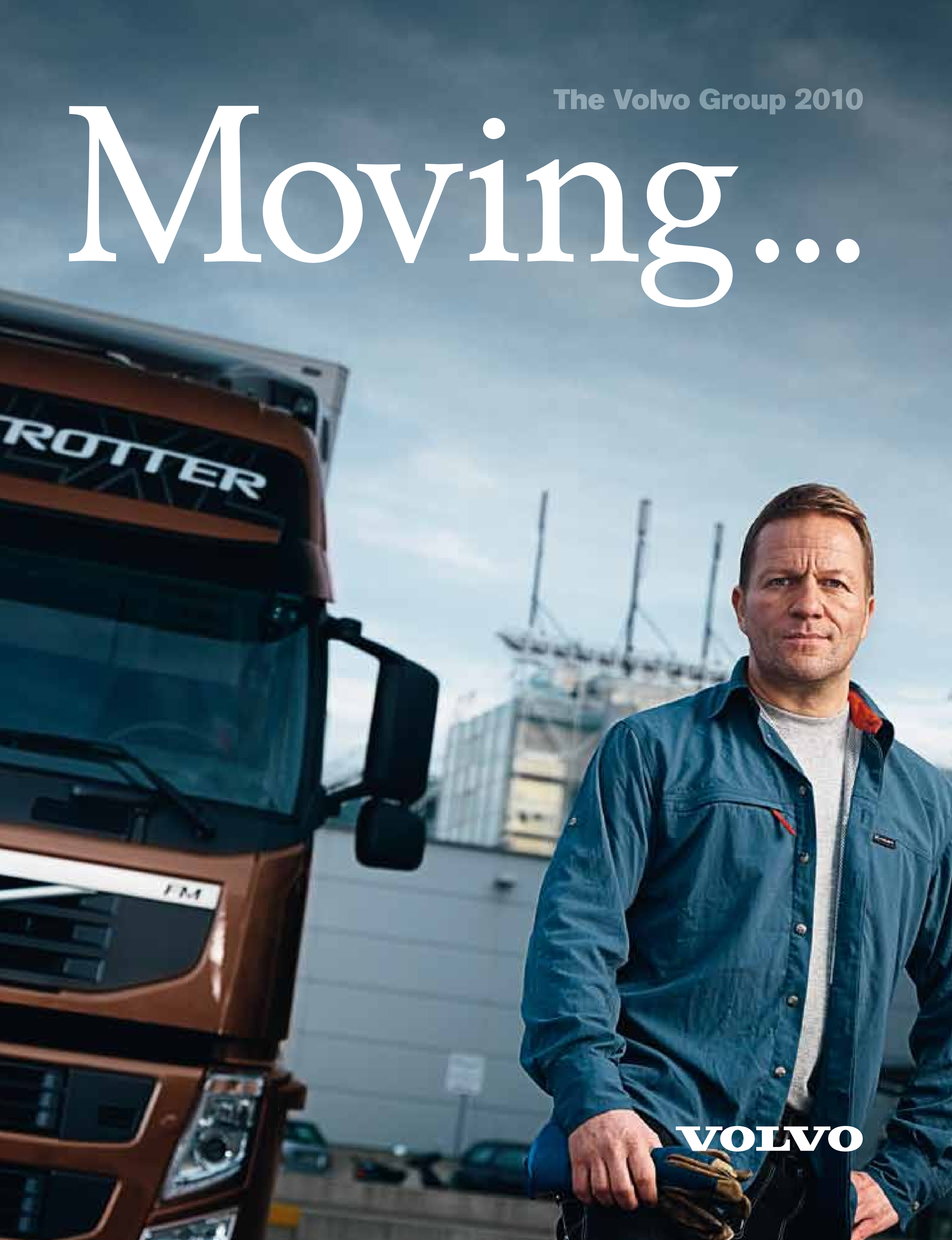
The Volvo Group 2010

Moving...



VOLVO

...the

Without the **products and services** of the Volvo Group there can be no modern society like we know it. Like **lifeblood,** our trucks, buses, engines, construction equipment and aircraft components are involved in many of the functions that most of us **rely on** every day.

For instance, one in **seven meals eaten** in Europe reaches the consumers thanks to trucks from the Volvo Group rolling on the roads of the continent. Buses are the most **common** type of public transportation in the world, **helping many** people to reach work, school, vacations, friends and family. And if all the Volvo buses in the world were to start at the same time, they would transport more than **10 million** people.

Most of us want to be able to fly far away sometime, either at work or to explore a new part of the world. In 2009, Volvo Aero delivered components for over 90% of all large civilian aircraft engines.

Every year, the population on earth produces **billions of tons** of garbage. In the US alone, the garbage removed by refuse trucks from the Volvo Group every week could form a line of full garbage cans that would reach the moon.

These are just a few examples. In this Annual Report, you can learn more about the importance of the Volvo Group in every day life. How we are the lifeblood of modern society **– Moving the world.**

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 24–127 in the printed version and has been audited by the company's auditors.

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VOLVO GROUP

The Volvo Group is one of the world's leading providers of commercial transport solutions, providing such products as trucks, buses, construction equipment, engines and drive systems for boats and industrial applications, as well as aircraft engine components. The Volvo Group also offers financial solutions and an increasing share of other services to its customers.

The Group has about 90,000 employees, production facilities in 19 countries, and sales activities in some 180 countries.

Strategy

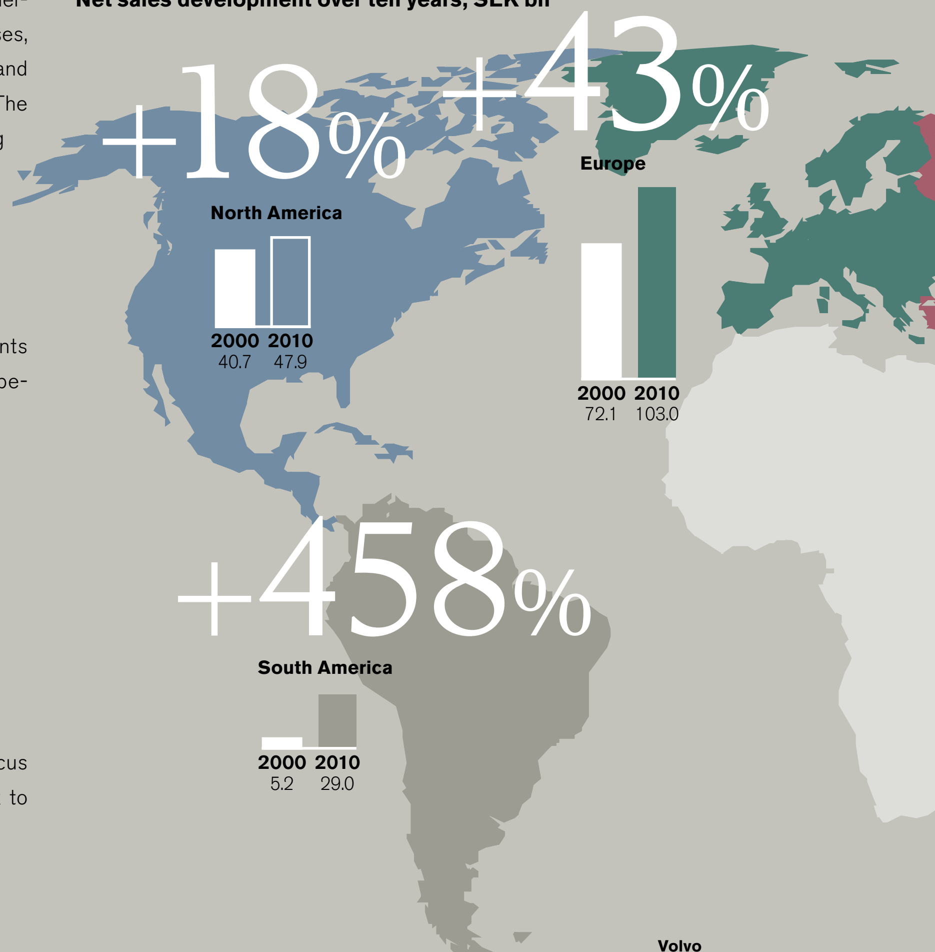
The Volvo Group's strategy is based on customers' requirements and is focused on profitable growth, product renewal and operational excellence. More information. » 11

90.000 Employees

Organization

The Volvo Group has product-related business areas that focus on our customers while the supporting business units work to make efficient use of Group-wide resources.
More information. » 26

Net sales development over ten years, SEK bn



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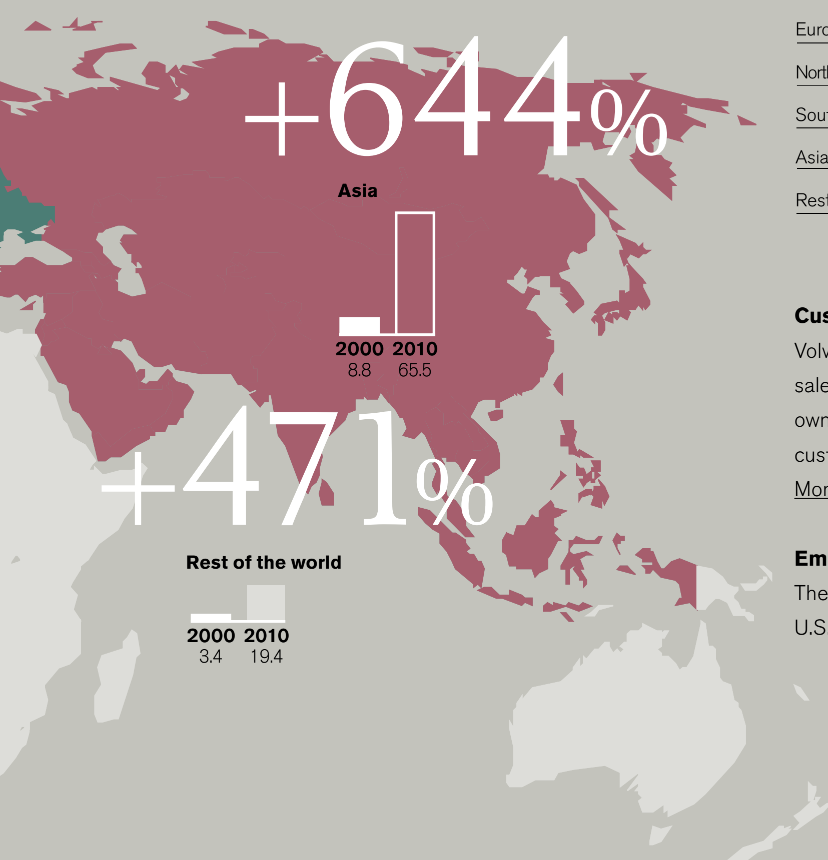
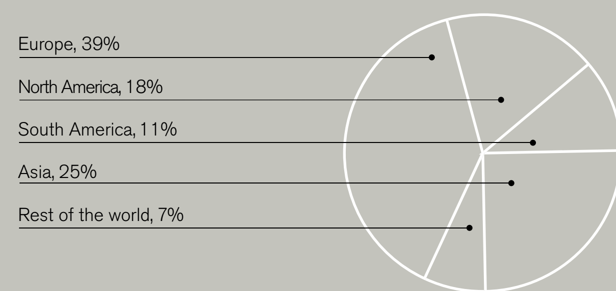


Share of Group's net sales by geography



Customers

Volvo Group customers are active in about 180 countries. 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.
More information. 18

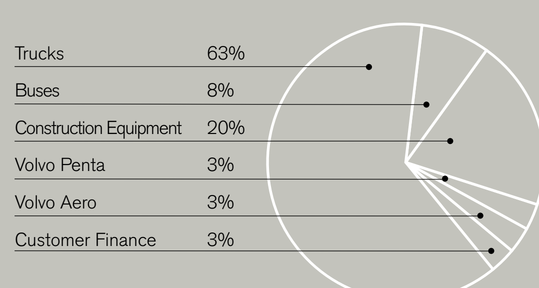
Employees

The majority of the Group's employees work in Sweden, France, the U.S. , Japan, China, Brazil and Belgium. More information. 47

Strong positions

- The second largest Western manufacturer of trucks.
- No. 4 in construction equipment.
- One of the world's largest manufacturers of heavy-duty diesel engines.
- Strong positions also in the other business areas.
- Good market presence globally.

Share of Group's net sales



world

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

CEO comment

Recovery, growth and strengthened profitability

During 2010, the Volvo Group grew at a good pace with increased sales in all regions, improved profitability and good cash flow. After having reported a substantial loss in 2009 when the global financial crisis hit hard and we were forced into considerable rationalizations, it is pleasing to note that recovery in growth and profitability has been swift.

The Group's sales of SEK 265 billion during 2010 represented an increase of 21% compared with the preceding year. Demand for the Group's products recovered strongly in essentially all markets. Demand continued to rise from already high levels in emerging markets, while in our mature markets, with the exception of Japan, there was a significant gain in momentum during the second half of the year.

Significantly improved earnings

Operating income improved to SEK 18 billion, compared with the loss of SEK 17 billion the preceding year. The operating margin was 6.8%. The improvement in earnings is of course an effect of us selling more products and services, but it is also the result of focused work on rationalizing and streamlining all parts of the Group, as well as our tight grip on costs. The combination of increased profitability with our achievement of growth without tying up any additional operating capital resulted in our Industrial Operations generating an operational cash flow of SEK 19 billion.

In spite of our debt increasing when we were going through the global financial crisis in 2009, we made the assessment that we could take it upon ourselves to reduce our debt by lowering cost levels and turning around the negative cash flow. Through hard work, we succeeded in what we set out to accomplish. Thanks to the improved profitability and strong cash flow, we once again stand financially strong, with a net debt in Industrial Operations that at the close of the year was down to 37% of shareholders' equity – in line with our objective.

We have been fortunate to be able to welcome the return of increasing numbers of our former colleagues to the Volvo Group – colleagues who sadly had to leave us in conjunction with the financial crisis but who have now been offered work again in increasing numbers. It is also pleas- »

THE VOLVO GROUP 2010

Net sales increased by 21% to SEK 264.7 billion

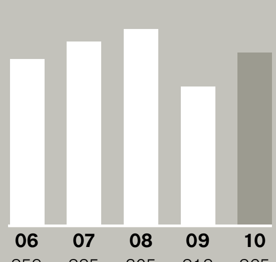
Operating income amounted to SEK 18.0 billion

Operating cash flow of SEK 19.0 billion in Industrial Operations

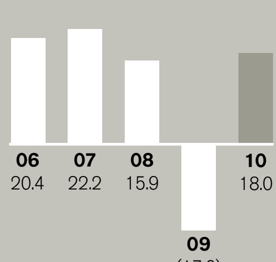
Net debt in Industrial Operations reduced to 37.4% of shareholders' equity

Proposed dividend of SEK 2.50 per share

Net sales, SEK bn



Operating income, SEK bn



Key ratios	2009	**2010**
Net sales Volvo Group, SEK M	218,361	264,749
Operating income (loss) Volvo Group, SEK M	(17,013)	18,000
Operating income (loss) Industrial Operations, SEK M	(16,333)	17,834
Operating income (loss) Customer Finance, SEK M	(680)	167
Operating margin Volvo Group, %	(7.8)	6.8
Income (Loss) after financial items, SEK M	(20,573)	15,514
Income(Loss) for the period, SEK M	(14,685)	11,212
Diluted earnings per share, SEK	(7.26)	5.36
Dividend per share, SEK	0	2.50[1]
Return on shareholders' equity, %	(19.7)	16.0

1 According to the Board's proposal.

CONTINUED CEO COMMENT »

ing that we have been able to provision SEK 350 M for profit sharing to our employees, since return on shareholders' equity for 2010 amounted to 16%. The past two years have required quick adaptations that we would never have managed without the extraordinary efforts undertaken by employees throughout the Group.

Based on the much improved profitability and the significantly reduced debt level, the Board proposes to resume dividends with a pay-out of SEK 2.50 per share for the financial year of 2010.

Improvements within all business areas

The improved demand was clearly visible in our truck operations, with order intake rising by 75% while deliveries increased by 41%. Order intake gradually increased from low levels in Europe and North America. In many emerging markets such as Brazil and India, demand remained strong. On the other hand, the Japanese market weakened during the second half of the year. Net sales in the truck operations increased 20% to SEK 167 billion and the operating margin improved to 6.0%. The positive trend in order intake led to a gradual increase in the pace of manufacturing and delivery in most of our truck plants.

The growth and profitability development of Construction Equipment was strong throughout the year with a gradual improvement in Europe and North America, and with a very good contribution from emerging markets, particularly China. Sales rose 51% to SEK 54 billion and the business area recorded an operating income of slightly more than SEK 6 billion. The full year operating margin was 11.5% with a strong finish to the year. We have increased our market share in the important Chinese market and now rank as its third largest manufacturer. We are moving our position forward further with the launch of SDLG branded excavators from Lingong and a large number of Volvo products.

Buses' sales increased by 11% and the operating margin rose to 3.8%. The business area had a positive trend in profitability throughout the year despite relatively low volumes in the important markets of Europe and North America. The improved profitability is partly a result of increased sales, but primarily the fruit of considerable efforts to raise internal efficiency and lower costs.

Volvo Penta turned around with a profit of SEK 578 M and a margin of 6.6% despite continued weak demand for marine engines. With one of the industry's broadest product ranges and a global network of service and distributors, Volvo Penta is strategically well-positioned to be an innovative partner to important boat builders. The industrial engine business had a good development and the aim is to further increase sales of industrial engines by breaking into new segments of the market.

Volvo Aero's operating income rose to SEK 286 M despite a loss of SEK 538 M related to the divestment of the U.S.-based service business. Core operations developed strongly due to increased volumes, resulting in improved capacity utilization, improved productivity and lower costs. Volvo Aero remains well-established with participation in many interesting engine programs that will be entering production in coming years.

In our Customer Finance Operations profitability gradually improved as our customers' business activity increased, which in turn led to a more stable financial situation for them. As a consequence of the Volvo Group's increased sales of new products, we also see that our credit portfolio is growing again.

Intensive year of news

We take a long-term view of our business and what needs to be done to create value for our customers and to create sustainable profitability. Accordingly, we maintained our relatively high investments in product development during both 2009 and 2010. We also continued to invest in our plants and sales channels. Combined, this means that we now stand well-prepared in terms of both products and capacity.

As one of the world's largest manufacturers of commercial vehicles, we have a responsibility to reduce the impact on the environment caused by our production as well as the usage of our products – it is a responsibility that we take most seriously. Engines that use less fuel lower our customers' operating costs and strengthen their competitiveness while reducing environmental impact. At the beginning of the year, we introduced on a broad front in the USA, the new engines that meet the latest, extremely stringent requirements on emission levels that are in fact practically zero for nitrogen oxides and particulates. Trucks fitted with the new engines have been well received by both old and new customers and we are capturing market share in North America as a consequence. But the truck news doesn't end there. In Europe, Volvo Trucks launched the new construction truck Volvo FMX that strengthens the offering within this important segment of the market. In Japan, UD Trucks, in conjunction with the introduction of new emission regulations, launched a new heavy Quon truck equipped with Group engines.

Through Eicher, we have a very strong position in medium-duty trucks in India and a well-performing sales network. We are now further developing Eicher to keep pace with the strong growth in the country and for export to other countries. We are developing a new generation of heavy-duty trucks and investing in new assembly capacity. We are also building a new engine plant that will be the global base for the medium-duty engine platform to be launched in increasing numbers of the Group's products in the coming years.

Volvo CE launched a number of new Volvo products during the year. Manufacturing was also begun in China of the new series of excavators under the SDLG brand. In addition, Volvo CE's engines received certification in accordance with the new environmental rules that are beginning to be introduced in Europe and North America in 2011. During the year, Volvo Buses began mass production of hybrid buses at its plant in Poland. This is but a small selection of news for a year when the pace of renewal remained high for all business areas.

Positive development in the short and long term

Thanks to hard work and the resolute execution of cost-cutting measures, the Volvo Group has taken itself through the collapse of the global financial system and emerged as a stronger company at a time when the economic trend is once again pointing in the right direction. I can conclude that both our distributors and our suppliers are doing a great job, and that together we stand prepared to meet the expected continuation of the rise in volumes that we saw during 2010. We are continuously working to trim the industrial system in order to improve productivity and capital efficiency. We are also intensifying our activities within product development in preparation for several important product launches in the coming years.

Against the background of the Volvo Group's improved profitability, good cash flow, reduced debt and the improved market outlook, as well as the investments we have made and continue to make in our plants and in product development, I look upon the development of the Group with confidence, both in the short- and the long-term perspective.

Finally, I would like to say that it has been a pleasure to work for the Volvo Group for these past 14 years and that I wish my successor every success in leading the Volvo Group into the future.

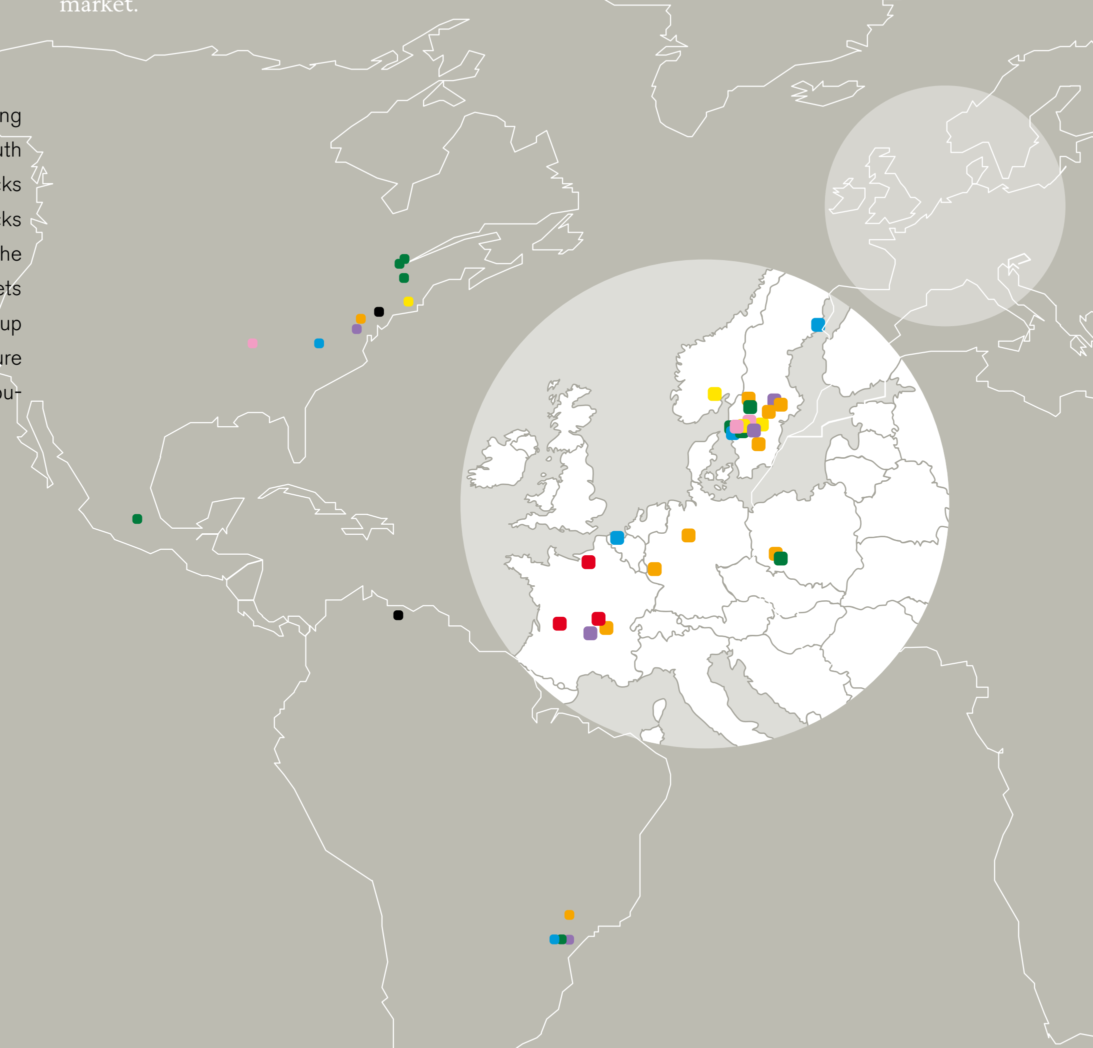
Leif Johansson
President and CEO

PRESENCE ON ALL CONTINENTS

Global industrial structure and strong market channels

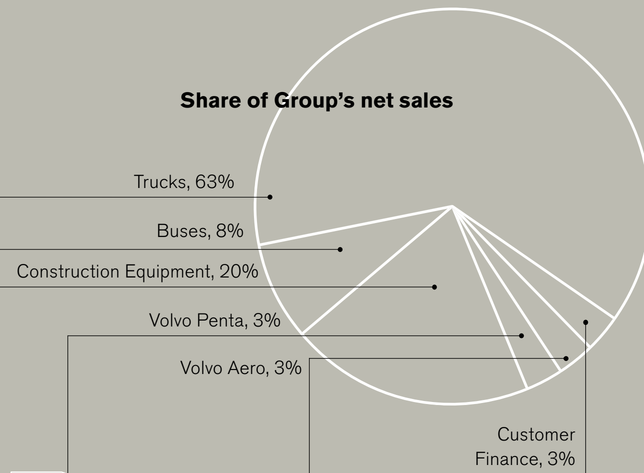
Backed by competitive product programs, strong dealers and increasingly more complete offerings including total solutions with spare parts, workshops, service packages, financing and leasing, the Volvo Group's companies have established leading positions on a global market.

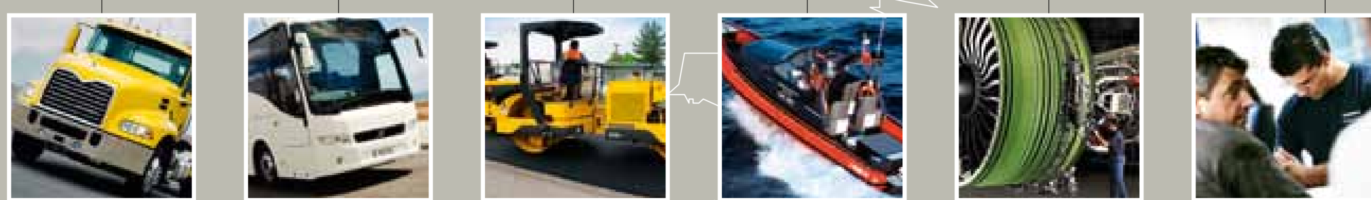
The Volvo Group has an established and strong position in Europe, North America, and South America. Through the acquisitions of UD Trucks and Lingong and the cooperation within trucks and buses with India-based Eicher Motors the position has been strengthened in many markets in Asia. Through its acquisitions the Volvo Group has also established a global industrial structure with manufacturing as well as sales and distribution channels on all continents.

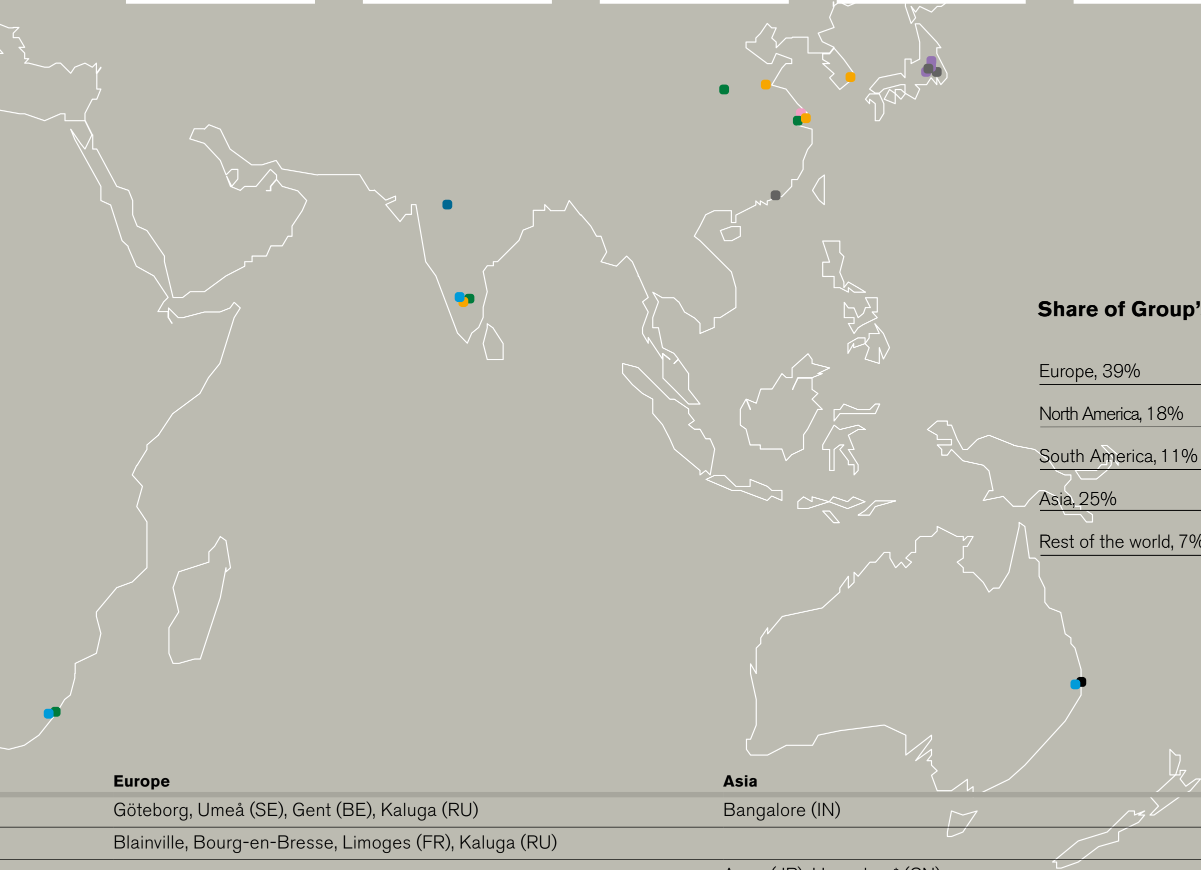


	Production facilities	North America	South America
Trucks	Volvo	New River Valley (US)	Curitiba (BR)
Trucks	Renault Trucks		
Trucks	UD Trucks		
Trucks	Mack Trucks	Macungie (US)	Las Tejerias (VE)
Trucks	Eicher*		
	Buses	St Claire, St Eustache (CA), Mexico City (MX), Plattsburgh (US)	Curitiba (BR)
	Construction Equipment	Shippensburg (US)	Pederneiras (BR)
	Volvo Penta	Lexington (US)	
	Volvo Aero	Newington (US)	
	Volvo Powertrain	Hagerstown (US)	Curitiba (BR)

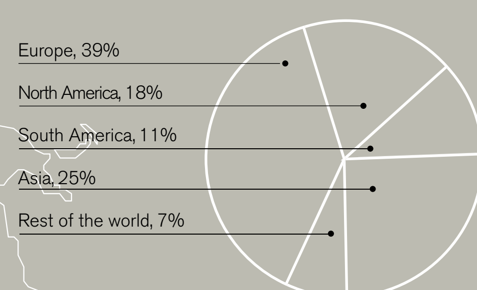
Share of Group's net sales







Share of Group's net sales by geography



Europe	Asia	Rest of world
Göteborg, Umeå (SE), Gent (BE), Kaluga (RU)	Bangalore (IN)	Durban (ZA), Brisbane (AU)
Blainville, Bourg-en-Bresse, Limoges (FR), Kaluga (RU)		
	Ageo (JP), Hangzhou* (CN)	
		Brisbane (AU)
	Pithampur* (IN)	
Borås, Säffle, Uddevalla (SE), Wroclaw (PL)	Bangalore (IN), Shanghai*, Xian* (CN)	Durban (ZA)
Arvika, Braås, Eskilstuna, Hallsberg (SE), Konz-Könen, Hameln (DE), Belley (FR), Wroclaw (PL)	Changwon (KR), Shanghai, Linyi* (CN), Bangalore (IN)	
Göteborg, Vara (SE)	Shanghai (CN)	
Trollhättan, Linköping (SE), Kongsberg (NO)		
Köping, Skövde (SE), Vénissieux (FR)	Ageo, Kounosu, Hanyu (JP)	

* Ownership ≥ 50%

THE VOLVO GROUP'S PRODUCT OFFERING

Trucks

All brands in the Volvo Group's truck operations have a unique and distinct brand-specific character that attracts customers in their market segments.

The trucks are sold and marketed under the brands Volvo, Renault, UD, Mack and Eicher, which all 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 | UD Trucks | Mack Trucks | Eicher

Buses

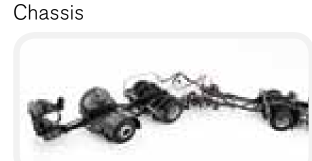
Volvo Buses' product range includes complete buses and bus chassis for city, intercity and coach traffic. The company has a total offering that, in addition to buses, includes a global service network, efficient spare parts handling, service and repair contracts, financial services and traffic information systems.

City buses

Intercity buses

Coaches

Chassis

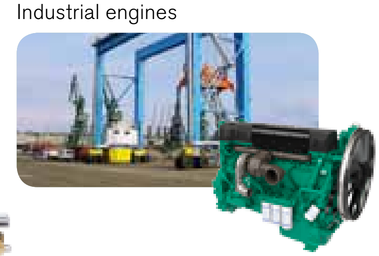


Marine and industrial applications

Volvo Penta manufactures engines and drive systems for marine applications, for both leisure and commercial craft, with an engine range of 10 to 900 hp and has a global service network of approximately 4,000 dealers. Volvo Penta also supplies industrial engines ranging from 75 kW to 640 kW for irrigation pumps, generator units and other industrial applications.

Marine engines

Industrial engines



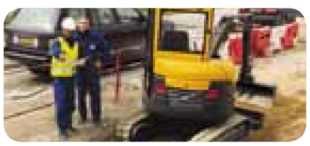
Construction equipment

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

Crawler excavators

Wheeled excavators

Crawler excavators from Lingong

Articulated haulers

Wheel loaders

Lingong wheel loaders

Road machinery

Motor graders

Compaction equipment

Pavers

Asphalt milling machines

Aerospace industry

Volvo Aero develops and manufactures advanced components for aircraft engines and space rockets with light weight in focus. More than 90% of all new large commercial aircraft are equipped with engine components from Volvo Aero. The company is also responsible for the engines of the Swedish Air Force's Gripen fighters. Volvo Aero also has an aftermarket business that comprises repair and maintenance of select aircraft engines as well as stationary gas turbines.

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 attractive financing solutions is essential to retaining existing customers and attracting new ones.

Customer and dealer financing

MOVING THE WORLD

Every day Mack Trucks collect garbage for millions around the U.S.

Mack is one of the leading producers of heavy-duty trucks in North America
Ever since the start, Mack Trucks has focused on power and reliability, which has contributed to making the company one of the strongest heavy-duty truck brands in the North American market. In the U.S., Mack is the leading producer of trucks in the construction, economic haul and refuse segments. In total, Mack has sales and service in more than 45 countries.

