. Consequently, the effect of actual interest-rate changes may deviate from the above analysis. Volvo uses derivatives to hedge currency and interest rate risks.

## Currency risks

The content of the reported balance sheet may be affected by changes in different exchange rates. Currency risks in Volvo's operations are related to changes in the value of contracted and expected future payment flows (commercial currency exposure), changes in the value of loans and investments (financial currency exposure) and changes in the value of assets and liabilities in foreign subsidiaries (currency exposure of shareholders' equity). The aim of Volvo's currency-risk management is to minimize, over the short term, negative effects on Volvo's earnings and financial position stemming from exchange-rate changes.

### Commercial currency exposure

In order to hedge the value of future payment flows in foreign currencies, Volvo uses forward contracts and currency options. For each currency, 75% of the forecast net flows for the coming six months are hedged and 50% for months seven to 12, while contracted flows after 12 months shall normally be hedged. As a consequence of the financial turmoil, Volvo will gradually and temporarily shift focus from hedging forecast flows to only hedge contracted flows.

The nominal amount of all outstanding forward and option contracts amounted to SEK 73.8 billion (63.1) at December 31, 2008. On the same date, the fair value of these contracts was negative in an amount of SEK 2,936 million (positive 266).

The table below presents the effect a change of the value of the Swedish krona in relation to other currencies would have on the fair value of outstanding contracts. In reality, currencies usually do not change in the same direction at any given time, so the actual effect of exchange-rate changes may differ from the below sensitivity analysis.

Change in value of SEK in relation to all foreign currencies, %	Fair value of outstanding contracts
(10)	(6,245)
0	(2,936)
10	373

### Financial currency exposure

Loans and investments in the Group's subsidiaries are done mainly through Volvo Treasury in local currencies, which minimizes individual companies' financial currency exposure. Volvo Treasury uses various derivatives, in order to facilitate lending and borrowing in different currencies without increase the company's own risk. The financial net position of the Volvo Group is affected by exchange rate fluctuations, since financial assets and liabilities are distributed among Group companies that conduct their operations in different currencies.

### Currency exposure of shareholders' equity

The consolidated value of assets and liabilities in foreign subsidiaries is affected by current exchange rates in conjunction with translation of assets and liabilities to Swedish kronor. To minimize currency exposure of shareholders' capital, the size of shareholders' equity in foreign subsidiaries is continuously optimized with respect to commercial and legal conditions. Currency hedging of shareholders' equity may occur in cases where a foreign subsidiary is considered overcapitalized. Net assets in foreign subsidiaries and associated companies amounted at year-end 2008 to SEK 66.0 billion (61.1). Of this amount, SEK 4.3 billion (3.8) was currency-hedged through loans in foreign currencies. Out of the loans used as hedging instruments SEK 3.3 billion are due in 2010 and the remaining SEK 1.0 billion in 2011. The need to undertake currency hedging relating to investments in associated companies and other companies is assessed on a case-by-case basis.

## Credit risks

Volvo's credit provision is steered by Group-wide policies and customer-classification rules. The credit portfolio should contain a sound distribution among different customer categories and industries. The credit risks are managed through active credit monitoring, follow-up routines and, where applicable, product reclamation. Moreover, regular monitoring ensures that the necessary provisions are made for incurred losses on doubtful receivables. In the tables below, ageing analyses are presented of accounts receivables overdue and customer finance receivables overdue in relation to the reserves made. It is not unusual that a receivable is settled a couple of days after due date, which affects the extent of the age interval 1–30 days.

The credit portfolio of Volvo's customer-financing operations amounted at December 31, 2008, to approximately SEK 98 billion (79) in the Volvo group and SEK 112 billion (91) in the segment Customer Finance. The difference is pertaining to the reclassification in the segment reporting of Customer Finance as operational leases are reclassified to financial leases in accordance with IAS 14 Segment Reporting. See note 1 for details regarding the accounting treatment. The credit risk of this portfolio is distributed over a large number of retail customers and dealers. Collaterals are provided in the form of the financed products. Credit provision aims for a balance between risk exposure and expected yield. The Volvo Group's financial assets are largely managed by Volvo Treasury and invested in the money and capital markets. All investments must meet the requirements of low credit risk and high liquidity. According to Volvo's credit policy, counterparties for investments and derivative transactions should have a rating of A or better from one of the well-established credit rating institutions.

The use of derivatives involves a counterparty risk, in that a potential gain will not be realized if the counterparty fails to fulfill its part of the contract. To reduce the exposure, master netting agreements are signed, wherever possible, with the counterparty in question. Counterparty risk exposure for futures contracts is limited through daily or monthly cash transfers corresponding to the value change of open contracts. The estimated gross exposure to counterparty risk relating to futures, interest-rate swaps and interest-rate forward contracts, options and commodities contracts amounted at December 31, 2008, to 3,798 (3,424), 2,763 (2,527), 229 (48) and 38 (113).

### Credit portfolio – Accounts receivable and Customer financing receivables

<b>Accounts receivable</b>	2007	2008
Accounts receivable gross	31,427	32,272
Valuation allowance for doubtful accounts receivable	(923)	(1,749)
<b>Accounts receivable net</b>	<b>30,504</b>	<b>30,523</b>

For details regarding the accounts receivable and the valuation for doubtful accounts receivable, refer to note 20.

<b>Customer financing receivables</b>	2007	2008
Customer financing receivables gross	80,210	99,931
Valuation allowance for doubtful customer financing receivables	(1,363)	(1,442)
<b>Customer financing receivables net</b>	<b>78,847</b>	<b>98,489</b>

## Notes to consolidated financial statements

<b>Change of valuation allowances for doubtful customer financing receivables</b>	2008
Balance sheet, December 31, preceding year	1,363
New valuation allowance charged to income	483
Reversal of valuation allowance charged to income	(39)
Utilization of valuation allowance related to actual losses	(475)
Translation differences	110
<b>Balance sheet, December 31</b>	<b>1,442</b>

For details regarding the long-term customer finance receivables and the short-term customer receivables, refer to Note 16 and 19.

### Age analysis of portfolio value - Accounts receivable and Customer financing receivables

	2007					2008				
	not due	1-30	31-90	>90	Total	not due	1-30	31-90	>90	Total
<b>Accounts receivable</b>										
Accounts receivable gross	27,520	1,930	704	1,273	<b>31,427</b>	27,045	2,008	1,266	1,953	<b>32,272</b>
Valuation allowance for doubtful accounts receivable	(214)	(39)	(71)	(599)	<b>(923)</b>	(400)	(63)	(79)	(1,207)	<b>(1,749)</b>
<b>Accounts receivable not recognized as impairment losses</b>	<b>27,306</b>	<b>1,891</b>	<b>633</b>	<b>674</b>	<b>30,504</b>	<b>26,645</b>	<b>1,945</b>	<b>1,187</b>	<b>746</b>	<b>30,523</b>
<b>Customer financing receivables payments due</b>										
Overdue amount	-	597	173	126	<b>896</b>	-	955	497	387	<b>1,839</b>
Valuation allowance for doubtful customer financing receivables	(159)	(46)	(70)	(115)	<b>(390)</b>	(82)	(65)	(149)	(146)	<b>(442)</b>
<b>Customer financing receivables not recognized as impairment losses</b>	<b>(159)</b>	<b>551</b>	<b>103</b>	<b>11</b>	<b>506</b>	<b>(82)</b>	<b>890</b>	<b>348</b>	<b>241</b>	<b>1,397</b>

The table above presents overdue payments within the customer financing operations in relation to specific reserves. The total contractual amount that the overdue payments are pertaining to are presented in the table below. In order to provide for occurred but not yet identified customer financing receivables overdues, there are additional reserves of 1,000 (973). The remaining exposure is secured by

liens on the purchased equipment, and, in certain circumstances, other credit enhancements such as personal guarantees, credit insurance, liens on other property owned by the borrower etc.

Collaterals taken in possession that meet the recognition criteria amounted to 748 (130) at December 31, 2008.

<b>Customer financing receivables total exposure</b>	2007					2008				
	not due	1-30	31-90	>90	Total	not due	1-30	31-90	>90	Total
Customer financing receivables	66,812	10,527	2,162	709	<b>80,210</b>	83,618	9,237	4,129	2,947	<b>99,931</b>

### Renegotiated financial assets

Financial assets that would otherwise have been overdue whose terms have been renegotiated amount to 2,826 (937) and are mainly related to renegotiated customer contracts within the customer finance operations.

## Concentration of credit risk

### Customer concentration

The ten largest customers in Customer Finance account for 4.7% (4.7) of the total asset portfolio. The rest of the portfolio is pertinent to a large number of customer. This way the credit risk is spread across both many markets and among many customers.

### Concentration by geographical market

The table below shows the concentration of the customer financing portfolio divided into geographical markets.

Geographical market	Percentage of customer financing portfolio
Europe	56.9
North America	29.7
Asia	6.1
Other markets	7.3

### Liquidity risks

Volvo assures itself of sound financial preparedness by always keeping a certain percentage of its sales in liquid assets. A sound balance between short- and long-term borrowing, as well as borrowing preparedness in the form of overdraft facilities, are intended to meet long-term financing needs.

The table below shows expected future cash-flows including derivatives related to financial liabilities. Capital flow refers to expected payments of loans and derivatives. Interest flow refers to the future interest payments on loans and derivatives based on interests rates expected by the market. The interest flow is reported within cash flow from operating activities.

See also note 26 for long-term loans maturity analysis and for credit facilities granted but not utilized as well as note 31 for contractual duration analysis of future rental payments of noncancellable finance lease agreements and operating lease agreements.

### Future cash-flow including derivatives related to financial liabilities

	Capital flow	Interest flow
2009	(60,475)	(4,735)
2010	(23,946)	(2,533)
2011	(19,318)	(1,827)
2012	(6,691)	(1,325)
2013	(9,804)	(1,094)
2014	(4,922)	(832)
2015-	(19,335)	(1,768)

## Notes to consolidated financial statements

### Note 37 Financial instruments

The financial assets treated within the framework of IAS 39 are classified either as financial assets at fair value through profit and loss, as loans and receivables, as investments held to maturity or as available-

for-sale financial assets. Financial liabilities are classified as financial liabilities at fair value through profit and loss or as financial liabilities valued at amortized cost.

#### Information regarding reported and fair values

In the table below, carrying values are compared with fair values of financial instruments.

	December 31, 2007		December 31, 2008	
	Carrying value	Fair value	Carrying value	Fair value
<b>Assets</b>				
<b>Financial assets at fair value through profit and loss</b>				
The Volvo Group's outstanding currency risk contracts – commercial exposure	1,192	1,192	2,280	2,280
The Volvo Group's outstanding raw materials contracts	113	113	38	38
The Volvo Group's outstanding interest risk contracts – financial exposure	2,685	2,685	4,510	4,510
Marketable securities	16,490	16,490	5,902	5,902
	20,480	20,480	12,730	12,730
<b>Loans receivable and other receivables</b>				
Accounts receivable	30,504	-	30,523	-
Customer financing receivables <sup>3</sup>	78,847	-	98,489	-
Loans to external parties and other interest-bearing receivables	525	-	384	-
Conduit loans and other interest-bearing loans	106	102	10	6
	109,982	102	129,406	6
<b>Financial assets available for sale</b>				
Shares and participations for which:				
a market value can be calculated <sup>1</sup>	1,030	1,030	661	661
a market value can not be calculated <sup>2</sup>	1,189	-	1,292	-
	2,219	1,030	1,953	661
<b>Cash and cash equivalents</b>	14,544	14,544	17,712	17,712
<b>Liabilities</b>				
<b>Financial liabilities at fair value through profit and loss</b>				
The Volvo Group's outstanding currency risk contracts – commercial exposure	924	924	5,216	5,216
The Volvo Group's outstanding raw materials contract	20	20	93	93
The Volvo Group's outstanding interest risk contracts – financial exposure	876	876	2,978	2,978
	1,820	1,820	8,287	8,287
<b>Financial liabilities valued at amortized cost</b>				
Long term bond loans and other loans	63,470	66,338	82,948	84,712
Short term bank loans and other loans	44,630	44,161	62,027	62,148
	108,100	110,499	144,975	146,860
<b>Trade Payables</b>	52,663	-	51,025	-

1 Refers to Volvo's ownership in Deutz AG valued at market value and Nissan Diesel's holdings in listed shares.

2 Unlisted, for which a reliable fair value can not be determined, are reported at acquisition value. No single block of shares represent a significant amount.

3 In the current environment of illiquid and highly volatile markets, it is not possible to provide accurate estimates of the price at which an orderly transaction would take place between willing participants. As such, fair value estimates have not been provided for the customer finance portfolio.

#### Derecognition of financial assets

Financial assets that have been transferred in such a way that part or all of the financial assets do not qualify for derecognition, are included in reported assets of the Volvo Group. In accordance with IAS 39 Financial Instruments, Recognition and Measurement, an evaluation is made whether substantially all the risks and rewards have been transferred to an external part. When Volvo has concluded that it is

not the case, the part of the financial assets that reflect Volvo's continuous involvement are being recognized. On December 31, 2008, Volvo recognizes SEK 3.9 (3.4) billion corresponding to Volvo's continuous involvement, mostly within the customer financing operations. Of this balance, SEK 3.8 (3.0) billion derives from credit guarantees for customer finance receivables that Nissan Diesel has entered into. A corresponding amount is reported as a financial liability.

#### Gains, losses, interest income and expenses related to financial instruments

The table below shows how gains and losses as well as interest income and expense have affected income after financial items in the Volvo Group divided on the different categories of financial instruments.

	2007			2008		
	Gains/ Losses	Interest income	Interest expenses	Gains/ Losses	Interest income	Interest expenses
<b>Financial assets and liabilities at fair value through profit and loss</b>						
Marketable securities	898	0	0	864	0	0
Derivatives for financial exposure	(403)	0	0	(924)	0	0
<b>Loans receivable and other receivables</b>	0	37	0	0	11	0
<b>Financial assets available for sale</b>						
Shares and participations for which a market value can be calculated	8	-	-	42	-	-
Shares and participations for which a market value cannot be calculated	98	-	-	60	-	-
<b>Cash and cash equivalents</b>	-	249	0	0	362	0
<b>Financial liabilities valued at amortized cost</b>	3	0	(4,048)	(1)	0	(5,083)
<b>Effect on income</b>	604	286	(4,048)	41	373	(5,083)

#### Net effect of foreign exchange gains and losses

Foreign exchange gains and losses pertaining to financial instruments have affected income after financial items in the Volvo Group according to the below below.

	2007	2008
Derivative instruments	1,364	(812)
Cash and cash equivalents	(191)	(421)
Loans originated by the company and Financial liabilities value at amortized cost – Volvo internal	(133)	12,373
Loans originated by the company and Financial liabilities value at amortized cost – External	(965)	(11,041)
<b>Effect on income</b>	<b>75</b>	<b>99</b>

Various categories of financial instruments are treated separately in specific notes. See note 15 for Shares and participations, notes 16 and 19 for Customer-financing receivables, note 20 for Other short-term receivables, note 21 for Marketable securities, note 22 for Cash and cash equivalents, note 26 for Non-current liabilities and note 27 for Current liabilities.