The people on Earth produce more than 2,000 million tons of garbage every year, and just a few days without refuse collection would be catastrophic for cities and suburban areas. In New York City alone, refuse trucks from the Volvo Group collect 11,000 tons of garbage each day.

Every day, Mack trucks collect tons of refuse all over the U.S. The demands imposed on these trucks are rigorous. They have to get through in every situation and they must not break down. Should the garbage collection stop, it wouldn't take long for the cities and suburban areas to become inundated by waste.

Mack refuse trucks collect 2 million tons of garbage every week in the U.S. Is the number hard to grasp? Try this: With the garbage that Mack Trucks refuse trucks transport every week in the U.S., it would be possible to build a column of filled garbage cans that reaches all the way to the moon.

Mack has been leading the U.S. market for refuse collection for more than 30 years. The company's operations are most extensive on the east coast, with huge cities like New York, Boston and Philadelphia. In all, Mack has almost 50% of the refuse vehicle market in the U.S. and its success is continuing.

Customers range from private family-owned companies with just one refuse truck to local authorities and large cities, such as New York City, operating around 2,500 Mack refuse trucks that haul more than 11,000 tons of trash every day.

Mack collaborates closely with customers to customise trucks that match their specific requirements. In New York, for example, a number of refuse trucks are also able to help with snow clearance using a specially designed plow.

All Mack trucks are built at the plant in Macungie, Pennsylvania. The Mack TerraPro model is primarily used as a refuse truck. At the plant, the trucks are also adapted to match customer requirements. The next step in the development process involves alternative fuels. Both hybrids and natural gas driven vehicles are important, and many customers in different parts of the U.S. are interested in extending their fleets to include more energy efficient and environmentally sound vehicles.

VISION, MISSION AND VALUES

Vision

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

Mission

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

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

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

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, 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 pertains to 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 the personal safety and the work environment of the drivers of our vehicles and equipment. Our long-term vision is zero accidents.

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 for the Volvo Group to be ranked as a leader in environmental care within our industry. To achieve this goal, we strive for a holistic view, continuous improvement, technical development and efficient resource utilization.

OVERALL STRATEGIES

The majority of the Volvo Group's customers are involved in commercial transport-related operations. They place high demand on both products and services.

The market is characterized by intense competition where customer satisfaction is a key factor as it lays a foundation for future sales and future profitability. The Volvo Group's strategy is based on customers' requirements and is focused on profitable growth, product renewal and internal efficiency.

Customer requirements

The Volvo Group's products and services offer high performance characteristics, quality, safety, flexibility and a favorable total economy. Customers are offered solutions adapted to their operations regardless of whether they involve a single product or a complete solution.

Products, services and complete solutions are developed in close cooperation with customers with the goal of contributing to improving the customers' productivity and profitability, and thus creating value for the customer. Volvo strives to increase the penetration and proportion of sales coming from services and soft products, with an offer consisting of financing, insurance, various forms of service contracts and spare parts, superstructures and attachments.

In the past few years, the Volvo Group has intensified its relationships with key customers. The advantages are many. The Group can support customers' development 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.

Profitable Growth

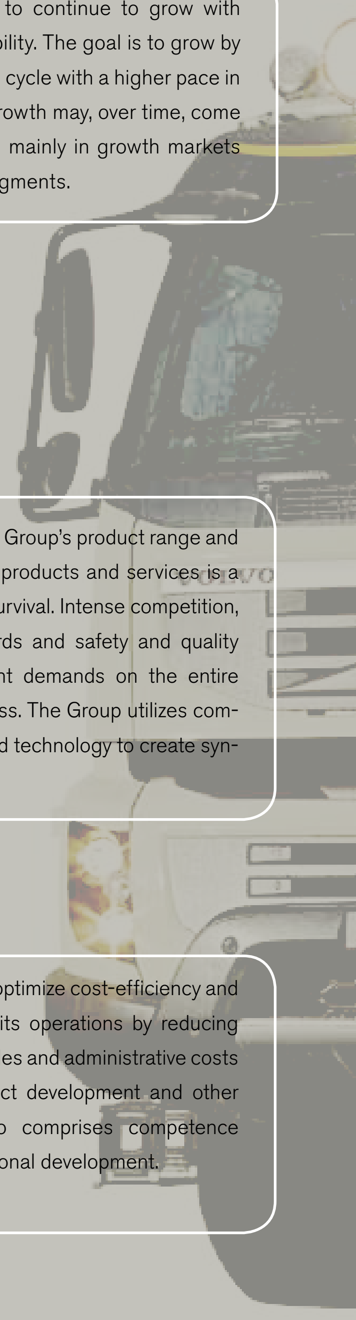
The Volvo Group's aim is to continue to grow with increased focus on profitability. The goal is to grow by 10% a year over a business cycle with a higher pace in new markets. Part of the growth may, over time, come from acquisitions and then mainly in growth markets and in strategic product segments.

Product Renewal

The ongoing renewal of the Group's product range and creation of new and better products and services is a challenge, but a matter of survival. Intense competition, new environmental standards and safety and quality requirements put significant demands on the entire product development process. The Group utilizes common architecture and shared technology to create synergies and reduce costs.

Operational Excellence

The Volvo Group strives to optimize cost-efficiency and productivity in all parts of its operations by reducing manufacturing costs and sales and administrative costs and by speeding up product development and other processes. The work also comprises competence development and organizational development.



STRATEGY

Profitable Growth

In an industry characterized by economies of scale and which is undergoing consolidation, profitable growth is a necessary condition in order to continue to strengthen competitiveness and to develop as a close 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 ensure investments in the development of new products and services and a favorable return to the shareholders. The Group's brands shall increase customer satisfaction by offering environmentally and cost-efficient products and services.

Required scale achieved

During the past ten years, the Volvo Group has grown on average 7.4% per year, both organically and through acquisitions. The acquisitions have been carried out in order to establish the Group in new markets and in new product segments, as well as to achieve economies of scale through size. The average operating margin during the period has been 3.9%.

Through its growth, the Group has achieved sufficient size in mature markets with satisfactory market shares. The size facilitates good economies of scale in most product segments.

Strong positions

The Volvo Group has strong positions from which further to develop:

- No. 2 among Western manufacturers of heavy-duty trucks
- No. 4 in construction equipment
- One of the world's largest manufacturers of heavy-duty diesel engines
- Strong positions also in the other business areas
- Good market presence globally.

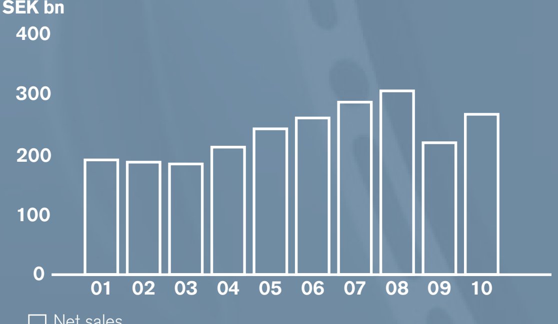
Future direction

Within the strategic area Profitable Growth the future direction is:

- Continued organic growth in mature markets.
- Focus on increased sales of services and aftermarket products.
- Products in market segments that open up possibilities to capture the rapid growth in Asia and other growth markets.
- Realizing further synergies from acquired companies.
- Increased cooperation with business partners.

Net sales

SEK bn



The Volvo Group's acquisitions and divestments

2008 Joint venture with Eicher Motors of India within trucks and buses.
2007 Acquisition of Igersoll Rand's road development division.
2007 Acquisition of Ingersoll Rand's road development division.
2006 Acquisition of Japanese Nissan Diesel (Now UD Trucks). Completed in 2007.
2005 Sale of the service company Celero Support.
2004 Acquisition of remaining 50% of the Canadian bus manufacturer Prévost.
2004 Sale of axle-manufacturing operations to ArvinMeritor.
2003 Acquisition of the truck and construction equipment dealers from Bilia.
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.

Operational Excellence

Operational excellence is an important factor for securing a sustainable profitability for the Group. The work with operational excellence includes lowering the manufacturing costs and the cost of sales and administration as well as making product development and other processes more efficient.

Volvo Production System (VPS) is an important tool in the effort to increase operational excellence. It contains methods to make operations more efficient and reduce productivity losses. Competence development is a key part of VPS. Great effort is placed on developing employees in new, future technological competencies.

Substantial cost savings

In 2009 as well as 2010, substantial measures were implemented to lower the Group's costs on a permanent basis. Short-term, they have been focused on quickly changing over the Group to a new, lower cost base while at the same time securing the Group's long-term competitiveness. All parts of the Group have been subject to cost savings in a number of areas. The measures have produced results and substantially lowered the total costs for, among others, sales and adminstration as well as for research and development. As the Group now grows again, it is of vital importance that costs increase at a slower pace through increased efficiency and productivity and thus assist in raising profitability.

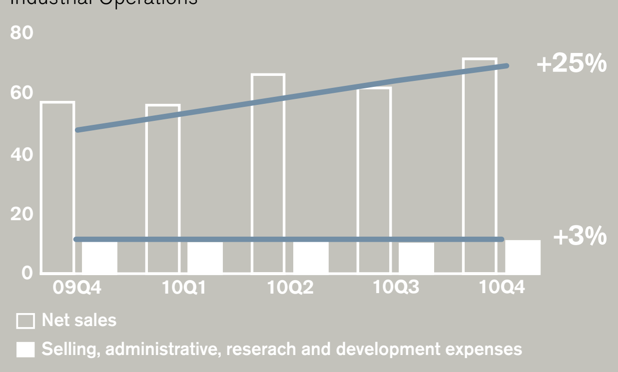
Future direction

Within the strategic area of Operational Excellence the future direction is:

- Lowering the product cost.
- Utilizing the global production capacity with regional support.
- Productivity increase in the industrial system to strengthen competitiveness.
- Focus on closer and more long-term cooperation with well-performing suppliers and take further advantage of large purchasing volumes.
- Reduce administration by fully utilizing the business units.
- Increase productivity in product development.
- Increase flexibility to be able to rapidly adapt the cost structure to changes in demand.
- Increase competency and diversity with strong employee commitment.

Improved profitability through cost control

Industrial Operations



STRATEGY

Product Renewal

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 refine and improve the performance of products and with swiftness strengthen 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.

Cleaner engines

After implementing comprehensive product renewal in recent years, the Volvo Group decided to maintain relatively high investments in research and development during 2009 and 2010. This was done to secure a competitive range of products and services in both the short and the long term.

The pace of product renewal has been high, for example in conjunction with the implementation of new emissions regulations in Europe, North America and Japan. The Group also started serial production of hybrid buses and launched a large number of new construction machines, including excavators under the brand name SDLG in China.

The Volvo Group has also developed its own captive Group-wide engine platform for medium-duty diesel engines. The first models of the new medium-duty engines started to be launched in 2010.

The Group has its most competitive product range ever, but 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.

Focus on the driveline

The Volvo Group is one of the world's largest manufacturers of heavy diesel engines for commercial use. The Group has production and research and development facilities for drivelines on three continents. The products are sold to customers in some 180 markets worldwide.

A large number of product launches

Volvo Trucks
In April 2010, Volvo Trucks launched the new Volvo FMX truck, specially designed for heavy construction duties. With the new Volvo FMX and a strong service offering for the construction industry, the company has strengthened its position in this segment. During the year, Volvo Trucks also focused on the development of hybrid trucks and engines for alternative fuels.

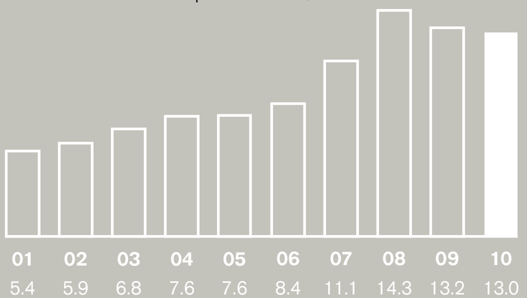
Renault Trucks
Renault Trucks launched the Optitrack system on Renault Premium Lander. The system is useful when driving on difficult terrain in quarries or worksites. With the aid of separate hydraulic motors integrated in the wheel hubs, the truck can automatically be driven in all-wheel drive. In addition Renault Trucks started delivery of an all-electric version of Renault Maxity.

UD Trucks
In April, UD Trucks launched versions of its Quon heavy-duty truck with engines based on the Group's common heavy engine platform that comply with new emission regulations introduced in Japan. In addition to environmental performance, the latest Quon lineup has been developed to meet growing demand for high levels of both fuel economy and driving performance.

Mack Trucks
Mack introduced its new mDRIVE automated manual transmission, based on well-accepted Group architecture engineered to work exclusively with MACK MP series engines and delivering improved fuel efficiency, driveability and safety. A natural gas-powered version of the versatile MACK TerraPro Cabover model was brought to market for refuse and construction customers.

Continued focus on product development

Research and development costs, SEK billion



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, good drivability, favorable fuel economy and high environmental parameters help boost customers' productivity and profitability.

The environmental aspect is of great significance in all product development. Alternative drivelines and fuels, and the lower fuel consumption when using traditional drivelines, provide for twice the benefit – less impact on the environment and lower costs for customers. The Volvo Group is a driving force in the areas of environmental adaptation and energy efficiency. The undertaking involves a gradual transition from fossil fuels, such as oil and natural gas, to fuels from renewable sources and to hybrids.

The Group continuously strengthens the development of aftermarket products and services with the aim of meeting customer needs through the entire product life cycle.

Future direction

Within the strategic area of Product Renewal the future direction is:

- Meet future emission standards with competitive products – capitalize on converging technologies.
- Start production in India of medium-duty engine platform developed by the Group.
- Develop new products adapted for growth markets.
- Further enhance the Group's market-leading position within diesel engines and automatic gearboxes.
- Commercialize the Group's shared technology for diesel-electric hybrids.
- Focus on fully utilizing common architecture and shared technology.

Volvo Buses

In the summer of 2010 serial production started of Volvo's hybrid buses, both single deckers and double deckers. Hybrid buses reduce fuel consumption and emissions of CO_2 by as much as 35%. The company has redeived orders for some 200 hybrid buses in Europe and has carried out positive tests at operators in Brazil and Mexico.

Volvo Construction Equipment

Volvo CE is highlighting its commitment to improving fuel efficiency with a range of solutions that encompasses engines, hydraulic systems, operator behavior and hybrid technology. The company is ramping up its investments in new technology to maintain its leadership in fuel efficiency and thereby environmental protection.

Volvo Penta

With new and specially designed controls from Volvo Penta, boat drivers can quickly choose between a number of features, for example cruise control, powertrim assistant and tow mode. The electronics development makes it possible for Volvo Penta to offer its customers soft products of this kind. Also among these is the appreciated joystick, which makes maneuvering a boat easier and safer.

Volvo Aero

The main challenge for the airline industry is to reduce the engines' fuel consumption and thus also the emissions. Volvo Aero's lightweight technologies are therefore in increasing demand from the large, international engine manufacturers, while the technologies also get new applications in the aerospace industry

STRENGTH FACTORS

Strategically important for future profitability

Based on its strategies and by utilizing its strength factors, the Volvo Group's ambition is to further increase its competitiveness and improve its profitability.

Strong brands

By selling products with different brands, the Volvo Group can penetrate many different customer and market segments in mature markets as well as growth markets.

The Volvo brand, which has been built up over decades, is one of the world's best known and respected names within trucks, buses, construction equipment, marine engines, industrial engines and in the aviation industry.

Mack is one of the most well-known truck brands in North America, while Renault Trucks holds a special position in Southern Europe. The UD brand is one of the biggest in the Japanese truck market.

Prevost sells coaches and Nova Bus city buses in North America.

The Volvo Group also sells construction equipment under the SDLG brand mainly in China, and through joint-venture companies, trucks and buses under the Eicher brand mainly in India and buses under the Sunwin and Silver brands in China.

A customer offering at the forefront

The Volvo Group offers customers complete, efficient transport solutions. Products with reliability, durability, good driveability, favorable fuel efficiency and high environmental performance are combined with services such as financing, insurance, various service contracts, accessories and spare parts that support the core products. The Volvo Group's increasingly broad offering of these services and aftermarket products is intended to provide for improved competitiveness.

Strong dealers

Through the years, the Volvo Group has invested considerable resources in building a very strong dealer network with overall well-developed sales and service channels. The network consists of wholly-owned as well as independent dealers. Thanks to large populations of Group products in most markets, the dealers have a stable base of revenues from the important aftermarket with service and repair.

Strong market positions

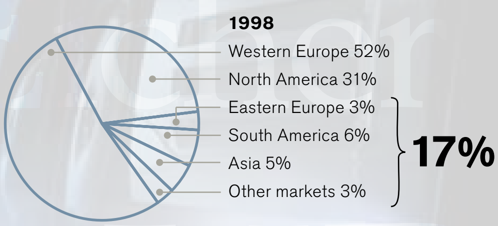
The Volvo Group has leading positions globally in each of its business areas. The Volvo Group is Europe's largest and one of the world's largest manufacturers of heavy-duty trucks and one of the largest manufacturers of buses in Europe and North America. Within construction equipment, the Volvo Group is the world's largest manufacturer of articulated haulers as well as one of the world's largest manufacturers of wheel loaders, excavators equipment and road development machines. All in all, the Volvo Group in 2010 was one of the world's largest producers of heavy-duty diesel engines.

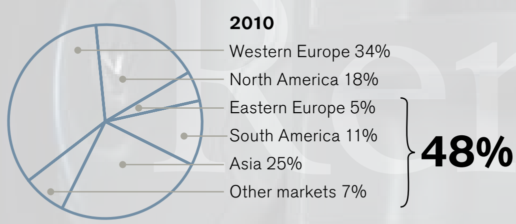
Strengthened presence in Asia and South America

In recent years, the Volvo Group has strengthened its position in important growth markets in Asia and South America through a combination of organic growth and acquisitions. Among the acquired companies are UD Trucks in Japan, Lingong (70% ownership) in China and VE Commercial Vehicles (50% ownership) with its Eicher brand in India. During 2010, 19% of the Industrial Operations' net sales were generated in the BRIC countries (Brazil, Russia, India and China). Altogether, the markets outside Western Europe and North America accounted for 48% of net sales in the Industrial Operations during 2010.

Successful inroads into new markets

Share of Industrial Operations' net sales





Organic growth

- Strong brand and distribution in Eastern Europe
- Product portfolio expansion and distribution in South America and Asia
- Development of acquired businesses

Acquisitions and JVs

- Lingong, China
- UD Trucks, Japan
- VECV (Eicher), India

Measured over a business cycle

The Volvo Group's financial goals were established by the Board in September 2006. The Board focuses on three goals comprising growth, operating margin and capital structure for the Group's Industrial Operations.

Financial goals for Industrial Operations

Growth

The growth target is that net sales should increase by a minimum of 10% annually. During 2000–2010, the average growth rate was 7.4% annually.

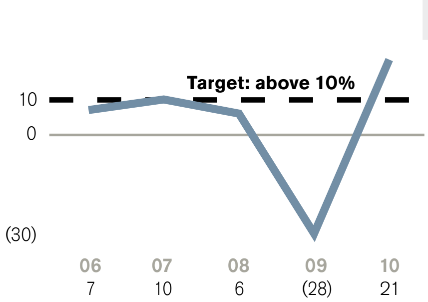
Operating margin

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. The average annual operating margin for the Volvo Group's Industrial Operations was 3.9% from 2000 to 2010.

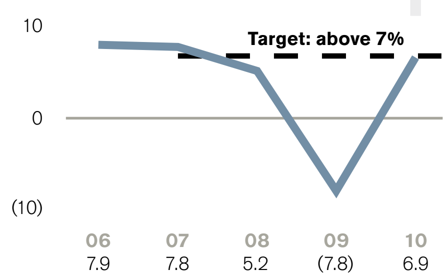
Capital structure

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, 2010, the Volvo Group's Industrial operations had a net financial debt position corresponding to 37.4% of shareholders' equity.

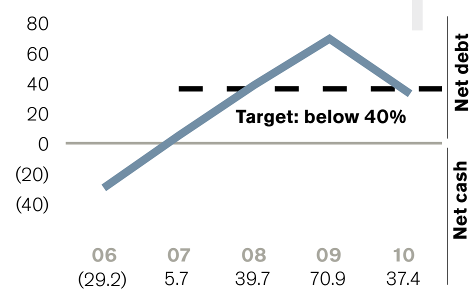
Net sales growth, %



Operating margin, %



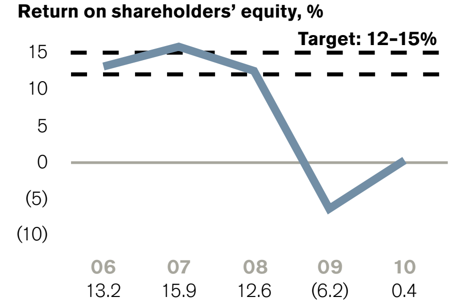
Net financial debt as percentage of shareholders' equity, %



Financial goals for Customer Finance Operations

The target for Customer Finance is a return on shareholders' equity of 12–15% and an equity ratio above 8.0%. At year end the equity ratio was 9.0%. The average annual return on shareholders' equity for 2006–2010 amounted to 7.2%.

Return on shareholders' equity, %



WORLD-CLASS SERVICES

Strengthens customer relationships

Many customers want long-term cooperation around total solutions to execute their work as efficiently as possible with maximum profitability and reliability.

When customers choose supplier of vehicles or machinery, the offering of supplementary services combined with excellent products is a crucial factor.

Accordingly, the Volvo Group offers such services as financing and insurance, various forms of service agreements, accessories and spare parts. The Volvo Group's increasingly broad range of these services and aftermarket products, so called soft products, is of ever-increasing importance to the Group's competitiveness.

Growing aftermarket business

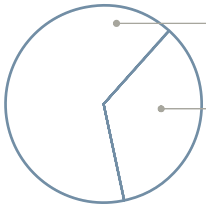
The Volvo Group's offering includes various types of financing solutions, insurance, rental services, used vehicles, spare parts, preventive maintenance, service agreements, assistance services and IT services. The range and flexibility of the offering means that the solutions can be customized for each customer.

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

Services and aftermarket products (so called soft products)

Aftermarket products				Extended product offering	Services offering			
Spare parts	**Software**	**Accessories**	**Service Products**	**Extended product offering**	**Uptime services**	**Fleet/Transport Services**	**Support Services**	**Financial Services**
New parts	Vehicle software	Accessories	Service litterature	Used vehicles	Service planning	Transport management	Competence development	Dealer financing
Used and remanufactured parts		Non-Volvo accessories	Service/dealer tools	Trailers and superstructures	Maintance and repair	Driver time management	Fleet and asset management	Customer financing
Extended parts		Merchandise products	Parts Services	Attachments and options	Updates and upgrades	Vehicle management	Call centre services	Rental
				Special vehicles	Service contracts	Security, safety & environment	Consultancy services	Insurance
					Extended coverage	Driver info and support	Information services	Card and payment solutions

Soft product share of Industrial Operations' net sales 2010



the business cycle for the Volvo Group. By strengthening the aftermarket offering, profitability and revenue sustainability can improve for the Group throughout the business cycle.

The strategy to increase sales of services and aftermarket 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 2010, the services and aftermarket products business represented approximately 35% of net sales in the Industrial Operations, of which roughly half was attributable to spare parts and workshop services.

Develop and increase interface with customers

The majority of Volvo Group's customers are companies within the transportation or construction industries. The reliability and productivity of the products are important and in many cases crucial to the customers' success and profitability.

The goal is that Volvo Group companies shall be regarded as number one in customer satisfaction, in terms of both products and services. The Volvo Group shall also be number one when the dealers' customers assess customer satisfaction. A competent and professional dealer and service network is of vital importance to the Volvo Group and contributes to strengthening the Group's various brands.

A missed delivery is a missed sale

Last year, the bread producer, Pågen AB, placed an order for 61 Volvo FL trucks.

"We are in the fresh produce business. Distribution is the one part of our chain that must be completely faultless," says Johan Blixt, Purchasing Manager at the Pågen Group.

The first Volvo trucks

For 20 years, the drivers at Pågen AB have driven another brand of trucks, so the decision to change supplier and make an investment of this size requires serious consideration.

"Our procurement processes are very thorough. Suppliers are compared in great detail. Volvo came out well and won this contract. But Volvo will still have to work hard for several years to come."

The service organization was decisive

Price was not the main reason the Pågen Group made its choice.

"I would say the decisive factor was Volvo's service organization. We have been very well received, they have listened to what we had to say and we feel well looked after. These things are important for me as Purchasing Manager when taking such large decisions and for our employees that leave the vehicles at the workshop."

Pågen AB has chosen to invest in Volvo's Gold Service Contract for the new trucks.

"When a driver hands in a truck for service, whatever work has been ordered must be completed in the appointed time. If we lose time, we miss deliveries and a missed delivery is a lost sale. It just has to work!"

Fits Pågen's environmental profile

Volvo trucks' environmental qualities are highly valued by Pågen.

"We strive to minimize our environmental impact throughout our chain and invest in premium environmental technology, and the transports are no exception.

Pågen AB

Pågen is Sweden's largest bread producer. Net sales amounted to SEK 2.7 billion.

Freshly baked bread is distributed across Sweden from bakeries in Malmö and Gothenburg, seven days a week, all year long.

Of the approximately 1,400 employees, 430 work as sales staff and drive bread trucks around their own district of stores. In total, Pågen's sales staff visit 5,000 stores every day.

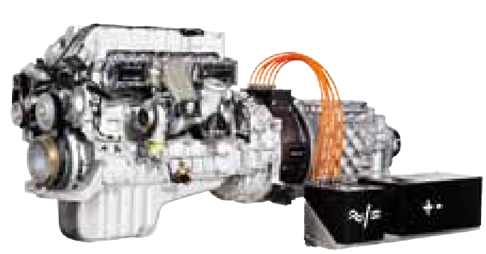
The order: 61 trucks of the Volvo FL model.

MOVING THE WORLD

Red hybrid bus of the future for the streets of London

Up to 35% lower fuel consumption

The Volvo B5L Hybrid Double Decker is equipped with a diesel engine with smaller cylinder volume than usual, since it is combined with an electric motor. It is the electric motor that is running the bus when it accelerates to a speed of 15–20 km/h. When the bus is underway, the parallel hybrid system combines diesel and electric power to maintain speed. At higher speeds, the bus uses diesel power alone. Regenerative braking energy charges the battery via the generator. Several of the Volvo hybrid auxiliary systems are powered by independent electric motors. These measures all contribute to high fuel savings on routes with frequent braking and acceleration, like city bus traffic. The parallel hybrid technology reduces fuel consumption and CO_2 emissions by up to 35% compared to conventional diesel buses. In the hybrid configuration, the emissions of nitrogen oxide and particulates are reduced by up to 50%.



When mega city London makes a commitment to reduce emissions, tradition and new technology are combined: A classic red double-decker bus using Volvo's latest hybrid technology carries London's citizens just as it always has – but with up to 35% less fuel consumption.

Of all passengers using public transportation in the world, 80% go by bus. Buses are easy to use in almost all types of traffic and are in many parts of the world the only public transportation. In London, buses are one out of many means of transportation, and play an important role as the city aims to reduce traffic.

North London's Green Lanes is a chaotic experience during rush hour. At the bus stop outside the popular pub The Fox, commuters get on and off a never-ending stream of red doubledeckers. Noise pollution from cars and diesel buses fills the street with an aggressive roar.

All this makes the contrast with Volvo's new hybrid double-deckers all the more evident. When it arrives at the bus stop, the diesel engine shuts down completely. You are left with a comforting silence that remains even as the hybrid bus leaves the stop, only using its electric motor to accelerate.

"It's fantastic how quiet it is when the diesel engine is turned off and it only runs on electricity," says Daniel Clarke, one of the commuters standing in line at the bus stop. "I can't even imagine what the difference would be if all buses were hybrids."

Arriva's Wood Green bus garage in North London is a pioneer of hybrid buses for London. In the summer of 2009, six brand new Volvo B5L Hybrid Double Decker buses arrived at the garage that has had previous experience of hybrid technology.

"We received the first hybrid buses in 2007 and now have a total of 11 hybrid double-deckers at Wood Green. Our experience of hybrid technology has been positive and all our staff, from mechanics to drivers, are pleased to be involved,"says Ian Tarran, engineering director at Arriva London.

Transport for London, the body responsible for London's transport system, has made the hybrid buses a key part of their strategy for public transport with less environmental impact. To really put the Volvo Hybrid Double Decker to the test, bus route 141, was selected. The route starts at Palmers Green and ends at London Bridge, with a total length of nine kilometers and a tour frequency of 6–12 minutes.

"The field tests have shown that the fuel consumption of the Volvo Hybrid Double Decker is within our goals. On route 141, the buses have the toughest cycle possible and still their fuel consumption has been reduced by over 30% compared to the regular diesel buses on route 141," says Niklas Deras at Volvo Buses.

MARKET OVERVIEW

Long-term increase in demand for the Group's products and services

During 2009, the Group's mature markets showed a sharp decline in demand and during 2010 a gradual recovery from historically low levels. Demand in the Group's growth markets were affected to a much lesser extent by the financial crisis. After a brief downturn at the beginning of 2009, these markets returned to growth, and they showed a continued good growth in 2010.

Long-term growth

In the long-term, demand for freight capacity, and thus many of the Group's products, is closely linked to the GDP trend. The extent of investment in infrastructure, which drives demand for building and construction equipment, is also, closely linked to the GDP trend. In the short-term, demand is affected by a number of factors including fuel prices, the implementation of new emission regulations, interest rates, etc.

From a historical perspective, despite the recovery in the truck and construction equipment markets in 2010, demand was below the long-term trend in Europe, North America and Japan. The Volvo Group sees no development that would imply that the connection between GDP trends and the sales of vehicles and machines would have changed and, accordingly, the view is that in time, demand will recover and return to levels corresponding with the long-term trend.

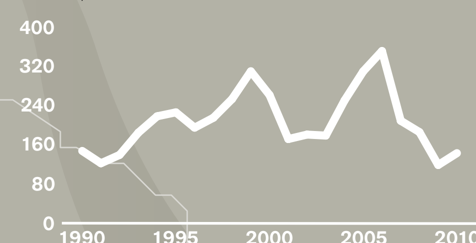
North America

In North America, sales of heavy-duty trucks rose 20% to 142,096 vehicles (117,983), primarily driven by rising demand for trucks for long distance haulage and regional distribution. The market for construction trucks remained weak. The market for construction equipment rose 20% after a three-year decline. However, the market still remained at a low level.

Despite the uncertain macroeconomic trend, the need to replace old trucks and upgrade the truck fleets is substantial, which is expected to drive an improvement in demand. The total market for heavy-duty trucks in North America is expected to amount to approximately 220,000 trucks in 2011. The market for construction equipment is expected to grow by 20–30% in 2011.

Heavy-duty truck market, North America

Vehicles, thousands



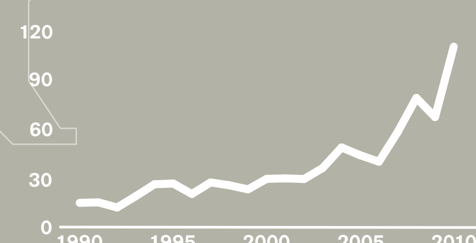
South America

In South America, the key Brazilian market remained strong, primarily due to a healthy economy with strong growth in GDP, but also due to support measures including advantageous financing. The Brazilian market for heavy-duty trucks rose 64% to 109,760 vehicles (66,950). In South America as a whole, the market rose 61% to 138,763 heavy trucks (86,398). In Brazil, the market for construction equipment rose 68%.

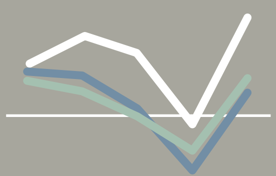
The pace of growth in the South American truck market is expected to plane out during 2011 after an extremely strong 2010, but despite this, demand is expected to remain at a healthy level. The Brazilian market for construction equipment is expected to grow by 5–15% in 2011.

Heavy-duty truck market, Brazil

Vehicles, thousands



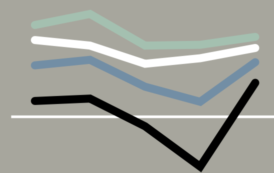
Economic growth in the U.S., EU and Brazil
Annual GDP-growth, %



Source: Consensus Economics

06	07	08	09	10	
4.0	6.1	5.2	(0.6)	7.5	Brazil
3.4	3.1	0.6	(4.1)	1.8	Europe
2.7	1.9	0.0	(2.6)	2.9	USA

Economic growth in Asia
Annual GDP-growth, %



Source: Consensus Economics

06	07	08	09	10	
11.6	13.0	9.0	9.1	10.1	China
9.7	9.0	6.7	7.4	8.7	India
6.5	7.2	3.8	1.9	6.9	Asia/Pacific*
2.0	2.3	(1.2)	(6.3)	4.3	Japan

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

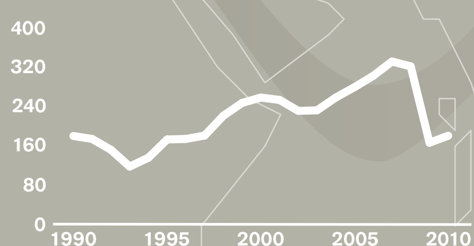
According to Consensus Economics, global GDP grew by 4.0% during 2010 compared with a decline of 1.8% in 2009. GDP in the EU grew by 1.8% (–4.1%), in the US by 2.9% (–2.6%) and in Japan by 4.3% (–6.3%). Growth in countries such as Brazil, India and China was very strong. For 2011, global GDP is expected to grow by 3.4% with continued high growth rates in, among others, Brazil, India and China.

Europe

In Europe 29, (the 27 EU member states and Norway and Switzerland) registrations of heavy-duty trucks rose 8% to 179,185 vehicles in 2010, compared with 165,269 vehicles in 2009, driven by a recovery in Central and Northern Europe, while Southern Europe remained weak. The market for construction equipment rose by 15% in 2010.

It is difficult to gauge the effects European austerity packages will have on the economy in 2011, but Volvo currently estimates the truck market will amount to approximately 220,000 heavy-duty trucks. The market for construction equipment is expected to grow by 5–15% in 2011.

Heavy-duty truck market, Europe
Vehicles, thousands

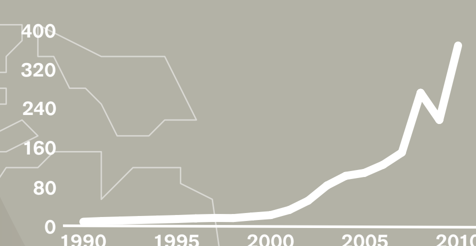


Asia

The Group's most substantial truck market in Asia is Japan, where demand weakened in the second half of the year after government scrapping premiums ceased and new tougher emission regulations were introduced. However, the total market amounted to 24,453 heavy-duty trucks, which was an increase of 29% compared with 18,889 trucks in 2009. In other Asian markets, demand rose compared with the preceding year. The Indian market for heavy-duty trucks rose by 69% to 211,543 vehicles (125,173). The market for construction equipment in Asia rose by a total of 60%, primarily driven by continued strong growth in China and India.