## Notes to consolidated financial statements

Below is a presentation of derivative instruments and options.

### Outstanding derivative instruments for dealing with currency and interest-rate risks related to financial assets and liabilities

	Dec 31, 2007		Dec 31, 2008	
	Notional amount	Carrying value	Notional amount	Carrying value
<b>Interest-rate swaps</b>				
- receivable position	103,738	2,519	47,441	2,752
- payable position	47,415	(512)	85,980	(2,038)
<b>Forwards and futures</b>				
- receivable position	21,776	8	19,443	11
- payable position	24,164	(6)	17,740	(32)
<b>Foreign exchange derivative contracts</b>				
- receivable position	18,521	359	32,671	1,608
- payable position	19,636	(595)	30,022	(766)
<b>Options purchased</b>				
- receivable position	503	11	1,675	139
- payable position	503	(11)	428	(26)
<b>Options written</b>				
- receivable position	647	2	42	0
- payable position	155	0	1,147	(116)
<b>Total</b>		<b>1,775</b>		<b>1,532</b>

### Outstanding forward contracts and options contracts for hedging of currency risk and interest risk of commercial receivables and liabilities

	Dec 31, 2007		Dec 31, 2008	
	Notional amount	Carrying value	Notional amount	Carrying value
<b>Foreign exchange derivative contracts</b>				
- receivable position	28,826	3,065	25,712	2,190
- payable position	31,146	(2,819)	41,773	(4,710)
<b>Options purchased</b>				
- receivable position	1,726	35	3,142	90
- payable position	-	-	-	-
<b>Options written</b>				
- receivable position	-	-	-	-
- payable position	1,382	(15)	3,214	(506)
<b>Subtotal</b>		<b>266</b>		<b>(2,936)</b>
<b>Raw materials derivative contracts</b>				
- receivable position	208	113	85	38
- payable position	530	(19)	443	(93)
<b>Total</b>		<b>360</b>		<b>(2,991)</b>

## Hedge accounting

### Cash-flow hedging

Derivative financial instruments used for hedging of forecasted commercial cash-flows and electricity consumption have, in accordance with IAS 39, been reported at fair value, which is debited or credited to a separate component of equity to the extent the requirements for cash-flow hedge accounting are fulfilled.

Accumulated changes in the value of the hedging instruments are booked to the income statement of the same time as the underlying hedged transaction affects the Group results.

The table in note 23, Shareholders' equity shows how the currency risk reserve has changed during the year.

To the extent that the requirements for hedge accounting are not met, any changes in value attributable to derivatives are immediately charged to the income statement.

The hedged amount of projected future flows for all periods are within the framework of Volvo's currency policy.

Volvo tests all cash-flow hedges for effectiveness when they are entered into. Hedging is considered to be effective when the projected future cash flow's currency fluctuation and maturity date coincide with those of the hedging instrument. The hedging relationship is regularly tested up until its maturity date. If the identified relationships are no longer deemed effective, the currency fluctuations on the hedging instrument from the last period the instrument was considered effective are reported in the Group's income statement. For 2008, Volvo reported 22 (20) in revenue related to the ineffectiveness of cash-flow hedging. Hedging of forecasted electricity is considered to be effective when predetermined factors that affect electricity prices are in agreement with forecasts of future electricity consumption and designated derivative instruments. The hedging relationship is regularly tested up until its maturity date. If the identified relationships are no longer deemed effective, the currency fluctuations on the hedging instrument from the last period the instrument was considered effective are reported in the group's income statement. For 2008, Volvo reported 1 (0) related to the ineffectiveness of the hedging of forecasted electricity consumption.

## The Volvo Group's outstanding forward contracts and options contracts for hedging of commercial currency risks

Million		Currencies				Other	Fair value
		USD	GBP	EUR	JPY	currencies Net SEK	
Due date 2009	amount	1,754	185	888	(7,030)	5,944	
Due date 2010	amount	(12)	(12)	(4)	-	347	
Due date 2011	amount	(7)	(4)	-	-	0	
<b>Total</b>		<b>1,735</b>	<b>169</b>	<b>884</b>	<b>(7,030)</b>	<b>6,291</b>	
Average contract rate		6.69	11.97	9.48	0.07		
<b>Fair value of outstanding forward contracts</b>		<b>(1,460)</b>	<b>55</b>	<b>(1,191)</b>	<b>131</b>	<b>(471)</b>	<b>(2,936)</b>

### Hedging of currency and interest rate risks on loans

Volvo has chosen to apply hedge accounting for a loan of 1 billion euro borrowed in the second quarter 2007. Fair value of the outstanding hedge instrument amounts to 1,088 (159). Volvo has also applied hedge accounting for hedge of a currency risk in future repayment of a loan in foreign currency for which the outgoing fair value of the hedge instrument amounts 40 (neg 148). This hedge is designated as a cash-flow hedge and changes in fair value has affected the cash-flow hedge reserve within equity.

Volvo has not applied hedge accounting for financial instruments used to hedge interest and currency risks on loans before. Changes in market value on the instruments used for hedging of risk in financial assets and liabilities for which hedge accounting has not been applied are reported in net financial income and expense, see note 11. Going forward, in applicable cases when the requirements for hedge accounting are considered to be fulfilled, Volvo will consider to apply hedge accounting for this kind of instruments.

### Hedging of net investments in foreign operations

Volvo applies hedge accounting for certain net investments in foreign operations. Current earnings from such hedging shall be accounted for in a separate item within shareholders' equity. A total of neg 473 (neg 59) in shareholders' equity relating to hedging of net investments in foreign operations was reported in 2008.

# Parent Company AB Volvo

Corporate registration number 556012-5790.

## Board of Directors' report

AB Volvo is Parent Company of the Volvo Group and its operations comprise the Group's head office with staff together with some corporate functions.

Other operating income and expenses include expenses of 117 (USD 19,6 M) due to the settlements reached by AB Volvo with the US authorities during the first quarter. The settlements include fines and disgorgement of past profits on contracts from two of the subsidiaries' activities in Iraq under the Oil-for-Food Program.

In the beginning of 2008, AB Volvo divested the shares in the subsidiary Mack Trucks Inc to Volvo Holding USA AB for 3,225 corresponding to book value. Volvo Holding USA AB is a wholly-owned subsidiary in the Volvo group.

In the third quarter the shares in Volvo Korea Holding AB with a book value of 2,655 were transferred from the subsidiary Volvo Group Finance Europe BV (VGFE). The shares in VGFE were written down to zero and the company was liquidated, which resulted in an income of net 1,659 in the parent company.

Income from investments in Group companies includes dividends amounting to 15,356 (841), Group contributions and transfer price adjustments, net of neg 1,521 (5,944), a capital gain of 2,662 from the liquidation of VGFE and write-downs of shareholdings of 1,003 (135). The dividends were received from Volvo Holding Sverige AB, 12,935, Volvo Construction Equipment NV, 1,134 and from Sotrof AB, 1,041.

The carrying value of shares and participations in Group companies amounted to 46,122 (47,011), of which 45,596 (46,461) pertained to shares in wholly owned subsidiaries. The corresponding shareholders' equity in the subsidiaries (including equity in untaxed reserves but excluding minority interests) amounted to 92,009 (94,345).

Other shares and participations include the direct and indirect acquisition of Volvo Eicher Commercial Vehicles (VECV) for total amount of 1,845. In the consolidated accounts of the Volvo group, VECV is reported as a joint venture and consolidated according proportional method. The indirect ownership is an effect of the acquisition of 8.1% of Eicher Motors Limited, which is the other venturer of VECV. These shares are not separately valued as they form a part of the indirect ownership in VECV.

Shares and participations in non-Group companies included 199 (214) in associated companies that are reported in accordance with the equity method in the consolidated accounts. The portion of shareholders' equity in associated companies accruing to AB Volvo totaled 303 (286). Shares and participations in non-Group companies include listed shares in Deutz AG with a carrying value of 212, corresponding to the quoted market price at year-end. In 2008 revaluation of the ownership has decreased the value by 324, recognized in equity.

Financial net debt amounted to 11,510 (20,894).

AB Volvo's risk capital (shareholders' equity plus untaxed reserves) amounted to 38,273 corresponding to 65% of total assets. The comparable figure at year-end 2007 was 59%.

## Income statements

SEK M		2007	2008
<b>Net sales</b>		781	790
Cost of sales		(781)	(790)
<b>Gross income</b>		0	0
Selling expenses		(5)	-
Administrative expenses	Note 2	(619)	(524)
Other operating income and expenses	Note 3	13	(126)
Income from investments in Group companies	Note 4	6,651	15,494
Income from investments in associated companies	Note 5	(118)	(59)
Income from other investments	Note 6	0	30
<b>Operating income</b>		5,922	14,815
Interest income and similar credits	Note 7	13	2
Interest expenses and similar charges	Note 7	(527)	(845)
Other financial income and expenses	Note 8	36	97
<b>Income after financial items</b>		5,444	14,069
Allocations	Note 9	(1,230)	2,530
Income taxes	Note 10	(1,022)	226
<b>Income for the period</b>		3,192	16,825

# Balance sheets

SEK M		December 31, 2007	December 31, 2008	
<b>Assets</b>				
Non-current assets				
Intangible assets	Note 11	0		<b>110</b>
Tangible assets	Note 11	17		<b>16</b>
Financial assets				
Shares and participations in Group companies	Note 12	47,011		<b>46,122</b>
Other shares and participations	Note 12	772		<b>2,280</b>
Deferred tax assets	Note 10	199		<b>234</b>
Other long-term receivables		11	47,993	<b>11</b>
<b>Total non-current assets</b>			48,010	<b>48,773</b>
Current assets				
Short-term receivables from Group companies			10,814	<b>9,561</b>
Current tax receivables			539	<b>364</b>
Other short-term receivables	Note 13		210	<b>222</b>
Cash and bank accounts			10	<b>0</b>
<b>Total current assets</b>			11,573	<b>10,147</b>
<b>Total assets</b>			59,583	<b>58,920</b>
<b>Shareholders' equity and liabilities</b>				
Shareholders' equity				
Restricted equity				
Share capital (2,128,420,220 shares, quota value SEK 1:20)		2,554		<b>2,554</b>
Statutory reserve		7,337	9,891	<b>7,337</b>
Unrestricted equity				
Non-restricted reserves		359		<b>135</b>
Retained earnings		18,703		<b>10,718</b>
Income for the period		3,192	22,254	<b>16,825</b>
<b>Total shareholders' equity</b>			32,145	<b>37,569</b>
Untaxed reserves	Note 14		3,234	<b>704</b>
Provisions				
Provisions for pensions	Note 15	179		<b>178</b>
Other provisions		23	202	<b>0</b>
Non-current liabilities				
Liabilities to Group companies	Note 16		6	<b>7</b>
Current liabilities				
Trade payables		112		<b>80</b>
Other liabilities to Group companies		23,563		<b>20,166</b>
Other current liabilities	Note 17	321	23,996	<b>216</b>
<b>Total shareholders' equity and liabilities</b>			59,583	<b>58,920</b>
Assets pledged			-	<b>-</b>
Contingent liabilities	Note 18		192,071	<b>253,489</b>

## Changes in Shareholders' equity

SEK M	Restricted equity		Unrestricted equity				Total shareholders' equity
	Share capital	Statutory reserve	Share premium reserve	Fair value reserve	Retained earnings	Total	
<b>Balance at December 31, 2006</b>	<b>2,554</b>	<b>7,337</b>	<b>40</b>	<b>475</b>	<b>38,830</b>	<b>39,345</b>	<b>49,236</b>
Share reduction	(426)	-	-	-	426	0	0
Bonus issue	426	-	-	-	(426)	0	0
Dividends and payment for redemption of shares to Volvo's shareholders	-	-	-	-	(20,255)	(20,255)	(20,255)
Share-based payments	-	-	48	-	128	176	176
Revaluation of shares in listed companies	-	-	-	(204)	-	(204)	(204)
Income for the period	-	-	-	-	3,192	3,192	3,192
<b>Balance at December 31, 2007</b>	<b>2,554</b>	<b>7,337</b>	<b>88</b>	<b>271</b>	<b>21,895</b>	<b>22,254</b>	<b>32,145</b>
Cash dividend	-	-	-	-	(11,150)	(11,150)	(11,150)
Share-based payments	-	-	100	-	(27)	73	73
Revaluation of shares in listed companies	-	-	-	(324)	-	(324)	(324)
Income for the period	-	-	-	-	16,825	16,825	16,825
<b>Balance at December 31, 2008</b>	<b>2,554</b>	<b>7,337</b>	<b>188</b>	<b>(53)</b>	<b>27,543</b>	<b>27,678</b>	<b>37,569</b>

Further information regarding the share capital of the Parent company is shown in note 23 to the consolidated financial statements.

# Cash-flow statements

SEK M		2007		2008
<b>Operating activities</b>				
Operating income		5,922		<b>14,815</b>
Depreciation and amortization		1		<b>7</b>
Other adjustments of operating income	Note 19	451		<b>5,191</b>
Changes in working capital:				
(Increase)/decrease in receivables		(131)		<b>(11)</b>
Increase/(decrease) in liabilities and provisions		(84)		<b>(47)</b>
Interest and similar items received		202		<b>116</b>
Interest and similar items paid		(711)		<b>(960)</b>
Other financial items		36		<b>97</b>
Income taxes paid/received		(1,614)		<b>367</b>
<b>Cash-flow from operating activities</b>		<b>4,072</b>		<b>19,575</b>
<b>Investing activities</b>				
Investments in fixed assets		(1)		<b>(116)</b>
Shares and participations in Group companies, net	Note 19	(2,927)		<b>2,391</b>
Shares and participations in non-Group companies, net	Note 19	1,814		<b>(1,892)</b>
Interest-bearing receivables including marketable securities, net	Note 19	(13)	(1,127)	<b>13</b>
<b>Cash-flow after net investments</b>		<b>2,945</b>		<b>19,971</b>
<b>Financing activities</b>				
Increase/(decrease) in loans	Note 19	17,291		<b>(8,831)</b>
Cash payment to AB Volvo shareholders		(20,255)	(2,964)	<b>(11,150)</b>
<b>Change in liquid funds</b>		<b>(19)</b>		<b>(10)</b>
<b>Liquid funds, January 1</b>		<b>29</b>		<b>10</b>
<b>Liquid funds, December 31</b>		<b>10</b>		<b>0</b>

## Liquid funds

Liquid funds include cash and bank balances and deposits at Volvo Treasury.

## Notes and comments

### General information

Amounts in SEK M unless otherwise specified. The amounts within parentheses refer to preceding year.

#### Intra-Group transactions

Of the Parent Company's net sales, 707 (677) pertained to Group companies while purchases from Group companies amounted to 406 (421).