After a weak second half in 2010, demand for heavy-duty trucks is expected to recover gradually in Japan in 2011. The Japanese market for heavy-duty trucks is expected to grow by 10%. The market for construction equipment in both China and India is expected to grow by 5–15% in 2011.

Construction equipment market, China
Machines, thousands



Other markets

For trucks, Other markets comprises Africa and Australia. The Volvo Group's deliveries of trucks to Other markets rose 10% to 14,888 with a positive trend shown especially in North Africa and Australia. The market for construction equipment grew by 42%.

SIGNIFICANT EVENTS

Recovery, growth and product launches

2010 was characterized by a recovery in the Group's mature markets and a continued strong development in most of the growth markets. The Volvo Group's intensive product renewal continued in all business areas.

The first quarter

Annual General Meeting

The Annual General Meeting of AB Volvo held on April 14, 2010 approved the proposal from the Board of Directors and the President not to pay a dividend to the shareholders and that all of the funds at the disposal of the Annual General Meeting would be carried forward to the following year.

Peter Bijur, Jean-Baptiste Duzan, Leif Johansson, Anders Nyrén, Louis Schweitzer, Ravi Venkatesan, Lars Westerberg and Ying Yeh were reelected as members of the Board of AB Volvo, and Hanne de Mora was newly elected. Louis Schweitzer was elected Chairman of the Board.

Thierry Moulonguet, representing Renault S.A.S., Carl-Olof By, representing AB Industrivärden, Håkan Sandberg, representing Svenska Handelsbanken, SHB Pension Fund, SHB Employee Fund, SHB Pensionskassa and Oktogonen, Lars Förberg, representing Violet Partners LP and the Chairman of the Board, were elected members of the Election Committee.

The registered public accounting firm PricewaterhouseCoopers AB was elected as the company's auditor for a period of four years.

New trucks launched

On April 20, 2010, UD Trucks presented a new range of Quon heavy-duty trucks. The latest Quon lineup has been developed to meet high levels of demand for both fuel economy and driving performance. It features newly developed engines and automated manual transmissions based on Group architecture. UD Trucks has also

added a new model equipped with a new medium-duty engine to its Condor truck lineup.

On April 19, Volvo Trucks launched its new Volvo FMX construction truck at the Bauma international machinery trade fair in Munich, Germany. With the new truck, Volvo Trucks aims to increase its presence in the construction segment. Sales of the new Volvo FMX will begin in Europe in September, 2010.

Detailed information about the events is available at www.volvogroup.com

The second quarter

Investment in Indian facility for production of excavators

As part of Volvo Construction Equipment's (Volvo CE) objective of supporting customers in the growing BRIC (Brazil, Russia, India and China) markets, Volvo CE has announced a strategic investment in its existing facility in Bangalore, India. The investment, which totals around SEK 144 M, will allow Volvo CE to produce medium-sized excavators at the plant. These machines will primarily be models for use in the Indian market. Production of the first machines is expected to start by the end of 2011.

Production of new medium-duty engine in India

The Volvo Group's Indian joint venture company, VE Commercial Vehicles (VECV) is to invest a total of SEK 480 M in the production of the Group's new global medium-duty engine in India. The investment gives the Volvo Group a complete facility in India for machining and assembling the new medium-duty engine, which will be introduced in the Group's trucks and buses worldwide in the next few years. Through this investment, it will be possible for the Volvo Group to locate most of its production of medium-duty engines to VECV's plant in Pithampur, India.

Sale of Volvo Aero's US service business

In July it was announced that Volvo Aero had signed an agreement to sell its US subsidiary Volvo Aero Services. The sale had a negative impact of SEK 538 M on Volvo Aero's operating income in 2010. The sale of Volvo Aero Services is due to Volvo Aero's strategy of focusing on its core operations of developing and manufacturing components for aircraft engines, combined with the goal of reducing the company's tied-up capital.

The third quarter

UD Trucks and Nissan Motor end collaboration on contract manufacturing of light-duty trucks

The collaboration between Volvo Group's Japanese subsidiary UD Trucks and Nissan Motor on the contract manufacturing of light-duty trucks will expire and the production will end in January 2011. The decision enables UD Trucks to focus more on medium and heavy-duty trucks. UD Trucks will continue to have its own manufacturing operation for light-duty trucks for the export market. During 2009, UD Trucks produced 6,150 light-duty trucks within the collaboration framework and up to August 2010, 4,800 vehicles had been produced and sold to Nissan Motor. The end of contract manufacturing for Nissan Motor will not result in any restructuring costs or have any significant impact on the Volvo Group's earnings or financial position.

The fourth quarter

Volvo Group President and CEO Leif Johansson to resign in the summer of 2011

After almost 14 years as President and CEO of Volvo, Leif Johansson in December informed the Board of AB Volvo of his intention to resign in conjunction with his 60th birthday in the summer of 2011. At the same time Leif Johansson will also leave the Board of AB Volvo.

The Volvo Group enters partnership with WWF to reduce CO_2-emissions

The Volvo Group will be the world's first vehicle manufacturer to join the World Wide Fund for Nature's (WWF) Climate Savers Program. As a WWF partner, the Volvo Group's truck companies undertake to reduce the CO_2-emissions from vehicles manufactured between 2009 and 2014 by 13 million tons. Independent technical experts will oversee the results.

Events after balance-sheet date

Volvo part of investigation by European Commission

In January 2011, Volvo Group and a number of other companies in the truck industry have become part of an investigation by the European Commission regarding a possible violation of EU antitrust rules.

Proposal for voluntary conversion of series A shares

In a letter to AB Volvo's Board of Directors ahead of the Annual General Meeting (AGM) on April 6 this year, AB Volvo's two largest shareholders – Renault S.A. and Industrivärden – have proposed an addendum to AB Volvo's articles of association that would permit voluntary conversion of series A to series B shares.

Corporate Governance Report Volvo has issued a corporate governance report which is separate from the annual report. The corporate governance report is included in this document, after the annual report as such, on the pages 138–147.

ORGANIZATION

Organized to be close to customers and drive economies of scale

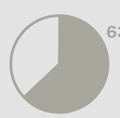
The Volvo Group's product-related companies in the different segments work closely together with customers while Group-wide resources in the business units work to create economies of scale. Approximately 70% of the Group's 90,000 employees work in the product-related companies and 30% work in the business units.

SEGMENT

Trucks
The truck operations product portfolio is sold and marketed under five different brands: Volvo, Renault, UD and Mack and also Eicher from VE Commercial Vehicles (50% ownership) in India. The product offer stretches from heavy-duty trucks for long-haulage and construction work to light-duty trucks for distribution.

Number of employees: 38,533 (37,575).
Number of delivered trucks: 179,989 (127,681).

NET SALES AS PERCENTAGE OF VOLVO GROUP'S SALES



BUSINESS UNITS

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: 3,748 (4,022).

Volvo Powertrain

Volvo Powertrain coordinates the Volvo Group's driveline operations and is responsible for the development and manufacturing of medium-duty and heavy-duty diesel engines, gearbox and driveshafts. Volvo Powertrain also manufactures light-duty engines for external customers and is responsible for ensuring that the Volvo Group is supplied with drivelines for medium-duty applications from external manufacturers. Number of employees: 8,305 (8,143).

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 for workshop maintenance and other services for the aftermarket. Number of employees: 4,063 (4,133).

Volvo Logistics

Volvo Logistics develops and provides transport and logistics solutions to the automotive and aerospace industries worldwide. Its customers come partly from outside the Volvo Group. Volvo Logistics provides customeradapted 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: 1,194 (1,157).

Volvo Business Services

Volvo Business Services provides administrative services to Volvo Group companies. Its operations include accounts payable, accounts receivable, accounting and human resources administration. Number of employees: 902 (910).

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, for example, the Volvo Group, Volvo Cars and other large industrial companies. Number of employees: 4,952 (4,984).

Volvo Group Real Estate, Volvo Technology, Volvo Technology Transfer, Volvo Group NAP

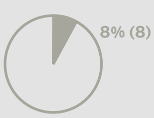
Business Units

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.

In addition to the business units in the overview below, there is Volvo Technology that develops new technology and new concepts for products and services in the transportation and automotive industries. Volvo Group Real Estate conducts property management and development. Volvo Technology Transfer invests in companies with projects of technical and commercial interest. Volvo Group NAP (Non-Automotive Purchasing) is a global procurement organization sourcing the goods and services that are not used in the manufacturing of the Group's products.

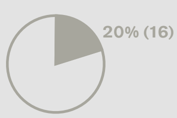
Buses
has a product range comprising city and intercity buses, coaches and chassis.

Number of employees: 7,665 (8,095).
Number of delivered buses: 10,229 (9,857).

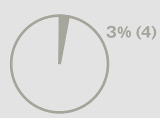


Construction Equipment
manufactures equipment for construction applications and related industries.

Number of employees: 13,599 (13,456).
Number of machines sold: 66,000 (38,800).

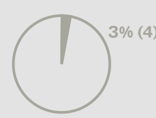


Volvo Penta
offers engines and drive systems for leisure and commercial boats and for industrial applications such as gensets and materials handling.
Number of employees: 1,211 (1,358).
Delivered marine and industrial engines: 51,588 (44,983).



Volvo Aero
offers advanced components for aircraft engines and space applications with a focus on lightweight technology for reduced fuel consumption.

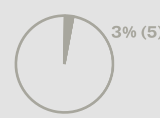
Number of employees: 2,863 (2,991).



Volvo Financial Services
Conducts operations in customer and dealer financing.

Number of employees: 1,235 (1,234).

Total assets: SEK 89 billion (99).



TRUCKS

Strong earnings improvement

2010 was characterized by a recovery in demand in the Group's mature markets and continued strong growth in the emerging markets.

During the year, order intake in Europe and North America increased successively from low initial levels. The Japanese market grew during the first half of the year and then stumbled after the government incentive program for investments in new trucks ceased. Throughout the year, demand remained strong in many emerging markets, including Brazil and India.

Total market

The total market for heavy-duty trucks in 2010 in the 27 EU countries, plus Norway and Switzerland, amounted to 179,185 vehicles, an increase of 8% compared with 165,269 vehicles in the preceding year. The recovery of the European truck market was divided between North and South and between fleets and smaller customers, with the former categories recording stronger growth. In 2011, the European market is estimated to amount to approximately 220,000 heavy-duty trucks.

In North America, the total market for heavy-duty trucks (Class 8) increased 20% to 142,096 vehicles, compared with 117,983 in the preceding year. Viewed as a whole, higher levels of activity among customers in the long-haulage industry offset a continued weak market for trucks in the building and construction industry. In 2011, the total market in North America is estimated to amount to approximately 220,000 heavy-duty trucks.

The total market for heavy-duty trucks in Japan rose 29% to 24,453 vehicles (18,889). The Japanese market is expected to grow 10% in 2011. The market for heavy-duty trucks in India amounted to 211,543 vehicles (125,173), in 2010.

In Brazil, the total market rose 64% to 109,760 heavy-duty trucks (66,950), primarily driven by the country's strong economy, but also by advantageous loan terms for investments in new trucks.

Earnings

In 2010, net sales in the truck operations increased by 20% to SEK 167,305 M (138,940). The operating income improved to SEK 10,112 M (loss: 10,805), while the operating margin was 6.0% (neg: 7.8).

The improvement in operating income is principally due to improved sales and the considerable cost savings implemented in 2009. Higher capacity utilization as a side effect of increased production levels in most plants contributed to improved operating income.

Volvo Trucks

Volvo Trucks can look back on a successful 2010 despite difficult market conditions. Following the financial crisis in 2009, the employees' full commitment assisted in the rapid adaptation to substantially lower demand in parallel with the completion of long-term investments in the future. As a result, Volvo Trucks has exited the crisis a much stronger company.

Consistent implementation

Cost savings and measures to improve cash flow were implemented consistently. Breakeven levels were reduced considerably and maintained at the new levels through consistent cost discipline. Non-European markets recovered strongly led by South America, where Brazil proved extremely successful and profitable due to the company's strong position and presence. Combined with improved demand in parts of Europe, this resulted in the company being able to rehire personnel. In North America, demand for trucks for long-haulage transports increased successively throughout the year.

In 2010, the challenge comprised responding and adapting delivery capacity to rapidly rising demand. This was achieved through beneficial collaboration between employees and suppliers, which resulted in significantly increased deliveries and growing market shares. Also, delivery times were kept relatively short.

The truck operations consist of Volvo Trucks, Renault Trucks, UD Trucks, Mack Trucks and VECV in India (50% direct and indirect ownership). The product offer stretches from heavy-duty trucks for long-haulage and construction work to light-duty trucks for distribution.

Number of employees
38,533

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

Brands
Volvo, Renault, UD, Mack and Eicher.

Staffan Jufors
President of Volvo Trucks.

Stefano Chmielewski
President of Renault Trucks.

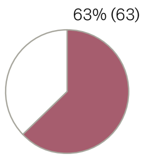
Dennis Slagle
President and CEO of North American Trucks.

Pär Östberg
President of Trucks Asia.

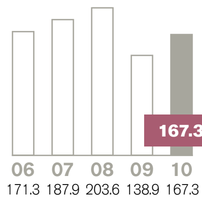
Ambitions 2010

- Capture growth in emerging markets.
- Increase industrial productivity in up-turn.
- Control costs.
- Successful introduction of new engine generations in the US and Japan.

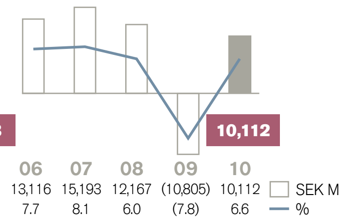
Net sales as percentage of Volvo Group's sales



Net sales
SEK bn



Operating income (loss) and operating margin



Deliveries by market

Trucks	2009	2010
Europe	49,145	65,503
North America	17,574	24,282
South America	12,587	21,483
Asia	34,800	53,833
Other markets	13,575	14,888
Total	**127,681**	**179,989**

Net sales by market

Trucks, SEK M	2009	2010
Europe	65,874	69,606
North America	21,563	26,901
South America	12,490	21,680
Asia	26,943	35,231
Other markets	12,069	13,888
Total	**138,940**	**167,305**

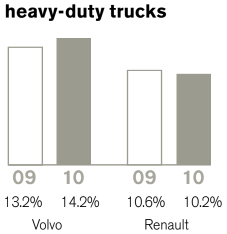
Consistent product development

Throughout the crisis, Volvo Trucks maintained its investments in the dealer network, production system and product development. Two new trucks were launched in 2010 in line with long-term plans. The company consolidated its position in the building and construction segment through the launch of a new truck specialized for the segment, the Volvo FMX. Additionally, a new version of the Volvo FM distribution truck was launched. Both trucks were well-received by customers throughout the world.

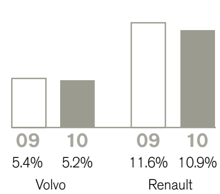
In North America, customers responded very positively to Volvo's new trucks equipped with engines that meet the EPA 2010 emission requirement, which entered force on January 1, 2010, thus strengthening the market position.

The year has seen the company make significant progress in the environmental area through presentation of new solutions and field testing with key customers of alternative fuels, including bio-DME, methane-diesel and hybrid technology.

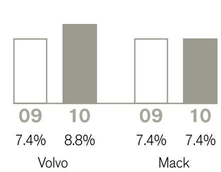
Market shares in Europe, heavy-duty trucks



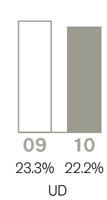
Market shares in Europe, medium-duty trucks



Market shares in North America, heavy-duty trucks



Market shares in Japan, heavy-duty trucks



Outcome 2010

- Strong increase in deliveries in Asia (+55%) and South America (+71%).
- Turned loss into profit of SEK 10 billion.
- The trucks with new engines captured market shares in the U.S.
- The new Quon truck with Group engine well-received by customers in Japan.

Ambitions 2011

- Manage to ramp up production in line with demand.
- Increase productivity in all parts of the business.
- Continued cost control.
- Secure delivery of product development projects according to plan.

Renault Trucks

For Renault Trucks, 2010 was a year in which the company proved its ability to make a comeback. After an extremely trying 2009, with many challenges, 2010 was about initiating the recovery, aided by the strong commitment of all employees.

Deliveries by market

Volvo Trucks	2009	2010
Europe	19,749	29,635
North America	8,028	12,749
South America	10,349	18,639
Asia	5,573	10,071
Other markets	3,712	4,135
Total	**47,411**	**75,229**

Renault Trucks	2009	2010
Europe	29,396	35,867
North America	458	54
South America	574	656
Asia	1,794	3,448
Other markets	5,263	5,563
Total	**37,485**	**45,588**

UD Trucks	2009	2010
Europe	–	–
North America	853	1,010
South America	445	300
Asia	16,753	23,908
Other markets	3,458	4,130
Total	**21,509**	**29,348**

Mack Trucks	2009	2010
Europe	0	1
North America	8,235	10,469
South America	1,219	1,888
Asia	505	47
Other markets	1,142	1,060
Total	**11,101**	**13,465**

Eicher[1]	2009	2010
Europe	–	–
North America	–	–
South America	–	–
Asia	10,175	16,359
Other markets	–	–
Total	**10,175**	**16,359**

1 The joint venture together with Eicher Motor Limited is to 50% consolidated into the Volvo Group. The deliveries in the table pertain to the Volvo Group's share of Eicher's deliveries.

Recovery

After the first half of 2010 with a reduced working week for blue and white collar workers, the second half of the year brought a dramatic change. A gradual, steady increase in the order intake meant that by the summer, Renault Trucks was back in full production; however, the recovery was modest, slow and fragile. In view of the weak demand, focus was placed on the continued reduction of costs.

Renault Trucks retained its permanent employees with the assistance of government measures that permitted a reduced working week with lay-off pay. These measures enabled the company to retain its workforce pending the expected upturn, and were ended during the summer of 2010.

Presence

Renault Trucks maintained its presence at the forefront of key social issues, including the reduction in carbon emissions through the use of the hybrid and electric trucks delivered to customers.

The Renault Premium long-haulage truck proved best in respect of fuel consumption and operating costs in an independent test of a Pan-European truck fleet at a German freight company.

Renault Trucks continues to invest in product development to be able to launch new, competitive trucks in the next few years.

During the year, production of trucks started at the plant in Kaluga, Russia.

UD Trucks

2010 was a significant year for Nissan Diesel. On February 1, Nissan Diesel changed its name to UD Trucks with the aim of building UD into a global truck brand. UD Trucks has a wide range of light, medium-duty and heavy-duty trucks, as well as buses and bus chassis.

Market shares

In the first half of 2010, the Japanese market was positively affected by the scrapping premiums for old trucks if owners concurrently invested in new, greener products. Since UD Trucks had a substantial percentage of trucks that met the new environmental requirements, the company captured market shares. When the scrapping premiums ceased in August, demand weakened. The total market for heavy-duty trucks rose 29% to 24,453 vehicles (18,889). During the year, UD Trucks had 22.2% of the Japanese market for heavy-duty trucks compared with 23.3% in 2009.

UD – Ultimate Dependability

UD, which stands for Ultimate Dependability, became the new brand since the abbreviation was already recognized by customers, who call the vehicles UD products. The UD name is widely known since the letters are engraved in the emblem, which since the 1950s, has been located on both sides of the vehicles. In conjunction with this change, the name of the company was changed from Nissan Diesel Motor Co. Ltd to UD Trucks Corporation.

New trucks launched

The new generation of heavy-duty trucks in the Quon range was launched in the Japanese market in April and the first version of the new Condor range in August. Sales of the new Condor truck have also started in the US. These new truck models are equipped with SCR engines based on the Group's joint engine platforms. They meet with the latest emission legislation in Japan and the USA and have improved fuel efficiency. Additionally, UD Trucks launched the UD Genuine After Market program to provide customers with access to original service and original spares, which will help customers reduce their operating expenses.

Mack Trucks

In North America, the overall economic environment, along with demand for heavy-duty highway trucks, gradually improved moving through the year.

As large competitor inventories of pre-EPA2010 engines were finally drawn down and a more level playing field was established, both Mack and Volvo capitalized on their more extensively tested, highly fuel efficient, fully certified EPA2010 products that comply with the new emission standards introduced in North America in January 2010.

Positive response from customers

Feedback regarding both Mack and Volvo EPA2010 trucks, particularly on fuel economy and engine performance, grew ever more positive throughout the year, as more and more customers gained experience with the products. To meet increasing demand, production was gradually ramped up in all manufacturing facilities during the second half of the year.

Many new products launched

For Mack, the ongoing weakness in the construction segment remained a significant challenge. Despite essentially no market for the dump and mixer trucks that are core to its business, the brand finished the year with a U.S. retail share equal to 2009, reflecting a determined effort to increase volumes in other segments.

Mack maintained its longtime leadership position in low cabover straight trucks used primarily in refuse applications. The brand also moved from the number four to the number two position in the day cab and small sleeper segment of the highway market. Both Chrysler Group Transport and global logistics leader UPS placed significant orders for Mack EPA2010-certified Pinnacle day cabs (325 and 475 respectively).

In line with the Group's commitment to ongoing investment despite difficult market conditions, Mack introduced the mDRIVE automated manual transmission based on highly regarded Group architecture. The mDRIVE is developed to work with Mack's MP engines to deliver better fuel economy, driveability and safety. Mack also expanded its line-up of natural gas (NG) trucks, introducing an NG-powered version of its TerraPro cabover model for refuse and construction customers.

Eicher

VE Commercial Vehicles (VECV), which is a joint-venture company opened by the Volvo Group and Eicher Motors, designs, develops, manufactures and markets trucks and buses under the Eicher brand. 50% of VECV is consolidated in the Volvo Group.

Eicher's product range comprises light, medium-heavy and heavy-duty trucks and buses in the weight classes 5–40 tons and complete bus chassis in the 5–15 ton range. The company has an extensive dealer and service network principally located in India.

Eicher's industrial operations comprise the manufacture of cabs, axles, gearboxes and engines as well as assembly of trucks and buses. Key investments are currently being made in painting, expansion of capacity, a new engine plant, in the wholly-owned distribution network and in a product development center for developing the next generation of trucks and buses.

Increased market shares

In 2010, the total market for medium-duty trucks (7–16 tons) rose by 50% in India while deliveries of Eicher trucks in the medium-duty segment increased by 51%.

In India, demand for heavy-duty trucks over 16 tons showed solid growth of 69% in 2010. Deliveries of Eicher trucks in the heavy-duty segment rose by 105%, significantly outperforming the market and leading to increased market shares.

Deliveries by segment

Volvo Trucks	2009	**2010**
Light trucks (under 7 tons)	–	–
Medium trucks (7–16 tons)	1,556	1,758
Heavy trucks (over 16 tons)	45,855	73,471
Total	**47,411**	**75,229**

Renault Trucks	2009	**2010**
Light trucks (under 7 tons)	13,993	14,140
Medium trucks (7–16 tons)	5,556	7,385
Heavy trucks (over 16 tons)	17,936	24,063
Total	**37,485**	**45,588**

UD Trucks	2009	**2010**
Light trucks (under 7 tons)	8,248	9,657
Medium trucks (7–16 tons)	6,651	9,572
Heavy trucks (over 16 tons)	6,610	10,119
Total	**21,509**	**29,348**

Mack Trucks	2009	**2010**
Light trucks (under 7 tons)	–	–
Medium trucks (7–16 tons)	1	2
Heavy trucks (over 16 tons)	11,100	13,463
Total	**11,101**	**13,465**

Eicher[1]	2009	**2010**
Light trucks (under 7 tons)	1,113	2,014
Medium trucks (7–16 tons)	7,889	11,940
Heavy trucks (over 16 tons)	1,174	2,406
Total	**10,175**	**16,359**

1 The joint venture together with Eicher Motor Limited is to 50% consolidated into the Volvo Group. The deliveries in the table pertain to the Volvo Group's share of Eicher's deliveries.

BUSES

Increased sales and improved profitability

During 2010, Volvo Buses strongly improved its income due to a customized product range, higher sales and a strong focus on cost reductions.

Volvo Buses is one of the world's largest manufacturers of heavy buses. The range comprises complete buses, chassis, transport solutions, telematic systems, financial solutions, as well as service and maintenance contracts. The company offers global products adapted to local conditions, with manufacturing in Europe, Asia, North America, South America and Africa.

Volvo Buses has sales in about 85 countries and one of the bus industry's strongest service networks, with more than 1,500 retailers and service workshops globally.

Focus on cost-efficient solutions

In the bus industry, focus remains on developing cost-efficient transport solutions and reducing energy consumption and the impact on the environment. It is about lower fuel consumption, alternative fuels and alternative energy sources.

During the year, Volvo Buses began delivering buses that comply with the tough Euro V emission requirements in Europe and EPA2010 in North America, including buses with the new 13-liter engine. The response from customers has been very positive, both in terms of improved performance and reduced fuel consumption.

Serial production of hybrid buses

During the year, the company also took an important step toward significantly reducing energy consumption in terms of city buses. In May, serial production commenced on the Volvo 7700 Hybrid buses and Volvo B5L Hybrid double-decker buses. By recycling the brake energy, the buses will be able to operate partly on electricity, which will contribute to a reduction in fuel consumption of up to 35% and, accordingly emissions of the greenhouse gas, carbon dioxide. Volvo's hybrid buses currently operate in several cities around Europe. Interest is high worldwide and during the year, the hybrid buses were test-driven in Brazil, Colombia and Mexico.

Developing aftermarket

However, high-quality buses are not sufficient. Customers need a strong support in the aftermarket. This applies to telematics, which assists customers in controlling traffic, conducting follow-ups of fuel consumption, for example, and in planning service. Volvo Buses' telematic system, ITS4mobility, is one of the world's best and a third step, Vehicle Management, was introduced during the year. This means that customers are able to remotely read all signals from the buses' control system and thus plan future service measures, resulting in reduced costs.

Increased deliveries

Despite the weak trend reported during the year for the total market for Volvo Buses' key markets in Europe and the coach market in North America, Volvo succeeded in increasing deliveries compared with 2009. During the year, 10,229 buses and bus chassis (9,857) were delivered.

Sales increased in several locations in Asia, for example, in India and Australia, as well as in South America and in the Nordic region. During the year, Volvo Buses was able to strengthen its market shares in several markets.

Increased sales and improved profits

Net sales rose in 2010 to SEK 20,516 M (18.465). Operating income rose from a negative SEK 350

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

Number of employees
7,665

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

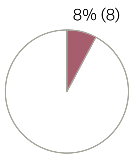
Brands
Volvo, Prevost, Nova, Sunwin and Silver.

Håkan Karlsson
President of Volvo Buses.

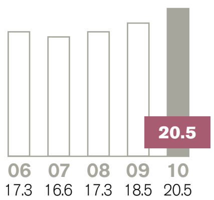
Ambitions 2010

- Profitable growth in all regions.
- Continued focus on cost-cutting and lower inventory levels.
- Increased sales of services and aftermarket products.
- Secure successful introductions of Euro V, EPA 2010 and hybrids.

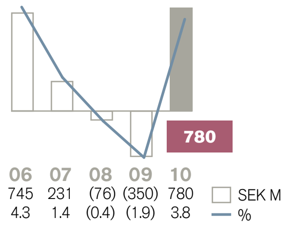
Net sales as percentage of Volvo Group sales



Net sales
SEK bn



Operating income (loss) and operating margin



Deliveries by market

Buses	2009	**2010**
Europe	3,164	2,395
North America	1,539	2,092
South America	690	1,174
Asia	3,839	3,477
Other markets	625	1,091
Total	**9,857**	**10,229**

Net sales by market

Buses, SEK M	2009	**2010**
Europe	7,707	6,242
North America	5,673	7,200
South America	1,235	1,737
Asia	2,749	3,299
Other markets	1,101	2,038
Total	**18,465**	**20,516**

M to a positive SEK 780 and the operating margin was 3.8% (neg: 1.9). An important explanation for the strong income improvement is higher sales. Another explanation is the effort from the company to reduce costs and streamline the product offering and production.

New bus generates rational production

During the year, Volvo Buses launched a new intercity bus in Europe, the Volvo 8900. It is lighter and more fuel-efficient and will replace two similar bus models. The new bus is built in a module system and can be manufactured in Volvo's plants in Sweden and Poland. This will generate a more rational and flexible production.

Outcome 2010

- Increased sales in all regions and the company reported positive results.
- Costs decreased and inventories levels were lower.
- Higher sales and income in the aftermarket operations.
- The new products were introduced and were received very well by customers.

Ambitions 2011

- Profitable growth in all regions.
- Increased aftermarket operations.
- Increased utilization of global production presence.
- Focus on cost and capital efficiency.

CONSTRUCTION EQUIPMENT

Good growth in sales and profit

Volvo CE is one of the world's leading manufacturers of articulated haulers and one of the leading manufacturers of wheel loaders, excavators, road construction equipment and compact machines.

Volvo CE's products, spare parts and services are available in more than 125 countries. The products are mainly used in such segments as general construction, road construction and maintenance, as well as in the refuse, mining and forestry industries.

Recovery

Measured in units sold, the total world market for heavy, compact and road machinery equipment increased by 44%, compared to 2009. During 2010, the European markets rose 15%, while North America rose 20%. Both Asia and Other markets rose 60%. The strong growth in the BRIC countries, Brazil, Russia, India and China, propelled development to a large extent.

Increase in delivery and sales

During 2010, Volvo CE sold 66,000 machines, compared with 38,800 machines in 2009. Net sales amounted to SEK 53,810 M, an increase of 51%, compared with SEK 35,658 M in 2009.

Operating profit totaled SEK 6,180 M (loss: 4,005). The operating margin improved significantly and amounted to 11.5%, compared with a negative 11.2% in 2009. The improved operating profit was attributable to increased sales, internal cost-reduction measures, improved cost coverage in the production system and higher productivity.

Secure development in the BRIC countries

During the year, several initiatives were implemented to support development in the BRIC countries (Brazil, Russia, India and China).

Investments to expand excavator manufacturing were made in India and decided upon in Brazil. The investments include assembly and manufacture of components for the models in the domestic markets. In China, excavator capacity was also increased by a decision to commence manufacturing four new models of the SDLG excavators.

In March, a decision was made to build a new technology center in Jinan, China. The technology center will focus on the development of products and components for equipment for the BRIC countries and includes the Volvo and Lingong brands.

Presence in the Russian market was strengthened further by an agreement with Ferronordic, which is planning to expand its distribution network with more affiliates to increase sales and service.

Joint product plan

As the Chinese economy is growing, so is demand for excavators. Supported by Volvo CE, Lingong has now launched its own excavators. The cooperation between Volvo and Lingong has also been strengthened by a joint product plan.

Key aftermarket

Service and aftermarket products play a key role for Volvo CE as a supplier of turnkey solutions. Service and aftermarket products accounted for 23% of the total earnings in 2010. For instance, the sale of attachments increased from SEK 540 M to SEK 1,270 M.

Increased usage of telematics

Through continuous equipment monitoring, Volvo CE's telematic system, CareTrack, is able to facilitate additional productivity and accessibility. By using GPS or satellite technology, information about the machines may be forwarded to any possible location. Through error reports and warnings, the system offers diagnostic assistance, which, in turn, facilitates identifying and repairing problems more rapidly. During 2010, a decision was made that all newly produced large machines (wheel loaders in excess of 10 tons, haulers and excavators in excess of 12 tons, as well as graders) will include a three-year CareTrack service agreement as a standard feature.

Focus on efficiency in production and development

To additionally streamline the industrial system, three North American plants were reduced to one. The plants in Asheville and Goderich were closed and production relocated to the plant in Shippens-

Construction Equipment manufactures equipment for construction applications and related industries.

Number of employees
13,599

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

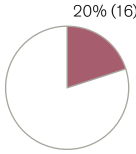
Brands
Volvo and SDLG (Lingong).

Olof Persson
President of Volvo Construction Equipment.

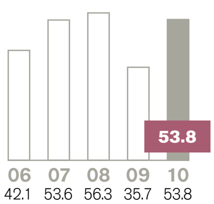
Ambitions 2010

- Secure market penetration and product adaptation in BRIC countries.
- Integrate Lingong with a joint business plan for a broader offer in emerging markets.
- Prioritize hard and soft products for new markets and customer segments.
- Increase the use of telematics in products.
- Optimize the industrial footprint to become more efficient in production and development.

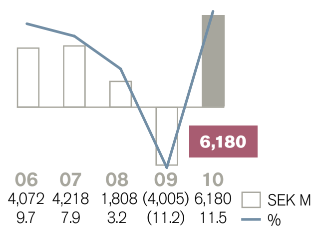
Net sales as percentage of Volvo Group sales



Net sales
SEK bn



Operating income (loss) and operating margin



Net sales by market

Construction Equipment, SEK M	2009	**2010**
Europe	12,987	16,138
North America	5,475	6,267
South America	2,578	4,130
Asia	12,957	24,352
Other markets	1,661	2,923
Total	**35,658**	**53,810**

burg. USD 30 M was invested to expand the plant to improve production flow and increase capacity. At the same time, the plant meets all requirements to be classified as a sustainable facility in accordance with the U.S. Green Building Council.

Product launches

Volvo CE is moving ahead with its plans to deliver turnkey solutions adapted for various customer groups. At the same time, the investment in soft products continues and Volvo CE will continue to launch new value-adding products and services for customers.

Product launches in 2010 include compact excavators EC15, EC17, EC21 and EC23, as well as compact wheel loaders L20F and L25F. In addition to these, large wheel loaders L150, 180 and L220 also included OptiShift as a standard feature.

An additional key event in 2010 was that Volvo CE was awarded the Tier 4i certificate from the U.S. Environmental Protection Agency, EPA, which certifies low emissions from heavy equipment equipped with the D11, D13 and D16 engines. This occurred after a similar certificate was received from the EU earlier in the year certifying that the engines complied with requirements in Europe's Stage IIIB legislation.

Outcome 2010

- Expansion of excavator production in India and Brazil. Decision to establish a technology center in China.
- Increased cooperation and synergies between Volvo and Lingong, with, among others, a joint product plan.
- Equipment and service optimized for prioritized markets.
- Telematic system, CareTrack, introduced as standard in all major machines.
- Production in North America consolidated from three plants to one.

Ambitions 2011

- Further strengthen the position in the BRIC countries.
- Continue to reduce the break-even level by cost reductions – material, as well as variable and fixed costs.
- Successful launch of Tier4i and Stage IIIB engines in North America and Europe.
- Continued development and launch of new products and services.

VOLVO PENTA

Improved profitability despite weak leisure boat market

Volvo Penta conducts its operations in two overall business segments: Marine and Industrial. For a broader general public, Volvo Penta is mostly known for its marine engines and world-leading innovations, such as the Aquamatic drive and the counter-rotating propellers, Duoprop. Boat owners worldwide associate Volvo Penta's products with fuel-efficiency, environmental consideration, comfort, performance and operating safety.

Market-leading boat builders French Beneteau/Jeanneau, German Bavaria, British Sunseeker, Italian Sessa Marine, US Tiara, Brazilian Intermarine, Swedish Hallberg-Rassy and Australian Riviera choose Volvo Penta because of one of the marine industry's broadest product programs and to have access to the world's most global service and retail network.

However, the most rapidly growing operation for Volvo Penta in the past decade has been sales of industrial engines, which currently represent about 40% of Volvo Penta's total sales value.

The basis for the industrial engine business is the strength in the Volvo Group's total product and service offering. Assisted by these, Volvo Penta is able to offer high-technological products, as well as global support for such industrial applications as diesel-operated gensets, cranes and container handlers.

Customers include such world-leading industrial companies as Finnish Cargotec, French-American SDMO, Turkish Genpower and Swedish Sandvik.

The ambition is to expand industrial engine sales through increased market shares in an increasing number of segments, for example, mining and construction equipment, and in emerging markets in, for example, Asia and Africa.

Through sales of marine and industrial engines, Volvo Penta will contribute significant synergies and economies of scale to the Volvo Group's manufacture of engines and transmissions. Approximately 10% of the Group's total diesel volume represents engines sold by Volvo Penta.

With respect to the Volvo Group's most efficient engine, the D16, Volvo Penta accounts for approximately two thirds of the Group's total sales and consequently, delivers a crucial volume contribution to this engine series.

Total market

The strong decline in the total market in the marine industry in the wake of the global recession slowed down in 2010. Global demand for marine engines remained largely unchanged, compared with the preceding year. The marine industry was characterized during the year by a continued cautious attitude among end consumers. On average, boat builders reported a continued low production rate in their plants, compared with the boom years.

However, the total market for industrial engines strengthened due to increased demand in essentially all regions. During the year, leading industrial engine customers gradually raised sales forecasts and capacity utilization to increasingly higher levels.

Product renewal

Volvo Penta reported a continued high rate of product renewal. During the year, the introduction of the IPS drive system was completed with new and stronger drive units to match the Volvo Group's 11 and 13 liter engines. With these systems, Volvo Penta will be able to deliver propulsion engines in boats up to 100 feet.

On the industrial side, future emission requirements entail that Volvo Penta, with its strong product program and low emission engines, will be able to capture new market shares with industrial customers in Europe, but also in the rest of the world where the environmental requirements are successively being intensified.

Financial performance

Net sales amounted to SEK 8,716 M, compared with SEK 8,159 M in the preceding year. Operat-

Volvo Penta provides engines and power systems for leisure and commercial craft, as well as for industrial applications such as diesel-powered gensets, cranes and container handlers.

Number of employees
1,211

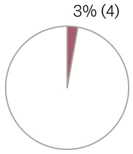
Position on world market
Volvo Penta is the world's largest producer of diesel engines for leisure boats and a leading, independent producer of industrial engines.

Göran Gummeson
President of Volvo Penta.

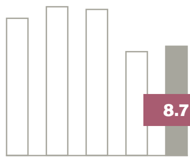
Ambitions 2010

- Manage risks towards suppliers and customers.
- Secure positive cash flow and favorable profitability in new market conditions.
- Strengthen positions within mobile applications for industrial engines.

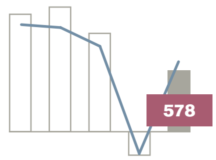
Net sales as percentage of Volvo Group sales



Net sales
SEK bn



Operating income (loss) and oprating margin



Engine volumes

Volvo Penta, No. of units	2009	**2010**
Marine engines	25,755	28,965
Industrial engines	19,228	22,623
Total	**44,983**	**51,588**

Net sales by market

Volvo Penta, SEK M	2009	**2010**
Europe	4,390	4,507
North America	1,100	1,500
South America	284	335
Asia	2,054	2,008
Other markets	331	366
Total	**8,159**	**8,716**

ing income amounted to SEK 578 M, compared with an operating loss of SEK 230 M in the preceding year. The operating margin was 6.6% (neg: 2.8). Income was positively impacted by primarily the effects of cost-reduction measures, but also to a certain extent by increased sales and higher capacity utilization.

Production and investments

In recent years, Volvo Penta made significant investments in a new global logistics system. The new system, which was launched in 2010, will facilitate streamlining the entire chain from order to delivery.

Production in the plants in Vara, Sweden and Lexington, USA had low capacity utilization resulting from continued weak demand for marine engines globally.

As a result of the increasingly strong demand for industrial engines, Volvo Penta was able to contribute to higher capacity utilization in the Volvo Group's joint diesel engine plants in Skövde, Sweden and Lyon, France.

Outcome 2010

- Customer credit losses and deliveries from subsuppliers under control.
- Continued favorable growth in the industrial engine segment.

Ambitions 2011

- Increased growth rate and improved profitability in both Marine and Industrial.
- Secure complete customer offers for fully-integrated drive systems and instruments.
- Secure product and geographic balance in terms of sales and profitability.

VOLVO AERO

Improved profitability in the core business

Volvo Aero is playing an increasingly major role in the aircraft-engine industry. The business area is specialized in sophisticated structures, engine cases and rotating parts of aircraft engines.

In recent years, Volvo Aero has taken more design responsibility and currently develops components for both aircraft and rocket engines, which are based on a proprietary design system and proprietary manufacturing technologies. The business area's engine components are found in more than 90% of all new major civil aircraft worldwide.

Focus on core operations

The aim of most of the technological development is to reduce the weight of proprietary components in various manners, since weight is highly significant in fuel consumption and emissions of carbon dioxide. This is an area that is becoming increasingly important to the aviation industry, both in terms of the climate and economy. Naturally, quality and safety are also in focus in the effort to reduce weight.

In recent years, Volvo Aero has focused increasingly on its core operations: maintenance of a few selected engines and developing and manufacturing sophisticated components for aircraft and rocket engines. As a result of this strategy, certain other operations have been divested or discontinued.

Major engine programs

During 2010, Volvo Aero was highly involved in all four new major engine projects that are occupying the aircraft-engine industry and will be highly significant to the development of the aircraft of the future. During the year, a number of key milestones were achieved in the development of these engines:

These include the starting of the new Rolls-Royce engine, Trent XWB, in a test cell for the first time in June. Volvo Aero is a joint-venture partner in the XWB engine, responsible for design, development and manufacture of the intermediate case, the first in titanium to be developed and manufactured entirely within Volvo Aero's new design system. The Trent XWB will be used in the Airbus A350 XWB, which is scheduled to enter service in 2013.

Pratt & Whitney completed the assembly of the first PW1000G engine, "PurePower", for the Bombardier C series aircraft and Mitsubishi's MRJ aircraft. Volvo Aero is a joint-venture partner in the engine, responsible for the design, development and manufacture of a couple of components. Following the final assembly, a comprehensive evaluation and certification program commenced, which will continue for the next 24 months, with engine certification and the first flight with the aircraft scheduled for 2012. The aircraft is scheduled for commercial use in 2013.

The first flight of Boeing's upgraded 747-8 aircraft was successfully executed in the spring, using four GEnx-2B General Electric engines. Volvo Aero is joint-venture partner in the GEnx engine, with responsibility for design and development of three components, and will manufacture a total of five different components for the engine.

In 2007, Volvo Aero was contacted by Pratt & Whitney about redesigning the intermediary case for the GP7000 engine for the Airbus A380. One of several requirements specified was that the weight should be reduced by at least 10%. At the end of the year, Volvo Aero was able to present a solution that met these requirements.

Key agreements

The Defence Materiel Administration (FMV) and Volvo Aero signed an agreement entailing that Volvo Aero will be responsible for engine maintenance, spare parts supply and technical product support for the Gripen aircraft engine in Sweden, Hungary and the Czech Republic. The agreement, which is valid for two years, with an option for an additional three years, is estimated to be worth approximately SEK 1.2 billion for Volvo Aero if the option is exercised.

In terms of maintenance, a key partnership agreement was signed with Lufthansa Technik (LTH), whereby Volvo Aero has already provided the first repairs to an engine in service. The repairs were approved by General Electric. Lufthansa and Volvo Aero now has exclusive rights to implementation.

Volvo Aero made a strategic decision to focus on its core operations and as a result, the US subsidiary

Volvo Aero offers advanced components for aircraft engines and space applications with a focus on lightweight technology for reduced fuel consumption. Services for the aerospace industry and for stationary gas turbines are also offered.

Number of employees
2,863

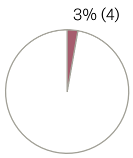
Position on world market
Volvo Aero holds a leading position as an independent producer, with engine components in about 90% of all large commercial aircraft delivered in 2010.

Staffan Zackrisson
President of Volvo Aero.

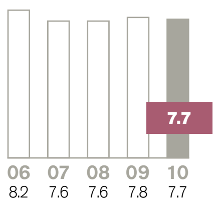
Ambitions 2010

- Manage the continued development responsibility and supply test hardware for the new engine programs Trent XWB and PWG1000G.
- Increase productivity in carried-out investments, shorten lead times and reduce costs.
- Continue to gain market share within engine services.
- Conduct a strategic overhaul of the American aftermarket business.

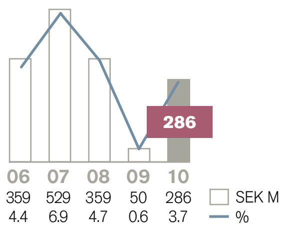
Net sales as percentage of Volvo Group sales



Net sales
SEK bn



Operating income (loss) and operating margin



Net sales by market

Volvo Aero, SEK M	2009	**2010**
Europe	3,942	3,768
North America	3,508	3,599
South America	34	27
Asia	205	233
Other markets	114	81
Total	**7,803**	**7,708**

Volvo Aero Services was divested at the beginning of October to investment company H.I.G. Capital.

Increased air traffic

During the year, international passenger traffic rose 8.2% following the deep recession in 2009. The load factor rose to 78.4%. The international cargo traffic rose 20.6% in 2010 compared with 2009.

Aircraft manufacturers Airbus and Boeing delivered 972 aircraft during 2010, which was 1% less than 2009. The total order intake was 1,269 aircraft, 121% more than in 2009. The manufacturers' total order intake rose 2% to 6,995 aircraft at the end of 2010.

Improved profitability

Net sales decreased 1% during the year to SEK 7,708 M, compared with SEK 7,803 M in 2009, primarily due to the lower USD and the divestment of Volvo Aero Services. Adjusted for exchange-rate fluctuations and the sale of Volvo Aero Services, sales rose 9%.

The divestment of Volvo Aero Services, which was implemented at the beginning of October, had a negative impact of SEK 538 M on operating income. Consequently, the operating profit amounted to SEK 286 M (50). The operating margin was 3.7% (0.6). Factors behind the improvement were primarily lower costs, higher productivity and increased sales in the core operations.

Outcome 2010

- Volvo Aero has implemented development and delivery in the main according to plan.
- Successful work with higher productivity, shorter lead times and reduced costs.
- Increased market shares during 2010.
- Review implemented, resulting in the divestment of Volvo Aero Services.

Ambitions 2011

- Deliver design, hardware and serial manufacture of engine components according to commitments.
- Increase productivity, shorten lead times and reduce costs.
- Increase volumes in engine maintenance.

VOLVO FINANCIAL SERVICES

Positioned for growth

Volvo Financial Services (VFS) supports the Volvo Group product range with integrated financing solutions to help customers acquire the products they need to build their business.

Stabilization of portfolio

As the world began to emerge from the global economic and financial crisis, 2010 was a year of stabilization for VFS. While the first half of the year continued to be plagued by a challenging economic environment, the second half began to demonstrate more positive trends, characterized by a reduction in overall levels of customer delinquencies, inventories of repossessed vehicles and default activity.

Throughout this period, VFS executed on enhanced portfolio management and collection techniques while strengthening and standardizing its operations. As VFS stabilized its portfolio, it did so in close alignment with the other Volvo Group business areas and distributors, with a focus on building and maintaining customer relationships.

Market development

VFS is a stronger and more agile organization today than before the downturn and is well positioned for growth. Continuing to develop scalable and efficient business platforms will provide the capacity for VFS to grow its global portfolio.

In mature markets such as North America and Europe, operational leverage is essential to future development. In Asia Pacific, VFS is making further investment in support of prudent growth. The development of the BRIC markets remains in focus while maintaining stable and standardized operations and systems.

Developing integrated offers with the other Volvo Group business areas will also continue, as VFS supports the Volvo Group in developing sales opportunities and building close customer relationships.

Financial performance

Total new financing volume in 2010 amounted to SEK 35 billion (29). Adjusted for changes in exchange rates, new business volume increased by 26% compared to 2009 as a result of increased sales volumes of the Volvo Group products and good penetration levels. In total, 34,522 new vehicles and machines (25,782) were financed during the year. In the markets where financing is offered, the average penetration rate was 25% (25).

At December 31, 2010 total assets amounted to SEK 89 billion (99). During 2010 the credit portfolio decreased by 4.4% (decrease: 15.6), adjusted for exchange-rate movements, to gross credit portfolio SEK 84,550 M (94,988). The funding of the credit portfolio is matched in terms of maturity, interest rates and currencies in accordance with Volvo Group policy. For further information, see note 36.

The operating income for the year amounted to SEK 167 M compared to operating loss of SEK 680 M in the previous year. Return on shareholders' equity was 0.4% (neg: 6.2). The equity ratio at the end of the year was 9.0% (8.7). The income is driven mainly by lower credit provisions. During the year, credit provision expenses amounted to SEK 1,438 M (2,327), while write-offs of SEK 1,460 M (2,223) were recorded. The write-off ratio for 2010 was 1.65% (2.09). At December 31, 2010, credit reserves were 1.69% (1.67%) of the credit portfolio.

As a consequence of the strong volume growth in Brazil, it was decided to syndicate approximately SEK 4 billion of the Brazilian credit portfolio as a risk mitigation measure and to free up capital for reinvestment in the country. The transaction generated a positive impact on operating income of SEK 38 M.

In May, VFS successfully completed its first asset-backed securitization in many years. Under the terms of the transaction, USD 616 M of securities tied to U.S.-based loans on trucking and construction equipment assets were issued.

Conducts operations in customer and dealer financing.

Number of employees
1,235

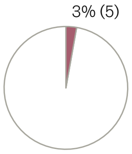
Position on world market
Volvo Financial Services operates exclusively to support the sales and leasing of vehicles and machines which are produced by the other Business Areas, enhancing their competitiveness.

Martin Weissburg
President of Volvo Financial Services.

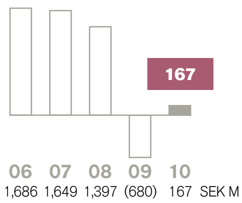
Ambitions 2010

- Support customer and dealer downturn activities while mitigating the frequency and severity of credit losses.
- Adapt commercial strategy to lessons learned from the downturn to achieve sustainable profitability.
- Operational improvement and efficiency.
- Secure diversification of funding channels in cooperation with Volvo Treasury.

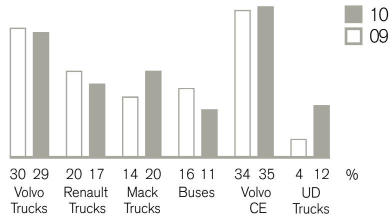
Net sales as percentage of Volvo Group sales



Operating income (loss)

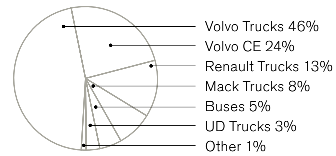


Penetration[1]



1 Share of business financed by Volvo Financial Services in markets where financial services are offered.

Distribution of credit portfolio



Outcome 2010

- Re-established positive portfolio trends and maintained strong customer and dealer relationships.
- Improved segmentation analysis and institutionalized best practices across all regions.
- Aligned regional resources and operations to market conditions and rationalized cost structure.
- Executed on capital strategies including asset-backed securitization, syndication and private label finance programs.

Ambitions 2011

- Achieve profitable growth in all markets.
- Continue to improve operational leverage and efficiency.
- Increase standardization of processes and systems.
- Continue to develop BRIC markets.

MOVING THE WORLD

Volvo trucks are the backbone in the long-haul transports that deliver mail to an entire continent

From the earth to the moon and back – 32 times over
Distances in Australia are huge. From Sydney on the east coast to Perth on the west coast, the route covers 4,110 kilometers. That's the same distance as the crow flies between Madrid and Moscow. Australia Post's line haul vehicles cover a total of 25 million kilometers every year, the distance from the earth to the moon and back – 32 times over.

All over the world, people are waiting for the mailman. Distributing mail is a complex and challenging logistical task, especially in Australia. 21 million letters and parcels reach their destination every day, despite vast distances and some of the toughest road conditions in the world. Without reliable trucks, it wouldn't be possible.

Twin beams of light cut through the darkness and driver Rick Hoyne is on the alert as he pilots his Volvo FH through the Australian night. Based in Melbourne, Rick is a 22 year veteran with Australia Post. This particular night he is heading for Dubbo, a route covering more than 700 kilometers. There, another driver takes over, continuing the long journey to Brisbane.

Rick is driving on a long straight stretch of the Newell Highway near the isolated town of Jerilderie in Western New South Wales. The region is in the grip of drought and kangaroos flock to the roadside where the grass growing along the verge is moist from dew. Rick stares intently through the windscreen, ready to take evasive action should the need arise.

Australia is known for having among the world's toughest road conditions for trucks. The weather in Australia varies from tropical storms with temperatures approaching 40 degrees Celsius in the far north, to snow and ice in the Australian Alps in the south.

"Australia is a big country. The distances are vast so it is important that all aspects are taken into consideration to ensure on-time delivery," says Chris Pearce, Manager Surface Transport, Network Distribution Transport at Australia Post.

The company handles postal distribution to all cities and towns in the country. Its fleet consists of vehicles ranging from motorcycles to tractors with double semi-trailers. Delivering mail in Australia is a huge logistical task. Australia Post handles 21 million postal items daily, of which two million parcels, and the figure rises to more than double that around the Christmas peak period.

125 Volvo FH trucks make up the core of the line haul transports. 65 of the trucks pull double semi trailers, so called B-doubles. By using larger rigs, many smaller trucks can be replaced. This means more fuel-efficient transportation, lower emissions, less congestion and less road wear. With the installation of front underrun protection and high cab safety as standard, Volvo was one of the first truck makers to meet the legislation for 26-meter B-Double rigs in the country.

All the trucks are fitted with Volvo's transport information and driver alert systems. The strong and safe cab also plays a role in the operation as Australia has an ongoing problem with kangaroos crossing highways, as well as loose livestock in unfenced regions.

Rick Hoyne remains on the lookout for kangaroos on his night route.

"You need to be comfortable to be safe. On long-distance routes, fatigue is reduced when the truck you are driving is comfortable", he says.

SUSTAINABLE DEVELOPMENT

A responsibility that is the continuous focus of the Group

To be a responsible company with the ability to adapt to changes in the surrounding world is becoming increasingly important to the success of the Volvo Group. The Group is responsible for developing transport solutions that convey cargo and passengers as efficiently as possible, while contributing to the economic development of customers and society as a whole.

The world is facing major challenges. The need for transport will increase due to higher financial prosperity, increased urbanization and higher population. Through active dialog with the Group's stakeholders and by weighing their expectations against internal strategies, the Volvo Group endeavors to create solutions for the future that are adapted to a sustainable society.

We have identified four key areas within sustainable development:

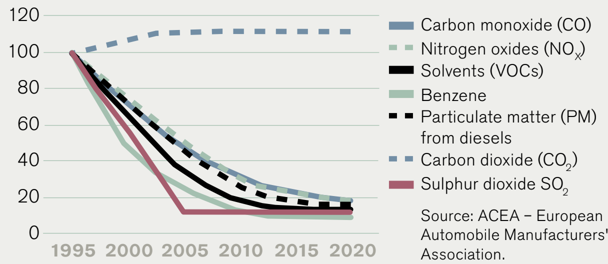
1 **Products' environmental impact**
2 **Responsible sourcing**
3 **High-performing organization**
4 **Company culture**

Dow Jones Sustainability
Member 2010/11

1 Products' environmental impact

Fuel costs represent approximately one third of costs for a transport company. More than 95% of the energy consumption in the transport sector is oil-based. The supply of easily accessible and cheap crude oil is diminishing, which will lead to higher fuel prices. In 2013, the Euro VI emission legislation will come into force, entailing that emission of NO_x and particles will decrease to very low levels. In several parts of the world, carbon-dioxide legislation for heavy vehicles is being prepared. The Volvo Group continued to invest in the development of environmentally adapted, efficient products, even during the financial crisis from which we are now exiting.

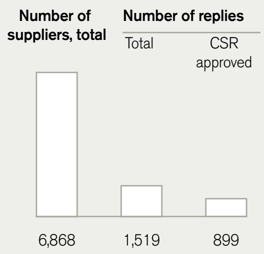
Road transport emissions in the EU



Within the EU all road transport emissions except for CO_2 are expected to decrease in the future. This is the result of stringent emission regulations.

2 Responsible sourcing

The Volvo Group has a significant impact on the societies in which we operate. The companies in the Group are major employers and also generate employment opportunities for many suppliers. The Volvo Group endeavors to conduct responsible enterprise based on the Group's Code of Conduct, its core values and other established guidelines. In terms of the environment, responsibility for social and business ethics is integrated in the operations and the Group aims to apply these policies with its business partners. This is a part of the risk management process and a way for the Group to reduce the impact on the environment, while contributing to a positive social development.



Volvo Group expect its suppliers to be compliant with the Group's CSR requirements. The requirements are an integrated part of the Group's sourcing process. Potential and existing suppliers are monitored from a CSR perspective to increase the awareness and to follow up on compliance. 15 months after the launch of the program almost every fourth supplier has been monitored and of these 59% are compliant with Group requirements. The most common reason for non-compliance is that suppliers did not pass the requirements further on in the supply chain.

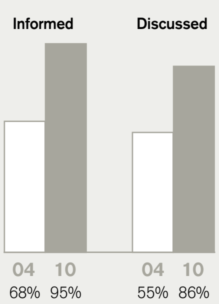
3 A high-performing organization

Increased global presence, new products, introduction of new technology, demographic changes and more rapid fluctuations in the global economy will lead to challenges in the supply of expertise and resources, as well as increased focus on the organization's ability to adapt to changing market conditions. It will also place high demand on the Group to generate commitment and motivate employees to develop and propel the implementation of the Group's strategy. These factors entail risks as well as opportunities.

4 Company culture

The company's culture is a critical prerequisite for sustainable growth. Unlike technologies, strategies, business concepts or organizational structures, culture is a unique asset. In the document Volvo Way we described our corporate culture for the first time in 1999. Volvo Way describes our values and how the employees may contribute to generating added value for customers and shareholders.

Active work with company culture



95% of responding leaders have informed their team about updated content in The Volvo Way (2004: 68%)

86% of respondents has discussed how The Volvo Way principles should influence the team's daily work (2004: 55%)

1 Products' environmental impact

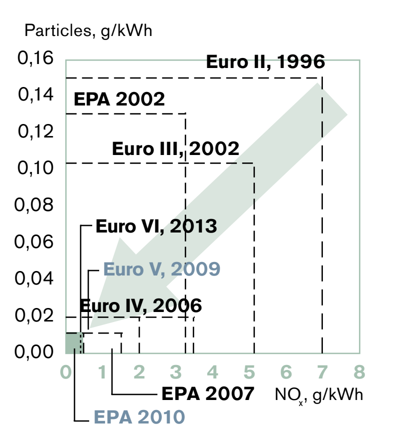
Cost for, access to and availability of fuel, as well as legislation in the environmental area impacts the Volvo Group. Problems with air pollution and climate change entail more stringent legislations. These are some of the factors which Volvo must handle and its work has focused on the development of energy-efficient engines, hybrid engines and vehicles that can operate on alternative fuels.

Since 1975, fuel consumption in Volvo's trucks has decreased by approximately 40%. Over the past 30 years, diesel engines have seen an almost hundredfold reduction of regulated emissions of nitrogen oxide (NO_x) and particles (PM). When Euro VI gains legal force in the EU in 2013, emissions of NO_x and PM will be at very low levels, but CO_2 emissions will remain.

Hybrids

The Volvo Group has a number of environmentally adapted products in its customer offering and future solutions that are now being tested in the field in cooperation with customers.

Emissions regulations for trucks and buses



In September 2009, Euro V was implemented in Europe and in January 2010, EPA 2010 was implemented in North America. Euro V entails a 50% reduction of NO_x emissions compared to Euro IV. With the implementation of EPA 2010, emission levels for particulates and NO_x are close to zero.

The Volvo Group's unique diesel-electric hybrid concept, I-SAM, has made the Group the leader in hybrid heavy vehicles. Because the Group develops and manufactures solutions, this facilitates coordination and optimization of products and components to produce the most efficient driveline. The Volvo Group's development program comprises city buses and distribution trucks, as well as construction equipment. Measurements on customers' hybrid buses show significantly lower fuel consumption of up to 35%, corresponding to the same reduction of CO_2 emissions, strongly reduced emissions of PM, which generate cleaner air, and also lower noise levels since diesel engines switch off at bus stops.

Alternative fuels

Three years ago, the Volvo Group presented seven different demonstration vehicles that can all be driven without net emissions of climate-impacting carbon dioxide. This resulted in a development project pertaining to two of the alternatives: methane diesel and DME (dimethylether). The benefit of methane diesel technolgoy is that methane fuel already today is available as a fuel for vehicles. Trucks, buses, construction equipment and industrial engines are being field tested and sales of trucks with methanediesel-engines is planned to begin in 2011. BioDME is currently available only on a small scale in the market. Since the Volvo Group believes that this fuel is the most energy-efficient from a lifecycle perspective, Volvo plays an active role in the BioDME project. The aim of the project is to involve the entire chain from the production and distribution of BioDME, to it being used as fuel in vehicles. The project is financed by the EU and the Swedish Energy Agency. Volvo's portion of the project is to be project coordinator and to build vehicles for field testing.

Cooperation with WWF

The Volvo Group has a vision that future transport will be CO_2 neutral. As part of this, the Volvo Group was the first manufacturer in the automotive industry to be affiliated with WWF's Climate Savers. As a participant in WWF's program, the Volvo Group's truck company undertakes to reduce CO_2 emissions from vehicles produced between 2009 and 2014 by 13 million tons, which corresponds to Sweden's total emissions for three months. Independent technical experts will review the results.

WWF
碳减排先锋
Defensores do Clima
クライメート・セイバーズ
Climate Savers

2 Responsible sourcing

It is becoming increasingly important for the Group's stakeholders that the Volvo Group conducts responsible business operations. In dialog with investors, representatives of affiliated organizations, financiers, customers, employees, etc., expectations of Volvo are expressed. Several requested that the Group must assume responsibility not only for its own operations but also for issues pertaining to suppliers' efforts concerning social, environmental and business ethics. The Volvo Group endeavors to assume responsibility by placing demands on its suppliers.

The Volvo Group's CSR program (Corporate Social Responsibility) for suppliers aims at developing working conditions and environmental performance with suppliers that do not already comply with the Group's demands, by monitoring, communicating and training them. Since 1996, Volvo has placed demands on suppliers' environmental performance and in 2006, social and business ethics requirements were introduced. In 2008, the Volvo Group introduced a paragraph in agreements with new suppliers, which pledges them to comply with the policies in the Group's Code of Conduct. In October 2009, the new Groupwide CSR program for suppliers was launched. This means that there is now a joint process for the evaluation of potential suppliers, as well as to monitor current suppliers. During 2010, Volvo worked on evaluating the processes' efficiency and this will be used as the basis for the way in which the CSR program will develop in the future.

Approximately 35,000 companies deliver products and services to the Volvo Group. Of these, about 6,000 deliver direct material, i.e. material that is used in the products. Currently, the control group for responsible purchasing is focusing on existing suppliers in countries that have challenges in terms of non-compliance with legislation within work environment, human rights and business ethics.

We monitor suppliers' CSR performance by evaluation. During the 15 months of the program, approximately 1,500 suppliers of direct material were audited and of these, 59% complied with the requirements. The absolutely most common reason for non-compliance with the requirements is that the suppliers did not pass on the requirements of the Volvo Group to their own suppliers.

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, business ethics and the environment in its operations.

3 High-performing organization

A crucial factor for the implementation of the Group's strategy is the contribution from employees, their expertise and commitment. To secure and develop strategic expertise and resources in the long-term is fundamental in order to maintain an efficient and adaptable organization.

Employee engagement

A positive and challenging work environment is a prerequisite for high-performing and committed employees. To create the conditions for this, the Group focuses on a number of different areas, for example competency and leadership development, work environment and preventive health care.

The Group's employees are annually requested to respond to the Volvo Group Attitude Survey (VGAS), which will focus on employee engagement starting in 2011. The response frequency for the most recent survey was 94%. The responses from the survey are discussed in work groups and result in activity plans. VGAS also facilitates comparisons with other global organizations.

Secure strategic competence

The Volvo Group works proactively with three-year rolling competency plans, where strategic competency needs are identified, gaps analyzed and action plans established. This is followed up in the annually recurring processes, President's review and Talent Review, where succession planning is also secured.

To prepare leaders of today and the future for upcoming assignments, work is in progress to develop a strategy for leader development, including training programs, tools and methods, for leaders at all levels within the organization, according to the Group's "Leadership Pipeline" concept. This is a structured method that is based on global research and that different competencies are required at various decision levels in the organization. The concept is connected to Volvo Way, the company culture, and strategic goals.

Internal mobility between companies, across national borders and between functions is another way in which to secure competency and succession planning. This also contributes to a more efficient organization by increased experience exchange and diversity. A strategic initiative aimed at increasing internal mobility is in progress.

Leverage diversity through inclusive leadership

Diversity and an inclusive leadership approach have a positive impact on innovation and productivity. The Volvo Group works actively on fostering a corporate culture aimed at capitalizing on the strength in the organization's diversity, including through leadership training courses.

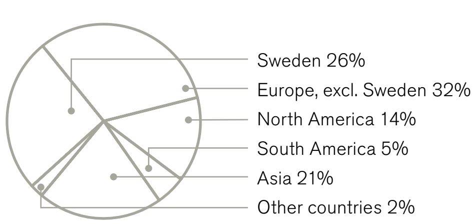
New numerical values were introduced in 2010: Balanced Team Indicator that measures the quantitative aspect of diversity (nationality, gender, age and experience from the Group's various companies), and the Inclusiveness Index, which measures the qualitative diversity, meaning how diversity work is perceived by the employees. The results are followed up annually in the President's Review.

An adaptable organization

The sudden decline in the global market in 2009 resulted in an increased focus on the organization's ability to adapt. A strategic goal is to secure optimal structure and staffing levels to cope with changing market conditions, but to also support the launch of new technology and be able to execute decisions and implement changes rapidly and efficiently. A Group-wide follow-up process pertaining to flexibility was introduced in 2010.

Key figures	2009	**2010**
Number of employees at year-end	90,208	90,409
Share of women, %	17	16
Share of women, Board Members, %	11	12
Share of women, Presidents and other senior executives, %	19	15
Absence due to illness in the Group's Swedish companies		
Total absence due to illness of regular working hours, %	3.6	3.3
of which continuous sick leave for 60 days or more, %	35.8	38.0
Absence due to illness (as percentage of regular working hours) by gender		
Men, %	3.5	3.2
Women, %	3.9	3.6
Absence due to illness (as percentage of regular working hours) by age		
29 years or younger, %	2.7	2.3
30–49 years, %	3.6	3.1
50 years and older, %	3.7	3.8

Geographic distribution of employees



4 Company culture

The company culture is a critical prerequisite for sustainable growth. Unlike technologies, strategies, business models or organizational structure, the company culture is hard to copy.

Volvo Way shows what we stand for and aspire to be in the future. It expresses the culture, behaviors and values shared across the Volvo Group.

It expresses the cohesive culture, behavior and values shared across the Volvo Group. Volvo Way was first introduced in October 1999. Several new businesses with different brands have since been acquired. The industrial systems have been integrated, and concerted efforts were underway to enhance performance.

"Managing the global financial downturn in 2008 and 2009, Volvo Group learned some important lessons. We need to be lean. We need empowered employees. We need to be accountable, aligned, agile and able to execute decisions. We need to turn outward, add customer value and drive change," wrote CEO Leif Johansson in a letter to all managers introducing the new Volvo Way in October 2009.

The new Volvo Way reflects an ambitious endeavor of creating a cohesive culture throughout the whole Volvo Group. This is a culture of enablement, based on global principles and shared values:

Our culture is how we work together with energy, passion and respect for the individual. It is about involvement, open dialogue and feedback. It is about diversity, teamwork and leadership. It is how we build trust, focus on customers and drive change. Our culture embodies individual responsibility and accountability for results. This means a clear orientation towards common goals and solutions, and a strong determination to grow, develop and improve. It is how we conduct our business around the world.

The new Volvo Way supports the strategy for delivering added value to demanding customers in selected segments. In this customer centric

culture, there is a strong focus on responsiveness, agility and the ability to execute with speed. Truly making the organization more efficient, demands further developing employee engagement and commitment to the company's strategic objectives for future business success.

To be involved means that we take individual responsibility for decisions. This employee engagement results in a strong driving force to meet agreed objectives and goals. All of us feel accountable for driving improvements and building the future. Only engaged employees can deliver the highest quality and efficiency.

During the first half of 2010, the new Volvo Way was disseminated to all employees by their immediate manager. Nearly two out of three teams have identified local improvement actions. To build a high commitment and high performance working culture will require continuous attention and support by management. The result is a more resilient organization.

We are convinced that a cohesive culture based on global values strengthens our brands and makes Volvo Group a more attractive employer, business partner and industry leader.

Production

The environmental effort is and has long been one of the cornerstones in the Group's work. The joint environmental policy is one of the most important documents for control. The policy is the foundation of the Group's environmental management system, strategies and targets, audits and measures.

Already in 1995, the first environmental management system was certified. At the end of 2010, 96% of the employees in production units were working in accordance with the certified environmental management system, primarily ISO 14001:2008. At each production unit, there is an environmental coordinator.

The Group's environmental goals are used to control, develop and monitor the environmental effort. Strategies to achieve the goals are included in the business plan. During the 2004–2008 period, the Volvo Group focused on energy reduction in its own production process. Energy consumption decreased during the period by 43% per produced unit.

The energy-saving goal for 2010–2012 is divided into two parts:

- Continue the work with investigating the possibility of making the Group's facilities carbon-neutral.
- Standby loss, i.e. energy consumption during non-production hours, must decrease by 50% and an additional 15% energy-saving per produced unit by 2012, compared with 2008.

Focusing on energy-savings measures is good for both the environment and the Group's financial results. A couple of years ago, when the Volvo Group launched the world's first carbon-neutral plant, the primary reason was to reduce the environmental load, but it soon became quite clear that it was also a solid financial investment, which will generate significant cost savings in the long term.

All production plants must comply with the common minimum requirements pertaining to chemicals, energy consumption, emissions to air and water, waste management, environmental organization and improvement work. Since 1989, environmental audits have been conducted to ensure compliance with the environmental policy and in the event of acquisitions, a review is conducted of the company and properties to observe environmental factors and risks.