#### Fees to external auditors

Fees and other remunerations paid to PricewaterhouseCoopers for the fiscal year of 2008 totaled 23 (107), of which 16 (18) for auditing and 7 (89) related to non-audit services.

### Note 1 Accounting principles

The accounting principles applied by Volvo are described in note 1 to the consolidated financial statements.

The Parent Company also applies RFR 2.1 including the exception in the application of IAS 39 which concerns accounting and valuation of financial contracts of guarantee in favour of subsidiaries and associated companies.

The share-based incentive programs adopted at the Annual General Meeting as from 2004 are covered by IFRS 2 Share-based payments.

The Volvo Group has adopted IAS 19 Employee Benefits in its financial reporting. The parent company is still applying the principles of FAR SRS's Recommendation No. 4 "Accounting of pension liabilities and pension costs" as in previous years. Consequently there are differences between the Volvo Group and the Parent Company in the accounting for defined-benefit pension plans as well as in valuation of plan assets invested in the Volvo Pension Foundation.

The difference between depreciation according to plan and tax depreciation is reported as accumulated additional depreciation, which is included in untaxed reserves. In the consolidated balance sheet a split is made between deferred tax liability and equity.

Reporting of Group contributions is in accordance with a statement issued by the Swedish Financial Reporting Board. Group contributions are reported among Income from investments in Group companies.

### Note 2 Administrative expenses

Administrative expenses include depreciation of 7 (1) of which 0 (1) pertain to machinery and equipment, 1 (0) to buildings and 6 (-) to other intangible assets.

### Note 3 Other operating income and expenses

Other operating income and expenses include profit-sharing payments to employees in the amount of 0 (1).

## Note 4 Income from investments in Group companies

Of the income reported, 15,356 (841) pertain to dividends from Group companies. Of the dividends, 12,935 pertain to dividend from Volvo Holding Sverige AB, 1,134 from Volvo Construction Equipment NV and 1,041 from Sotrof AB. The shares in Volvo Group Finance Europe BV (VGFE) have been written down by 1,003. In 2007, the shares in

VFS Servizi Finanziari Spa and Volvo Information Technology AB were written down by 22 and 113, respectively.

Transfer price adjustments and Group contributions total a net of neg 1,521 (5,944). The liquidation of VGFE resulted in a gain of 2,662.

## Note 5 Income from investments in associated companies

Income from associated companies that are reported in the Group accounts in accordance with the equity method amounted to neg 59 (neg 118). The participations in Blue Chip Jet I HB amounted to neg 1 (104) and in Blue Chip Jet II HB to neg 58 (neg 80). In 2007, divestment of shares in Nissan Diesel to N.A. KK, a wholly-owned Japanese subsidiary, resulted in a capital loss of 142.

## Note 6 Income from other investments

Dividend of 30 was received from Deutz AG.

## Note 7 Interest income and expenses

Interest income and similar credits amounting to 2 (13) included interest in the amount of 1 (10) from subsidiaries, and interest expenses and similar charges totalling 845 (527) included interest of 837 (521) to subsidiaries.

## Note 8 Other financial income and expenses

Other financial income and expenses include exchange rate differences on loans, guarantee commissions from subsidiaries, financial income pertaining to changed taxable income previous years, costs

for confirmed credit facilities as well as costs of having Volvo shares registered.

## Note 9 Allocations

	2007	2008
Allocation to additional depreciation	0	0
Tax allocation reserves	(1,230)	2,530
<b>Total</b>	<b>(1,230)</b>	<b>2,530</b>

## Notes and comments

### Note 10 Income taxes

	2007	2008
Current taxes	(1,024)	191
Deferred taxes	2	35
<b>Total income taxes</b>	<b>(1,022)</b>	<b>226</b>

Current taxes were distributed as follows:

	2007	2008
Current taxes for the period	(1,036)	-
Adjustment of current taxes for prior periods	12	191
<b>Total current taxes</b>	<b>(1,024)</b>	<b>191</b>

Claims as a consequence of tax audit carried out previously for which provisions are not deemed necessary amount to 184 (-). The amount is included in contingent liabilities.

Deferred taxes relate to estimated tax on the change in tax-loss carryforwards and temporary differences. Deferred tax assets are reported to the extent that it is probable that the amount can be utilized against future taxable income.

Deferred taxes related to change in tax-loss carryforwards amount to 78 (-) and to changes in other temporary differences to neg 43 (2).

The table below shows the principal reasons for the difference between the corporate income tax (28%) and the tax for the period.

	2007	2008
Income before taxes	4,214	16,599
Income tax according to applicable tax rate (28%)	(1,180)	(4,648)
Capital gains/losses	(35)	746
Non-taxable dividends	235	4,308
Non-taxable revaluations of shareholdings	(42)	(281)
Other non-deductible expenses	(15)	(83)
Other non-taxable income	3	8
Adjustment of current taxes for prior periods	12	191
Recognition and derecognition of deferred tax assets due to change in tax rate	-	(15)
<b>Income taxes for the period</b>	<b>(1,022)</b>	<b>226</b>

Specification of deferred tax assets	2007	2008
Tax-loss carryforwards	-	78
Valuation allowance for doubtful receivables	1	1
Provision for post-employment benefits	198	155
<b>Deferred tax assets</b>	<b>199</b>	<b>234</b>

### Note 11 Intangible and tangible assets

Acquisition cost	Value in balance sheet 2007	Capital expenditures	Sales/scrapping	Value in balance sheet 2008
Rights	52	-	-	52
Other intangible assets	-	116	-	116
<b>Total intangible assets</b>	<b>52</b>	<b>116</b>	<b>-</b>	<b>168</b>
Buildings	6	-	-	6
Land and land improvements	3	-	-	3
Machinery and equipment	46	0	(1)	45
<b>Total tangible assets</b>	<b>55</b>	<b>0</b>	<b>(1)</b>	<b>54</b>

Accumulated depreciation	Value in balance sheet 2007 <sup>1</sup>	Depreciation <sup>2</sup>	Sales/scrapping	Value in balance sheet 2008	Net carrying value in balance sheet 2008 <sup>3</sup>
Rights	52	-	-	52	0
Other intangible assets	-	6	-	6	110
<b>Total intangible assets</b>	<b>52</b>	<b>6</b>	<b>-</b>	<b>58</b>	<b>110</b>
Buildings	1	1	-	2	4
Land and land improvements	0	0	-	0	3
Machinery and equipment	37	0	(1)	36	9
<b>Total tangible assets</b>	<b>38</b>	<b>1</b>	<b>(1)</b>	<b>38</b>	<b>16</b>

The assessed value of buildings was 3 (3) and of land 2 (2). Capital expenditures in intangible and tangible assets amounted to 116 (-) and 0 (1) respectively. Capital expenditure in intangible assets relate to a competition clause included in the agreement with Eicher Motors Limited. Capital expenditures approved but not yet implemented at year-end 2008 amounted to 2 (2).

1 Including accumulated write-downs.

2 Including write-downs.

3 Acquisition value, less accumulated depreciation, amortization and write-downs.

## Note 12 Investments in shares and participations

Holdings of shares and participations are specified in AB Volvo's holding of shares. Changes in holdings of shares and participations are shown below.

	Group companies		Non-Group companies	
	2007	2008	2007	2008
Balance December 31, previous year	40,419	47,011	6,400	772
Acquisitions/New issue of shares	2,909	2,660	148	1,891
Divestments	(1)	(3,225)	(2,103)	-
Shareholder contributions	342	679	-	-
Write-downs/Participations in partnerships	(151)	(1,003)	24	(59)
Revaluation of shares in listed companies	-	-	(204)	(324)
Reclassification, Nissan Diesel	3,493	-	(3,493)	-
<b>Balance, December 31</b>	<b>47,011</b>	<b>46,122</b>	<b>772</b>	<b>2,280</b>

### Shares and participations in Group companies

The shares in Volvo Korea Holding AB with a book value of SEK 2,655 were transferred from Volvo Group Finance Europe BV (VGFE). The shares in VGFE were written down completely with 1,003 whereupon the company has been liquidated.

During the year, newly issued shares in Volvo Bussar AB was acquired with the amount of 5.

As of January 31, 2008, AB Volvo divested the shares in the subsidiary Mack Trucks Inc to Volvo Holding USA AB for 3,225 corresponding to book value. Volvo Holding USA AB is a wholly-owned subsidiary in the Volvo group.

Shareholders' contributions were made in 2008 with 529 to Volvo Italia Spa and with 150 to Volvo Powertrain AB.

**2007:** During the first quarter 2007, 2,886 was transferred to N.A.KK, a wholly-owned newly-formed Japanese company, whose main business is to acquire and hold the shares in Nissan Diesel. The parent company's holding in Nissan Diesel (19%) with a carrying value of 2,001 was sold to N.A.KK and remaining shares consisting of preference shares with a carrying value of 3,493, were reclassified from shares in non-Group companies to shares in Group companies at the time Nissan Diesel was consolidated in the balance sheet of the Volvo Group.

During the year, Ericsson AB's share in Alviva AB was acquired by AB Volvo with the amount of 23. Alviva AB was established in 2002 as a joint venture between AB Volvo (51%) and Ericsson AB (49%) in order to pursue healthcare.

Shareholders' contributions were made in 2007 with 35 to VNA Holding Inc and with 307 to Volvo Financial Services AB.

Write-downs were carried out at year-end on the holdings in Volvo Penta UK Ltd, 16, VFS Servizi Finanziari Spa 22, and Volvo Information Technology AB, 113.

### Shares and participations in non-Group companies

Other shares and participations include the direct and indirect holdings of VE Commercial Vehicles (VECV) for total amount of 1,845. In the consolidated accounts of the Volvo group, VECV is reported as a joint venture and consolidated according to the proportionate method. The indirect ownership is an effect of the acquisition of 8.1% of Eicher Motors Limited, which is the other venturer of VECV. These shares are not separately valued as they form a part of the indirect ownership VECV.

Blue Chip Jet II HB was capitalized during 2008 with 43. The participations in the partnerships Blue Chip Jet I HB and Blue Chip Jet II HB decreased during the year by a net of 59.

The revaluation of AB Volvo's ownership in the listed company Deutz AG has decreased the value by 324 during 2008.

**2007:** The participations in the partnerships Blue Chip Jet I HB and Blue Chip Jet II HB increased during the year by a net of 24.

Blue Chip Jet II HB was capitalized with 145. Repayment of 102 was received from Blue Chip Jet I HB.

The revaluation of AB Volvo's ownership in the listed company Deutz AG decreased the value by 204 during 2007.

## Notes and comments

### Note **13** Other short-term receivables

	2007	2008
Accounts receivable	26	35
Prepaid expenses and accrued income	180	162
Other receivables	4	25
<b>Total</b>	<b>210</b>	<b>222</b>

The valuation allowance for doubtful receivables amounted to 5 (5) at the end of the year.

### Note **14** Untaxed reserves

<b>The composition of, and changes in, untaxed reserves</b>	Value in balance sheet 2007	Allocations 2008	Value in balance sheet 2008
Tax allocation reserve	3,230	(2,530)	700
Accumulated additional depreciation			
Land	3	-	3
Machinery and equipment	1	0	1
<b>Total</b>	<b>3,234</b>	<b>(2,530)</b>	<b>704</b>

### Note **15** Provisions for pensions

Provisions for pensions and similar benefits correspond to the actuarially calculated value of obligations not insured with third parties or secured through transfers of funds to pension foundations. The amount of pensions falling due within one year is included. AB Volvo has insured the pension obligations with third parties. Of the amount reported, 41 (0) pertains to contractual obligations within the framework of the PRI (Pension Registration Institute) system.

The Volvo Pension Foundation was formed in 1996. Plan assets amounting to 224 were contributed to the foundation at its formation, corresponding to the value of the pension obligations at that time.

Since its formation, net contributions of 25 have been made to the foundation.

AB Volvo's pension costs amounted to 95 (96).

The accumulated benefit obligation of all AB Volvo's pension obligations at year-end 2008 amounted to 570, which has been secured in part through provisions for pensions and in part through funds in pension foundations. Net asset value in the Pension Foundation, marked to market, accruing to AB Volvo was 42 lower than the corresponding pension obligations. A provision was recorded to cover this deficit.

## Note 16 Non-current liabilities

Non-current debt matures as follows:

2014 or later	7
<b>Total</b>	<b>7</b>

## Note 17 Other current liabilities

	2007	2008
Wages, salaries and withholding taxes	78	62
Other liabilities	103	2
Accrued expenses and prepaid income	140	152
<b>Total</b>	<b>321</b>	<b>216</b>

No collateral is provided for current liabilities.

## Note 19 Cash-flow

<b>Other adjustments of operating income</b>	2007	2008
Revaluation of shareholdings	127	1,061
Gain/loss on sale of shares	125	(2,661)
Group contributions and transfer price adjustments, current year	(8,061)	(1,351)
Payments of previous year's Group contributions and transfer price adjustments	8,124	8,061
Other	136	81
<b>Total</b>	<b>451</b>	<b>5,191</b>

Further information is provided in notes 4, 5 and 6.

<b>Shares and participations in Group companies, net</b>	2007	2008
Investments	(2,944)	(841)
Disposals	17	3,232
<b>Net investments in shares and participations in Group companies</b>	<b>(2,927)</b>	<b>2,391</b>

Investments and sales of shares in Group companies are shown in note 12.

## Note 18 Contingent liabilities

Of the contingent liabilities amounting to 253,489 (192,071), 253,186 (191,976) pertained to Group companies.

Guarantees for various credit programs are included in amounts corresponding to the credit limits. These guarantees amount to 246,646 (185,971), of which guarantees on behalf of Group companies totaled 246,536 (185,884).

At the end of each year, the utilized portion amounted to 126,880 (84,397), including 126,762 (84,302) pertaining to Group companies.

### Shares and participations in non-Group companies, net

	2007	2008
Investments	(147)	(1,892)
Disposals	1,961	-

### Net investments in shares and participations in non-Group companies

	<b>1,814</b>	<b>(1,892)</b>
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Investments and sales of shares in non-Group companies are presented in note 12.

### Interest-bearing receivables including marketable securities, net

New loans granted	(318)	-
Amortization received	305	13

### Change in interest-bearing receivables, net

	<b>(13)</b>	<b>13</b>
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### Increase /decrease in loans

New loans	17,609	2
Amortization	(318)	(8,833)
<b>Change in loans, net</b>	<b>17,291</b>	<b>(8,831)</b>

## Notes and comments

### Note 20 Financial risks and instruments

Volvo's accounting policies for financial instruments are described in note 1, note 36 and note 37 to the consolidated financial statements. Hedging transactions in AB Volvo are carried out through Volvo Treas-

ury AB. The Parent Company has used interest-rate swaps to hedge financial liabilities of Group companies. Maturities of these swaps are during 2009.

#### Outstanding derivative instruments for hedging of financial currency risks and interest rate risks related to financial assets and liabilities

	December 31, 2007			December 31, 2008		
	Notional amount	Carrying value	Fair value	Notional amount	Carrying value	Fair value
Interest-rate swaps						
- payable position	5,110	(2)	(2)	1,551	(1)	(1)

### Note 21 Personnel

Wages, salaries and other remunerations amounted to 227 (203). Social costs amounted to 140 (137) of which pension costs, 95 (96). Of the pension costs 32 (27) pertained to Board members and Presidents. The Company's outstanding pension obligations to these individuals amounted to 1 (1).

The number of employees at year-end was 196 (182). Information on the average number of employees, wages, salaries and other remunerations including option programs as well as Board members and senior executives by gender is shown in note 34 to the consolidated financial statements.

Absence due to illness	2007	2008
Total absence due to illness in percentage of regular working hours	1.8	1.5
of which, continuous sick leave for 60 days or more, %	62.1	33.5
Absence due to illness in percentage of regular working hours		
Men, %	0.5	0.9
Women, %	3.2	2.1
29 years or younger, %	0.2	0.7
30-49 years, %	1.2	1.7
50 years or older, %	3.2	1.3

# AB Volvo's holding of shares

AB Volvo's holding of shares and participations in non-Group companies <sup>1</sup>	Registration number	Percentage holding <sup>2</sup>	Dec 31, 2007	Dec 31, 2008
			Carrying value, SEK M	Carrying value, SEK M
Deutz AG, Germany	-	7	536	212
Blue Chip Jet II HB, Sweden	969717-2105	50	212	198
Other investments			24	22
<b>Total carrying value, Non-Group companies</b>			<b>772</b>	<b>432</b>

1 AB Volvo's holdings of shares and participations include the direct and indirect holdings of VE Commercial Vehicles (VECV). AB Volvo's direct holdings in VECV amount to SEK 1,845 M. In the consolidated accounts of the Volvo group, VECV is reported as a joint venture, consolidated according to the proportionate method, and accordingly included in the table for group companies below.

2 Percentage figures refer to share capital as well as voting rights.

AB Volvo's holding of shares and participations in major Group companies	Registration number	Percentage holding	Dec 31, 2007	Dec 31, 2008
			Carrying value, SEK M	Carrying value, SEK M
<b>Volvo Lastvagnar AB, Sweden</b>	556013-9700	100	8,678	8,678
Volvo Truck Center Sweden AB, Sweden	556072-7777	100	-	-
Volvo Finland AB, Finland	-	100	-	-
Volvo Trucks Center Hamburg GmbH, Germany	-	100	-	-
Volvo Group Belgium NV, Belgium	-	100	-	-
Volvo Group UK Ltd, Great Britain	-	100	-	-
Volvo Otomotiv Turk Ltd STI, Turkey	-	100	-	-
Volvo India Ltd, India	-	100	-	-
<b>Volvo Holding Sverige AB, Sweden</b>	556539-9853	100	7,634	7,634
Volvo Logistics AB, Sweden	556197-9732	100	-	-
BRS Ltd, Great Britain	-	100	-	-
Volvo Construction Equipment North America, Canada	-	100	-	-
Volvo Polska Sp. O.O., Poland	-	100	-	-
Volvo (Southern Africa) Pty Ltd, South Africa	-	100	-	-
Volvo do Brasil Veiculos Ltda, Brazil	-	100	-	-
Banco Volvo (Brasil) SA, Brazil	-	100	-	-
Volvo Trucks Canada Inc., Canada	-	100	-	-
Volvo Road Machinery Ltd, Canada	-	100	-	-
Prévost Car Inc, Canada	-	100	-	-
Volvo Commercial Vehicles Australia Pty, Australia	-	100	-	-
<b>Volvo Holding France SA, France</b>	-	100	-	-
Volvo Trucks France SAS, France	-	100	-	-
Volvo Compact Equipment SAS, France	-	100	-	-
Volvo CE Europe SAS, France	-	100	-	-
VFS Finance France SAS, France	-	100	-	-
VFS Location France SAS, France	-	100	-	-

## Notes and comments

AB Volvo's holding of shares and participations in major Group companies (cont.)	Registration number	Percentage holding	Dec 31, 2007	Dec 31, 2008
			Carrying value, SEK M	Carrying value, SEK M
<b>Renault Trucks, France</b>	-	100	-	-
Renault Trucks Deutschland GmbH, Germany	-	100	-	-
Renault Trucks Polska SP Z OO, Poland	-	100	-	-
Renault Trucks, España, Spain	-	100	-	-
Renault Trucks Italia Spa, Italy	-	100	-	-
<b>Mack Trucks Inc, USA<sup>1</sup></b>	-	100	3,225	-
<b>Nissan Diesel Motor Ltd, Japan</b>	-	100	3,493	3,493
Kanto Nissan Diesel Co.,Ltd., Japan	-	100	-	-
Tokai Nissan Diesel Co.,Ltd., Japan	-	100	-	-
Chubu Nissan Diesel, Japan	-	100	-	-
Kinki Nissan Diesel Co.,Ltd., Japan	-	100	-	-
Kyushu Nissan Diesel Co., Ltd., Japan	-	100	-	-
DRD Co., Ltd, Japan	-	100	-	-
Nissan Diesel Trucks Co., Ltd, Japan	-	100	-	-
Nissan Diesel South Africa (Pty) Ltd., South Africa	-	80	-	-
<b>Volvo Bussar AB, Sweden</b>	556197-3826	100	1,877	1,882
<b>Volvo Construction Equipment NV, The Netherlands</b>	-	100	2,582	2,582
Volvo Construction Equipment AB, Sweden	556021-9338	100	-	-
Volvo Maskin AS, Norway	-	100	-	-
Volvo Construction Equipment Europe Ltd, Great Britain	-	100	-	-
Volvo Construction Equipment Europe GmbH, Germany	-	100	-	-
ABG Allgemeinen Baumaschinen GmbH, Germany	-	100	-	-
Volvo Compact Equipment GmbH & Co KG, Germany	-	100	-	-
<b>AB Volvo Penta, Sweden</b>	556034-1330	100	421	421
<b>Volvo Aero AB, Sweden</b>	556029-0347	100	2,885	2,885
Volvo Aero Norge AS, Norway	-	78	-	-
<b>VNA Holding Inc., USA</b>	-	100	2,491	2,491
Volvo Trucks North America Inc, USA	-	100	-	-
Arrow Truck Sales, Inc., USA	-	100	-	-
Mack Trucks Inc, USA <sup>1</sup>	-	100	-	-
Volvo Construction Equipment North America Inc., USA	-	100	-	-
Volvo Penta of The Americas Inc., USA	-	100	-	-
Volvo Aero Services LP, USA	-	100	-	-
Volvo Commercial Finance LLC The Americas, USA	-	100	-	-
VFS US LLC, USA	-	100	-	-
VFS Leasing Co., USA	-	100	-	-

AB Volvo's holding of shares and participations in major Group companies (cont.)	Registration number	Percentage holding	Dec 31, 2007	Dec 31, 2008
			Carrying value, SEK M	Carrying value, SEK M
<b>Volvo Financial Services AB, Sweden</b>	556000-5406	100	1,720	1,720
VFS International AB, Sweden	556316-6064	100	-	-
VFS Nordic AB, Sweden	556579-1778	100	-	-
VFS Financial Services BV, The Netherlands	-	100	-	-
VFS Financial Services Belgium NV, Belgium	-	100	-	-
VFS Financial Services (UK) Ltd, Great Britain	-	100	-	-
VFS Deutschland GmbH, Germany	-	100	-	-
VFS Financial Services Spain EFC, SA Spain	-	100	-	-
Volvo Finance (Suisse) SA, Switzerland	-	100	-	-
VFS Vostok, Russia	-	100	-	-
VFS Romania, Romania	-	100	-	-
VFS Canada Inc, Canada	-	100	-	-
VE Commercial Vehicles, Ltd, India <sup>2,7</sup>	-	50	-	-
NA Co Ltd, Japan	-	100	2,886	2,886
Volvo Treasury AB, Sweden	556135-4449	100	3,044	3,044
Sotrof AB, Sweden	556519-4494	100	1,388	1,388
Volvo Group Real Estate AB, Sweden	556006-8313	100	-	-
Volvo Group Finance Europe BV, The Netherlands	-	100	1,003	-
Volvo Korea Holding AB, Sweden	556531-8572	100	-	2,655
Volvo Construction Equipment Korea Co Ltd, South Korea	-	100	-	-
Volvo China Investment Co Ltd, China	-	100	523	523
Shanghai Sunwin Bus Co, China <sup>2</sup>	-	50	-	-
XIAN Silver Bus Co, China <sup>2</sup>	-	50	-	-
Shandong Lingong Construction Machinery, China	-	85	-	-
Volvo Automotive Finance (China) Ltd, China	-	100	491	491
Volvo Truck & Bus Ltd, Great Britain <sup>3</sup>	-	100	413	413
Volvo Holding Mexico, Mexico	-	100	388	388
Volvo Technology Transfer AB, Sweden	556542-4370	100	361	361
Volvo Powertrain AB, Sweden	556000-0753	100	348	498
Volvo Information Technology AB, Sweden	556103-2698	100	163	163
Volvo Parts AB, Sweden	556365-9746	100	200	200
Volvo Group Insurance Försäkrings AB, Sweden	516401-8037	100	182	182
Volvo Business Services AB, Sweden	556029-5197	100	107	107
Volvo Danmark Holding AS, Denmark	-	100	104	104
VFS Servizi Finanziari Spa, Italy <sup>4</sup>	-	100	79	79
Kommersiella Fordon Europa AB, Sweden	556049-3388	100	89	89
Volvo Norge AS, Norway	-	100	56	56
Volvo Malaysia Sdn, Malaysia	-	100	48	48
ZAO Volvo Vostok, Russia <sup>5</sup>	-	100	34	34
Volvo Italia Spa, Italy	-	100	27	556
Rossareds Fastighets AB, Sweden	556009-1190	100	26	26
Alviva AB, Sweden	556622-8820	100	24	24
Volvo East Asia (Pte) Ltd, Singapore	-	100	9	9
Volvo Automotive Holding BV, The Netherlands	-	100	3	3
Volvo Information Technology GB Ltd, Great Britain	-	100	3	3
Other holdings			6	6
<b>Total carrying value Group companies<sup>6</sup></b>			<b>47,011</b>	<b>46,122</b>

1 As from 2008, Mack Trucks Inc is owned by VNA Holding Inc.

2 Joint venture, reported in accordance with the proportionate consolidation method in Volvo's consolidated accounts.

3 Total holding by VTC Holding and AB Volvo is 100%.

4 Total holding by Volvo Italia and AB Volvo is 100%.

5 Total holding by AB Volvo and Volvo Trucks Regional Central Europe is 100%.

6 AB Volvo's share of shareholders' equity in subsidiaries (including equity in untaxed reserves) was 92,009 (94,345).

7 AB Volvo's holdings of shares and participations include the direct and indirect holdings of VE Commercial Vehicles (VECV). AB Volvo's direct holdings in VECV amount to SEK 1,845 M. In the consolidated accounts of the Volvo group, VECV is reported as a joint venture, consolidated according to the proportionate method, and accordingly included in the table for group companies above.

# Proposed remuneration policy

## **Proposal by the Board of Directors of AB Volvo to be adopted by the Annual General Meeting April 1, 2009**

This Policy concerns the remuneration and other terms of employment for the Group Executive Committee of the Volvo Group. The members of the Group Executive Committee, including the President and any possible Executive Vice President, are in the following referred to as the "Executives".

This Policy will be valid for employment agreements entered into after the approval of the Policy by the Annual General Meeting and for changes made to existing employment agreements thereafter.

### **1. Guiding principles for remuneration and other terms of employment**

The guiding principle is that the remuneration and the other terms of employment for the Executives shall be competitive in order to ensure that the Volvo Group can attract and retain competent Executives.

The annual report 2008 sets out details on the total remuneration and benefits awarded to the Executives during 2008.

### **2. The principles for fixed salaries**

The Executive's fixed salary shall be competitive and based on the individual Executive's responsibilities and performance.

### **3. The principal terms of variable salary and incentive schemes, including the relation between fixed and variable components of the remuneration and the linkage between performance and remuneration**

The Executives may receive variable salaries in addition to fixed salaries. The variable salary may, as regards the President, amount to a maximum of 65% of the fixed annual salary and, as regards the other Executives, a maximum of 50% of the fixed annual salary.

The variable salary may be based on i.a. the performance of the entire Volvo Group or the performance of the Business Area or Business Unit where the Executive is employed. The performance will be related to the fulfilment of various improvement targets or the attainment of certain financial objectives. Such targets will be set by the Board and may relate to i.a. operating income or cash flow.

The Board will, for each financial year, evaluate whether a share or share-price related incentive program comprising the year in question will be proposed to the Annual General Meeting or not. The Annual General Meeting decides upon such programs. The Board of Directors has decided to propose that the Annual General Meeting 2009 approves the adoption of a share-based incentive program relating to the financial year 2009.

The Executives are also participating in Volvo's Profit Sharing Program (VPS), which applies to the majority of the Volvo Group's employees and which can give a maximum individual result of SEK 8,500 per year, provided AB Volvo's return on equity (ROE) amounts to 20% or more. Results under VPS are principally placed in Volvo shares and they can be disposed of on the individual level after three years, at the earliest.

### **4. The principal terms of non-monetary benefits, pension, notice of termination and severance pay**

#### **4.1 Non-monetary benefits**

The Executives will be entitled to customary non-monetary benefits such as company cars and company health care. In addition thereto in individual cases company housing and other benefits may also be offered.

#### **4.2 Pension**

In addition to pension benefits which the Executives are entitled to according to law and collective bargaining agreements, Executives resident in Sweden may be offered defined-contribution plans with annual premiums amounting to SEK 30,000 plus 20% of the pensionable salary over 30 income base amounts. In the defined-contribution plan, the pension earned will correspond to the sum of paid-in premiums and possible return

without any guaranteed level of pension received by the employee. In the defined-contribution plan, no definite retirement date is set.

Some of the Executives have earlier been entitled to defined-benefit pension plans, but the majority of the Executives have re-negotiated these to the new system of defined-contribution plans. In connection therewith, agreements have in some cases been reached on individual adjusting premiums in accordance with actuarial calculations.

Previous pension agreements for certain Executives stipulated that early retirement could be obtained from the age of 60. Such agreements are no longer signed and the majority of the Executives that earlier were entitled to such defined-benefits pension plans have agreed to exchange these for defined-contribution plans without any defined point of time for retirement. The premium amounts to 10% of the pensionable salary plus individual adjusting premiums based on actuarial calculations in some cases.

Executives resident outside Sweden or resident in Sweden but having a material connection to or having been resident in a country other than Sweden may be offered pension benefits that are competitive in the country where the Executives are or have been resident or to which the Executives have a material connection, preferably defined-contribution plans.

### **4.3 Notice of termination and severance pay**

For Executives resident in Sweden, the termination period from the Company will be 12 months and 6 months from the Executive. In addition thereto, the Executive, provided that termination has been made by the Company, will be entitled to 12 months severance pay.