In 2010, there were 17 facilities in Sweden that required permits. All have the necessary environmental permits and no permits needs to be renewed in 2011. The existence of contaminated land in our properties is documented annually. During 2010, the after-treatment of contaminated land was in progress on one property. These have historical origins. During 2010, no spills were reported, no major environmental incidents occurred and no environmental disputes are ongoing.

Volvo Group Sustainable Report will be available on 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.

MOVING THE WORLD

Fourteen centimeters of newly-fallen snow and ready for take-off in ten minutes

About the snow-clearing operations at Arlanda Airport
Two centimeters of snow means 1,200 truck-loads to be transported to the snow dump. One centimeter of snow means four days of work, round-the-clock. All told, snow from an area covering 700 hectares is cleared between 10 and 50 times daily during a typical winter's day. Arlanda has among the world's largest snow blowers, and they are powered by Volvo. There are 17 Volvo A25D articulated haulers, nine wheel loaders of various Volvo models and a number of Volvo trucks.

Each year, 2 billion people fly all over the world. This means high demands on the maintenance of the airports, especially when the snow falls. In less than ten minutes, Volvo's specially-built articulated haulers clear the runways at Stockholm's Arlanda Airport, which has never had to close because of the snow.

When the snow and cold temperatures take a steady grip the affect on our airports is obvious. During early 2010 Frankfurt Airport, the third largest in Europe, was forced to cancel more than 200 flights in one single day.

At Arlanda Airport just north of Stockholm, aircraft take off and land almost every second minute round the clock. More than 18 million people travelled to or from Arlanda in 2008 and more than 200,000 tons of cargo was handled by the airport. During the winter months, heavy snowfall is not unusual and even if flights are occasionally delayed owing to particularly heavy snowfall, the airport has never once been shut down by snow since its opening back in 1962.

To keep the airport moving, a team of 130 people work with tackling snow and ice in the high season. They are aided by a wide-ranging fleet of Volvo products featuring specially built accessories. The most advanced vehicles are the PSB machines. PSB stands for Plow, Sweep and Blow, and they are based on Volvo Construction Equipment articulated hauler. At the front of the vehicle is a 7.3 meter wide plow that shovels most of the snow off the tarmac. It is followed by a brush that sweeps away snow and ice, and the job is rounded off by a blower which with an extraction speed of 130 m/s blows away the rest. The system is also in operation at, among others, Brussel's airport Zaventem.

By driving nine such machines alongside each other, it is possible to clear a 3.3 kilometer long and 45 meter wide runway in less than ten minutes.

"This makes us the world's fastest airport snow-plow team," says Stefan Sundkvist, field coordinator at Arlanda Airport.

In the fleet, there is also a number of Volvo wheel loaders that are equipped with snow-plows, sweepers and snow blowers in the winter. At an airport, safety is absolutely everything. That is why the snow "sweepers" as they are called in the language of international aviation are an integrated part of traffic planning and are in constant contact with the control tower. Just as an aircraft gets its take-off and landing times, so too do the sweepers get a slot to clear the snow and ice off the tarmac.

"We have a total of 250,000 square meters to clear from snow and ice, at the same time as the aircraft have to continue taking off and landing. There's absolutely no room for driving around haphazardly – all the traffic has to be controlled and planned down to the most minute detail," says Stefan Sundkvist.

FINANCIAL STRATEGY

Balancing return and security

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

Volvo's goals are strong and stable credit ratings

A long-term competitive market position requires availability of capital to implement investments.

The financial strategy ensures that the Group's capital is used in the best possible manner by:

- balancing shareholders' expectations on returns with creditors' demands for reliable security
- strong and stable credit ratings
- diversified access to financing from the capital markets
- margin in the balance sheet to cope with a strong decline in the economy
- customer financing at competitive conditions to our customers
- favorable return to shareholders.

The goal concerning capital structure is defined as the financial net debt for the Industrial Operations and it shall under normal circumstances be below 40% of shareholders' equity.

Volvo carefully monitors the trend of financial key ratios to confirm that the financial position is in line with the Group's policy. The financial key ratios include order intake, operational development and financial development.

Measures to improve the financial position

The strong upswing in demand for the Group's products in 2010 improved the Volvo Group's financial position. The financial net debt in Industrial Operations declined during the year from 70.9% of shareholders' equity to 37.4%. The Group implemented comprehensive measures during the year to improve its financial position.

During the global financial crisis, the Volvo Group increased the ratio of liquidity relative to sales. As a consequence of the financial markets stabilizing, the ratio was lowered during 2010. To further support the goal of improving the financial position, the 2010 Annual General Meeting resolved not to pay any dividend for the 2009 fiscal year.

Volvo strives for strong, stable credit ratings

The Volvo Group has continual meetings with the credit rating agencies Moody's and Standard & Poor's (S&P) to update them on the company's development. These meetings contribute to the credit rating agencies' ability to assess the Group's future ability to repay loans. A high long-term credit rating provides access to additional sources of financing and improved access to the financial market.

On November 15, S&P changed Volvo's credit rating from BBB-/Baa3 with negative outlook to BBB-/Baa3 with stable outlook. The change was attributable to a change in Volvo's credit measurement. S&P also changed Volvo's financial risk profile to "Medium" from earlier "Significant".

Moody's corporate rating of Volvo is BBB/Baa2 with stable outlook since July 24, 2009.

Funding

Volvo works actively for good balance between short and long-term loans, as well as loan preparedness in the form of credit facilities, to satisfy the Volvo Group's long-term financing needs.

During the year, the Group diversified its loans by issuing an Asset Backed Security loan in the US for the first time.

At the end of 2010, the Group had the equivalent of SEK 32.7 billion in cash and cash equivalents and short-term investments. In addition, the Group had SEK 35.3 billion in granted but unutilized credit facilities.

Credit rating at February 15, 2011

	Short-term	Long-term
Moody's	P-2	Baa2 stable
Standard & Poor's	A-3	BBB- stable
DBRS	R-2 (high)	–
R&I (Japan)	a-1	A- positive

Managed risk-taking

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.

The risks to which the Volvo Group are exposed are classified into three main categories:

- **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.
- **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.

External-related risk

The commercial vehicles industry is cyclical

The Volvo Group's markets undergoes significant changes in demand as the general economic environment fluctuates. Investments in infrastructure, major industrial projects, mining and housing construction all impact the Group's operations as its products are central to these sectors. Adverse changes in the economic conditions for the Volvo Group's customers may also impact existing order books through cancellations of previously placed orders. 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, 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 producers 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.

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. Information about key aspects of the Group's system for internal constrols and risk management in conjunction with the financial reporting is provided in the Corporate Governance Report on pages 146 –147. Most of the Volvo Group's financial transactions are carried out through Volvo's in-house bank, Volvo Treasury, that 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 the policies for the management of these risks are described in detail in notes 36 and 37. Various aspects of financial risk are described briefly in the following paragraphs. Volvo's accounting policies for financial instruments are described in note 1. 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.

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).

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

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.

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.

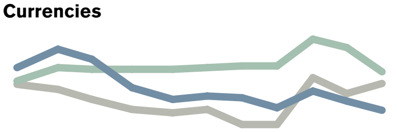
The Volvo Group's costs for raw materials and components can vary significantly over a business cycle. Cost variations may be caused by changes in world market prices for raw materials or by an inability of our suppliers to deliver.

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 Volvo brand. AB Volvo has the exclusive right to use the Volvo name and trademark for its products and services. Similarly, Volvo Car Corporation has the exclusive right to use the Volvo name and trademark for its products and services.

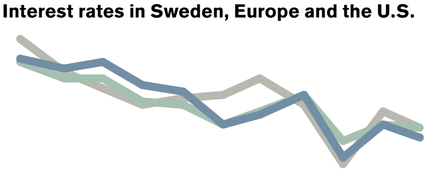
Currencies



Source: Reuters

	00	01	02	03	04	05	06	07	08	09	10
SEK/USD	9.2	10.3	9.7	8.0	7.3	7.5	7.4	6.8	7.8	7.2	6.7
SEK/EUR	8.4	9.2	9.1	9.1	9.1	9.2	9.3	9.3	10.9	10.4	9.0
SEK/100 JPY	8.2	7.9	7.3	6.7	6.5	6.7	5.8	5.8	8.6	7.7	8.3

Interest rates in Sweden, Europe and the U.S.



Sweden
Europe
The U.S.

Source: Reuters
Government bonds, 10 year benchmarks

	00	01	02	03	04	05	06	07	08	09	10
Sweden, %	5.4	5.1	5.3	4.6	4.4	3.4	3.7	4.3	2.4	3.4	3.3
Europe, %	5.3	4.8	4.8	4.1	4.0	3.4	3.8	4.3	2.9	3.4	3.0
The U.S., %	6.0	5.0	4.5	4.0	4.2	4.3	4.8	4.0	2.2	3.8	3.3

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 s.a.s., which owns the Renault 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 principles. Every year a Group-wide survey is conducted, and according to the survey the share of satisfied employees has been on a high level in recent years.

Short-term risk factors

An increase in demand could potentially result in delivery disturbances due to suppliers' financial instability or shortage of resources.

Uncertainty regarding customers' access to the financing of products in emerging markets might have a negative impact on demand.

Volvo verifies annually, or more frequently if necessary, the goodwill value of its business areas and other intangible assets 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. Instability in the business recovery and volatility in interest and currency rates may lead to indications of impairment.

The reported amounts for contingent liabilities reflect a part of Volvo's risk exposure, see note 29 for contingent liabilities.

Contractual conditions related to take over bids

Some of AB Volvo's long term loan agreements contain conditions stipulating the right for a 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. Provisions stipulating that an agreement can be changed or terminated if the control of the company is changed are also included in some of the agreements whereby Renault Trucks' has been given the right to sell Renault s.a.s.' and Nissan Motor Co. Ltd's light-duty trucks as well as in some of the Group's purchasing agreements.

Further information

Note 34 Personnel contains information concerning rules on severance payments applicable for the Group Executive Committee and certain other senior executives.

Note 36 and 37 contain information regarding financial risks as well as goals and policies in financial risk management.

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

THE SHARE

Rose by 93% during 2010

After the recovery that began in 2009, the trend continued to be positive for both the Volvo share and the world's leading stock markets in 2010.

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

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

Positive development on the stock market

In general, the development on the world's leading stock exchanges was positive after the recovery that began in 2009. On Nasdaq OMX Nordic, the OMXSPI index rose by 23% during the year.

Trading in Volvo A shares on Nasdaq OMX Nordic increased by 38% compared to 2009 and the share price increased by 89%. At year-end the price for the Volvo A share was SEK 115. The highest price paid was SEK 115.70 on December 30, 2010.

Trading in Volvo B shares on Nasdaq OMX Nordic decreased by 16% compared to 2009. The share price increased by 93% and was SEK 118.50 per share at year-end. The highest price paid was SEK 118.80 on December 30, 2010.

In 2010, a total of 2.5 billion (2.9) Volvo shares were traded in Stockholm, corresponding to a daily average of 9.8 million (11.4). At year-end 2010, Volvo's market capitalization totaled SEK 238 billion (124).

An increasing portion of the trading in Volvo shares is carried out on alternative exchanges such as Bats Europe, Burgundy and Chi-X.

Ownership changes

In October 2010, AB Volvo's main shareholder, Renault, sold its entire holding of 302,915,940 B shares. Buyers of the shares were a large number of institutions from around the world. Through the sale, Renault's holding in AB Volvo decreased from 21.8% of the capital and 21.3% votes to 6.8% of the capital and 17.5% of the votes. Even after the sale, Renault continues to be AB Volvo's largest owner based both on capital and on voting rights.

Dividend

Based on the much improved profitability and a significantly reduced debt level, the Board proposes to resume dividends with a pay-out of SEK 2.50 per share for the financial year of 2010, which means a total of SEK 5,069 M is being transferred to AB Volvo's shareholders. No dividend was paid for the preceding year.

Communication with the shareholders

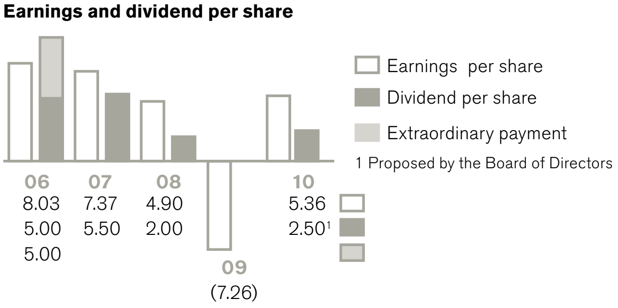
Dialog with the shareholders is important for Volvo. In addition to the Annual General Meeting and a number of larger activities aimed at professional investors, private shareholders and stock market analysts, the relationship between Volvo and the stock market is maintained through such events as press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

During 2010 a number of large events were held:

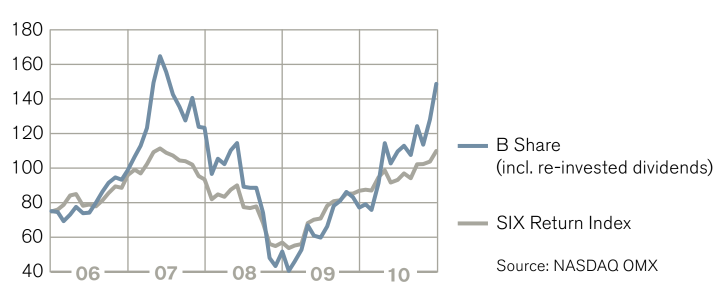
- An investor day in Shanghai in May in cooperation with five other Swedish capital goods companies. On the agenda was a visit to Volvo Construction Equipment's production facilities among other topics.
- In June, the annual capital markets day was held in Skövde, Sweden with a tour of the Group's foundry and engine manufacturing.
- An investor day in Curitiba, Brazil was held in September. It included a factory tour and presentations of the business and strategy in South America.
- An investor day in New York City in November contained a presentation of the Group strategy and in-depth information on the North American market.

On the website www.volvogroup.com it is possible to access financial reports, search for information concerning the share, insider trading in Volvo and 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." The website also offers the possibility to subscribe to information from Volvo.

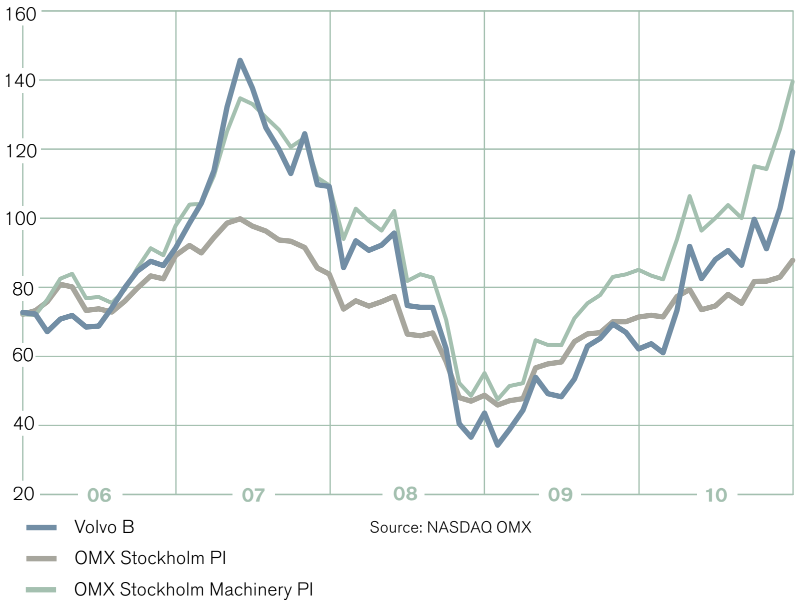
Earnings and dividend per share



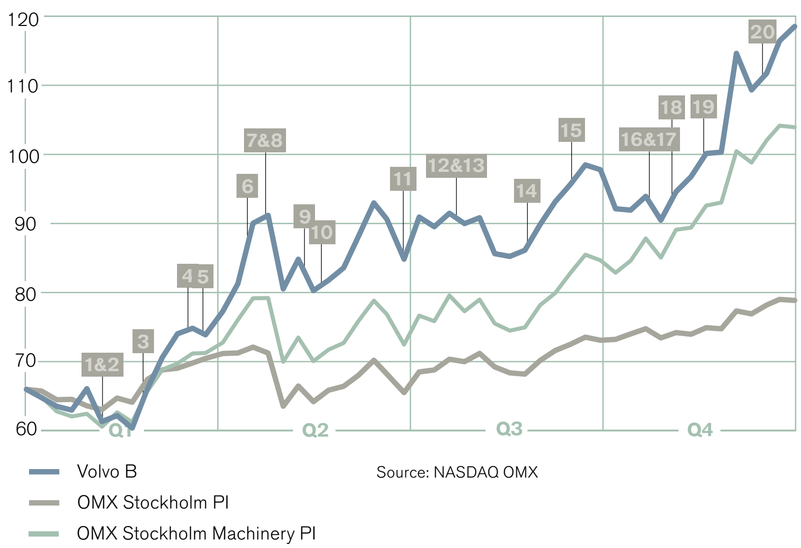
Total return, Volvo B



Price trend, Volvo Series B shares, 2006–2010, SEK



Price trend, Volvo Series B shares, 2010, SEK



Events

1 Truck deliveries for December 2009, February 5
2 Year-end report 2009, February 5
3 Truck deliveries for January, February 24
4 Annual report 2009, March 17
5 Truck deliveries for February, March 24
6 Annual General Meeting, April 14
7 Truck deliveries for March, April 23
8 First quarter report, April 23
9 Truck deliveries for April, May 5
10 Investor day in Shanghai, China, May 12
11 Capital markets day in Skövde, Sweden, June 22
12 Truck deliveries for June, July 22
13 Second quarter report, July 22
14 Truck deliveries for July, August 25
15 Truck deliveries for August, September 15
16 Truck deliveries for September, October 22
17 Third quarter report, October 22
18 Investor day in New York, November 2
19 Truck deliveries for October, November 17
20 Truck deliveries for November, December 15

The largest shareholders in AB Volvo, December 31[1]

	Voting rights, % 2009	**2010**
Renault s.a.s.	21.3	17.5
Industrivärden	8.8	11.1
Violet Partners LP	5.5	5.5
SHB[2]	6.2	4.8
AMF Insurance & Funds	3.9	3.9

1 AB Volvo held 20,728,135 class A shares and 80,265,060 class B shares comprising in total 4.7% of the number of registered shares on December 31, 2010.

2 Comprises shares held by SHB, SHB Pension Fund, SHB Employee Fund, SHB Pensionskassa and Oktogonen.

Share capital, December 31, 2010

Registered number of shares[1]	2,128,420,220
of which, Series A shares[2]	677,601,630
of which, Series B shares[3]	1,450,818,590
Quota value, SEK	1.20
Share capital, SEK M	2,554
Number of shareholders	240,043
Private persons	223,600
Legal entities	16,443

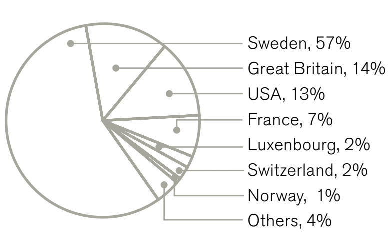
More details on the Volvo share, see note 23.

1 The number of outstanding shares was 2,027,427,025 at December 31, 2010.

2 Series A shares carry one vote each.

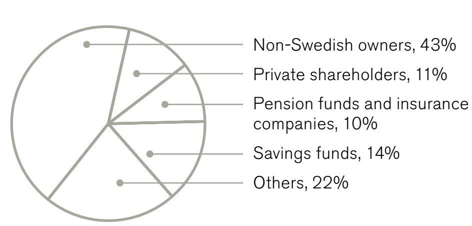
3 Series B shares carry one tenth of a vote each.

Ownership by country[1]



1 Share of capital, registered shares.

Ownership categories[1]



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 in the Eleven-year summary.

FINANCIAL PERFORMANCE

Strong earnings improvement

The Volvo Group made a turnaround in profitability and recorded operating income of SEK 18 billion thanks to higher sales volumes, strict cost control, increased capacity utilization and a good productivity trend in the industrial system.

Net sales by business area

SEK M	2009	**2010**	%
Trucks	138,940	167,305	20
Construction Equipment	35,658	53,810	51
Buses	18,465	20,516	11
Volvo Penta	8,159	8,716	7
Volvo Aero	7,803	7,708	(1)
Eliminations and other	(538)	(680)	–
Industrial Operations[1]	**208,487**	**257,375**	**23**
Customer Finance	11,712	9,031	(23)
Reclassifications and eliminations	(1,838)	(1,658)	–
Volvo Group	**218,361**	**264,749**	**21**

1 Adjusted for acquired and divested units and changes in currency rates, net sales for Industrial operations increased by 29%.

Net sales by market area

SEK M	2009	**2010**	%
Western Europe	84,452	87,241	3
Eastern Europe	9,632	12,570	31
North America	37,291	45,409	22
South America	16,610	27,876	68
Asia	44,842	65,072	45
Other markets	15,660	19,207	23
Total Industrial Operations	**208,487**	**257,375**	**23**

Operating income (loss) by business area

SEK M	2009	**2010**
Trucks	(10,805)	10,112
Construction Equipment	(4,005)	6,180
Buses	(350)	780
Volvo Penta	(230)	578
Volvo Aero	50	286
Eliminations and other	(994)	(102)
Industrial Operations	**(16,333)**	**17,834**
Customer Finance	(680)	167
Volvo Group	**(17,013)**	**18,000**

Operating margin

%	2009	**2010**
Trucks	(7.8)	6.0
Construction Equipment	(11.2)	11.5
Buses	(1.9)	3.8
Volvo Penta	(2.8)	6.6
Volvo Aero	0.6	3.7
Industrial Operations	**(7.8)**	**6.9**
Volvo Group	**(7.8)**	**6.8**

The Volvo Group

Net sales

Net sales for the Volvo Group increased by 21% to SEK 264,749 M in 2010, compared with SEK 218,361 M in 2009.

Operating income

Volvo Group operating income amounted to SEK 18,000 M (loss: 17,013).

Operating income for the Industrial Operations increased to SEK 17,834 M compared with an operating loss of SEK 16,333 M in the preceding year. The Customer Finance operations' operating income rose to SEK 167 M (loss: 680).

Net financial items

Net interest expense was SEK 2,700 M, compared with SEK 3,169 M in 2009. The improvement is mainly attributable to lower expense for post-employment benefits.

During the year, market valuation of derivatives, mainly used for the customer financing portfolio, had a positive effect on Other financial income and expenses in an amount of SEK 871 M (neg: 90).

The currency in Venezuela was devalued twice during 2010, which negatively impacted Other financial income and expenses by SEK 116 M during the first quarter and an additional SEK 158 M during the fourth quarter.

Income taxes

The tax expense for the year amounted to SEK 4,302 M corresponding to a tax rate of 28%. In 2009 the tax income amounted to SEK 5,889 M and a tax rate of 29%.

Income for the period and earnings per share

The income for the period amounted to SEK 11,212 M (loss: 14,685), corresponding to basic and diluted earnings per share of SEK 5.36 (neg: 7.26). The return on shareholders' equity was 16.0% (neg: 19.7).

Industrial Operations

In 2010, net sales for the Volvo Group's Industrial Operations increased by 23% to SEK 257,375 M (208,487). Hard products accounted for SEK 166,945 M and soft products (services and aftermarket products) for SEK 90,430 M of net sales.

Compared with 2009, sales increased in all of the Group's market areas. Demand in Europe and North America recovered gradually during the year at the same time as the emerging economies in South America and Asia continued to have strong growth. However, development in Japan continued to be weak.

Considerable earnings improvement

In 2010, the operating income for the Volvo Group's Industrial Operations amounted to SEK 17,834 M, compared with an operating loss of SEK 16,333 M in 2009. The operating margin for the Industrial Operations amounted to 6.9% (neg: 7.8).

The earnings improvement is the result of increased sales, improved cost coverage in the industrial system, as an effect of increased production levels, and continued cost control.

During 2010, operating profit was negatively impacted by higher costs for raw material and components amounting to approximately SEK 300 M compared to the preceding year.

In 2010, research and development expenses amounted to SEK 12,970 M (13,193). Even though costs decreased compared with 2009, they remained at a relatively high level primarily a consequence of projects relating to new emission regulations in Europe, USA and Japan.

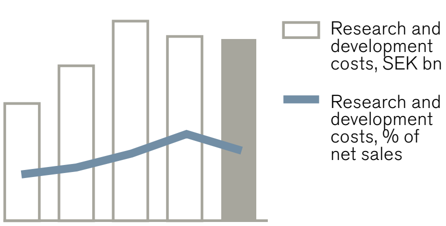
Selling expenses decreased by 5% and administration expenses by 3% compared to 2009, depsite net sales increasing by 23%.

Since return on equity was 16%, SEK 350 M was provisioned for profit-sharing to employees

Impact of exchange rates on operating income

The combined effect of changed exchange rates had a positive effect on operating income of approximately SEK 3.2 billion in 2010, compared with 2009. This is mainly attributable to positive effects from forward exchange rate contracts in 2010 compared to major negative effects in 2009.

Research and development costs



	06	07	08	09	10
Research and development costs, SEK bn	8.4	11.1	14.3	13.2	13.0
Research and development costs, % of net sales	3.4	3.9	4.9	6.3	5.0

Income Statement Volvo Group

SEK M	2009	**2010**
Net sales Volvo Group	**218,361**	**264,749**
Operating Income (loss) Volvo Group	**(17,013)**	**18,000**
Operating income (loss) Industrial Operations	*(16,333)*	*17,834*
Operating income (loss) Customer Finance	*(680)*	*167*
Interest income and similar credits	390	442
Interest expense and similar credits	(3,559)	(3,142)
Other financial income and costs	(392)	213
Income after financial items	**(20,573)**	**15,514**
Income taxes	5,889	(4,302)
Income for the period	**(14,685)**	**11,212**

Income Statement Industrial Operations

SEK M	2009	**2010**
Net sales	208,487	257,375
Cost of sales	(179,578)	(197,480)
Gross income	**28,909**	**59,895**
Gross margin, %	13.9	23.3
Research and development expenses	(13,193)	(12,970)
Selling expenses	(23,752)	(22,649)
Administrative expenses	(5,838)	(5,640)
Other operating income and expenses	(2,432)	(659)
Income from investments in associated companies	(15)	(86)
Income from other investments	(13)	(57)
Operating income (loss) Industrial Operations	**(16,333)**	**17,834**
Operating margin, %	(7.8)	6.9

Change in operating income

SEK bn	
Operating income 2009	**(17.0)**
Gross income	27.2
Provisions for healthcare benefits according to agreement with United Auto Workers, UAW	0.9
Additional provisions for residual value commitments	1.0
Changes in currency exchange rates	3.2
Higher capitalization of development costs	0.7
Higher research and development expenditures	(0.7)
Lower selling and administrative expenses	0.4
Lower credit losses	1.7
Other	0.6
Operating income 2010	**18.0**

Impact of exchange rates on operating income

Compared with preceding year, SEK bn	
Net sales[1]	(10.5)
Cost of sales	12.3
Research and development expenses	0.3
Selling and administrative expenses	1.1
Total effect of changes in exchange rates on operating income	**3.2**

1 Group sales are reported at monthly spot rates and the effects of currency hedges are reported among Cost of sales.

Operating net flow per currency

Local currency, million	2009	**2010**
USD	1,803	2,410
EUR	595	373
GBP	315	405
CAD	192	241
JPY(x100)	(83)	(103)

Customer Finance Operations

Total new financing volume in 2010 amounted to SEK 35 billion (29). Adjusted for changes in exchange rates, new business volume increased by 26% compared to 2009 as a result of increased sales volumes of the Volvo Group products and good penetration levels. In total, 34,522 new vehicles and machines (25,782) were financed during the year. In the markets where financing is offered, the average penetration rate was 25% (25).

At December 31, 2010, total assets amounted to SEK 89 billion (99). During 2010 the credit portfolio decreased by 4.4% (decrease: 15.6), adjusted for exchange-rate movements, to gross credit portfolio SEK 84,550 M (94,988). The funding of the credit portfolio is matched in terms of maturity, interest rates and currencies in accordance with Volvo Group policy. For further information see note 36.

The operating income for the year amounted to SEK 167 M compared to operating loss of SEK 680 M in the previous year. Return on shareholders' equity was 0.4% (neg: 6.2). The equity ratio at the end of the year was 9.0% (8.7). The income is driven mainly by lower credit provisions. During the year, credit provision expenses amounted to SEK 1,438 M (2,327) while write-offs of SEK 1,460 M (2,223) were recorded. The write-off ratio for 2010 was 1.65% (2.09). At the end of December 31, 2010, credit reserves were 1.69% (1.67%) of the credit portfolio.

Income Statement Customer Finance

SEK M	2009	**2010**
Finance and lease income	11,712	9,031
Finance and lease expenses	(8,427)	(5,974)
Gross income	**3,285**	**3,057**
Selling and administrative expenses	(1,608)	(1,526)
Credit provision expenses	(2,327)	(1,438)
Other operating income and expenses	(30)	73
Operating income (loss)	**(680)**	**167**
Income taxes	114	(134)
Income (Loss) for the period	**(566)**	**32**
Return on Equity	(6.2)	0.4

Key ratios

Customer Finance[1]	2009	**2010**
Credit portfolio net, SEK bn	93.5	83.1
Operating income, SEK M	(680)	167
Return on shareholders' equity, %	(6.2)	0.4
Total penetration rate, %	24.8	24.5
Penetration by business area, %		
Volvo CE	34	35
Volvo Trucks	30	29
Renault Trucks	20	17
Mack Trucks	14	20
Buses	16	11
UD Trucks	4	12

1 Share of business financed by Volvo Financial Services in markets where financial services are offered.


FIESP
CIESP
SESI
Estação Trianon-Masp
Bradesco
Seguros
UNIBANCO
BANCO DO BRASIL

FINANCIAL POSITION

Improved during the year

Net debt in the Volvo Group's Industrial Operations amounted to SEK 24.7 billion at December 31, 2010, equal to 37.4% of shareholders' equity. Excluding provisions for post-employment benefits the Volvo Group's net debt amounted to SEK 18.8 billion, which was equal to 28.5% of shareholders' equity.

Volvo Group's liquid funds, cash and cash equivalents and marketable securities combined, amounted to SEK 32.7 billion on December 31, 2010. Of this, SEK 0.7 billion was restricted for use by the Volvo Group and SEK 7.4 billion consisted of liquid funds in countries where exchange controls or other legal restrictions apply. In addition to this, granted but unutilized credit facilities amounted to SEK 35.3 billion.

Total assets in the Group amounted to SEK 318,0 billion on December 31, 2010, a decrease of SEK 14.3 billion compared to year-end 2009. Fluctuations in currency decreased the total assets by SEK 12.9 billion during 2010. Other changes are mainly a result of higher working capital due to increased inventories, accounts receivable and account payable offset by decreased customer financing receivables due to lower levels of financial leasing, installment credits and dealer financing as well as fluctuations in currency.

The Group's intangible assets amounted to SEK 40.7 billion on December 31, 2010. Investments in research and development amounted to SEK 3.2 billion in 2010, resulting in a net value of development costs of SEK 11.6 billion at the end of the year. The Group's total goodwill amounted to SEK 22.9 billion on December 31, 2010, a decrease by SEK 0.9 billion compared to year-end 2009. The decrease is a result of fluctuations in currency. The tangible assets decreased by SEK 1.8 billion during 2010, mainly as a result of divesture of subsidiaries.

The value of the inventories increased by SEK 2.1 billion during 2010. The increase is mainly related to finished products within the truck operations and construction equipment. Currency fluctuations decreased the value of inventories by SEK 1.8 billion at the end of 2010.