Executives resident outside Sweden or resident in Sweden but having a material connection to or having been resident in a country other than Sweden may be offered notice periods for termination and severance payment that are competitive in the country where the Executives are or have been resident or to which the Executives have a material connection, preferably solutions comparable to the solutions applied to Executives resident in Sweden.

### **5. The Board's preparation and decision-making on issues concerning remuneration and other terms of employment for the Group Executive Committee**

The Remuneration Committee recommends and the Board decides, on the remuneration and other terms of employment for the President and any possible Executive Vice President. The Remuneration Committee decides on the remuneration and other terms of employment for the other members of the Group Executive Committee, in accordance with the principles decided by the Board.

The Remuneration Committee is further responsible for the review and recommendation to the Board of share and share-price related incentive programs to be decided upon by the Annual General Meeting.

### **6. Deviations from this Policy**

The Board of Directors may deviate from this Policy, except as regards section 3, third paragraph, if there are specific reasons to do so in an individual case.

### **7. Information on earlier decisions on remuneration that has not become due for payment at the time of the Annual General Meeting's consideration of this Policy**

The decisions already taken on remuneration to the Executives fall within the frames of this policy, except that some of the Executives have a right to receive 24 months severance pay provided they are above 50 years of age.

The policy concerning remuneration and other terms of employment for the Group Executive Committee decided at the Annual General Meeting 2008 is provided in note 34 Personnel.

# Proposed disposition of unappropriated earnings

AB Volvo	SEK M
Retained earnings	10,853
Income for the period 2008	16,825
<b>Total</b>	<b>27,678</b>

The Board of Directors and the President propose that the above sum be disposed of as follows:

	SEK M
To the shareholders, a dividend of SEK 2.00 per share	4,055
To be carried forward	23,623
<b>Total</b>	<b>27,678</b>

The record date for determining who is entitled to receive dividends is proposed to be Monday, April 6, 2009.

In view of the Board of Directors' proposal to the Annual General Meeting to be held April 1, 2009 to decide on the distribution of a dividend of SEK 2.00 per share, the Board hereby makes the following statement in accordance with Chapter 18, Section 4 of the Swedish Companies Act.

The Board concludes that the Company's restricted equity is fully covered after the proposed dividend. The Board further concludes that the proposed dividend is justifiable in view of the parameters set out in Chapter 17, Section 3, second and third paragraphs of the Swedish Companies Act. In connection herewith, the Board wishes to point out the following.

The proposed dividend reduces the Company's solvency from 63.8 per cent to 61.1 per cent and the Group's solvency from 22.7 per cent to 21.9 per cent, calculated as per year end 2008. The Board of Directors considers this solvency to be satisfactory with regard to the business in which the Group is active.

According to the Board of Directors' opinion, the proposed dividend will not affect the Company's or the Group's ability to fulfil their payment obligations and the Company and the Group are well prepared to handle both changes in the liquidity and unexpected events.

The Board of Directors is of the opinion that the Company and the Group have capacity to assume future business risks as well as to bear contingent losses. The proposed dividend is not expected to adversely affect the Company's and the Group's ability to make further commercially justified investments in accordance with the Board of Directors' plans.

In addition to what has been stated above, the Board of Directors has considered other known circumstances which may be of importance for the Company's and the Group's financial position. These circumstances include the prevailing financial crisis and the expected future weaker earnings trend.

If the Annual General Meeting resolves in accordance with the Board of Directors' proposal, SEK 23,623 M will remain of the Company's non-restricted equity, calculated as per year end 2008.

The Board of Directors has the view that the Company's and the Group's shareholders' equity will, after the proposed dividend, be sufficient in relation to the nature, scope and risks of the business.

Had the assets and liabilities not been estimated at their market value pursuant to Chapter 4, Section 14 a of the Swedish Annual Accounts Act, the company's shareholders' equity would have been SEK 50,659,436.00 more.

The Board of Directors and the President certify that the annual financial report has been prepared in accordance with generally accepted accounting principles and that the consolidated accounts have been prepared in accordance with the international set of accounting standards referred to in Regulation (EC) No 1606/2002 of the European Parliament and of the Council of 19 July 2002 on the application of international accounting standards, and give a true and fair view of the position and profit or loss of the Company and the Group, and that the management report for the Company and for the Group gives a fair review of the development and performance of the business, position and profit or loss of the Company and the Group, and describes the principal risks and uncertainties that the Company and the companies in the Group face.

Göteborg, March 4, 2009

Finn Johnsson  
Board Chairman

Peter Bijur  
Board member

Tom Hedelius  
Board member

Philippe Klein  
Board member

Leif Johansson  
President and CEO of the  
Volvo Group and  
Board member

Louis Schweitzer  
Board member

Ravi Venkatesan  
Board member

Lars Westerberg  
Board member

Ying Yeh  
Board member

Martin Linder  
Board member

Olle Ludvigsson  
Board member

Johnny Rönnkvist  
Board member

Our audit report was issued on March 4, 2009

PricewaterhouseCoopers AB

Göran Tidström  
Authorized Public Accountant  
Lead Partner

Olov Karlsson  
Authorized Public Accountant  
Partner

# Audit report for AB Volvo

We have audited the annual accounts, the consolidated accounts, the accounting records and the administration of the Board of Directors and the President of AB Volvo for the year 2008. The annual accounts and the consolidated accounts of the Company is included on pages 24–63 and 74–141 of the printed version of this document. The Board of Directors and the President are responsible for these accounts and the administration of the Company as well as for the application of the Annual Accounts Act when preparing the annual accounts and the application of international financial reporting standards IFRSs as adopted by the EU and the Annual Accounts Act when preparing the consolidated accounts. Our responsibility is to express an opinion on the annual accounts, the consolidated accounts and the administration, based on our audit.

We conducted our audit in accordance with generally accepted auditing standards in Sweden. Those standards require that we plan and perform the audit to obtain reasonable assurance that the annual accounts and the consolidated accounts are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the accounts. An audit also includes assessing the accounting principles used and their application by the Board of Directors and the President, and significant estimates made by the Board of Directors and the President when preparing the annual accounts and consolidated accounts, as well as evaluating the overall presentation of information in the annual accounts and consolidated accounts. As a basis for our opinion con-

cerning discharge from liability, we examined significant decisions, actions taken and circumstances of the Company in order to be able to determine the liability, if any, to the Company of any Board member, or the President. We also examined whether any Board member or the President has, in any other way, acted in contravention of the Companies Act, the Annual Accounts Act, or the Company's Articles of Association. We believe that our audit provides a reasonable basis for our opinion set out below.

The annual accounts have been prepared in accordance with the Annual Accounts Act and give a true and fair view of the Company's financial position and results of operations in accordance with generally accepted accounting principles in Sweden. The consolidated accounts have been prepared in accordance with international financial reporting standards IFRS as adopted by the EU and the Annual Accounts Act and give a true and fair view of the Group's financial position and results of operations. The Board of Directors' Report is consistent with the other parts of the annual accounts and the consolidated accounts.

We recommend to the annual general meeting of shareholders that the income statements and balance sheets of the Parent Company and the Group be adopted, that the profit of the Parent Company be dealt with in accordance with the proposal in the Board of Directors' Report, and that the members of the Board of Directors and the President be discharged from liability for the financial year.

Göteborg, March 4, 2009

PricewaterhouseCoopers AB

Göran Tidström  
Authorized Public Accountant  
Lead Partner

Olov Karlsson  
Authorized Public Accountant  
Partner

# Eleven-year summary

The eleven-year summary presents each year in accordance with General Accepted Accounting Practice for that year. Earlier years are not restated when new accounting standards are applied. The years 1998–2003 are accounted for in accordance with Swedish GAAP for the respective year. As from 2004 the reporting is based on IFRS. The transition to IFRS is described in note 3 in the Annual Reports 2005 and 2006. As from January 1, 2007, the benefits from the synergies created

in the business units are transferred back to the product areas. Also, as from January 1, 2007, the responsibility for the Group's treasury operations and real estate has been transferred from Financial services, which, as from January 1, 2007, only are consolidated in accordance with the purchase method. Comparison figures for 2006 have been recalculated.

## Consolidated income statements

SEK M	1998	1999	2000	2001	2002	2003	2004	2005	2006	2007	2008
<b>Net sales</b>	<b>212,936</b>	<b>125,019</b>	<b>130,070</b>	<b>189,280</b>	<b>186,198</b>	<b>183,291</b>	<b>211,076</b>	<b>240,559</b>	<b>258,835</b>	<b>285,405</b>	<b>303,667</b>
Cost of sales	(163,876)	(99,501)	(104,548)	(155,592)	(151,569)	(146,879)	(164,170)	(186,662)	(199,054)	(219,600)	(237,578)
<b>Gross income</b>	<b>49,060</b>	<b>25,518</b>	<b>25,522</b>	<b>33,688</b>	<b>34,629</b>	<b>36,412</b>	<b>46,906</b>	<b>53,897</b>	<b>59,781</b>	<b>65,805</b>	<b>66,089</b>
Research and development expenses	(10,104)	(4,525)	(4,876)	(5,391)	(5,869)	(6,829)	(7,614)	(7,557)	(8,354)	(11,059)	(14,348)
Selling expenses	(19,042)	(8,865)	(10,140)	(15,766)	(16,604)	(16,866)	(19,369)	(20,778)	(21,213)	(26,068)	(27,129)
Administrative expenses	(8,091)	(4,791)	(4,974)	(6,709)	(5,658)	(5,467)	(5,483)	(6,301)	(6,551)	(7,133)	(6,940)
Other operating income and expenses	(2,634)	(611)	622	(4,096)	(4,152)	(1,367)	(618)	(588)	(3,466)	163	(1,915)
Income (loss) from investments in associated companies	444	567	444	50	182	200	27	(557)	61	430	25
Income from other investments	4,526	170	70	1,410	309	(3,579)	830	37	141	93	69
Income from divestment of subsidiaries	-	26,695	-	-	-	-	-	-	-	-	-
Restructuring costs	(2,331)	-	-	(3,862)	-	-	-	-	-	-	-
<b>Operating income (loss)</b>	<b>11,828</b>	<b>34,158</b>	<b>6,668</b>	<b>(676)</b>	<b>2,837</b>	<b>2,504</b>	<b>14,679</b>	<b>18,153</b>	<b>20,399</b>	<b>22,231</b>	<b>15,851</b>
Interest income and similar credits	1,268	1,812	1,588	1,275	1,217	1,096	821	654	666	952	1,171
Interest expenses and similar charges	(1,315)	(1,505)	(1,845)	(2,274)	(1,840)	(1,888)	(1,254)	(972)	(585)	(1,122)	(1,935)
Other financial income and expenses	(162)	131	(165)	(191)	(201)	(55)	(1,210)	181	(181)	(504)	(1,077)
<b>Income (loss) after financial items</b>	<b>11,619</b>	<b>34,596</b>	<b>6,246</b>	<b>(1,866)</b>	<b>2,013</b>	<b>1,657</b>	<b>13,036</b>	<b>18,016</b>	<b>20,299</b>	<b>21,557</b>	<b>14,010</b>
Income taxes	(3,140)	(2,270)	(1,510)	326	(590)	(1,334)	(3,129)	(4,908)	(3,981)	(6,529)	(3,994)
<b>Income (loss) for the period</b>	<b>8,479</b>	<b>32,326</b>	<b>4,736</b>	<b>(1,540)</b>	<b>1,423</b>	<b>323</b>	<b>9,907</b>	<b>13,108</b>	<b>16,318</b>	<b>15,028</b>	<b>10,016</b>
Attributable to											
Equity holders of the parent company	8,437	32,222	4,709	(1,467)	1,393	298	9,867	13,054	16,268	14,932	9,942
Minority interest	42	104	27	(73)	30	25	40	54	50	96	74
	<b>8,479</b>	<b>32,326</b>	<b>4,736</b>	<b>(1,540)</b>	<b>1,423</b>	<b>323</b>	<b>9,907</b>	<b>13,108</b>	<b>16,318</b>	<b>15,028</b>	<b>10,016</b>

## Consolidated income statements Industrial operations

SEK M	1998	1999	2000	2001	2002	2003	2004	2005	2006	2007	2008
<b>Net sales</b>	<b>205,712</b>	<b>116,382</b>	<b>120,392</b>	<b>180,615</b>	<b>177,080</b>	<b>174,768</b>	<b>202,171</b>	<b>231,191</b>	<b>249,020</b>	<b>276,795</b>	<b>294,932</b>
Cost of sales	(158,077)	(92,772)	(97,131)	(149,477)	(145,453)	(141,256)	(158,453)	(180,823)	(192,400)	(214,160)	(232,247)
<b>Gross income</b>	<b>47,635</b>	<b>23,610</b>	<b>23,261</b>	<b>31,138</b>	<b>31,627</b>	<b>33,512</b>	<b>43,718</b>	<b>50,368</b>	<b>56,620</b>	<b>62,635</b>	<b>62,685</b>
Research and development expenses	(10,104)	(4,525)	(4,876)	(5,391)	(5,869)	(6,829)	(7,614)	(7,557)	(8,354)	(11,059)	(14,348)
Selling expenses	(18,468)	(8,117)	(9,285)	(14,663)	(15,393)	(15,891)	(18,317)	(19,616)	(19,999)	(24,671)	(25,597)
Administrative expenses	(7,950)	(4,632)	(4,651)	(6,474)	(5,464)	(5,259)	(5,310)	(6,147)	(6,481)	(7,092)	(6,921)
Other operating income and expenses	(2,515)	(587)	309	(3,071)	(2,989)	(540)	7	(397)	(3,275)	249	(1,457)
Income from Financial Services	681	1,066	1,499	325	490	926	1,365	2,033	-	-	-
Income (loss) from investments in associated companies	354	478	341	(86)	126	166	2	(568)	61	428	23
Income from other investments	4,526	170	70	1,408	309	(3,581)	828	37	141	93	69
Income from divestment of subsidiaries	-	26,695	-	-	-	-	-	-	-	-	-
Restructuring costs	(2,331)	-	-	(3,862)	-	-	-	-	-	-	-
<b>Operating income (loss)</b>	<b>11,828</b>	<b>34,158</b>	<b>6,668</b>	<b>(676)</b>	<b>2,837</b>	<b>2,504</b>	<b>14,679</b>	<b>18,153</b>	<b>18,713</b>	<b>20,583</b>	<b>14,454</b>

## Eleven-year summary

### Consolidated balance sheets

SEK M	1998	1999	2000	2001	2002	2003	2004	2005	2006	2007	2008
Intangible assets	5,778	6,618	6,925	17,525	17,045	16,756	17,612	20,421	19,117	36,508	43,958
Property, plant and equipment	36,207	19,788	22,231	33,234	30,799	30,640	31,151	35,068	34,379	47,210	57,270
Assets under operating leases	22,285	12,337	14,216	27,101	23,525	21,201	19,534	20,839	20,501	22,502	25,429
Shares and participations	3,393	29,213	30,481	27,798	27,492	22,206	2,003	751	6,890	2,219	1,953
Inventories	32,128	21,438	23,551	31,075	28,305	26,459	28,598	33,937	34,211	43,645	55,045
Customer-financing receivables	46,798	34,313	41,791	48,784	46,998	46,002	51,193	64,466	64,742	78,847	98,489
Interest-bearing receivables	4,735	18,617	19,228	8,079	5,490	6,632	3,384	1,897	4,116	4,530	5,101
Other receivables	34,197	24,019	26,352	39,946	33,990	32,621	35,747	42,881	42,567	55,152	61,560
Non-current assets held for sale	-	-	-	-	-	-	-	-	805	-	-
Liquid funds	20,224	29,269	15,968	27,383	25,578	28,735	34,746	36,947	31,099	31,034	23,614
<b>Assets</b>	<b>205,745</b>	<b>195,612</b>	<b>200,743</b>	<b>260,925</b>	<b>239,222</b>	<b>231,252</b>	<b>223,968</b>	<b>257,207</b>	<b>258,427</b>	<b>321,647</b>	<b>372,419</b>
Shareholders' equity <sup>1</sup>	70,235	98,236	88,931	85,576	78,525	72,636	70,155	78,760	87,188	82,781	84,640
Provision for post-employment benefits	2,936	2,130	2,632	14,647	16,236	15,288	14,703	11,986	8,692	9,774	11,705
Other provisions	25,187	14,832	14,941	18,427	16,721	15,048	14,993	18,556	20,970	27,084	29,076
Interest-bearing liabilities	64,230	53,345	66,233	81,568	72,437	74,092	61,807	74,885	66,957	108,318	145,727
Liabilities associated with assets held for sale	-	-	-	-	-	-	-	-	280	-	-
Other liabilities	43,157	27,069	28,006	60,707	55,303	54,188	62,310	73,020	74,340	93,690	101,271
<b>Shareholders' equity and liabilities</b>	<b>205,745</b>	<b>195,612</b>	<b>200,743</b>	<b>260,925</b>	<b>239,222</b>	<b>231,252</b>	<b>223,968</b>	<b>257,207</b>	<b>258,427</b>	<b>321,647</b>	<b>372,419</b>
<sup>1</sup> of which minority interests	860	544	593	391	247	216	229	260	284	579	630
Assets pledged	5,388	3,930	2,990	3,737	3,610	3,809	3,046	3,255	1,960	1,556	1,380
Contingent liabilities	6,737	6,666	6,789	10,441	9,334	9,611	9,189	7,850	7,726	8,153	9,427

### Consolidated balance sheets, Industrial operations

SEK M	1998	1999	2000	2001	2002	2003	2004	2005	2006	2007	2008
Intangible assets	5,692	6,518	6,781	17,366	16,919	16,662	17,570	20,348	19,054	36,441	43,909
Property, plant and equipment	33,944	17,318	19,652	30,370	27,789	27,248	27,260	31,330	30,493	47,132	57,185
Assets under operating leases	1,817	1,611	4,245	15,020	11,155	8,976	8,477	10,260	11,822	13,850	16,967
Shares and participations	11,744	35,296	37,366	35,145	34,750	30,022	10,116	10,357	16,565	2,189	1,935
Inventories	31,883	21,053	22,998	30,557	27,564	25,848	28,291	33,583	33,893	43,264	54,084
Customer-financing receivables	384	9	15	114	99	118	230	1,377	1,193	1,233	975
Interest-bearing receivables	4,715	18,617	19,286	12,426	8,495	9,413	12,127	7,691	13,214	13,701	6,056
Other receivables	31,398	21,075	24,882	38,815	34,256	33,079	36,535	43,992	43,335	55,970	60,586
Non-current assets held for sale	-	-	-	-	-	-	-	-	805	-	-
Liquid funds	15,439	24,465	10,958	24,874	24,154	28,102	34,628	36,047	29,907	30,026	22,575
<b>Assets</b>	<b>137,016</b>	<b>145,962</b>	<b>146,183</b>	<b>204,687</b>	<b>185,181</b>	<b>179,468</b>	<b>175,234</b>	<b>194,985</b>	<b>200,281</b>	<b>243,806</b>	<b>264,272</b>
Shareholders' equity	70,179	98,236	88,931	85,576	78,525	72,636	70,155	78,760	87,188	75,129	75,046
Provision for post-employment benefits	2,904	2,118	2,619	14,632	16,218	15,264	14,677	11,966	8,661	9,746	11,677
Other provisions	19,435	9,861	8,277	14,085	13,893	12,792	14,115	17,164	19,385	25,372	27,015
Interest-bearing liabilities	5,018	12,206	18,233	29,710	22,494	24,677	13,968	13,097	9,779	38,286	46,749
Liabilities associated with assets held for sale	-	-	-	-	-	-	-	-	280	-	-
Other liabilities	39,480	23,541	28,123	60,684	54,051	54,099	62,319	73,998	74,988	95,273	103,785
<b>Shareholders' equity and liabilities</b>	<b>137,016</b>	<b>145,962</b>	<b>146,183</b>	<b>204,687</b>	<b>185,181</b>	<b>179,468</b>	<b>175,234</b>	<b>194,985</b>	<b>200,281</b>	<b>243,806</b>	<b>264,272</b>

## Eleven-year summary

### Consolidated cash-flow statements

SEK bn	1998	1999	2000	2001	2002	2003	2004	2005	2006	2007	2008
Operating income <sup>1</sup>	11.8	7.5	6.7	(0.7)	2.8	2.5	14.7	18.2	20.4	22.2	15.9
Depreciation and amortization	9.6	5.2	6.3	10.0	10.8	10.2	10.0	9.9	12.4	12.5	13.5
Other items not affecting cash	(4.9)	(0.3)	(0.4)	0.5	2.0	4.9	(0.1)	0.4	0.7	(0.5)	(0.2)
Change in working capital	1.5	(1.0)	(3.3)	6.4	1.0	0.4	(1.4)	(4.7)	(7.7)	(9.9)	(23.3)
Customer financing receivables, net	(12.8)	(7.1)	(4.5)	(3.7)	(5.7)	(4.3)	(7.4)	(7.8)	-	-	-
Financial items and income tax	(2.0)	(1.7)	(1.3)	(2.1)	(1.3)	(0.9)	(0.5)	(2.0)	(4.3)	(5.9)	(5.2)
<b>Cash-flow from operating activities</b>	<b>3.2</b>	<b>2.6</b>	<b>3.5</b>	<b>10.4</b>	<b>9.6</b>	<b>12.8</b>	<b>15.3</b>	<b>14.0</b>	<b>21.5</b>	<b>18.4</b>	<b>0.7</b>
Investments in fixed assets	(10.5)	(4.9)	(5.4)	(8.1)	(6.7)	(6.0)	(7.4)	(10.3)	(10.0)	(10.1)	(12.7)
Investments in leasing assets	(12.7)	(5.6)	(5.7)	(5.8)	(5.2)	(5.3)	(4.4)	(4.5)	(4.6)	(4.8)	(5.4)
Disposals of fixed assets and leasing assets	2.6	1.6	2.1	2.6	3.2	2.9	2.4	2.6	3.2	2.9	2.9
Shares and participations, net	5.5	(25.9)	(1.6)	3.9	(0.1)	(0.1)	15.1	0.3	(5.8)	0.4	0.0
Acquired and divested subsidiaries and other business units, net	(5.6)	31.0	0.0	13.0	(0.2)	0.0	(0.1)	0.7	0.5	(15.0)	(1.3)
Interest-bearing receivables including marketable securities	3.5	(16.9)	11.7	(3.7)	(1.5)	(2.0)	(6.4)	(1.3)	7.7	3.6	10.9
<b>Cash-flow after net investments</b>	<b>(14.0)</b>	<b>(18.1)</b>	<b>4.6</b>	<b>12.3</b>	<b>(0.9)</b>	<b>2.3</b>	<b>14.5</b>	<b>1.5</b>	<b>12.5</b>	<b>(4.6)</b>	<b>(4.9)</b>
Increase (decrease) in loans	19.5	16.3	8.1	6.2	(0.1)	1.9	(8.8)	3.6	(2.6)	28.7	18.2
Repurchase of own shares	-	-	(11.8)	(8.3)	-	-	(2.5)	(1.8)	-	-	-
Cash dividend/payment to AB Volvo's shareholders	(2.2)	(2.6)	(3.1)	(3.4)	(3.4)	(3.4)	(3.4)	(5.1)	(6.8)	(20.3)	(11.1)
Other	(0.2)	(0.1)	0.0	0.1	0.1	0.1	0.0	0.0	0.0	0.0	0.0
<b>Change in cash and cash equivalents excluding translation differences</b>	<b>3.1</b>	<b>(4.5)</b>	<b>(2.2)</b>	<b>6.9</b>	<b>(4.3)</b>	<b>0.9</b>	<b>(0.2)</b>	<b>(1.8)</b>	<b>3.1</b>	<b>3.8</b>	<b>2.2</b>
Translation differences on cash and cash equivalents	0.3	(0.2)	0.3	0.6	(0.7)	(0.6)	(0.2)	1.1	(0.5)	0.0	1.0
<b>Change in cash and cash equivalents</b>	<b>3.4</b>	<b>(4.7)</b>	<b>(1.9)</b>	<b>7.5</b>	<b>(5.0)</b>	<b>0.3</b>	<b>(0.4)</b>	<b>(0.7)</b>	<b>2.6</b>	<b>3.8</b>	<b>3.2</b>

1 1999, excluding gain on sale of Volvo Cars of SEK 26.7 billion.

### Operating cash-flow Industrial operations

SEK bn	1998	1999	2000	2001	2002	2003	2004	2005	2006	2007	2008
Operating income	11.1	6.4	5.2	(1.0)	2.3	1.6	13.3	16.1	18.7	20.6	14.5
Depreciation and amortization	6.4	3.1	3.8	7.0	7.8	7.2	7.1	7.3	9.8	10.3	11.8
Other items not affecting cash	(5.5)	(0.5)	(1.6)	0.0	1.0	4.1	(0.6)	0.2	0.2	(0.4)	(0.7)
Change in working capital	0.4	(1.6)	(3.0)	6.8	0.4	0.7	(1.4)	(5.6)	(3.1)	(0.1)	(10.9)
Financial items and income taxes	(2.3)	(1.7)	(0.8)	(2.3)	(1.1)	(0.7)	(0.2)	(1.9)	(3.7)	(6.0)	(5.0)
<b>Cash flow from operating activities</b>	<b>10.1</b>	<b>5.7</b>	<b>3.6</b>	<b>10.5</b>	<b>10.4</b>	<b>12.9</b>	<b>18.2</b>	<b>16.1</b>	<b>21.9</b>	<b>24.4</b>	<b>9.7</b>
Investments in fixed assets	(10.2)	(4.7)	(5.1)	(7.7)	(6.3)	(5.8)	(7.2)	(9.9)	(9.7)	(10.1)	(12.6)
Investments in leasing assets	(0.9)	(0.5)	(0.6)	(0.5)	(0.1)	(0.1)	(0.3)	(0.3)	(0.5)	(0.2)	(0.4)
Disposals of fixed assets and leasing assets	1.5	0.8	0.7	1.1	1.1	0.6	0.7	0.9	0.9	1.1	0.6
<b>Operating cash-flow</b>	<b>0.5</b>	<b>1.3</b>	<b>(1.4)</b>	<b>3.4</b>	<b>5.1</b>	<b>7.6</b>	<b>11.4</b>	<b>6.8</b>	<b>12.6</b>	<b>15.2</b>	<b>(2.7)</b>

## Exports from Sweden

SEK M	1998	1999	2000	2001	2002	2003	2004	2005	2006	2007	2008
Volvo Group, total	64,401	52,719	46,251	50,394	52,730	49,300	62,653	71,133	80,517	88,606	96,571

## Key ratios

	1998	1999	2000	2001	2002	2003	2004	2005	2006	2007	2008
Gross margin, % <sup>1</sup>	23.2	20.3	19.3	17.2	17.9	19.2	21.6	21.8	22.7	22.6	21.3
Research and development expenses as percentage of net sales <sup>1</sup>	4.9	3.9	4.1	3.0	3.3	3.9	3.8	3.3	3.4	4.0	4.9
Selling expenses as percentage of net sales <sup>1</sup>	9.0	7.0	7.7	8.1	8.7	9.1	9.1	8.5	8.0	8.9	8.7
Administration expenses as percentage of net sales <sup>1</sup>	3.9	4.0	3.9	3.6	3.1	3.0	2.6	2.7	2.6	2.6	2.3
Return on shareholders' equity, %	13.0	34.9	5.0	neg	1.7	0.4	13.9	17.8	19.6	18.1	12.1
Interest coverage, times <sup>1</sup>	9.6	23.1	4.5	neg	2.2	1.9	11.0	16.7	26.1	20.7	8.8
Self-financing ratio, %	16	29	39	92	110	152	163	116	189	153	5
Self-financing ratio Industrial operations, %	105	130	72	148	196	243	268	173	235	265	78
Financial position, Industrial operations, SEK M	12,232	28,758	9,392	(7,042)	(6,063)	(2,426)	18,110	18,675	23,076	(4,305)	(29,795)
Net financial position as percentage of shareholders' equity, Industrial operations	17.4	29.3	10.6	(8.2)	(7.7)	(3.3)	25.8	23.7	29.2	(5.7)	(39.4)
Shareholders' equity as percentage of total assets	34.1	50.2	44.3	32.8	32.8	31.4	31.3	30.6	33.7	25.7	22.7
Shareholders' equity as percentage of total assets, Industrial operations	51.2	67.3	60.8	41.8	42.4	40.5	40.0	40.4	40.6	30.8	28.4
Shareholders' equity excluding minority interest as percentage of total assets	33.7	49.9	44.0	32.6	32.7	31.3	31.2	30.5	33.6	25.6	22.6

<sup>1</sup> Pertains to the Industrial operations. For periods before 2006, Financial Services is included and consolidated according to the equity method.