The net value of assets and liabilities related to pensions and similar obligations amounted to SEK 5.9 billion on December 31, 2010, a decrease of

Net financial position

SEK M	Industrial Operations Dec 31 2009	Industrial Operations **Dec 31 2010**	Volvo Group Dec 31 2009	Volvo Group **Dec 31 2010**
Non-current interest-bearing assets				
Non-current customer-financing receivables	–	–	39,713	36,025
Non-current interest-bearing receivables	1,095	941	585	766
Current interest-bearing assets				
Customer-financing receivables	–	–	42,264	36,663
Interest-bearing receivables	1,215	1,071	410	342
Internal funding	3,662	7,505	–	–
Interest-bearing assets held for sale	8	0	8	0
Marketable securities	16,655	9,735	16,676	9,767
Cash and bank	20,749	21,756	21,234	22,966
Total financial assets	**43,384**	**41,008**	**120,890**	**106,529**
Non-current interest-bearing liabilities				
Bond loans	49,191	38,767	49,191	38,767
Other loans	48,684	37,180	56,035	45,327
Internal funding	(30,908)	(26,971)	–	–
Current interest-bearing liabilities				
Loans	44,196	32,101	51,626	39,601
Internal funding	(32,273)	(21,220)	–	–
Total financial liabilities	**78,890**	**59,857**	**156,852**	**123,695**
Net financial position excl. post employment benefits	**(35,506)**	**(18,849)**	**(35,962)**	**(17,166)**
Provision for post employment benefits, net	5,983	5,842	6,002	5,862
Net financial position incl. post employment benefits	**(41,489)**	**(24,691)**	**(41,964)**	**(23,028)**

Change in net financial position, Industrial Operations

SEK bn	2009	**2010**
Beginning of period	**(29.8)**	**(41.5)**
Cash flow from operating activities	(1.6)	28.8
Investments in fixed assets (to)/from	(10.5)	(10.6)
Disposals	0.7	0.8
Operating cash-flow	**(11.4)**	**19.0**
Investments and divestments of shares	0.0	(0.1)
Acquired and divested operations, net	0.2	0.2
Capital injections (to)/from Customer Finance Operations	0.4	(0.5)
Currency effect	3.0	(1.6)
Payment to AB Volvo shareholders	(4.1)	–
Revaluation of loans	0.9	–
Provision UAW agreement	(0.9)	–
Dividend paid to minority shareholders	0.0	(0.1)
Other	0.2	(0.1)
Total change	**(11.7)**	**16.8**
Net financial position at end of period	**(41.5)**	**(24.7)**

Balance Sheets Volvo Group

SEK M	Industrial Operations Dec 31 2009	Industrial Operations **Dec 31 2010**	Customer Finance Dec 31 2009	Customer Finance **Dec 31 2010**	Eliminations Dec 31 2009	Eliminations **Dec 31 2010**	Volvo Group Dec 31 2009	Volvo Group **Dec 31 2010**
Assets								
Non-current assets								
Intangible assets	41,532	40,613	96	101	0	0	41,628	40,714
Tangible assets								
Property, plant and equipment	55,208	54,169	72	72	0	0	55,280	54,242
Assets under operating leases	13,539	13,217	10,955	10,055	(4,106)	(3,625)	20,388	19,647
Financial assets								
Shares and participation	2,025	2,080	19	18	0	0	2,044	2,098
Non-current customer-financing receivables	531	598	39,720	36,270	(538)	(843)	39,713	36,025
Deferred tax assets	12,277	12,019	318	291	0	0	12,595	12,310
Prepaid pensions	2,038	1,636	10	12	0	0	2,049	1,648
Non-current interest-bearing receivables	1,095	941	0	204	(510)	(379)	585	766
Other non-current receivables	3,033	3,401	42	41	(36)	(24)	3,038	3,418
Total non-current assets	**131,278**	**128,674**	**51,232**	**47,064**	**(5,190)**	**(4,871)**	**177,320**	**170,868**
Current assets								
Inventories	35,765	38,956	1,962	882	0	0	37,727	39,837
Current receivables								
Customer-financing receivables	836	830	42,443	36,897	(1,015)	(1,064)	42,264	36,663
Tax assets	1,362	1,045	161	90	0	0	1,523	1,135
Interest-bearing receivables	1,215	1,071	66	1,283	(872)	(2,012)	410	342
Internal funding	3,662	7,505	0	0	(3,662)	(7,505)	–	–
Accounts receivable	20,877	24,332	460	101	0	0	21,337	24,433
Other receivables	11,459	11,561	1,701	1,352	(1,077)	(1,056)	12,082	11,857
Non interest-bearing assets held for sale	1,684	136	–	–	–	–	1,684	136
Interest-bearing assets held for sale	8	0	–	–	–	–	8	0
Marketable securities	16,655	9,735	21	32	0	0	16,676	9,767
Cash and cash equivalents	20,749	21,756	726	1,545	(241)	(335)	21,234	22,966
Total current assets	**114,272**	**116,928**	**47,540**	**42,182**	**(6,867)**	**(11,970)**	**154,945**	**147,139**
Total assets	**245,550**	**245,602**	**98,772**	**89,246**	**(12,057)**	**(16,841)**	**332,265**	**318,007**
Shareholders' equity and liabilities								
Equity attributable to the equity holders of the Parent Company	57,856	65,090	8,549	8,020	0	0	66,405	73,110
Minority interests	629	1,011	0	0	0	0	629	1,011
Total shareholders' equity	**58,485**	**66,101**	**8,549**	**8,020**	**0**	**0**	**67,034**	**74,121**
Non-current provisions								
Provisions for post-employment benefits	8,021	7,478	30	32	0	0	8,051	7,510
Provisions for deferred taxes	1,858	3,026	1,780	1,496	0	0	3,638	4,522
Other provisions	6,277	5,785	80	150	2	1	6,360	5,936
Non-current liabilities								
Bond loans	49,191	38,767	0	0	0	0	49,191	38,767
Other loans	48,684	37,180	7,458	8,225	(107)	(78)	56,035	45,327
Internal funding	(30,908)	(26,971)	32,758	25,927	(1,849)	1,044	–	–
Other liabilities	11,762	11,172	479	389	(2,353)	(2,330)	9,888	9,231
Current provisions	9,321	8,429	164	105	2	1	9,487	8,534
Current liabilities								
Loans	44,196	32,101	8,305	8,299	(876)	(799)	51,626	39,601
Internal funding	(32,273)	(21,220)	36,457	33,643	(4,184)	(12,423)	–	–
Non interest-bearing liabilities held for sale	272	135	–	–	–	–	272	135
Trade payables	35,754	47,111	201	139	0	0	35,955	47,250
Tax liabilities	369	1,571	254	161	0	0	623	1,732
Other liabilities	34,541	34,937	2,257	2,660	(2,692)	(2,257)	34,105	35,341
Total shareholders' equity and liabilities	**245,550**	**245,602**	**98,772**	**89,246**	**(12,057)**	**(16,841)**	**332,265**	**318,007**
Contingent liabilities							9,607	**11,003**

SEK 0.1 billion compared to year-end 2009. Post-employment benefits valued at SEK 7.3 billion were reported outside the Volvo Group's balance sheet. For further information see Note 24.

At year-end, the equity ratio in the Industrial Operations was 26.9% and in the Volvo Group 23.3%. Shareholder's equity in the Volvo Group amounted to SEK 74.1 billion at December 31, 2010.

CASH-FLOW STATEMENT

Strong operating cash-flow

Operating cash flow in the Industrial Operations amounted to SEK 19.0 billion (neg: SEK 11.4 billion).

The strong cash flow was generated through the operating income and a reduction of working capital.

Financial items and paid income taxes had a SEK 5.1 billion negative effect on cash flow within Industrial Operations, mainly through payments of interests and income tax.

Operating cash flow within Customer Finance was a positive SEK 1.4 billion in 2010 (15.1).

Investments

The Industrial Operations' investments in fixed assets and capitalized R&D during 2010 amounted to SEK 10.3 billion (10.3).

Capital expenditures in Trucks amounted to SEK 7.2 billion (7.4). The capital expenditures within Trucks consist to a large extent of investments related to product renewals in our product program, within product development and adaptations in the plants. Examples of product renewals are the new Volvo FMX construction truck and UD Trucks' launches of a new version of the Quon heavy truck and a new Condor medium duty truck equipped with a new medium-duty engine. The ongoing investments aiming for increased capacity and flexibility have more or less been finalized during the year. Those relate to the cab plant in Umeå, Sweden, and the engine plants with the new foundry but also investments in machining and assembly processes in Skövde, Sweden, and the assembly line in Ageo, Japan. During 2010, Trucks invested in the dealer network and workshops, mainly in Europe, however on a lower level than previous year.

Capital investments for Construction Equipment increased to SEK 1.4 billion from SEK 1.0 billion previous year. A majority of the investments refer to expansion of the excavator business in the BRIC countries, during 2010 especially in China. It includes product offerings as the new EC200B Volvo excavator for the Chinese market, and increased manufacturing capacity in China, Lingong with SDLG, and also in Korea, Changwon, for components and assembly. Product related investments during the year also refer to the emission regulations with Tier4i and Stage IIIB engines.

The investments within Volvo Aero during 2010 were SEK 0.8 billion (0.6). The majority of the investments refer to the involvement in the new engine programs, PW1000G with Pratt & Whitney, and Trent XWB with Rolls-Royce. The investments also refer to finalization of a number of investments in Aero's production facilities in order to secure the capacity required for the GEnx program, carried out in cooperation with General Electrics, and capacity investments in the Low Pressure Turbine shop.

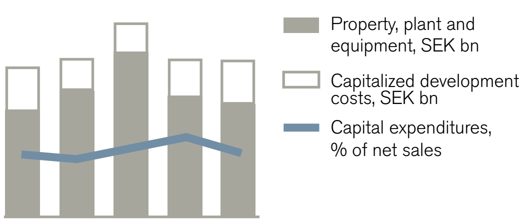
The investments in Buses were SEK 0.2 billion (0.4). They were mainly related to maintenance and efficiency-enhancing investments in the factories. Product related investments during the year relate mainly to emission standards and product renewals.

The level of investments in Volvo Penta were SEK 0.2 billion (0.3) and consist mainly of product-related investments in the new D13 engine and IPS3, the finalization phase of investments in the new logistics system as well as tooling and other development activities.

Investments in leasing assets amounted to SEK 0.3 billion (0.2).

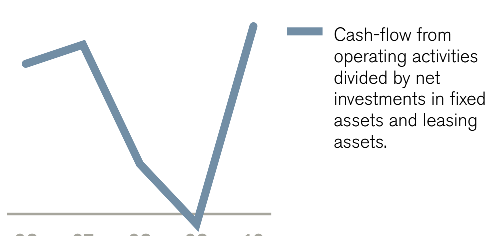
For 2011, the Volvo Group estimates that investments in property, plant and equipment will be around SEK 10 billion. This is higher than in 2010 as investments in future product programs will increase, as well as the expansion of the business in the BRIC countries. The process in which ongoing and future investments are continuously reviewed and prioritized is still in focus.

Capital expenditures, Industrial Operations



	06	07	08	09	10
Property, plant and equipment, SEK bn	6.8	8.0	10.5	7.7	7.1
Capitalized development costs, SEK bn	2.9	2.1	2.1	2.6	3.2
Capital expenditures, % of net sales	3.9	3.6	4.3	5.0	4.0

Self-financing ratio, Industrial operations %



06	07	08	09	10
235	265	78	(16)	294

Consolidated cash-flow statements

SEK bn	Industrial Operations 2009	Industrial Operations 2010	Customer Finance 2009	Customer Finance 2010	Eliminations 2009	Eliminations 2010	Volvo Group 2009	Volvo Group 2010
Operating activities								
Operating income	(16.3)	17.8	(0.7)	0.2	0.0	0.0	(17.0)	18.0
Depreciation tangible assets	6.5	6.1	0.0	0.0	0.0	0.0	6.5	6.1
Amortization intangible assets	3.6	3.3	0.0	0.0	0.0	0.0	3.6	3.3
Depreciation leasing vehicles	2.3	2.0	2.8	2.4	0.0	0.0	5.1	4.4
Other non-cash items	2.3	0.1	2.0	1.3	0.1	0.2	4.4	1.6
Total change in working capital, of which	4.7	4.6	11.8	0.1	0.4	0.1	16.9	4.8
Change in accounts receivables	*8.2*	*(4.0)*	*0.0*	*0.3*	*0.0*	*0.0*	*8.2*	*(3.7)*
Change in inventories	*16.3*	*(4.8)*	*(1.1)*	*0.8*	*0.0*	*0.1*	*15.2*	*(3.9)*
Change in trade payables	*(14.4)*	*13.1*	*(0.1)*	*0.0*	*0.1*	*(0.1)*	*(14.4)*	*13.0*
Other changes in working capital	*(5.4)*	*0.3*	*13.0*	*(1.0)*	*0.3*	*0.1*	*7.9*	*(0.6)*
Net of interest and other financial items	(3.0)	(2.8)	0.0	0.0	0.0	(0.1)	(3.0)	(2.9)
Income taxes paid	(1.7)	(2.3)	0.1	(0.3)	0.0	0.0	(1.6)	(2.6)
Cash flow from operating activities	**(1.6)**	**28.8**	**16.0**	**3.7**	**0.5**	**0.2**	**14.9**	**32.7**
Investing activities								
Investments in tangible assets	(7.5)	(6.7)	0.0	(0.1)	(0.2)	0.0	(7.7)	(6.8)
Investments in intangible assets	(2.8)	(3.6)	0.0	0.0	0.0	0.0	(2.8)	(3.6)
Investment in leasing vehicles	(0.2)	(0.3)	(4.0)	(4.5)	0.0	0.0	(4.2)	(4.8)
Disposals of fixed assets and leasing vehicles	0.7	0.8	3.1	2.3	0.0	0.0	3.8	3.1
Operating cash flow	**(11.4)**	**19.0**	**15.1**	**1.4**	**0.3**	**0.2**	**4.0**	**20.6**
Investments and divestments of shares, net							0.0	(0.1)
Acquired and divested operations, net							0.2	0.6
Interest-bearing receivables including marketable securites							(8.9)	6.8
Cash-flow after net investments							**(4.7)**	**27.9**
Financing activities								
Change in loans, net							12.6	(25.7)
Payment to AB Volvo shareholders							(4.1)	0.0
Payment to minority shareholders							0.0	(0.1)
Other							(0.1)	0.0
Change in cash and cash equivalents excluding translation differences							**3.7**	**2.1**
Translation difference on cash and cash equivalents							(0.2)	(0.4)
Change in cash and cash equivalents							**3.5**	**1.7**

Acquisitions and divestments

Investments and divestments in shares and participation had a negative impact on cash flow of SEK 0.1 billion (0.0).

Acquired and divested companies 2010 had a positive impact on cash flow of SEK 0.6 billion (positive 0.2).

Financing and dividend

Net borrowings decreased cash and cash equivalents by SEK 25.7 billion during 2010.

No dividend was paid during the year to the shareholders of AB Volvo.

Change in cash and cash equivalents

The Group's cash and cash equivalents increased by SEK 1.7 billion during the year and amounted to SEK 23.0 billion at December 31, 2010.

FINANCIAL INFORMATION 2010

CONSOLIDATED INCOME STATEMENT

SEK M		2009	**2010**
Net sales	Note 7	218,361	**264,749**
Cost of sales		(186,167)	**(201,797)**
Gross income		32,194	**62,952**
Research and development expenses	Note 7	(13,193)	**(12,970)**
Selling expenses		(25,334)	**(24,149)**
Administrative expenses		(5,863)	**(5,666)**
Other operating income and expenses	Note 8	(4,798)	**(2,023)**
Income from investments in associated companies	Note 7, 9	(14)	**(86)**
Income from other investments	Note 10	(6)	**(58)**
Operating income	Note 7	(17,013)	**18,000**
Interest income and similar credits		390	**442**
Interest expenses and similar charges		(3,559)	**(3,142)**
Other financial income and expenses	Note 11	(392)	**213**
Income after financial items		(20,573)	**15,514**
Income taxes	Note 12	5,889	**(4,302)**
Income for the period		(14,685)	**11,212**
Attributable to:			
Equity holders of the Parent Company		(14,718)	**10,866**
Minority interests	Note 13	33	**346**
		(14,685)	**11,212**
Basic earnings per share, SEK	Note 23	(7.26)	**5.36**
Diluted earnings per share, SEK	Note 23	(7.26)	**5.36**

OTHER COMPREHENSIVE INCOME

Income for the period	(14,685)	**11,212**
Translation differences on foreign operations	(1,246)	**(3,891)**
Translation differences on hedge instruments of net investment in foreign operations	159	**113**
Accumulated translation difference reversed to income	(136)	**(95)**
Available-for-sale investments	86	**148**
Change in cash flow hedge reserve	2,313	**(156)**
Other comprehensive income, net of income taxes	1,176	**(3,881)**
Total comprehensive income for the period	(13,509)	**7,331**
Attributable to:		
Equity holders of the Parent Company	(13,561)	**7,016**
Minority interests	52	**315**
	(13,509)	**7,331**

CONSOLIDATED BALANCE SHEET

SEK M			December 31, 2009		**December 31, 2010**
Assets					
Non-current assets					
Intangible assets	Note 14		41,628		**40,714**
Tangible assets	Note 14				
Property, plant and equipment		54,289		**53,294**	
Investment property		991		**948**	
Assets under operating leases		20,388	75,668	**19,647**	**73,889**
Financial assets					
Associated companies	Note 15	588		**684**	
Other shares and participations	Note 15	1,456		**1,414**	
Non-current customer-financing receivables	Note 16	39,713		**36,025**	
Deferred tax assets	Note 12	12,595		**12,310**	
Prepaid pensions	Note 24	2,049		**1,648**	
Non-current interest-bearing receivables	Note 17	585		**766**	
Other non-current receivables	Note 17	3,038	60,024	**3,418**	**56,265**
Total non-current assets			177,320		**170,868**
Current assets					
Inventories	Note 18		37,727		**39,837**
Current receivables					
Customer-financing receivables	Note 19	42,264		**36,663**	
Tax assets		1,523		**1,135**	
Interest-bearing receivables	Note 20	410		**342**	
Accounts receivable	Note 20	21,337		**24,433**	
Other receivables	Note 20	12,082		**11,857**	
Non interest-bearing assets held for sale	Note 4	1,684		**136**	
Interest-bearing assets held for sale		8	79,308	**0**	**74,566**
Marketable securities	Note 21		16,676		**9,767**
Cash and cash equivalents	Note 22		21,234		**22,966**
Total current assets			154,945		**147,139**
Total assets			332,265		**318,007**
Shareholders' equity and liabilities					
Shareholders' equity	Note 23				
Share capital		2,554		**2,554**	
Additional contributed capital		–		**-**	
Reserves		6,235		**2,386**	
Retained earnings		72,334		**57,304**	
Income for the period		(14,718)		**10,866**	
Equity attributable to the equity holders of the Parent Company		66,405		**73,110**	
Minority interests		629		**1,011**	
Total shareholders' equity			67,034		**74,121**
Non-current provisions					
Provisions for post-employment benefits	Note 24	8,051		**7,510**	
Provisions for deferred taxes	Note 12	3,638		**4,522**	
Other provisions	Note 25	6,360	18,049	**5,936**	**17,968**
Non-current liabilities	Note 26				
Bond loans		49,191		**38,767**	
Other loans		56,035		**45,327**	
Other liabilities		9,888	115,114	**9,231**	**93,325**
Current provisions	Note 25		9,487		**8,534**
Current liabilities	Note 27				
Loans		51,626		**39,601**	
Non interest-bearing liabilities held for sale	Note 4	272		**135**	
Trade payables		35,955		**47,250**	
Tax liabilities		623		**1,732**	
Other liabilities		34,105	122,581	**35,341**	**124,059**
Total shareholders' equity and liabilities			332,265		**318,007**
Assets pledged	Note 28		958		**3,339**
Contingent liabilities	Note 29		9,607		**11,003**

CHANGES IN CONSOLIDATED SHAREHOLDERS' EQUITY

		Shareholders' equity attributable to equity holders of the Parent Company						
SEK M		Share capital	Other reserves[1]	Translation reserve	Retained earnings	Total	Minority interests	Total equity
Balance at December 31, 2008		**2,554**	**(2,263)**	**7,341**	**76,378**	**84,010**	**630**	**84,640**
Income for the period		–	–	–	(14,718)	(14,718)	33	(14,685)
Other comprehensive income								
Translation differences on foreign operations		–	–	(1,252)	–	(1,252)	6	(1,246)
Translation differences on hedge instruments of net investments in foreign operations		–	–	159	–	159	–	159
Accumulated translation differences reversed to income		–	–	(136)	–	(136)	–	(136)
Available-for-sale investments:	Note 15, 23							
Gains/losses at valuation to fair value		–	86	–	–	86	–	86
Change in cash flow hedge reserve	Note 23	–	2,300	–	–	2,300	13	2,313
Other comprehensive income		–	2,386	(1,229)	–	1,157	19	1,176
Total income for the period		**–**	**2,386**	**(1,229)**	**(14,718)**	**(13,561)**	**52**	**(13,509)**
Transactions with shareholders								
Dividends		–	–	–	(4,055)	(4,055)	(15)	(4,070)
Share based payments	Note 34	–	–	–	4	4	–	4
Changes in minority interests		–	–	–	–	–	(2)	(2)
Other changes		–	–	–	7	7	(36)	(29)
Transactions with shareholders					(4,044)	(4,044)	(53)	(4,097)
Balance at December 31, 2009		**2,554**	**123**	**6,112**	**57,616**	**66,405**	**629**	**67,034**
Transition effect IFRS 3, capitalized transaction costs	Note 3	–	–	–	(135)	(135)	–	(135)
Total equity at beginning of period		**2,554**	**123**	**6,112**	**57,481**	**66,270**	**629**	**66,899**
Income for the period		–	–	–	10,866	10,866	346	11,212
Other comprehensive income								
Translation differences on foreign operations		–	–	(3,859)	–	(3,859)	(32)	(3,891)
Translation differences on hedge instruments of net investments in foreign operations		–	–	113	–	113	–	113
Accumulated translation differences reversed to income		–	–	(95)	–	(95)	–	(95)
Available-for-sale investments:	Note 15, 23							
Gains/losses at valuation to fair value		–	148	–	–	148	–	148
Change in cash flow hedge reserve	Note 23	–	(156)	–	–	(156)	–	(156)
Other comprehensive income for the period		–	(8)	(3,841)	–	(3,849)	(32)	(3,881)
Total income for the period		**–**	**(8)**	**(3,841)**	**10,866**	**7,017**	**314**	**7,331**
Transactions with shareholders								
Dividends		–	–	–	–	–	(412)	(412)
Capital contribution		–	–	–	–	–	358	358
Share based payments	Note 34	–	–	–	–	–	–	–
Changes in minority interests		–	–	–	(180)	(180)	115	(65)
Other changes		–	–	–	3	3	7	10
Transactions with shareholders		–	–	–	(177)	(177)	68	(109)
Balance at December 31, 2010		**2,554**	**115**	**2,271**	**68,170**	**73,110**	**1,011**	**74,121**

1 For specification of other reserves, see Note 23.

CONSOLIDATED CASH-FLOW STATEMENT

SEK M			2009		**2010**
Operating activities					
Operating income			(17,013)		**18,000**
Depreciation and amortization	Note 14		15,227		**13,792**
Other items not affecting cash	Note 30		4,397		**1,561**
Changes in working capital:					
(Increase)/decrease in receivables			10,271		**(4,330)**
(Increase)/decrease in customer finance receivables			12,806		**(1,347)**
(Increase)/decrease in inventories			15,225		**(3,921)**
Increase/(decrease) in liabilities and provisions			(21,387)		**14,399**
Interest and similar items received			353		**429**
Interest and similar items paid			(2,905)		**(2,732)**
Other financial items			(514)		**(604)**
Income taxes paid			(1,604)		**(2,590)**
Cash-flow from operating activities			14,856		**32,657**
Investing activities					
Investments in fixed assets		(10,464)		**(10,334)**	
Investments in leasing assets		(4,246)		**(4,811)**	
Disposals of fixed assets and leasing assets		3,849		**3,067**	
Shares and participations, net	Note 30	(38)		**(106)**	
Acquired and divested subsidiaries and other business units, net	Note 4, 30	149		**617**	
Interest-bearing receivables including marketable securities		(8,866)	(19,616)	**6,813**	**(4,754)**
Cash-flow after net investments			(4,760)		**27,903**
Financing activities					
Increase/(decrease) in bond loans and other loans	Note 30	12,655		**(25,711)**	
Cash payment to AB Volvo shareholders'		(4,055)		**-**	
Dividends to minority shareholders		(15)		**(75)**	
Other		(58)	8,527	**(25)**	**(25,811)**
Change in cash and cash equivalents, excluding translation differences			3,767		**2,092**
Translation difference on cash and cash equivalents			(245)		**(360)**
Change in cash and cash equivalents			3,522		**1,732**
Cash and cash equivalents, January 1	Note 22		17,712		**21,234**
Cash and cash equivalents, December 31	Note 22		21,234		**22,966**

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 movements 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 but also bank certificates which matures within 3 months from aquisition.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Amounts in SEK M unless otherwise specified. The amounts within parentheses refer to the preceding year, 2009.

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 Supplementary Rules for Groups, has been applied, issued by the Swedish Financial Reporting Board. Effective in 2005 Volvo has applied International Financial Reporting Standards (IFRS) in its financial reporting. In accordance with the IFRS transitions rules in IFRS 1, Volvo applies retrospective 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.

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.

Consolidated financial statements

Principles for consolidation

The consolidated financial statements 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, some 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 (revised), Business Combinations, for acquisitions. Prior acquisitions are not restated. All business combinations are accounted for in accordance with the purchase method. Volvo values acquired identifiable assets, tangible and intangible, and liabilities at fair value. Surplus amount from purchase price, possible minority and fair value of previous possessions at the acquisition date compared to the Group's share of acquired net assets are reported as goodwill. Any lesser amount, so-called negative goodwill, is reported in the income statement.

At step acquisitions a business combination occurs only at the date control is achieved, at the same time goodwill is calculated. Transactions with the minority are reported as equity as long as control of the subsidiary is retained. For each business combination Volvo chooses if the minority should be valued either at fair value or at the minority's proportionate share of the acquiree's net assets. All acquisition-related costs are expensed. 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 monthly exchange rates. 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

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). Derivative financial instruments used for hedging of exchange and interest risks are reported at fair value. Gains on exchange rates are reported as receivables and losses on exchange rates are reported as liabilities. Depending on the lifetime of the financial instrument it is reported as current or non-current in the balance sheet. 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.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Exchange rates

		Average rate		Closing rate	
Country	Currency	2009	2010	2009	2010
Brazil	BRL	3.8444	4.0925	4.1375	4.0560
Canada	CAD	6.7006	6.9973	6.8885	6.8085
China	CNY	1.1192	1.0643	1.0600	1.0300
Denmark	DKK	1.4275	1.2823	1.3926	1.2086
Euro	EUR	10.6305	9.5502	10.3623	9.0113
Great Britain	GBP	11.9322	11.1319	11.4913	10.5538
Japan	JPY	0.0819	0.0823	0.0785	0.0835
Norway	NOK	1.2172	1.1926	1.2440	1.1530
South Korea	KRW	0.0060	0.0062	0.0062	0.0060
United States	USD	7.6470	7.2060	7.2138	6.8038

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 customer. 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 the right to receive dividend is obtained.

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.

Volvo as the lessee

Volvo evaluates leasing contracts in accordance with IAS 17, Leases. In those cases in which risks and rewards 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 operating 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 either at amortized cost or at fair value through profit and loss.

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 statement. 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 Volvo has decided not to apply hedge accounting on, and derivates 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 terms 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 present Volvo has no 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 interested 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 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 including transaction costs. Fair value changes are recognized directly in other comprehensive income. The cumulative gain or loss that was recognized in other comprehensive income is recognized in profit or loss when an available-for-sale financial asset is sold. Unrealized value declines are recognized in other comprehensive income, 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

Derivatives used for hedging of firm future commercial currency exposure as well as forecasted electricity consumption have, in accordance with IAS 39, been reported at fair value in the balance sheet. Since the fourth quarter 2009 hedge accounting is not applied on new financial instruments used for hedging commercial flows. However for previously entered financial instruments hedge accounting is continuously applied. The majority of those financial instruments have expired during the year.

When hedge accounting is not applied, unrealized gains and losses from fluctuations in the fair values of the financial instruments are reported in the income statement in the segment Group headquarter functions and other. When the derivative financial instrument have been realized the income effect is reported within the respective segments.

As from January 1, 2011 unrealized changes in fair value of financial instruments related to a receivable or payable will be reported within the respective segments. All other unrealized changes in fair value of financial instruments will henceforth be reported in the income statement in the segment Group headquarter functions and other.

During 2010 Volvo has partly applied hedge accounting for financial instruments used to hedge interest and currency risks on loans only for cases when hedge accounting requirements are fulfilled. This concerns a loan of 1 billion euro borrowed in 2007. The changes in the fair value of the outstanding hedge instruments and the changes in the carrying value of the loan are reported in the income statement. 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.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

During 2010 Volvo has applied 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 notes 36 and 37 for the valuation of all financial instruments in the Volvo Group and for details and further description on principles for economic hedging, hedge accounting and changes to the policies for hedging and hedge accounting during 2010 and going forward.

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.

Intangible and tangible non-current assets

Volvo applies acquisition values for valuation of intangible and tangible assets. Borrowing costs are included in the acquisition value of assets that necessarily takes more than 12 months to get ready for its intended use or sale, so called qualifying assets.

Investment property is reported at acquisition cost. Information regarding estimated fair 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. Depreciation is reported in the respective function to which it belongs. 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
Aircraft engine projects	20 years

Non-current assets held for sale and discontinued operations

Volvo applies IFRS 5, Non-current Assets Held for Sale and Discontinued Operations. The standard also includes current assets. In a global group like Volvo, 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. The balance sheet items and the income effect resulting from the revaluation to fair value less costs to sell are normally reported in the segment Group headquarter functions and other, until the sale is completed and the result from it is assigned to the other segments.

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. The Volvo program includes both a cash-settled and an equity-settled part, however this is not applicable for 2010 as there were no program in 2010. The value of the equity-settled payments is determined at the grant-date, recognized as an expense during the vesting period and off-set in 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. 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.

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 pertain 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 pertain 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 does 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 months. 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 are 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 share-based incentive programs that have been exercised or cancelled during the period. See note 23.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

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 114,603 (117,296) whereof 22,936 (23,827) represents goodwill. For Goodwill and certain other intangible assets with indefinite useful lives, an annual, or more frequently if necessary, 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. Overvalues differ between the business areas and they are, to a varying degree, sensitive to changes in the business environment. Volvo has since 2002 performed a similar impairment review. No impairment charges were required for the period 2002 until 2010. See note 14 for the allocation and impairment tests of goodwill.

Revenue recognition

Revenue from the sale of products is recognized when significant risks and rewards of ownership have been transferred to external parties, normally when the products are delivered to the customers. If, however, the sale of products 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 products are retained by Volvo. In certain cases Volvo enters into a buy-back agreement or residual value guarantee after Volvo has 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 13,339 (14,954) at December 31, 2010. 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. A decline in prices for used trucks and construction 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 new and used trucks and construction equipment. 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 adjustments are made to future periods in these estimates, changes in the valuation allowance may be needed that could materially impact the financial position and the income for the period. At December 31, 2010, the valuation allowance amounted to 339 (296) for the value of deferred tax assets. Net of this valuation allowance, deferred tax assets of 20,109 (21,533) were recognized in the Group's balance sheet.

Volvo has significant tax-loss carryforwards which are related to countries with long or indefinite periods of utilization, mainly Sweden and France. Of the total deferred tax asset for loss carryforwards 7,327 (8,939), an amount of 3,665 (4,653) relates to Sweden with indefinite time of utilization. Volvo considers it to be most certain that the Volvo Group will be able to generate sufficient income in the coming years to utilize the tax-loss carryforwards.

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 outdated 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, 2010, 39,837 (37,727).

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, 2010, the total credit loss reserves in the segment Customer Finance segment amounted to 1.69% (1.67) 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 which result in obligations for post-employment benefits. 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. Volvo's assumptions regarding discount rate are presented in note 24. Health care cost trend assumptions are 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, 2010 net provisions for post-employment benefits amounted to 5,862 (6,002).

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, 2010 warranty cost provisions amounted to 7,841 (7,947).

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 affect future financial statements, with an adverse impact upon the Group's results of operation, financial position and liquidity. See note 29 for the Volvo Group's gross exposure to contingent liabilities.

NOTE 3 CHANGE OF ACCOUNTING PRINCIPLES

New accounting principles in 2010

The following new accounting principles are effective from January 1, 2010 and have been applied by the Volvo Group unless stated otherwise:

Revised IFRS 3 Business combinations

The standard became 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 applies the amendment as of January 1, 2010. The application affects the accounting for business combinations made from the application date. Capitalized transaction costs of 135 relating to ongoing acquisition projects is transferred to equity by Volvo.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

IAS 27 amendment Consolidated and separate financial statements
The standard became 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 in ownership in cases where the Parent Company retains or loses the control of the owned entity. The Group applies the amendment as of January 1, 2010. The application prospectively affects the accounting for changes in share ownership made from the application date.

In addition to the above-mentioned, the below amendments to standards and new interpretations from IFRIC have been applicable for the Volvo Group from January 1, 2010, but have not had a significant impact on the Group's financial statements during the year.

– *IAS 39 amendment Financial instruments: Recognition and Measurement: Eligible hedge items*
– *IFRS 1 amendments Additional exemptions for first-time adopters*
– *IFRIC 16 Hedges of a net investment in a foreign operation*
– *IFRIC 17 Distribution of non-cash assets to owners*
– *IFRIC 18 Transfers of assets from customers*
– *Revised IFRS 1 First time adoption of IFRS*
– *IFRIC 9 and IAS 39 amendment Embedded derivatives*
– *IFRS 2 amendment Group Cash-settled Share-based Payment Transactions*
– *IFRS 1 amendments Limited exemption from comparative IFRS 7 Disclosures for First-time Adopters*
– *Annual improvements*

New accounting principles 2011 and later
When preparing the consolidated accounts as of December 31, 2010, 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 9 Financial instruments**
IFRS 9 Financial instruments has been published in three parts: Classification and Measurement, Impairment and Hedge accounting, which will replace IAS 39 with effective date January 1, 2013 or later. Earlier adoption is permitted given endorsement. Volvo is currently reviewing the effects implementation of IFRS 9 will have on the Group. When all three parts of the project are completed a common standpoint will be given.

In addition to the above-mentioned, the below amendments to standards and interpretations from IFRIC are applicable for the Volvo Group from January 1, 2011 or later, but are not expected to have a significant impact on the Group's financial statements.

– *IFRS 7 Amendments Financial Instruments: Disclosures*
– *IFRIC 14 The limit on a defined benefit asset, minimum funding requirements and their interaction*
– *IFRIC 19 Extinguishing Financial Liabilities with Equity Instruments*
– *IFRIC 12 Service Concession Arrangements*
– *Revised IAS 24 Related Party Disclosures*
– *IAS 32 amendment Classification of rights issues*
– *Annual improvements*

*These standards/interpretations have not been adopted by the EU at the publication of the annual report. Accordingly, stated dates for adoption may change as a consequence of decisions within the EU endorsement process.

NOTE 4 ACQUISITIONS AND DIVESTMENTS OF SHARES IN SUBSIDIARIES

AB Volvo's holding of shares in subsidiaries as of December 31, 2010 is shown in the disclosures of AB Volvo's holding of shares. Significant acquisitions, formations and divestments within the Group are listed below.

Acquisitions
The Volvo Group has not made any acquisitions during 2009 and 2010 which solely or jointly have had a significant impact on the Volvo Group's financial statements.

Valuation of acquisitions
For acquisitions in 2009 and 2010, the fair-value adjustments to the purchase price allocations have not been significant for the Volvo Group. 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:

Acquisitions	2009	2010
Intangible assets	3	0
Property, plant and equipment	4	32
Assets under operating lease	19	468
Inventories	20	56
Current receivables	2	99
Cash and cash equivalents	0	15
Other assets	9	12
Minority interests	0	20
Provisions	6	(22)
Loans	0	(374)
Liabilities	(48)	(143)
	15	163
Goodwill	41	52
Acquired net assets	**56**	**215**
Cash and cash equivalents paid	(56)	(229)
Cash and cash equivalents according to acquisition analysis	0	15
Effect on Group cash and cash equivalents	**(56)**	**(214)**

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 divestment of Volvo Aero's US subsidiary, Volvo Aero Services, was completed in the beginning of October. A total of SEK 515 M has negatively affected Volvo Group's operating result, of which SEK 368 M was reported in 2009. As a consequence of the Group's accounting principles described in note 1 the same transaction affected Volvo Aero's operating result negatively by SEK 538 M. The sale of VAS is due to Volvo Aero's strategy of focusing on its core operations of developing and manufacturing components for aircraft engines, combined with the goal of reducing the company's tied-up capital.

In May Volvo CE sold its Russian distribution network with assets amounting to SEK 200 M, the transaction had a minor effect on Volvo's result. In July Volvo CE sold its Turkish distribution network with assets and liabilities of SEK 232 M and SEK 36 M, respectively, classified as assets held for sale. The transaction had a positive impact on the Group's operating income of SEK 107 M.

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:

Divestments	2009	2010
Intangible assets	(3)	0
Property, plant and equipment	(59)	(32)
Assets under operating lease	(42)	(190)
Shares and participations	65	0
Inventories	(280)	(1,096)
Other receivables	(112)	(334)
Cash and cash equivalents	(116)	(176)
Provisions	80	(10)
Other liabilities	254	540
	(213)	(1,298)
Goodwill	0	(122)
Divested net assets	**(213)**	**(1,420)**
Cash and cash equivalents received	321	1,007
Cash and cash equivalents, divested companies	(116)	(176)
Effect on Group cash and cash equivalents	**205**	**831**

Assets and liabilities held for sale

At the end of 2010 the Volvo Group reports assets amounting to 136 and liabilities amounting to 135 as assets and liabilities held for sale. Depending on the progress with the sales process, changes in the business environment, access to liquidity, market outlook, etc. the fair value of remaining assets held for sale may change in the forthcoming periods or when the transactions are finalized. Reclassified assets and liabilities pertain to smaller operations. For the comparison year 2009, the Volvo Group reported assets amounting to 1,692 and liabilities to 272 as assets and liabilities classified as held for sale.