## Eleven-year summary

### Volvo share statistics

#### Data per share (adjusted for issues and splits)<sup>1</sup>

	1998	1999	2000	2001	2002	2003	2004	2005	2006	2007	2008
Basic earnings, SEK <sup>1</sup>	3.82	14.60	2.24	(0.70)	0.66	0.14	4.72	6.44	8.03	7.37	4.90
Cash dividend, SEK	1.20	1.40	1.60	1.60	1.60	1.60	2.50	3.35	10.00 <sup>9</sup>	5.50	2.00 <sup>10</sup>
Share price at year-end, SEK (B share)	37.2	44	31.3	35.2	28.4	44	52.7	74.9	90.70	108.50	42.90
Direct return, % (B share) <sup>2</sup>	3.2	3.2	5.1	4.5	5.6	10.5 <sup>8</sup>	4.7	4.5	11.0	5.1	4.7
Effective return, % (B share) <sup>3</sup>	(10)	22	(23)	17.6	(14.8)	71.2	25.5	48.5	39.8	25.7	(59)
Price/earnings ratio (B share) <sup>4</sup>	9	3	14	neg	43	310	11.2	11.6	11.3	14.7	8.8
EBIT multiple <sup>5</sup>	11	10	10	25	23	14	9.2	9.3	10.3	9.7	3.6
Payout ratio, % <sup>6</sup>	31	10	71	neg	242	1,143	53	52	62	75	41
Shareholders' equity, SEK <sup>7</sup>	31.4	44.2	44.4	40.6	37.4	34.6	34	38.8	43	41	41
Return on shareholders' equity	13.0	34.9	5.0	neg	1.7	0.4	13.9	17.8	19.6	18.1	12.1

#### Other share data

	1998	1999	2000	2001	2002	2003	2004	2005	2006	2007	2008
Number of shareholders at year-end	210,600	238,000	230,000	214,000	211,000	208,500	202,300	195,442	183,735	197,519	220,192
Number of Series A shares outstanding at year-end, million	138.6	138.6	124.7	131.7	131.7	131.7	131.5	131.4	131.4	657	657
Number of Series B shares outstanding at year-end, million	302.9	302.9	272.6	287.8	287.8	287.8	278.6	273.1	273.4	1,369	1,371
Average number of outstanding shares, million	441.5	441.5	421.7	422.4	419.4	419.4	418.5	405.2	404.7	2,025	2,027
Number of Series A shares traded in Stockholm during the year, million	34.5	27.0	42.4	40.3	27.3	31.4	42.0	39.3	56.4	172.3	308
Number of Series B shares traded in Stockholm during the year, million	371.3	479.6	391.2	344.4	349.4	404.8	498.0	518.7	617.0	2,712.4	3,130.0
Number of shares traded in ADR, NASDAQ during the year, million	50.5	54.9	16.0	15.0	11.0	10.4	24.0	19.8	14.1	113.5	-

1 Basic earnings per share is calculated as income for the period divided by average number of shares outstanding. Reporting according to IFRS from 2004.

2 Proposed dividend in SEK per share divided by share price at year-end.

3 Share price at year-end, including proposed dividend during the year, divided by share price at beginning of the year, (2006 includes a share split 6:1 in which the sixth share was redeemed by AB Volvo for an amount of SEK 5.00 per share).

4 Share price at year-end divided by basic earnings per share.

5 Market value at year-end minus net financial position and minority interests divided by operating income excluding restructuring costs and revaluation of shares.

6 Cash dividend divided by basic earnings per share.

7 Shareholders' equity for shareholders in AB Volvo divided by number of shares outstanding at year-end.

8 Including distribution of shares in Ainax equal to SEK 3.01 (share-split adjusted) per Volvo share in 2004.

9 Including extrapayment of SEK 5 through redemption of shares.

10 Proposed by the Board of Directors.

#### The largest shareholders in AB Volvo, December 31, 2008<sup>1</sup>

	Number of shares	% of total votes	Share capital, %
Renault SA	441,520,885	21.3	21.8
Industrivärden	69,975,606	8.8	3.5
Violet Partners LP	43,727,400	5.5	2.2
AFA Insurance	48,466,587	4.9	2.4
Svenska Handelsbanken <sup>2</sup>	36,534,768	4.6	1.8
AMF Pension and Funds	67,864,006	4.1	3.3
Alecta (pension funds)	59,075,000	3.3	2.9
SEB fonder (savings funds)/ Trygg Försäkring	49,076,988	3.2	2.4
Skandia Liv	25,333,390	2.6	1.2
Swedbank Robur fonder	72,794,001	2.5	3.6
<b>Total</b>	<b>914,368,631</b>	<b>60.8</b>	<b>45.1</b>

1 Based on the number of outstanding shares.

2 Svenska Handelsbanken comprises shares held by Svenska Handelsbanken, Svenska Handelsbanken Pension Fund, Svenska Handelsbanken Personnel Foundation, Svenska Handelsbanken pensionskassa and Oktogonen.

#### Distribution of shares, December 31, 2008<sup>1</sup>

Volvo shareholders	Number of shareholders	% of total votes <sup>1</sup>	Share of capital, % <sup>1</sup>
1-1,000 shares	164,631	2.1	2.4
1,001-10,000 shares	50,814	5.6	6.9
10,001-100,000 shares	4,101	3.5	4.8
100,001-	646	88.8	85.9
<b>Total</b>	<b>220,192</b>	<b>100</b>	<b>100</b>

Following the repurchase of its own shares, AB Volvo held 4.8% of the Company's shares on Dec. 31, 2008.

1 Based on all registered shares.

## Business area statistics

### Net sales<sup>1</sup>

SEK M		1998	1999	2000	2001	2002	2003	2004	2005	2006	2007	2008
<b>Trucks</b>	Western Europe	27,837	30,006	30,415	60,841	61,406	63,097	68,664	70,567	80,116	86,035	86,994
	Eastern Europe	3,089	2,265	3,158	5,526	6,424	7,004	8,767	9,139	13,166	22,616	22,920
	North America	17,659	22,303	17,048	33,630	33,721	28,151	35,154	46,129	50,605	27,255	26,588
	South America	3,777	2,190	3,111	3,993	3,277	3,464	5,223	7,657	9,213	11,483	14,680
	Asia	2,047	2,010	3,432	4,659	5,919	9,206	12,378	13,551	8,975	26,593	37,515
	Other markets	1,267	1,492	1,911	7,919	8,005	6,047	6,693	8,353	9,190	13,910	14,538
	<b>Total</b>	<b>55,676</b>	<b>60,266</b>	<b>59,075</b>	<b>116,568</b>	<b>118,752</b>	<b>116,969</b>	<b>136,879</b>	<b>155,396</b>	<b>171,265</b>	<b>187,892</b>	<b>203,235</b>
<b>Buses</b>	Western Europe	5,528	5,735	6,767	6,263	6,695	6,153	6,422	6,564	7,390	7,204	6,987
	Eastern Europe	366	226	182	373	409	381	526	578	534	563	334
	North America	5,574	6,871	7,723	6,847	3,838	2,984	2,960	4,247	4,910	4,630	5,355
	South America	910	469	732	757	366	329	521	2,641	1,537	1,623	1,571
	Asia	1,519	943	1,269	1,839	2,022	1,447	1,632	1,612	2,003	1,802	2,094
	Other markets	389	469	514	596	705	684	661	947	897	786	971
	<b>Total</b>	<b>14,286</b>	<b>14,713</b>	<b>17,187</b>	<b>16,675</b>	<b>14,035</b>	<b>11,978</b>	<b>12,722</b>	<b>16,589</b>	<b>17,271</b>	<b>16,608</b>	<b>17,312</b>
<b>Construction Equipment</b>	Western Europe	9,557	9,901	10,029	10,326	10,383	11,576	12,443	14,213	18,438	21,852	20,763
	Eastern Europe	336	193	255	341	454	772	1,010	1,311	1,888	3,442	4,429
	North America	6,548	5,725	5,823	6,145	5,667	5,428	8,601	10,337	11,280	11,170	10,159
	South America	957	498	776	847	709	636	922	1,238	1,358	2,155	2,913
	Asia	1,092	1,903	2,484	2,773	3,048	3,707	4,961	5,717	6,903	12,179	13,738
	Other markets	882	662	626	703	751	1,035	1,423	2,000	2,264	2,835	4,077
	<b>Total</b>	<b>19,372</b>	<b>18,882</b>	<b>19,993</b>	<b>21,135</b>	<b>21,012</b>	<b>23,154</b>	<b>29,360</b>	<b>34,816</b>	<b>42,131</b>	<b>53,633</b>	<b>56,079</b>
<b>Volvo Penta</b>	Western Europe	2,725	2,986	3,204	3,789	3,846	4,081	4,723	4,845	5,748	6,290	6,100
	Eastern Europe	23	26	30	38	99	108	184	257	363	508	454
	North America	1,412	1,770	2,257	2,175	2,261	2,109	2,500	2,832	2,815	2,674	1,947
	South America	153	134	160	213	127	146	142	208	221	274	364
	Asia	476	692	794	988	1,141	947	1,324	1,427	1,359	1,624	2,082
	Other markets	142	153	154	177	195	205	184	207	268	349	486
	<b>Total</b>	<b>4,931</b>	<b>5,761</b>	<b>6,599</b>	<b>7,380</b>	<b>7,669</b>	<b>7,596</b>	<b>9,057</b>	<b>9,776</b>	<b>10,774</b>	<b>11,719</b>	<b>11,433</b>
<b>Volvo Aero</b>	Western Europe	4,231	4,560	4,651	4,788	3,422	3,951	3,130	3,346	3,674	3,431	3,468
	Eastern Europe	47	16	42	87	28	49	49	60	124	31	29
	North America	3,502	4,557	5,040	5,841	4,573	3,301	3,127	3,612	3,815	3,723	3,534
	South America	284	193	134	187	177	152	138	168	173	127	58
	Asia	336	491	701	708	497	428	400	284	356	234	234
	Other markets	184	136	145	173	140	149	81	68	91	100	125
	<b>Total</b>	<b>8,584</b>	<b>9,953</b>	<b>10,713</b>	<b>11,784</b>	<b>8,837</b>	<b>8,030</b>	<b>6,925</b>	<b>7,538</b>	<b>8,233</b>	<b>7,646</b>	<b>7,448</b>
	Other and eliminations	4,781	6,807	6,825	7,073	6,775	7,041	7,228	7,076	(654)	(703)	(575)
<b>Net sales Industrial operations</b>	<b>107,630</b>	<b>116,382</b>	<b>120,392</b>	<b>180,615</b>	<b>177,080</b>	<b>174,768</b>	<b>202,171</b>	<b>231,191</b>	<b>249,020</b>	<b>276,795</b>	<b>294,932</b>	
<b>Customer Finance</b>	Western Europe	5,465	6,300	6,240	5,314	5,573	5,604	6,114	4,213	4,009	3,845	6,021
	Eastern Europe	86	185	257	360	424	474	499	584	379	639	1,078
	North America	1,152	1,620	2,626	3,216	3,344	2,542	2,432	2,036	2,569	2,467	369
	South America	297	455	452	451	403	358	396	570	608	620	791
	Asia	0	1	0	24	49	65	90	101	45	87	158
	Other markets	224	76	103	130	132	110	67	45	38	47	68
	<b>Total</b>	<b>7,224</b>	<b>8,637</b>	<b>9,678</b>	<b>9,495</b>	<b>9,925</b>	<b>9,153</b>	<b>9,598</b>	<b>7,549</b>	<b>7,648</b>	<b>7,705</b>	<b>8,485</b>
	Eliminations	-	-	-	(830)	(807)	(630)	(693)	1,819	2,167	905	250
<b>Volvo Group excluding divested operations</b>	<b>114,854</b>	<b>125,019</b>	<b>130,070</b>	<b>189,280</b>	<b>186,198</b>	<b>183,291</b>	<b>211,076</b>	<b>240,559</b>	<b>258,835</b>	<b>285,405</b>	<b>303,667</b>	
Cars	103,798	-	-	-	-	-	-	-	-	-	-	-
Other divested operations and eliminations	(5,716)	-	-	-	-	-	-	-	-	-	-	-
<b>Volvo Group total</b>	<b>212,936</b>	<b>125,019</b>	<b>130,070</b>	<b>189,280</b>	<b>186,198</b>	<b>183,291</b>	<b>211,076</b>	<b>240,559</b>	<b>258,835</b>	<b>285,405</b>	<b>303,667</b>	

As of January 1, 2007, the results from the synergies created in the business units are transferred back to the various business areas. Comparison figures for 2006 have been restated.

<sup>1</sup> Net sales 1998–2001 have been restated in accordance with new organization effective from 2002.

## Eleven-year summary

### Operating income

SEK M	1998 <sup>6</sup>	1999 <sup>5</sup>	2000	2001 <sup>4</sup>	2002	2003 <sup>3</sup>	2004 <sup>2</sup>	2005	2006 <sup>1</sup>	2007	2008
Trucks <sup>7</sup>	2,769	3,247	1,414	(2,066)	1,189	3,951	8,992	11,717	13,116	15,193	12,167
Buses	(37)	224	440	(916)	(94)	(790)	158	470	745	231	(76)
Construction Equipment	626	1,709	1,594	527	406	908	1,898	2,752	4,072	4,218	1,808
Volvo Penta	(63)	314	484	658	647	695	940	943	1,105	1,173	928
Volvo Aero	527	584	621	653	5	(44)	403	836	359	529	359
Customer Finance	681	1,066	1,499	325	490	926	1,365	2,033	1,686	1,649	1,397
Other	3,950	319	616	143	194	(3,142)	923	(598)	(684)	(762)	(731)
<b>Volvo Group excluding divested operations</b>	<b>8,453</b>	<b>7,463</b>	<b>6,668</b>	<b>(676)</b>	<b>2,837</b>	<b>2,504</b>	<b>14,679</b>	<b>18,153</b>	<b>20,399</b>	<b>22,231</b>	<b>15,851</b>
Cars	3,375	26,695	-	-	-	-	-	-	-	-	-
<b>Operating income (loss) Volvo Group</b>	<b>11,828</b>	<b>34,158</b>	<b>6,668</b>	<b>(676)</b>	<b>2,837</b>	<b>2,504</b>	<b>14,679</b>	<b>18,153</b>	<b>20,399</b>	<b>22,231</b>	<b>15,851</b>

As of January 1, 2007, the benefits from the synergies created in the business units are transferred back to the various Business Areas. Comparison figures for 2006 have been restated.

- 1 Operating income in 2006 includes adjustment of goodwill of neg 1,712, reported in Trucks.
- 2 Operating income in 2004 included reversal of write-down of shares in Scania AB of 915, reported in Other, and write-down of shares in Henlys Group Plc of 95, reported in Buses.
- 3 Operating income in 2003 included write-down of shares in Scania AB and Henlys Group Plc amounting to 4,030, of which 429 was reported in Buses (Henlys Group) and 3,601 was reported in Other (Scania AB).

4 Operating income in 2001 included restructuring costs mainly related to the integration of Mack Trucks and Renault Trucks of 3,862 of which 3,106 in Trucks, 392 in Buses and 364 in Construction Equipment.

5 Effective January 1, 1999, Volvo Cars was reported as a divested operation. The capital gain from the divestment was 26,695.

6 Restructuring costs in 1998 amounted to 1,650 of which 46 in Trucks, 422 in Buses, 910 in Construction Equipment and 158 in Volvo Penta. In addition operating income included a capital gain from the sale of shares in Pharmacia UpJohn amounting to 4,452.