Assets and liabilities held for sale	2009	2010
Intangible assets	54	0
Tangible assets	618	43
Inventories	776	8
Accounts receivable	109	56
Other current receivables	111	24
Other assets	24	5
Total assets	**1,692**	**136**
Trade payables	108	31
Other current liabilities	164	104
Total liabilities	**272**	**135**

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

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.

Shares in joint ventures	Dec 31, 2010 Holding percentage
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[1]

1 Direct and indirect ownership.

Volvo's share of joint ventures' income statements	2009	2010
Net sales	3,171	4,178
Operating income	(12)	127
Income after financial items	25	169
Income taxes	(9)	(66)
Volvo's share of income for the period	**16**	**103**

Volvo's share of joint ventures' balance sheets	Dec 31, 2009	Dec 31, 2010
Non-current assets	2,019	1,932
Current assets	2,141	2,206
Total assets	**4,160**	**4,138**
Shareholders' equity	2,598	2,627
Provisions	286	294
Long-term liabilities	23	12
Current liabilities	1,253	1,205
Total shareholders' equity and liabilities	**4,160**	**4,138**

At the end of 2010 guarantees amounting to 78 (80) 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 46 (29).

	2009		2010	
Volvo's share of total number of employees	Number of employees	of which women, %	Number of employees	of which women, %
Shanghai Sunwin Bus Corp.	458	17	455	16
Xian Silver Bus Corp.	172	17	144	21
Dong Feng Nissan Diesel Motor Co., Ltd.	138	12	141	14
VE Commercial Vehicles, Ltd.	1,363	2	1,479	1
Volvo's share of total number of employees	**2,131**	**7**	**2,219**	**7**

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. The income statement and balance sheet below reflects the total associated companies, not only the part consolidated by Volvo. For more information about Volvo's shareholding, see notes 9 and 15.

Income statement data	2009	2010
Net sales	4,027	3,794
Cost of sales	(3,991)	(3,840)
Financial income and expense	(7)	(32)
Income before taxes	**29**	**(78)**
Income taxes	(28)	(46)
Income of the period	**1**	**(124)**

Balance sheet data	Dec 31, 2009	Dec 31, 2010
Non-current assets	1,471	2,085
Current assets	1,353	1,558
Total assets	**2,824**	**3,643**
Shareholders' equity	1,322	1,686
Provisions	59	61
Long-term liabilities	57	452
Current liabilities	1,386	1,444
Total shareholders' equity and liabilities	**2,824**	**3,643**

Reporting by business segment

The Volvo Group's operations are organized in nine business areas: Volvo Trucks, Renault Trucks, North American 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 aggregated business segment. The Volvo Group is thus reported divided in six segments in which 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 responsibility 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. 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 Group Real Estate, is reported under industrial operations, and earnings are transferred back to the business areas.

Reported segment information is based on the information used internally by the chief operating decision maker, which in Volvo is the Volvo Group Executive Committee.

Net sales	2009	2010
Trucks	138,940	167,305
Construction Equipment	35,658	53,810
Buses	18,465	20,516
Volvo Penta	8,159	8,716
Volvo Aero	7,803	7,708
Other and eliminations	(538)	(680)
Industrial Operations	**208,487**	**257,375**
Customer Finance	11,712	9,031
Reclassifications and eliminations	(1,838)	(1,657)
Volvo Group	**218,361**	**264,749**

The above sales figures include internal sales in the following amounts:

Net sales to Group companies	2009	2010
Trucks	1,558	1,421
Construction Equipment	234	347
Buses	461	490
Volvo Penta	87	129
Volvo Aero	37	21
Other and eliminations	(782)	(984)
Industrial Operations	**1,595**	**1,424**
Customer Finance	243	231
Eliminations	(1,838)	(1,655)
Volvo Group	**0**	**0**

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.

Operating income	2009	2010
Trucks	(10,805)	10,112
Construction Equipment	(4,005)	6,180
Buses	(350)	780
Volvo Penta	(230)	578
Volvo Aero	50	286
Other	(994)	(102)
Industrial Operations	**(16,333)**	**17,834**
Customer Finance	(680)	167
Volvo Group	**(17,013)**	**18,000**

Depreciation and amortization	2009	2010
Trucks	9,618	8,721
Construction Equipment	2,036	1,975
Buses	555	464
Volvo Penta	515	453
Volvo Aero	435	436
Other	(777)	(710)
Industrial Operations	**12,382**	**11,338**
Customer Finance	2,845	2,454
Volvo Group total[1]	**15,227**	**13,792**

1 Of which write-down 33 (221).

Research and development expenses	2009	2010
Trucks	9,525	9,230
Construction Equipment	1,982	1,972
Buses	918	882
Volvo Penta	665	670
Volvo Aero	170	156
Other	(67)	60
Volvo Group total	**13,193**	**12,970**

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Income from investments in associated companies	2009	2010
Trucks	(22)	8
Construction Equipment	0	0
Buses	12	15
Volvo Penta	0	0
Volvo Aero	0	0
Other	(5)	(109)
Industrial Operations	**(15)**	**(86)**
Customer Finance	1	0
Volvo Group total	**(14)**	**(86)**

Total assets	2009	2010
Operating assets, Industrial Operations[1]:		
Trucks	112,157	114,305
Construction Equipment	40,454	43,309
Buses	12,462	11,565
Volvo Penta	5,444	4,870
Volvo Aero	11,326	9,881
Other	936	2,051
Total operating assets Industrial Operations	**182,779**	**185,981**
Interest-bearing financial assets	45,422	42,645
Tax receivables	13,639	13,064
Total assets in Customer Finance	98,772	89,246
Other and eliminations	(8,347)	(12,929)
Volvo Group total	**332,265**	**318,007**

1 Defined as total assets less interest-bearing financial assets and tax receivables.

Total shareholders' equity and liabilities	2009	2010
Operating liabilities, Industrial Operations[1]:		
Trucks	62,003	69,174
Construction Equipment	14,756	18,697
Buses	7,572	7,762
Volvo Penta	2,967	2,519
Volvo Aero	4,152	3,517
Other	400	1,259
Total operating liabilities Industrial Operations	**91,850**	**102,928**
Financial liabilities	86,911	67,335
Tax liabilities	2,861	4,702
Total liabilities in Customer Finance	90,223	81,226
Other and eliminations	(6,614)	(12,305)
Total liabilities	**265,231**	**243,886**
Shareholders' equity	67,034	74,121
Volvo Group total	**332,265**	**318,007**

1 Defined as total liabilities less shareholders' equity, financial liabilities and tax liabilities.

Investments in associated companies	2009	2010
Trucks	217	241
Construction Equipment	–	–
Buses	51	46
Volvo Penta	–	–
Volvo Aero	1	1
Customer Finance	19	18
Other	300	378
Volvo Group total	**588**	**684**

Capital expenditures	2009	2010
Trucks	7,272	7,650
Construction Equipment	1,307	1,555
Buses	639	343
Volvo Penta	687	331
Volvo Aero	533	734
Other	104	30
Industrial Operations	**10,542**	**10,643**
Customer Finance	4,102	4,600
Eliminations	(71)	(38)
Volvo Group total	**14,573**	**15,205**

Reporting by market

Net sales	2009	2010
Europe	99,518	102,947
North America	40,223	47,922
South America	17,613	29,013
Asia	45,273	65,487
Other markets	15,734	19,380
Volvo Group total*	**218,361**	**264,749**
*of which:		
Sweden	10,412	12,463
United States	31,243	35,752
France	25,344	24,457

Total assets	2009	2010
Sweden	77,528	73,806
Europe excluding Sweden	105,265	86,645
North America	60,223	53,683
South America	20,322	23,442
Asia	60,286	72,481
Other markets	8,641	7,950
Volvo Group total	**332,265**	**318,007**

Capital expenditures	2009	2010
Sweden	3,924	3,323
Europe excluding Sweden	6,135	6,733
North America	2,622	2,039
South America	97	292
Asia	1,574	2,707
Other markets	221	111
Volvo Group total	**14,573**	**15,205**

NOTE 8 OTHER OPERATING INCOME AND EXPENSES

	2009	2010
Gains/losses on divestment of Group companies	108	(34)
Write down of assets held for sale	(368)	(65)
Change in allowances and write-offs for doubtful receivables, customer financing	(2,327)	(1,438)
Change in allowances and write-offs for doubtful receivables, other	(692)	112
Damages and litigations	(71)	(57)
Restructuring cost	(635)	11
Volvo profit sharing program	(9)	(360)
Other income and expenses	(804)	(192)
Total	**(4,798)**	**(2,023)**

NOTE 9 INCOME FROM INVESTMENTS IN ASSOCIATED COMPANIES

Income/loss	2009	2010
UD Trucks Niigata Co	(1)	7
JV Fonderie Venissieux	3	(1)
Merkavim Metal Works Ltd	12	15
Blue Chip Jet I & II HB	(3)	(39)
Holdings of Volvo Technology Transfer[1]	(1)	(58)
Other companies	2	1
Subtotal	**12**	**(75)**
Revaluation and write-down of shares		
Thomas Hardie Commercials Ltd	(11)	–
Blue Chip Jet I & II HB	–	(11)
Other companies	(2)	–
Subtotal	**(13)**	**(11)**
Gains (losses) on divestment of shares in associated companies		
UD Trucks Niigata Co	(13)	–
Subtotal	**(13)**	**-**
Total income (loss) from investments in associated companies	**(14)**	**(86)**

1 Investments held by the Volvo venture-capital company.

NOTE 10 INCOME FROM OTHER INVESTMENTS

Dividends received	2009	2010
Deutz AG	2	2
Holdings of UD Trucks	9	14
Other	11	7
Subtotal	**22**	**23**
Write-downs of shares		
Holdings of Volvo Technology Transfer[1]	(36)	(107)
Other	–	(1)
Subtotal[2]	**(36)**	**(108)**
Gain on divestment of shares		
Holdings of Volvo Technology Transfer[1]	8	10
Holdings of UD Trucks	–	24
Other	–	(7)
Subtotal	**8**	**27**
Total	**(6)**	**(58)**

1 Investments held by the Volvo venture-capital company.

2 Write-downs of shares refer entirely to financial assets available for sale for which a market value can not be calculated..

NOTE 11 OTHER FINANCIAL INCOME AND EXPENSES

SEK M	2009	2010
Financial instruments at fair value through profit or loss	(90)	871
Exchange rate gains and losses on financial assets and liabilities[1]	(174)	(351)
Financial income and expenses related to taxes	140	(20)
Costs for Treasury function, credit facilities, etc	(268)	(287)
Total	**(392)**	**213**

1 In exchange rate gains and losses on financial assets and liabilities the devaluation effect in Venezuela is included with neg 274.

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:

	2009	2010
Current taxes relating to the period	(989)	(3,668)
Adjustment of current taxes for prior periods	(73)	180
Deferred taxes originated or reversed during the period	6,981	(747)
Recognition and derecognition of deferred tax assets	(30)	(67)
Total income taxes	**5,889**	**(4,302)**

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 reasonably 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, 2010, the valuation allowance attributable to deductible temporary differences, unused tax-loss carry forwards and unused tax credit carryforwards for which no deferred tax asset was recognized amounted to 339 (296). The major part of the reserve consists of unused loss carryforwards.

Deferred taxes amounting to 93 (neg: 816) have been reported in other comprehensive income, attributable to fair value of derivative instruments.

At year-end 2010, the Group had unused tax-loss carryforwards amounting to 25,000 (30,200). These loss carryforwards expire according to the table below:

Due date	2009	2010
2011	300	100
2012	100	100
2013	100	200
2014	400	400
2015	800	800
2016–	28,500	23,400
Total	**30,200**	**25,000**

The Swedish corporate income tax rate is 26.3%. 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.

	2009, %	2010, %
Swedish corporate income tax rates	26	26
Difference in tax rate in various countries	2	4
Capital gains	0	0
Other non-taxable income	0	(3)
Other non-deductible expenses	0	1
Adjustment of current taxes for prior years	1	(1)
Recognition and derecognition of deferred tax assets	1	1
Other, net	(1)	0
Income tax rate for the Group	**29**	**28**

Specification of deferred tax assets and tax liabilities	2009	2010
Deferred tax assets:		
Unused tax-loss carryforwards	8,939	7,327
Other unused tax credits	85	121
Intercompany profit in inventories	459	711
Allowance for inventory obsolescence	860	439
Valuation allowance for doubtful receivables	702	587
Provisions for warranties	1,071	1,722
Provisions for residual value risks	387	306
Provisions for post-employment benefits	2,066	2,068
Provisions for restructuring measures	169	61
Adjustment to fair value at company acquisitions	0	12
Fair value of derivative instruments	240	45
Land	2,377	2,455
Other deductible temporary differences	4,474	4,594
Deferred tax assets before deduction for valuation allowance	**21,829**	**20,448**
Valuation allowance	(296)	(339)
Deferred tax assets after deduction for valuation allowance	**21,533**	**20,109**
Netting of deferred tax assets/liabilities	(8,938)	(7,799)
Deferred tax assets, net	**12,595**	**12,310**

	2009	2010
Deferred tax liabilities:		
Accelerated depreciation on property, plant and equipment	4,046	4,094
Accelerated depreciation on leasing assets	2,073	2,111
LIFO valuation of inventories	228	224
Capitalized product and software development	3,724	3,597
Untaxed reserves	98	97
Fair value of derivative instruments	67	20
Other taxable temporary differences	2,340	2,178
Deferred tax liabilities	**12,576**	**12,321**
Netting of deferred tax assets/liabilities	(8,938)	(7,799)
Deferred tax liabilities, net	**3,638**	**4,522**
Deferred tax assets/liabilities, net[1]	**8,957**	**7,788**

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 2010 and 2011 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.

The significant tax-loss carryforwards are related to countries with long or indefinite periods of utilization, mainly Sweden and France. Of the total deferred tax asset for loss carryforwards 7,327 (8,939), an amount of 3,665 (4,653) in income (loss) for the period and in equity relates to Sweden with indefinite time of utilization. Volvo considers it most probable that the Volvo Group will be able to generate sufficient income in the coming years to utilize the tax loss carryforwards. See note 2.

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 47 billion (40) 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 about 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 Berliet Maroc S.A (30%), in Shandong Lingong Construction Machinery Co, Ltd (30%) as well as in UD Trucks South Africa (Pty) Ltd (20%).

NOTE 14 INTANGIBLE AND TANGIBLE ASSETS

Intangible assets, acquisition costs	Goodwill[1]	Entrance fees, industrial programs	Product and software development	Other intangible assets[2]	**Total intangible assets**
Value in balance sheet 2009	23,827	3,833	25,148	6,719	**59,527**
Capital expenditures[3]	–	15	3,255	54	**3,324**
Sales/scrapping	–	0	(156)	(79)	**(235)**
Acquired and divested operations	(70)	0	0	0	**(70)**
Translation differences	(847)	(49)	(400)	138	**(1,158)**
Reclassifications and other	26	1	4	57	**88**
Value in balance sheet 2010	**22,936**	**3,800**	**27,851**	**6,889**	**61,476**

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Accumulated depreciation and amortization	Goodwill	Entrance fees, industrial programs	Product and software development	Other intangible assets	**Total intangible assets**
Value in balance sheet 2009	–	1,762	13,739	2,398	**17,899**
Depreciation and amortization[6]	–	59	2,857	389	**3,305**
Sales/scrapping	–	0	(45)	(78)	**(123)**
Acquired and divested operations	–	0	0	0	**0**
Translation differences	–	(1)	(285)	(84)	**(370)**
Reclassifications and other	–	0	5	46	**51**
Value in balance sheet 2010	**-**	**1,820**	**16,271**	**2,671**	**20,762**
Net carrying value in balance sheet 2009[4]	**23,827**	**2,071**	**11,409**	**4,321**	**41,628**
Net carrying value in balance sheet 2010[4]	**22,936**	**1,980**	**11,580**	**4,218**	**40,714**

Tangible assets, acquisition costs	Buildings	Land and land improvements	Machinery and equipment[5]	Construction in progress, including advance payments	**Total investment property, property, plant and equipment**	Assets under operating leases	**Total tangible assets**
Value in balance sheet 2009	31,859	12,641	68,851	4,578	**117,929**	31,993	**149,922**
Capital expenditures[3]	617	119	3,806	2,446	**6,988**	4,893	**11,881**
Sales/scrapping	(472)	(105)	(1,730)	(7)	**(2,314)**	(5,459)	**(7,773)**
Acquired and divested operations	0	0	0	0	**0**	223	**223**
Translation differences	(912)	50	(1,308)	(148)	**(2,318)**	(2,843)	**(5,161)**
Reclassifications and other	466	(138)	895	(1,160)	**63**	288	**351**
Value in balance sheet 2010	**31,558**	**12,567**	**70,514**	**5,709**	**120,348**	**29,095**	**149,443**

Accumulated depreciation and amortization	Buildings	Land and land improvements	Machinery and equipment[5]	Construction in progress, including advance payments	**Total investment property, property, plant and equipment**	Assets under operating leases	**Total tangible assets**
Value in balance sheet 2009	14,780	1,042	46,827	–	**62,649**	11,605	**74,254**
Depreciation and amortization[6]	1,207	98	4,772	–	**6,077**	4,410	**10,487**
Sales/scrapping	(224)	(22)	(1,549)	–	**(1,795)**	(3,082)	**(4,877)**
Acquired and divested operations	0	0	0	–	**0**	(55)	**(55)**
Translation differences	(192)	(20)	(691)	–	**(903)**	(1,142)	**(2,045)**
Reclassifications and other	(4)	(32)	114	–	**78**	(2,288)	**(2,210)**
Value in balance sheet 2010	**15,567**	**1,066**	**49,473**	**-**	**66,106**	**9,448**	**75,554**
Net carrying value in balance sheet 2009[4]	**17,079**	**11,599**	**22,024**	**4,578**	**55,280**	**20,388**	**75,668**
Net carrying value in balance sheet 2010[4, 7]	**15,991**	**11,501**	**21,041**	**5,709**	**54,242**	**19,647**	**73,889**

1 Includes on the date of IFRS adoption, acquisition costs of 14,184 and accumulated amortization of 3,863.
2 Other intangible assets mainly consist of trademarks and distribution networks.
3 Includes capitalized borrowing costs of 92 (73).
4 Acquisition costs less accumulated depreciation, amortization and write-downs.
5 Machinery and equipment pertains mainly to production equipment.
6 Of which write-down 33 (221).
7 Of which, investment property 948 and property, plant and equipment 53,294.

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 reclassification 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.

Depreciation and amortization by type of asset	2009	2010
Intangible assets	3,589	3,305
Property, plant and equipment	6,562	6,077
Assets under operating leases	5,076	4,410
Total	**15,227**	**13,792**

Capital expenditures by type of asset	2009	2010
Intangible assets	2,935	3,324
Property, plant and equipment	7,392	6,988
Assets under operating leases	4,246	4,893
Total	**14,573**	**15,205**

Goodwill

Volvo verifies annually, or more frequently if necessary, the value of its operations to ensure 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 four to seven 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. 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 a general rate of inflation in line with the European target is used. Volvo uses a discounting factor calculated to 12% (12) before tax for 2010.

During 2010, the value of Volvo's operations has exceeded the carrying value of goodwill for all business areas, and accordingly, no impairment has been recognized. Volvo has also evaluated whether there still is an overvalue with reasonable changed assumptions, negatively adjusted with one percentage point, where of no adjustment, individually, would have such a big effect that there would be an impairment.

Since the overvalue differs between the business areas they are to a varying degree sensitive to changes in the assumptions described above. Volvo therefore continuously follows the development of the business areas whose overvalue is dependent on the fulfilment of Volvo's assessments. Instability in the business recovery and volatility in interest and currency rates may lead to indications of impairment. The most important factors for the future operations of Volvo are described in the Volvo business area section, as well as in the Risk management section.

Goodwill per Business Area	2009	2010
Volvo Trucks	3,905	3,913
Renault Trucks	2,580	2,249
Trucks Asia	5,752	6,041
North American Trucks	1,387	1,334
Construction Equipment	8,607	7,806
Buses	1,178	1,174
Other business areas	418	419
Total goodwill value	**23,827**	**22,936**

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 1,692 (1,681) at year-end. Capital expenditures during 2010 amounted to 11 (87). Accumulated depreciation was 744 (690) at year-end, of which 55 (54) during 2010. The estimated fair value of investment property was SEK 1.8 billion (2.5) at year-end, based on the yield. The required return is based on current property market conditions for comparable properties in comparable locations. 89% of the investment properties were leased out during the year (93). Net income for the year was affected by 223 (268) in rental income from investment properties and 63 (45) in direct costs.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

NOTE 15 SHARES AND PARTICIPATIONS

Group holdings of shares and participations in non-Group companies	Registration number	Percentage holding	Dec 31, 2009 Carrying value	Dec 31, 2010 Carrying value
Shares in associated companies, equity method of accounting				
Blue Chip Jet II HB, Sweden	969717-2105	50	284	319
UD Trucks Doto Corporation, Japan	–	38	83	94
UD Trucks Niigata Corporation, Japan	–	34	54	61
Merkavim Metal Works Ltd, Israel	–	27	41	37
JV Fonderie Venissieux, France	–	49	38	32
PK-UD Axle Co.,Ltd. (HangZhou), China	–	45	18	30
Diamond Finance Ltd, Great Britain	–	40	19	18
Blue Chip Jet HB, Sweden	969639-1011	45	17	3
Quingdao Sunwin Bus Corp, China	–	43	9	9
Arabian Vehicle & Truck Industry Ltd, Saudi Arabia	–	25	9	9
Effpower AB, Sverige	556570-8541	34	–	29
Powercell Sweden AB, Sweden	556759-8353	47	–	27
Other holdings	–	–	16	16
Total shares and participations in associated companies[1]			**588**	**684**
Shares and participations in other companies				
Deutz AG, Germany	–	7	286	458
Nippon Express Co.,Ltd., Japan	–	–	128	131
Nishi-Nippon Railroad Co Ltd, Japan	–	–	47	–
Sankyu Inc., Japan	–	1	64	53
Iron Planet.com Inc., USA	–	4	34	34
TBK Co.,Ltd., Japan	–	7	26	68
Vantage Equipment. LLC, USA	–	46	18	15
Scott Van Keppel, USA	–	40	14	14
Other holdings	–	–	839	641
Total shares and participations in other companies[1]			**1,456**	**1,414**
Total value of Group holdings of shares and participations in non-Group companies			**2,044**	**2,098**

1 Volvo's share of shareholders' equity in associated companies (incl. equity in untaxed reserves) amounted to 684 (588).

The carrying values of Volvo's holdings of shares and participations in listed companies as of December 31, 2010 are shown in the table below. The carrying value is equal to the market value for holdings in listed companies.

	Carrying value
Deutz AG, Germany	458
Nippon Express Co.,Ltd., Japan	131
TBK Co.,Ltd., Japan	68
Sankyu Inc., Japan	53
Fukuyama Transporting Co.,Ltd., Japan	15
Senko Co.,Ltd, Japan	30
Tonami Holdings Co.,Ltd., Japan	14
Yamato Holdings Co.,Ltd., Japan	21
Holdings in other listed companies	46
Total holdings in listed other companies	**836**
Holdings in non-listed companies[1]	578
Total shares and participations in other companies	**1,414**

1 Unlisted shares, for which a reliable fair value cannot be determined, are reported at the acquisition value reduced in appropriate cases by write-downs.

Changes in the Volvo Group's holdings of shares and participations:	2009	2010
Balance sheet, December 31, preceding year	1,953	2,044
Change in Group structure	(15)	–
Acquisitions and divestments, net	45	104
Write-downs	(48)	(119)
Capital contribution	2	31
Share of income in associated companies	12	(75)
Revaluation of shares to fair value	92	148
Translation differences	(74)	22
Dividends	(21)	(1)
Revaluation of holdings of Volvo Technology Transfer	80	–
Reclassifications	–	(42)
Other	18	(14)
Balance sheet, December 31	**2,044**	**2,098**

NOTE 16 NON-CURRENT CUSTOMER-FINANCING RECEIVABLES

	2009	2010
Installment credits	18,517	15,673
Financial leasing	20,478	19,620
Other receivables	718	732
Total	**39,713**	**36,025**

Effective interest rate for non-current customer-financing receivables was 6.54% as per December 31, 2010.

During 2010 SEK 4.1 billion, of which SEK 2.6 billion of the non-current customer-financing receivables, in Brazil were sold as a risk mitigation measure and to release capital for reinvestment in the country.

Non-current customer-financing receivables maturities	
2012	16,814
2013	11,668
2014	4,929
2015	2,120
2016 or later	494
Total	**36,025**

See notes 36 and 37 for financial instruments and goals and policies in financial risk management.

NOTE 17 NON-CURRENT RECEIVABLES

	2009	2010
Other interest-bearing loans to external parties	287	204
Other interest-bearing financial receivables	298	562
Other financial receivables	1,425	1,741
Other receivables	1,613	1,676
Total	**3,623**	**4,184**

See notes 36 and 37 for financial instruments and goals and policies in financial risk management.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

NOTE 18 INVENTORIES

	2009	2010
Finished products	23,612	24,572
Production materials, etc.	14,115	15,265
Total	**37,727**	**39,837**

Inventories recognized as cost of sale during the period amounted to 170,723 (153,014).

Increase (decrease) in allowance for inventory obsolescence	2009	2010
Balance sheet, December 31, preceding year	3,522	4,101
Increase in allowance for inventory obsolescence charged to income	1,045	(79)
Scrapping	(399)	(439)
Translation differences	(79)	(191)
Reclassifications, etc.	12	(10)
Balance sheet, December 31	**4,101**	**3,382**

NOTE 19 CURRENT CUSTOMER-FINANCING RECEIVABLES

	2009	2010
Installment credits	15,070	11,988
Financial leasing	13,589	10,860
Dealer financing	12,435	12,598
Other receivables	1,170	1,217
Total	**42,264**	**36,663**

Effective interest rate for short-term customer-financing receivables was 6.38% as per December 31, 2010.

During 2010 SEK 4.1 billion, of which SEK 1.5 billion of the current customer-financing receivables, in Brazil were sold as a risk mitigation measure and to release capital for reinvestment in the country.

See notes 36 and 37 for financial instruments and goals and policies in financial risk management.

NOTE 20 CURRENT RECEIVABLES

	2009	2010
Loans to external parties	7	11
Other interest-bearing financial receivables	403	331
Accounts receivable	21,337	24,433
Prepaid expenses and accrued income	3,027	3,043
VAT receivables	2,237	2,662
Other financial receivables[1]	2,195	1,715
Other receivables	4,623	4,436
Total, after deduction of valuation allowances for doubtful accounts receivable	**33,829**	**36,633**

1 Fair value financial derivatives.

Change of valuation allowances for doubtful accounts receivable	2009	2010
Balance sheet, December 31, preceding year	1,749	1,301
New valuation allowance charged to income	638	187
Reversal of valuation allowance charged to income	(274)	(609)
Utilization of valuation allowance related to actual losses	(664)	(86)
Acquired and divested operations	(7)	(1)
Translation differences	(88)	(44)
Reclassifications, etc.	(53)	(28)
Balance sheet, December 31	**1,301**	**721**

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:

	2009	2010
Government securities	147	146
Banks and financial institutions	3,387	3,527
Real estate financial institutions	13,142	6,094
Total	**16,676**	**9,767**

NOTE 22 CASH AND CASH EQUIVALENTS

	2009	2010
Cash in banks	13,540	16,858
Bank certificates [1]	2,999	2,286
Time deposits in banks	4,695	3,822
Total	**21,234**	**22,966**

1 Bank certificates which matures within three months from acquisition.

Cash and cash equivalents at December 31, 2010, include SEK 0.7 billion (1.2) restricted for use by the Volvo Group and SEK 7.4 billion (5.3) 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.

Cash dividend decided by the Annual General Meeting 2010 was SEK 0.00 (2.00) per share or total of SEK 0.0 million (4,054.8).

Unrestricted equity in the Parent Company at December 31, 2010 amounted to SEK 31,962 million (21,462).

The cumulative amount of the exchange difference deferred to equity relating to assets held for sale amount to positive SEK 3 million (60).

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Information regarding number of shares	2009	2010
Own Series A shares	20,728,135	20,728,135
Own Series B shares	80,265,060	80,265,060
Total own shares	**100,993,195**	**100,993,195**
Own shares in % of total registered shares	4.74	4.74
Outstanding Series A shares	656,873,495	656,873,495
Outstanding Series B shares	1,370,553,530	1,370,553,530
Total outstanding shares	**2,027,427,025**	**2,027,427,025**
Total registered Series A shares	677,601,630	677,601,630
Total registered Series B shares	1,450,818,590	1,450,818,590
Total registered shares	**2,128,420,220**	**2,128,420,220**
Average number of outstanding shares	2,027,419,396	2,027,419,396

Change in other reserves (SEK M)	Hedge reserve	Available-for-sale reserve	Total
Balance at January 1, 2010	243	(120)	123
Change in fair value of contracts hedging currency risks	3	–	3
Tax on change in fair value of contracts hedging currency risks	(1)	–	(1)
Transfers to income	(354)	–	(354)
Tax on transfers to income statement	93	–	93
Change in fair value of commodity contracts	103	–	103
Fair value adjustments regarding holding in Deutz	–	172	172
Fair value adjustments regarding shares held by UD Trucks	–	(14)	(14)
Fair value adjustments regarding holding in Vindic AB	–	(10)	(10)
Balance at December 31, 2010	**87**	**28**	**115**

Earnings per share

Earnings per share are 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. 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. The requirement for 2009 was not met. For 2010 AB Volvo had no share-based incentive program. No other transactions have occured that affected, or will have an effect on, the compilation of the reported share capital.

	2009	2010
Number of shares, December 31, in millions	2,027	2,027
Average number of shares before dilution in millions	2,027	2,027
Average number of shares after dilution in millions	2,027	2,027
Average share price, SEK	53.65	85.75
Net income attributable to Parent Company shareholders	(14,718)	10,866
Basic earnings per share, SEK	(7.26)	5.36
Diluted earnings per share, SEK	(7.26)	5.36

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 the 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 U.S. 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.

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.

Summary of provision for post-employment benefits	2009	2010
Obligations	38,070	36,121
Fair value of plan assets	22,610	22,954
Funded status	**(15,460)**	**(13,167)**
Unrecognized actuarial (gains) and losses	9,155	6,995
Unrecognized past service costs	303	310
Net provisions for post-employment benefits	**(6,002)**	**(5,862)**

Assumptions applied for actuarial calculations, %	December 31, 2009	December 31, 2010
Sweden		
Discount rate[1]	4.00	4.75
Expected return on plan assets[2]	6.00	6.00
Expected salary increases	3.00	3.00
Inflation	1.50	1.50
United States		
Discount rate[1, 3]	4.00–5.75	3.25–5.50
Expected return on plan assets[2]	7.65	7.65
Expected salary increases	3.00	3.00
Inflation	2.00	2.00
France		
Discount rate[1]	4.50	4.50
Expected salary increases	1.00–3.00	1.00-3.00
Inflation	1.50	1.50
Great Britain		
Discount rate[1]	5.50	5.40-5.50
Expected return on plan assets[2]	5.00–6.30	5.00
Expected salary increases	3.50	3.70–3.85
Inflation	3.00	3.20

1 The discount rate for each country is determined by reference to market yields on high-quality corporate bonds. In countries where there is no deep market in such bonds, the market yields on government bonds are used. The discount rate for the Swedish pension obligation 2010 is determined by reference to mortgage bonds.

2 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.

3 For all plans except one the discont rate used is within the range 4.75–5.50% (5.00–5.75).

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Pension costs	2009	2010
Current year service costs	969	896
Interest costs	1,684	1,510
Expected return on plan assets	(1,362)	(1,402)
Actuarial gains and losses[1]	504	420
Past service costs		
– Unvested	18	19
– Vested	(314)	28
of which effect of agreement with UAW in Mack Trucks	*(317)*	–
Curtailments and settlements	36	(38)
Termination benefits	40	34
Pension costs for the period, defined-benefit plans	**1,575**	**1,467**
Pension costs for defined-contribution plans	3,116	3,273
Total pension costs for the period	**4,691**	**4,740**

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.

Costs for the period, post-employment benefits other than pensions	2009	2010
Current year service costs	270	49
Interest costs	334	170
Expected return on plan assets	(1)	–
Actuarial gains and losses[1]	4	(1)
Past service costs		
– Unvested	7	–
– Vested	0	26
Curtailments and settlements	1,124	2
of which effect of agreement with UAW in Mack Trucks	*1,194*	–
Termination benefits	20	7
Total costs for the period, post-employment benefits other than pensions	**1,758**	**253**

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, 2010 by approximately 155, and the post-employment benefit expense for the period by approximately 10. A decrease of one percentage point would decrease the accumulated value of obligations by about 132 and reduce costs for the period by approximately 8. Calculations made as of December 31, 2010 show an annual increase of 8% in the weighted average per capita costs of covered health care benefits. It is assumed that the percentage will decline gradually to 4.5% and then remain at that level.