7 Refers to Volvo Trucks for 1998-2000.

### Operating margin

%	1998	1999	2000	2001	2002	2003	2004	2005	2006	2007	2008
Trucks	5.0	5.4	2.4	(1.8)	1.0	3.4	6.6	7.5	7.7	8.1	6.0
Construction Equipment	3.2	9.1	8.0	2.5	1.9	3.9	6.5	7.9	9.7	7.9	3.2
Buses	(0.3)	1.5	2.6	(5.5)	(0.7)	(6.6)	1.2	2.8	4.3	1.4	(0.4)
Volvo Penta	(1.3)	5.5	7.3	8.9	8.4	9.1	10.4	9.6	10.3	10.0	8.1
Volvo Aero	6.1	5.9	5.8	5.5	0.1	(0.5)	5.8	11.1	4.4	6.9	4.8
<b>Volvo Group excluding divested operations</b>	<b>7.9</b>	<b>6.4</b>	<b>5.5</b>	<b>(0.4)</b>	<b>1.6</b>	<b>1.4</b>	<b>7.3</b>	<b>7.9</b>	<b>7.9</b>	<b>7.8</b>	<b>5.2</b>
<b>Operating margin, total</b>	<b>5.7</b>	<b>29.3</b>	<b>5.5</b>	<b>(0.4)</b>	<b>1.6</b>	<b>1.4</b>	<b>7.3</b>	<b>7.9</b>	<b>7.9</b>	<b>7.8</b>	<b>5.2</b>

### Number of employees at year-end

Number <sup>1</sup>	1998	1999	2000	2001	2002	2003	2004	2005	2006	2007	2008
Trucks	22,560	23,330	24,320	44,180	43,470	46,900	49,450	50,240	49,900	64,390	64,280
Buses	8,690	8,860	9,060	6,230	6,660	6,680	7,700	7,710	7,760	9,290	8,930
Construction Equipment	9,680	8,900	8,830	7,780	8,410	9,280	9,930	10,290	11,050	19,710	19,810
Volvo Penta	1,490	1,400	1,480	1,370	1,410	1,440	1,580	1,560	1,650	3,000	2,940
Volvo Aero	3,990	4,550	4,240	4,040	3,660	3,440	3,350	3,460	3,510	3,550	3,510
Financial Services	860	1,160	1,220	1,080	1,060	1,060	1,100	1,070	1,010	1,150	1,290
Other	5,190	5,270	5,120	6,240	6,490	6,940	7,970	7,530	8,310	610	620
<b>Volvo Group, excluding divested operations</b>	<b>52,460</b>	<b>53,470</b>	<b>54,270</b>	<b>70,920</b>	<b>71,160</b>	<b>75,740</b>	<b>81,080</b>	<b>81,860</b>	<b>83,190</b>	<b>101,700</b>	<b>101,380</b>
Cars	27,360	-	-	-	-	-	-	-	-	-	-
<b>Volvo Group, total</b>	<b>79,820</b>	<b>53,470</b>	<b>54,270</b>	<b>70,920</b>	<b>71,160</b>	<b>75,740</b>	<b>81,080</b>	<b>81,860</b>	<b>83,190</b>	<b>101,700</b>	<b>101,380</b>

1 As of 2007, employees on Business Units are allocated to the Business Areas.

## Employees

Number	1998	1999	2000	2001	2002	2003	2004	2005	2006	2007	2008
Sweden	43,900	24,840	25,030	24,350	25,420	26,380	28,530	27,070	27,830	28,660	28,190
Europe, excluding Sweden	17,880	11,900	12,320	27,800	27,130	29,120	28,930	29,650	30,070	32,780	32,940
North America	12,100	11,880	11,410	12,670	12,440	12,270	14,620	15,140	14,820	15,750	14,200
South America	1,980	1,930	2,100	2,090	2,020	2,640	3,110	3,690	3,890	4,640	4,380
Asia	3,340	2,480	2,570	2,550	2,590	3,710	4,130	4,210	4,420	17,150	19,090
Other markets	620	440	840	1,460	1,560	1,620	1,760	2,100	2,160	2,720	2,580
<b>Volvo Group total</b>	<b>79,820</b>	<b>53,470</b>	<b>54,270</b>	<b>70,920</b>	<b>71,160</b>	<b>75,740</b>	<b>81,080</b>	<b>81,860</b>	<b>83,190</b>	<b>101,700</b>	<b>101,380</b>

## Delivered units

Number	1998	1999	2000	2001	2002	2003	2004	2005	2006	2007	2008
Heavy trucks (>16 tons)	78,690	81,240	76,470	117,180	120,200	120,920	152,300	172,242	179,089	172,322	179,962
Medium-heavy trucks (7-15.9 tons)	4,590	3,850	5,360	17,310	16,220	15,870	18,800	18,643	14,695	27,933	30,817
Light trucks (<7 tons)	-	-	-	20,820	20,710	19,200	22,120	23,494	26,147	36,101	40,372
<b>Total trucks</b>	<b>83,280</b>	<b>85,090</b>	<b>81,830</b>	<b>155,310</b>	<b>157,130</b>	<b>155,990</b>	<b>193,220</b>	<b>214,379</b>	<b>219,931</b>	<b>236,356</b>	<b>251,151</b>
<b>Buses and bus chassis</b>	<b>10,200</b>	<b>9,500</b>	<b>11,015</b>	<b>9,953</b>	<b>9,059</b>	<b>7,817</b>	<b>8,232</b>	<b>10,675</b>	<b>10,360</b>	<b>9,916</b>	<b>9,937</b>

Number	1998	1999	2000	2001	2002	2003	2004	2005	2006	2007	2008
<b>Trucks</b>											
Total Europe	42,350	42,530	46,140	98,040	96,290	92,080	102,670	103,622	114,417	128,070	121,847
Western Europe	37,810	39,630	42,050	90,460	87,490	82,670	90,750	91,087	97,074	100,106	95,969
Eastern Europe	4,540	2,900	4,090	7,580	8,800	9,410	11,920	12,535	17,343	27,964	25,878
North America	29,310	34,300	23,610	34,650	36,510	34,760	49,270	64,974	70,499	33,280	30,146
South America	6,020	3,900	4,530	5,790	5,360	5,980	9,190	11,248	11,646	15,264	18,092
Asia	3,760	2,720	5,560	6,600	9,140	16,290	24,880	25,706	12,817	39,916	60,725
Other markets	1,840	1,640	1,990	10,230	9,830	6,880	7,210	8,829	10,552	19,826	20,341
<b>Total</b>	<b>83,280</b>	<b>85,090</b>	<b>81,830</b>	<b>155,310</b>	<b>157,130</b>	<b>155,990</b>	<b>193,220</b>	<b>214,379</b>	<b>219,931</b>	<b>236,356</b>	<b>251,151</b>
<b>Buses</b>											
Total Europe	3,860	3,630	3,994	3,115	3,413	3,087	3,417	3,723	3,570	3,748	3,313
Western Europe	3,580	3,430	3,870	2,899	3,076	2,782	3,073	3,385	3,081	3,377	3,140
Eastern Europe	280	200	124	216	337	305	344	338	489	371	173
North America	2,730	3,640	3,869	3,128	1,945	1,553	1,388	1,546	1,741	1,547	1,884
South America	1,510	710	980	1,009	495	369	624	2,297	1,236	1,318	995
Asia	1,650	1,000	1,659	2,209	2,639	2,227	2,341	2,554	3,349	2,757	3,033
Other markets	450	520	513	492	567	581	462	555	464	546	712
<b>Total</b>	<b>10,200</b>	<b>9,500</b>	<b>11,015</b>	<b>9,953</b>	<b>9,059</b>	<b>7,817</b>	<b>8,232</b>	<b>10,675</b>	<b>10,360</b>	<b>9,916</b>	<b>9,937</b>

## Environmental performance of Volvo production plants, Industrial operations

Absolute values related to net sales	2004	2005	2006	2007 <sup>1</sup>	2008
Energy consumption (GWh; MWh/SEK M)	2,695; 13.3	2,683; 11.6	2,612; 10.5	2,426; 9.6	2,754; 9.3
CO <sub>2</sub> emissions (1,000 tons; tons/SEK M)	293; 1.5	292; 1.3	282; 1.1	242; 1.0	339; 1.2
Water consumption (1,000 m <sup>3</sup> ; m <sup>3</sup> /SEK M)	8,495; 42.2	7,419; 32.1	7,596; 30.6	7,067; 27.9	8,205; 27.8
NOx emissions (tons; kilos/SEK M)	645; 3.2	672; 2.9	606; 2.4	542; 2.1	800; 2.7
Solvent emissions (tons; kilos/SEK M)	2,085; 10.3	1,960; 8.5	2,048; 8.3	1,979; 7.8	1,945; 6.6
Sulphur dioxide emissions (tons; kilos/SEK M)	184; 0.9	209; 0.9	69; 0.3	58; 0.2	64; 0.2
Hazardous waste (tons; kg/SEK M)	24,675; 122	23,590; 102	26,987; 109	27,120; 107	27,675; 94
Net sales, SEK bn	202.1	231.2	248.1	253.2	294.9

1 Excluding Nissan Diesel and Ingersoll Rand Road Development.

# Customer offering

## Trucks

All brands in the Volvo Group's truck operations have a unique and distinct brand-specific character and compete in certain markets. Volvo Trucks, Renault Trucks, Nissan Diesel, Mack Trucks and Eicher offer customers a broad range of products and services for efficient and economic transports.

	Long-haul	Regional distribution	City distribution	Construction
Volvo Trucks				
Renault Trucks				
Nissan Diesel				
Mack Trucks				

## Buses

Volvo Buses' product line includes complete buses and bus chassis for city, intercity and coach traffic. The company has a total offering that, in addition to buses, includes a global service network, efficient spare parts handling, service and repair contracts, financial services and traffic information systems

### City buses



### Intercity buses



### Coaches



### Chassis



## Marine and industrial applications

Volvo Penta manufactures engines and drive systems for marine applications, for both leisure and commercial craft, with an engine range of 10 to 2,000 hp and have a global service network with approximately 5,000 dealers. Volvo Penta also supplies industrial engines ranging from 75 kW to 600 kW for irrigation pumps, generator units and other application areas.

### Marine leisure



### Industrial engines



## Construction equipment

Volvo Construction Equipment develops, manufactures and markets equipment for construction and related industries. Its products are leaders in many world markets, and include a comprehensive range of wheel loaders, hydraulic wheeled and crawler excavators, articulated haulers, road machinery and a wide range of compact equipment.

### Compact construction equipment



Wheel loaders



Backhoe loaders



Crawler Excavators



Skidsteer loaders

### Heavy construction equipment



Wheel loaders



Crawler excavators



Articulated haulers



Wheeled excavators



Lingong wheel loaders

### Road machinery



Motor graders



Compaction equipment



Pavers

## Aerospace industry

Volvo Aero specializes in a number of highly advanced components for aircraft engines and space rockets. More than 90% of all new large commercial aircraft are equipped with engine components from Volvo Aero, which is also responsible for the engines of the Swedish Air Force's Gripen fighters. Volvo Aero also has a substantial aftermarket business.

### Engine components



### Engine overhaul



### Space



## Financial services

Financial services such as customer and dealer financing and other services such as insurance contribute to create customer value. Providing cost effective and attractive financing solutions and other services is essential in retaining existing customers and attracting new ones to the Volvo Group.

### Customer and dealer financing



# Definitions

## Basic earnings per share

Income for the period attributable to shareholders of the parent company divided by the weighted average number of shares outstanding during the period.

## Capital expenditures

Capital expenditures include investments in property, plant and equipment, intangible assets and assets under operating leases. Investments in fixed assets included in the Group's cash-flow statement include only capital expenditures that have reduced the Group's liquid funds during the year.

## Cash-flow

Combined changes in the Group's liquid funds during the fiscal year. Changes in liquid funds are specified with reference to changes in operations, operating activities, changes depending on investments in equipment, fixed assets etc and financing activities such as changes in loans and investments.

## Diluted earnings per share

Diluted earnings per share is calculated as income for the period attributable to the Parent Company's shareholders divided by the average number of shares outstanding plus the average number of shares that would be issued as an effect of ongoing share-based incentive programs and employee stock option programs.

## Equity ratio

Shareholders' equity divided by total assets.

## Interest coverage

Operating income plus interest income and similar credits divided by interest expense and similar charges.

## Joint ventures

Companies over which the Company has joint control together with one or more external parties.

## Net financial position

Cash and cash equivalents, marketable securities and interest-bearing short- and long-term receivables reduced by short- and long-term interest-bearing liabilities and provisions for post-employment benefits.

## Operating margin

Operating income divided by net sales.

## Return on shareholders' equity

Income for the period divided by average shareholders' equity.

## Self-financing ratio

Cash-flow from operating activities (see Cash-flow statement) divided by net investments in fixed assets and leasing assets as defined in the cash-flow statement.

## Annual General Meeting, April 1, 2009

The Annual General Meeting of AB Volvo will be held in Göteborg in Lisebergshallen (entrance from Örgrytevägen) Wednesday April 1, 2009, at 3:00 p.m.

### Notice

Shareholders who wish to participate must: be recorded in the share register maintained by Euroclear Sweden AB (former VPC AB) not later than March 26, 2009, give notice of intention to attend, not later than Thursday, March 26, 2009, preferably before 12:00:

- by telephone, +46 31 66 00 00 beginning February 27, 2009
- by mail addressed to AB Volvo (publ), Legal Department, SE-405 08 Göteborg, Sweden
- at Volvo's website [www.volvogroup.com](http://www.volvogroup.com)

When giving notice, shareholders should state their:

- name
- personal number (registration number)
- address and telephone number
- name and personal number (registration number) of the proxy, if any
- name(s) of any accompanying assistant(s)

Shareholders whose shares are held in the trust department of a bank or by a brokerage firm should request the shares to be temporarily registered in the shareholder's name several banking days prior to March 26, 2009.

April 6, 2009 has been proposed as the record date for dividends, which are expected to be distributed on April 9, 2009.

### Volvo's Election Committee

The following persons are members of Volvo's Election Committee:

Thierry Moulouquet	Chairman of the Election Committee, Renault
Finn Johnsson	Chairman of the Board
Carl-Olof By	AB Industrivärden
Anders Oscarsson	SEB funds / Trygg Insurance
Lars Förberg	Violet Partners LP
Håkan Sandberg	SHB Pension Fund, SHB Pensionskassa, SHB Employee Fund och Oktogonen

The Election Committee is responsible for submitting to the Annual General Meeting the names of candidates to serve as members of the Board of Directors, as Chairman of the Board and as auditors. The Committee also proposes the amount of the fees to be paid to the holders of these positions.

### Preliminary publication dates

Three months ended March 31, 2009	April 24, 2009
Six months ended June 30, 2009	July 21, 2009
Nine months ended September 30, 2009	October 23, 2009
Report on 2009 operations	February, 2010
Annual Report 2009	March, 2010

The reports are available on [www.volvogroup.com](http://www.volvogroup.com) on date of publication and are also sent directly to all shareholders who have advised Volvo that they wish to receive financial information.

Historical and current time series reflecting the Volvo Group's market information and share data are published regularly on [www.volvogroup.com](http://www.volvogroup.com).

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# Global



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