Obligations in defined-benefit plans	Sweden Pensions	United States Pensions	France Pensions	Great Britain Pensions	US Other benefits	Other plans	Total
Obligations at January 1, 2009	**9,097**	**13,648**	**2,087**	**4,035**	**6,971**	**5,333**	**41,171**
Acquisitions, divestments and other changes	–	–	(53)	–	–	(3)	**(56)**
Current year service costs	323	264	65	52	252	283	**1,239**
Interest costs	414	774	104	242	328	168	**2,030**
Past service costs							
– Unvested	1	(90)	–	–	–	–	**(89)**
– Vested	–	(316)	3	–	5	–	**(308)**
of which effect of agreement with UAW in Mack Trucks	–	*(317)*	–	–	–	–	***(317)***
Termination benefits	32	–	(1)	–	–	25	**56**
Curtailments and settlements	(8)	(18)	–	–	(3,163)	(140)	**(3,329)**
of which effect of agreement with UAW in Mack Trucks	–	–	–	–	*1,194*	–	***1,194***
of which reclassification to financial liability in Mack Trucks	–	–	–	–	*(4,282)*	–	***(4,282)***
Employee contributions	–	–	–	24	–	(1)	**23**
Actuarial (gains) and losses	321	1,096	18	187	231	(47)	**1,806**
Exchange rate translation	–	(1,008)	(110)	73	(320)	(148)	**(1,513)**
Benefits paid	(299)	(992)	(216)	(175)	(607)	(671)	**(2,960)**
Obligations at December 31, 2009	**9,881**	**13,358**	**1,897**	**4,438**	**3,697**	**4,799**	**38,070**
of which							
Funded defined-benefit plans	9,465	12,923	–	4,438	–	2,277	**29,103**

Obligations in defined benefit plans	Sweden Pensions	United States Pensions	France Pensions	Great Britain Pensions	US Other benefits	Other plans	Total
Acquisitions, divestments and other changes	–	10	–	–	2	28	**40**
Current year service costs	302	258	54	45	39	247	**945**
Interest costs	401	665	77	233	167	157	**1,700**
Past service costs							
– Unvested	–	3	–	–	(4)	(5)	**(6)**
– Vested	27	3	(44)	–	–	–	**(14)**
Termination benefits	33	–	(2)	–	–	5	**36**
Curtailments and settlements	(6)	(7)	(18)	(1)	–	(11)	**(43)**
Employee contributions	–	–	–	21	–	9	**30**
Actuarial (gains) and losses	(1,170)	571	(2)	28	(33)	78	**(528)**
Exchange rate translation	–	(789)	(245)	(370)	(207)	(171)	**(1,782)**
Benefits paid	(324)	(1,074)	(112)	(168)	(220)	(429)	**(2,327)**
Obligations at December 31, 2010	**9,144**	**12,998**	**1,605**	**4,226**	**3,441**	**4,707**	**36,121**
of which							
Funded defined-benefit plans	8,794	11,378	–	4,226	–	2,203	**26,601**

Fair value of plan assets in funded plans	Sweden Pensions	United States Pensions	France Pensions	Great Britain Pensions	US Other benefits	Other plans	Total
Plan assets at January 1, 2009	**5,467**	**10,672**	**-**	**3,992**	**104**	**1,870**	**22,105**
Acquisitions, divestments and other changes	–	(3)	–	–	–	(141)	**(144)**
Expected return on plan assets	328	717	–	223	1	89	**1,358**
Actuarial gains and (losses)	635	644	–	141	–	43	**1,463**
Employer contributions	–	–	–	113	–	167	**280**
Employee contributions	–	–	–	24	–	20	**44**
Exchange rate translation	–	(1,203)	–	72	(3)	36	**(1,098)**
Benefits paid	–	(961)	–	(173)	(74)	(190)	**(1,398)**
of which reclassification to financial liability in Mack Trucks	–	–	–	–	*(73)*	–	***(73)***
Plan assets at December 31, 2009	**6,430**	**9,866**	**-**	**4,392**	**28**	**1,894**	**22,610**
Acquisitions, divestments and other changes	–	4	–	(1)	–	26	**29**
Expected return on plan assets	386	719	–	216	–	77	**1,398**
Actuarial gains and (losses)	262	373	–	208	–	18	**861**
Employer contributions	–	156	–	103	–	187	**446**
Employee contributions	–	–	–	21	–	12	**33**
Exchange rate translation	–	(574)	–	(378)	(2)	(166)	**(1,120)**
Benefits paid	–	(1,009)	–	(168)	(2)	(124)	**(1,303)**
Plan assets at December 31, 2010	**7,078**	**9,535**	**-**	**4,393**	**24**	**1,924**	**22,954**

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Net provision for post-employment benefits	Sweden Pensions	United States Pensions	France Pensions	Great Britain Pensions	US Other benefits	Other plans	Total
Funded status at December 31, 2009	**(3,451)**	**(3,492)**	**(1,897)**	**(46)**	**(3,669)**	**(2,905)**	**(15,460)**
Unrecognized actuarial (gains) and losses	3,030	4,373	232	635	384[1]	501	**9,155**
Unrecognized past service costs	–	(81)	405	–	(6)	(15)	**303**
Net provisions for post-employment benefits at December 31, 2009	**(421)**	**800**	**(1,260)**	**589**	**(3,291)**	**(2,419)**	**(6,002)**
of which reported as							
Prepaid pensions and other assets	–	1,254	–	588	120	87	**2,049**
Provisions for post-employment benefits	(421)	(454)	(1,260)	1	(3,411)	(2,506)	**(8,051)**
Funded status at December 31, 2010	**(2,066)**	**(3,463)**	**(1,605)**	**167**	**(3,417)**	**(2,783)**	**(13,167)**
Unrecognized actuarial (gains) and losses	1,475	4,054	113	388	322	643	**6,995**
Unrecognized past service costs	–	(65)	380	–	(5)	–	**310**
Net provisions for post-employment benefits at December 31, 2010	**(591)**	**526**	**(1,112)**	**555**	**(3,100)**	**(2,140)**	**(5,862)**
of which reported as							
Prepaid pensions and other assets	–	900	–	555	110	83	**1,648**
Provisions for post-employment benefits	(591)	(374)	(1,112)	–	(3,210)	(2,223)	**(7,510)**

1 A decrease by 194 from reclassification to financial liability in Mack Trucks.

Plan assets by category	2009	%	2010	%
Shares and participation, Volvo	195	1	403	2
Shares and participations, other	10,893	48	11,494	50
Bonds and interest-bearing securities.	10,167	45	9,100	40
Property	319	1	440	2
Other	1,036	5	1,517	6
Total	**22,610**	**100**	**22,954**	**100**

Actual return on plan assets amounted to 2,259 (2,821).

Actuarial gains and losses	2009	2010
Experience-based adjustments in obligations	(110)	293
Experience-based adjustments in plan assets	1,463	861
Effects of changes in actuarial assumptions	(1,696)	235
Actuarial gains and (losses), net	**(343)**	**1,389**

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 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 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, 2010, the fair value of the foundation's plan assets amounted to 7,059 (6,408), of which 57% (46) was invested in shares or mutual funds. At the same date, retirement pension obligations attributable to the ITP plan amounted to 8,794 (9,465).

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 2009, 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 143% (141).

Volvo's subsidiaries in the United States mainly secure their pension obligations through transfer of funds to pension plans. At the end of 2010, the total value of pension obligations secured by pension plans of this type amounted to 11,378 (12,923). At the same point in time, the total value of the plan assets in these plans amounted to 9,535 (9,866), of which 59% (59) 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. As a consequence of the Master Agreement 2009 between Mack Trucks and United Auto Workers (UAW) an independent trust has been established that will completely eliminate Mack's commitments for providing healthcare to retired employees. Instead Mack Trucks has an obligation to fund the newly established fund over five years. As a result of the agreement the 2009 operating income of Mack Trucks was charged by 877 (USD 110 M), of which 1,194 concerning settlement of post-employment benefits other than pensions and 317 in reduced pension costs from a change in past service costs. The obligation increased with the same amount. Interest on the obligation started accruing from October 1, 2009. By that, SEK 4,015 billion (USD 525 M), formerly reported as obligation was reclassified a financial liability. Accordingly, the obligation decreased by 4,282, the plan assets by 73 and unrecognized actuarial losses by 194. During 2010, Volvo contributed 156 (0) to the American pension plans.

During 2010 Volvo has made extra contributions to the pension plans in Great Britain in the amount of SEK 103 M (113).

In 2011, Volvo estimates to transfer an amount of about SEK 1 billion to pension plans.

NOTE 25 OTHER PROVISIONS

	Value in balance sheet 2009	Provisions	Reversals	Utilizations	Acquired and divested companies	Translation differences	Reclassi-fications	Value in balance sheet 2010	Of which due within 12 months	Of which due after 12 months
Warranties	7,947	6,080	(805)	(5,160)	(4)	(333)	116	7,841	4,844	2,997
Provisions in insurance operations	505	154	(103)	(75)	0	(31)	0	450	3	447
Restructuring measures	707	72	(75)	(419)	0	(36)	(2)	247	188	59
Provisions for residual value risks	1,061	319	(40)	(461)	0	(25)	5	859	134	725
Provisions for service contracts	465	296	(42)	(228)	0	(41)	(6)	444	192	252
Dealer bonus	1,315	2,245	(64)	(1,684)	5	(142)	(24)	1,651	1,435	216
Other provisions	3,847	3,088	(1,035)	(2,714)	1	(202)	(7)	2,978	1,738	1,240
Total	**15,847**	**12,254**	**(2,164)**	**(10,741)**	**2**	**(810)**	**82**	**14,470**	**8,534**	**5,936**

Long-term provisions as above is expected to be settled within 2 to 3 years.

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, 2010. Volvo hedges foreign-exchange and interest-rate risks using derivative instruments. See Note 36.

Bond loans	Actual interest rate, Dec 31, 2010, %	Effective interest rate, Dec 31, 2010, %	2009	2010
EUR 2007–2010/2012-2017	2.19–9.92	2.21–9.92	26,428	20,384
SEK 2007–2009/2012–2017	1.59–8.63	1.60–8.91	16,174	12,553
JPY			79	–
USD 2009/2015	5.98	5.98	5,381	5,075
NOK 2009/2012	5.64	5.76	557	229
GBP 2009/2014	6.28	6.43	572	525
Total [1]			**49,191**	**38,767**

1 Of which loans raised to finance the credit portfolio of the customer financing operations 14,940 (12,302).

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Other loans	Actual interest rate, Dec 31, 2010, %	Effective interest rate, Dec 31, 2010, %	2009	2010
USD 2007–2010/2012–2018	0.52–7.50	0.52–7.76	17,281	13,433
EUR 2004–2009/2012–2027	3.25–6.50	3.28–6.50	5,995	1,485
GBP 2008/2012–2013	1.19	1.2	1,664	337
SEK 2007–2010/2012–2017	2.00–3.00	2.02–3.00	1,915	2,942
CAD 2006–2010/2012–2013	1.53–2.84	1.54–2.87	2,067	2,928
MXN 2007–2009/2012–2014	5.00–9.04	5.11–9.42	2,145	2,186
JPY 2005–2010/2012–2016	0.65–3.52	0.65–3.52	16,374	12,405
CHF			696	–
BRL 2003–2009/2012–2017	6.58–7.0	6.86–7.0	5,940	5,348
Other loans	1.7–7.5	1.71–7.64	1,189	1,871
Revaluation of outstanding derivatives to SEK			769	2,392
Total other non-current loans [2]			**56,035**	**45,327**
Deferred leasing income			1,965	1,778
Residual value liabilities			3,109	3,170
Accrued expenses service contracts			1,422	1,273
Other non-current financial liabilities			1,672	1,114
Other non-current liabilities			1,720	1,896
Total			**115,114**	**93,325**

2 Of which loans raised to finance the credit portfolio of the customer financing operations 21,064 (26,551) and financial derivatives 2.392 (769).

Of the above long-term loans, 1,288 (270) was secured.

See note 28 for a description of changes of assets pledged.

	Long-term loans mature as follows:
2012	23,530
2013	13,836
2014	17,591
2015	10,190
2016	6,476
2017 or later	12,471
Total	**84,094**

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 2010, credit facilities granted but not utilized and which can be used without restrictions amounted to approximately SEK 35.3 billion (33.2). 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:

	2009	2010
Bank loans	14,083	12,261
Other loans	37,543	27,340
Total[1]	**51,626**	**39,601**

1 Of which loans raised to finance the credit portfolio of the customer financing operations 29,690 (40,766) and derivatives 458 (178).

Bank loans include current maturities, 3,246 (4,713), of long-term loans. Other loans include current maturities of long-term loans, 22,007 (25,108), and commercial paper, 1,416 (8,640).

Non-interest-bearing current liabilities accounted for 84,457 (70,955), or 68% (58) of the Group's total current liabilities.

Balance sheet amounts for other current liabilities were as follows:

	2009	2010
Advances from customers	3,556	3,416
Wages, salaries and withholding taxes	8,504	8,824
VAT liabilities	1,511	2,023
Accrued expenses and prepaid income	11,756	12,626
Deferred leasing income	1,725	1,640
Residual value liability	2,730	2,154
Other financial liabilities	783	242
Other liabilities	3,540	4,416
Total	**34,105**	**35,341**

Current liabilities also include trade payables that amounted to 47,250 (35,955), current tax liabilities of 1,732 (623) and non interest-bearing liabilities held for sale reported within Note 4. Secured bank loans at year-end 2010 amounted to 216 (329). The corresponding amount for other current liabilities was 1,442 (58).

NOTE 28 ASSETS PLEDGED

	2009	2010
Property, plant and equipment – mortgages	297	168
Assets under operating leases	109	107
Chattel mortgages	25	–
Receivables	451	2,964
Cash, marketable securities	76	100
Total	**958**	**3,339**

The liabilities for which the above assets were pledged amounted at year-end to 2,946 (658).

In 2010 an asset-backed securitization was completed. Under the terms of the transaction, USD 616 M of securities were issued tied to US-based loans with trucking and construction equipment assets as collaterals.

NOTE 29 CONTINGENT LIABILITIES

	2009	2010
Credit guarantees issued for customers and others	2,173	3,709
Tax claims	824	490
Other contingent liabilities	6,610	6,804
Total	**9,607**	**11,003**

Tax claims amounted to 490 (824) pertain to charges against the Volvo Group for which provisions are not considered necessary.

Other contingent liabilities includes residual value guarantees and legal proceedings.

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, 2010, the estimated value of counter guarantees received and other collaterals, for example the estimated net selling price of used products, amounted to 3,893 (3,832). They are mainly pertaining to credit guarantees and 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. Thereafter Mack Trucks and UAW have entered into a new 40-month Master Agreement. The agreement includes the establishment of an independent trust that will completely eliminate Mack's commitments for providing healthcare to retired employees. The trust must be approved by the U.S. District Court for the Eastern District of Pennsylvania, which is currently scheduled for the last six months of 2011. The Volvo Group will fund the trust with USD 525 M, paid out during a five-year period as from 2010. The funding obligation is reported as a financial liability and amortizations will be reported as cash flow from financing activities.

In July 1999, Volvo Truck Corporation and Volvo Construction Equipment entered into a Consent Decree with the U.S. 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 M, 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 referred to a U.S. court. The amount requested by the EPA is included in other contingent liabilities.

Nissan Diesel Thailand Co. Limited (the “Plaintiff”) on November 30, 2009 filed a claim at the Pathumthani Provincial Court of First Instance, Thailand, against AB Volvo and three of its employees (together the “Defendants”), claiming damages in the sum of Baht 10.5 billion (equivalent to approximately SEK 2.3 billion). The Plaintiff claims that the Defendants' actions caused UD Trucks Corporation (“UDT”), a wholly-owned subsidiary of AB Volvo, to unlawfully terminate two agreements dated December 27, 2002 between UDT and the Plaintiff. The Plaintiff is one of UDT's private dealers. AB Volvo considers that the Plaintiff's claim is of no merit.

Volvo Trucks' and Renault Trucks' UK subsidiaries have, together with a number of other international truck companies, become the subject of an investigation initiated by the OFT (Office of Fair Trading), the British competition authority. Volvo Trucks' and Renault Trucks' British subsidiaries have received letters from the OFT as part of the investigation and will cooperate fully with the OFT during the course of the investigation.

In January 2011 Volvo Group and a number of other companies in the truck industry have become part of an investigation by the European Commission regarding a possible violation of EU antitrust rules. Volvo Group will cooperate fully with the Commission during the course of the investigative work.

Global actors such as 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. 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.

NOTE 30 CASH-FLOW

Other items not affecting cash amounted to:	2009	2010
Risk provisions and losses related to doubtful accounts receivable/customer-financing receivables	2,779	1,401
Capital gains/losses on the sale of subsidiaries and other business units	(108)	34
Unrealized exchange rate gains/losses on accounts receivable and payable	(26)	(44)
Provision for global profit sharing program	–	350
Expenses for healthcare benefits as a result of the Master Agreement between Mack Trucks and UAW (see note 24)	877	–
Provision for restructuring reserves	334	–
Write-down of assets held for sale	368	65
Other non-cash items	173	(245)
	4,397	**1,561**

Investments in shares and participations:	2009	2010
New issue of shares	(2)	(13)
Capital contribution	(6)	(31)
Acquisitions	(61)	(154)
Divestments	16	91
Other	15	1
	(38)	**(106)**

Acquired and divested subsidiaries and other business units:	2009	2010
Acquired subsidiaries and other business units	(56)	(214)
Divested subsidiaries and other business units	205	831
	149	**617**

Important increase/decrease in bond loans and other loans
During 2010 the Volvo Group has reduced its borrowings as a consequence of a strong cash flow and lower demands of funding from the Customer Finance Operations.

During 2009, the Volvo Group completed a number of important funding transactions. A five year EUR 700 M bond was issued, followed by a three year SEK 4.2 billion bond. The Group also received a seven year loan from the European Investment Bank equivalent to EUR 400 M. Volvo Treasury AB, a subsidiary of AB Volvo, issued a USD 750 M guaranteed bond offering at an interest rate of 5.95% due 2015.

NOTE 31 LEASING

Volvo as a lessor
At December 31, 2010, future rental income from non-cancellable financial and operating leases (minimum leasing fees) amounted to 45,530 (50,522). Future rental income is distributed as follows:

	Finance leases	Operating leases
2011	12,338	4,083
2012–2015	21,009	6,385
2016 or later	482	1,233
Total	**33,829**	**11,701**
Allowance for uncollectible future rental income	(445)	
Unearned rental income	(2,904)	
Present value of future rental income related to non-cancellable leases	30,480	

Volvo as a lessee
At December 31, 2010, future rental payments (minimum leasing fees) related to non-cancellable leases amounted to 3,916 (4,135).

Future rental payments are distributed as follows:

	Finance leases	Operating leases
2011	496	815
2012-2015	486	1,605
2016 or later	66	448
Total	**1,048**	**2,868**

Rental expenses amounted to:

	2009	2010
Finance leases:		
Contingent rents	(6)	(8)
Operating leases:		
Contingent rents	(24)	(20)
Rental payments	(950)	(923)
Sublease payments	8	6
Total	**(972)**	**(945)**

Book value of assets subject to finance lease:

	2009	2010
Acquisition costs:		
Buildings	123	124
Land and land improvements	61	69
Machinery and equipment	1,799	1,863
Assets under operating lease	343	338
Total	**2,326**	**2,394**
Accumulated depreciation:		
Buildings	(41)	(41)
Land and land improvements	–	–
Machinery and equipment	(1,090)	(1,174)
Assets under operating lease	(78)	(81)
Total	**(1,209)**	**(1,296)**
Book value:		
Buildings	82	83
Land and land improvements	61	69
Machinery and equipment	709	689
Assets under operating lease	265	257
Total	**1,117**	**1,098**

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.

	2009	2010
Sales to associated companies	529	1,082
Purchase from associated companies	91	50
Receivables from associated companies, Dec 31	297	174
Liabilities to associated companies, Dec 31	8	125

Group holdings of shares in associated companies are presented in note 15, Shares and participations.

The Volvo Group also has transactions with Renault s.a.s. and its subsidiaries. Sales to and purchases from Renault s.a.s. amounted to 52 (85) and 1,654 (2,110). Amounts due from and due to Renault s.a.s. amounted to 15 (20) and 291 (457) respectively, at December 31, 2010. The sales were mainly from Renault Trucks to Renault s.a.s. and consisted of components and spare parts. The purchases were mainly made by Renault Trucks from Renault s.a.s. and consisted mainly of light trucks. Renault Trucks has a license from Renault s.a.s. for the use of the trademark Renault.

NOTE 33 GOVERNMENT GRANTS

During 2010, government grants amounting to 472 (810) have been received and 413 (567) have been accounted for in the income statement. Research and development tax credits are included with 204 (305) and have mainly been received in France and during 2009 also in the US. Other grants were mainly received from the Swedish government and the European Commission.

NOTE 34 PERSONNEL

Remuneration policy decided at the Annual General Meeting in 2010

The Annual General Meeting of 2010 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

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the amount of the individual's pensions comprises the premium paid and any return. Members of the Group Executive Committee resident outside Sweden or resident in Sweden but having a material connection to or having been resident in a country other than Sweden are offered pension solutions that are competitive in the country where the members are or have been resident or to which the members have a material connection.

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. Members resident outside Sweden or resident in Sweden but having a material connection to or having been resident in a country other than Sweden are offered notice periods for termination and severance payment that are competetive in the country where the members are or have been resident or to which the members have a material connection.

Fee paid to the Board of directors

According to a resolution adopted at the Annual General Meeting 2010, the fee to the Board of Directors appointed at the Annual General Meeting for the period until the close of the Annual General Meeting 2011 shall be paid as follows: The Chairman of the Board should be awarded SEK 1,500,000 and each of the other members SEK 500,000 with exception of the President and Chief Executive Officer of AB Volvo. In addition, SEK 250,000 should be awarded to the chairman of the audit committee and SEK 125,000 to each of the other two members of the audit commmittee and SEK 75,000 to each of the members of the remuneration committee

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 in relation to the same period last year and/or cash flow for six months moving periods up to a maximum of 65% of his fixed annual salary.

For the financial year 2010, Leif Johansson received a fixed salary of SEK 12,492,450 and a variable salary of SEK 7,986,448. The variable salary corresponded to 64% of the fixed annual salary. Other benefits, mainly pertaining to car and housing, amounted to SEK 609,542 in 2010.

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-deductable, the benefit from the insurance is not taxable to the company, but pension paid will be tax-deductable. 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 commitments other than the payment of the premiums. The disability pension consists of 70% of pensionable salary 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.

Leif Johansson is also covered by Volvo Företagspension, a defined contribution plan for additional retirement benefit. The premium is negotiated each year, for 2010 the premium amounted to SEK 502 a month.

Pension premiums for the President and CEO amounted to SEK 4,680,412 for 2010.

Leif Johansson has a six-month notice of termination on his own initiative and 12 months notice of termination from AB Volvo. He is not entitled to severance payments. In December 2010 Leif Johansson informed the Board of AB Volvo of his intention to resign in conjunction with his 60th birthday in the summer of 2011.

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 fulfillment of certain improvement targets or financial targets. The targets are decided by the Board of Directors in AB Volvo and may relate to operating income in relation to corresponding period previous year and/or cash flow for a six month rolling period. During 2010, a variable salary could amount to a maximum of 50% of the fixed annual salary.

For the financial year 2010, fixed salaries amounted to SEK 55,927,329 and variable salaries amounted to SEK 22,309,808 for members of the Group Executive Committee, excluding the President and CEO. In addition to the CEO and the Group Chief Executive, the Group Executive Committee comprised 17 members at the beginning and 16 members at the end of the year. Other benefits, mainly pertaining to car and housing, amounted to SEK 5,900,970 in 2010.

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

Members of the Group Executive Committee and certain other senior executives are offered pensions that are competitive in the country in which the person is or have been domiciled or in the country to which the person is essentially connected.

Previous pension agreements for certain senior executives stipulated that early retirement could be obtained from the age of 60. Agreements for retirement at age 60 are no longer signed, and are instead replaced by a defined-contribution plan with pension premium payments at the longest to the age of 65 years. 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 pension plan includes employees born before 1979 and is a complement to the collective agreement regarding occupational pension. 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 40,478,675 for other senior executives in 2010.

Volvo Group's total costs for remuneration and benefits to senior executives

Costs for total remuneration and benefits to the members of the Group Executive Committee (GEC) in 2010 is pertaining to the following: fixed salary SEK 89 million (91); variable salary SEK 39 million (8); other benefits SEK 10 million (14) and pensions SEK 51 million (45). 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.

Incentive programs

The Annual General Meeting held in 2009 approved a share-based incentive program for certain senior executives with allotment in 2010. The financial targets set as conditions for allotment were not fulfilled and no allotment was therefore made.

The Board of Directors will propose to the Annual General Meeting a performance-based long-term share-based incentive program for maximum 300 of the Volvo Group's top executives. The program will require that the participants invest part of their own salary in Volvo shares. Details about the program will be announced in connection with the Notice to attend the Annual General Meeting.

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Average number of employees	2009 Number of employees	2009 of which women, %	2010 Number of employees	2010 of which women, %
AB Volvo				
Sweden	190	46	198	51
Subsidiaries				
Sweden	23,637	20	23,313	20
Western Europe	25,533	17	23,515	17
Eastern Europe	5,542	21	5,768	22
North America	10,091	18	12,429	19
South America	4,180	14	5,264	14
Asia	16,650	10	21,205	10
Other countries	2,261	17	2,558	15
Group total	**88,084**	**17**	**94,250**	**17**

Board members[1] and other senior executives	2009 Number at year-end	2009 of which women, %	2010 Number at year-end	2010 of which women, %
AB Volvo				
Board members[1]	12	8	12	17
CEO and GEC	18	6	17	6
Volvo Group				
Board members[1]	880	11	929	12
Presidents and other senior executives	1,330	19	1,053	15

1 Excluding deputy Board members.

Wages, salaries and other remunerations, SEK M	2009 Board and Presidents[1]	2009 of which variable salaries	2009 Other employees	2010 Board and Presidents[1]	2010 of which variable salaries	2010 Other employees
AB Volvo						
Sweden	19.0	1.1	140.6	26.2	8.0	184.6
Subsidiaries						
Sweden	56.1	5.0	9,662.6	69.5	16.4	10,144.9
Western Europe	432.8	10.7	9,995.8	447.0	4.4	9,338.4
Eastern Europe	110.0	9.6	904.2	43.9	3.5	913.8
North America	142.1	14.7	4,974.0	182.2	19.9	5,188.1
South America	43.5	29.4	1,015.9	60.1	40.3	1,297.4
Asia	93.1	5.6	4,602.9	155.6	11.8	5,099.3
Other countries	44.6	11.5	625.8	46.7	8.5	665.5
Group total	**941.2**	**87.6**	**31,921.8**	**1,031.2**	**112.8**	**32,832.0**

Wages, salaries and other remunerations and social costs, SEK M	2009 Wages, salaries, remunerations	2009 Social costs	2009 of which pens. costs	2010 Wages, salaries, remunerations	2010 Social costs	2010 of which pens. costs
AB Volvo[2]	159.6	139.5	107.5	210.8	119.9	81.9
Subsidiaries	32,703.4	12,746.0	4,593.2	33,652.4	11,823.6	4,658.0
Group total[3]	**32,863.0**	**12,885.5**	**4,700.7**	**33,863.2**	**11,943.5**	**4,739.9**

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 3 in the Parent Company.
3 Of the Group's pension costs, 146.6 (135.1) 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 334.4 (267.2).

The cost for non-monetary benefits in the Group amounted to 1,554.3 (1,300.0) of which 59.3 (49.3) to Board members and Presidents.

The cost for non-monetary benefits in the Parent Company amounted to 9.0 (9.8) of which 1.7 (1.7) to Board members and Presidents.

NOTE 35 FEES TO THE AUDITORS

Fees to the auditors	2009	2010
PricewaterhouseCoopers		
- Audit fees	110	102
- Audit-related fees	7	6
- Tax advisory services	14	16
- Other fees	3	3
Total	**134**	**127**
Audit fees to others	1	1
Volvo Group Total	**135**	**128**

Audit involves examination of the annual report and financial accounting and the administration by the Board and the President. Audit-related assignments mean quality assurance services required by enactment, articles of association, regulations or agreement. The amount includes among other things the fee for the half-year review. Tax services include both tax consultancy and tax compliance services. All other tasks are defined as other. 2009 figures are restated for comparability.

NOTE 36 GOALS AND POLICIES IN FINANCIAL RISK MANAGEMENT

Apart from derivatives, Volvo's financial instruments consist of bank loans, finance 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 risks

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 2010, 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 2010, 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 three months for the liquid assets in Volvo's industrial operations through the use of derivatives. On December 31, 2010, after taking derivatives into account, the average interest on these assets was 2.0% (1.1). After taking derivatives into account, outstanding loans had interest terms corresponding to an interest-rate fixing term of three months and the average interest at year-end amounted to 4.3% (4.1).

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.

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, 2010, for the next 12-month period, all other variables remaining unchanged, Volvo's net interest income would be negatively impacted by 295 (neg: 354) considering an interest rate fixing term of three months for receivables and liabilities. 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 before taxes in Volvo's key financing currencies if the interest-rate level were to increase by one percentage point, (100 interest-rate points) not considering interest rate fixing terms.

SEK M	Effect on income
SEK	(46)
USD	(76)
EUR	55
CNY	17
JPY	(221)
INR	13

The above sensitivity analysis is based on assumptions that rarely occur in reality. It is not unreasonable that market interest rates change with one percentage point (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

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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.

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. In the fourth quarter of 2009, Volvo revised its hedging policy in order to only hedge firm flows, whereof the major part are realised within six months. Also, from the fourth quarter of 2009, hedge accounting was not applied for new contracts. For details regarding Hedge accounting, see note 37.

The nominal amount of all outstanding forward and option contracts amounted to SEK 10.9 billion (17.2) at December 31, 2010. On the same date, the fair value of these contracts was positive in an amount of SEK 118 million (186).

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 in the respective currencies 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)	(218)
0	118
10	454

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 2010 to SEK 60.3 billion (59.4). Of this amount, SEK 0.8 billion (4.1) was currency-hedged through loans in foreign currencies. The remaining loans used as hedging instruments are due in 2011 and SEK 3.1 billion expired in 2010. 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 granting 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, 2010, to approximately net SEK 73 billion (82). 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 granting 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, 2010, to 331 (588), 3,539 (3,560), 190 (167) and 168 (42).

Credit portfolio – Accounts receivable and Customer financing receivables

Accounts receivable	2009	2010
Accounts receivable gross	22,638	25,154
Valuation allowance for doubtful accounts receivable	(1,301)	(721)
Accounts receivable net	**21,337**	**24,433**

For details regarding the accounts receivable and the valuation for doubtful accounts receivable, refer to note 20.

Customer financing receivables	2009	2010
Customer financing receivables gross	83,490	74,013
Valuation allowance for doubtful customer financing receivables	(1,513)	(1,325)
Customer financing receivables net	**81,977**	**72,688**

Change of valuation allowances for doubtful customer financing receivables	2010
Balance sheet, December 31, preceding year	1,513
New valuation allowance charged to income	1,586
Reversal of valuation allowance charged to income	(207)
Utilization of valuation allowance related to actual losses	(1,451)
Translation differences	(116)
Balance sheet, December 31	**1,325**

For details regarding the long-term customer-financing receivables and the short-term customer receivables, refer to note 16 and 19.

Age analysis of portfolio value – Accounts receivable and Customer financing receivables (days/SEK M)

	2009					2010				
Accounts receivable	not due	1–30	31–90	>90	**Total**	not due	1–30	31–90	>90	**Total**
Accounts receivable gross	19,705	1,032	616	1,285	**22,638**	23,324	799	391	640	**25,154**
Valuation allowance for doubtful accounts receivable	(493)	(37)	(46)	(725)	**(1,301)**	(205)	(26)	(26)	(464)	**(721)**
Accounts receivable not recognized as impairment losses	**19,212**	**995**	**570**	**560**	**21,337**	**23,119**	**773**	**365**	**176**	**24,433**

	2009					2010				
Customer financing receivables payments due	not due	1–30	31–90	>90	**Total**	not due	1–30	31–90	>90	**Total**
Overdue amount	–	655	560	740	**1,955**	–	490	405	805	**1,700**
Valuation allowance for doubtful customer financing receivables	(99)	(111)	(159)	(313)	**(682)**	(91)	(56)	(74)	(308)	**(530)**
Customer financing receivables not recognized as impairment losses	**(99)**	**544**	**401**	**427**	**1,273**	**(91)**	**434**	**331**	**497**	**1,170**

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 occured but not yet identified customer financing receivables overdue, there are additional reserves of 795 (831). 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 594 (1,391) at December 31, 2010.

	2009					2010				
Customer financing receivables total contractual amount	not due	1–30	31–90	>90	**Total**	not due	1–30	31–90	>90	**Total**
Customer financing receivables	67,692	7,886	4,511	3,401	**83,490**	63,153	6,425	2,369	2,066	**74,013**

Renegotiated financial assets

Financial assets that would otherwise have been overdue whose terms have been renegotiated amount to 6,578 (8,948) and are mainly related to renegotiated customer contracts within the customer finance operations.

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Concentration of credit risk

Customer concentration

The ten largest customers in Customer Finance account for 5.8% (4.8) 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	47.0
North America	27.3
Asia	9.9
Other markets	15.8

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
2011	(39,199)	(4,842)
2012	(23,497)	(3,382)
2013	(13,422)	(2,650)
2014	(17,723)	(1,718)
2015	(10,210)	(1,135)
2016	(6,476)	(684)
2017–	(12,548)	(291)

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. For more information about the categories within Financial assets and liabilities see note 1.

Information regarding reported and fair values

In the table below, carrying values are compared with fair values of financial instruments.

	December 31, 2009		December 31, 2010	
	Carrying value	Fair value	Carrying value	Fair value
Assets				
Financial assets at fair value through profit and loss				
The Volvo Group's outstanding currency risk contracts – commercial exposure	467	467	197	197
The Volvo Group's outstanding raw materials contracts	42	42	168	168
The Volvo Group's outstanding interest risk contracts – financial exposure	3,848	3,848	3,863	3,863
Marketable securities	16,676	16,676	9,767	9,767
	21,033	21,033	13,995	13,995
Loans receivable and other receivables				
Accounts receivable	21,337	–	24,433	–
Customer financing receivables[3]	81,977	–	72,688	–
Loans to external parties and other interest-bearing receivables	349	–	253	–
Conduit loans and other interest-bearing loans	131	–	104	–
	103,794	–	97,478	–
Financial assets available for sale				
Shares and participations for which:				
a market value can be calculated[1]	707	707	836	836
a market value can not be calculated[2]	1,337	–	1,262	–
	2,044	707	2,098	836
Cash and cash equivalents	21,234	21,234	22,966	22,966
Liabilities				
Financial liabilities at fair value through profit and loss				
The Volvo Group's outstanding currency risk contracts – commercial exposure	281	281	79	79
The Volvo Group's outstanding raw materials contract	58	58	41	41
The Volvo Group's outstanding interest risk contracts – financial exposure	3,285	3,285	4,487	4,487
	3,624	3,624	4,607	4,607
Financial liabilities valued at amortized cost				
Long term bond loans and other loans	105,427	112,733	82,679	88,304
Short term bank loans and other loans	51,448	51,943	39,142	39,379
	156,875	164,676	121,821	127,683
Trade Payables	35,955	–	47,250	–

1 Refers to Volvo's ownership in Deutz AG valued at market value and Trucks Asia's holdings in listed shares. The carrying value is equal to the market value for holdings in listed companies

2 Possession in unlisted shares, for which a reliable fair value cannot be determined, are reported at the acquisition value reduced in appropriate cases by write-downs. No single block of shares represent a significant amount.

3 Volvo does not estimate the risk premium for the customer financing receivables and chooses therefore not to disclose fair value for this category.re not to disclose fair value for this category.

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Financial assets and liabilities measured at fair value

	December 31, 2009				December 31, 2010			
Assets	Level 1	Level 2	Level 3	**Total**	Level 1	Level 2	Level 3	**Total**
Financial assets at fair value through profit and loss								
Currency risk contracts – commercial exposure	–	467	–	**467**	–	197	–	**197**
Raw materials contracts	–	42	–	**42**	–	168	–	**168**
Interest risk contracts – financial exposure	–	3,848	–	**3,848**	–	3,863	–	**3,863**
Marketable securities	–	16,676	–	**16,676**	–	9,767	–	**9,767**
Available for sale financial assets								
Shares and participations for which: a market value can be calculated	707	–	–	**707**	836	–	–	**836**
Total	**707**	**21,033**	**-**	**21,740**	**836**	**13,995**		**14,831**
Liabilities								
Financial liabilities at fair value through profit and loss								
Currency risk contracts – commercial exposure	–	281	–	**281**	–	79	–	**79**
Raw materials contracts	–	58	–	**58**	–	41	–	**41**
Interest risk contracts – financial exposure	–	3,285	–	**3,285**	–	4,487	–	**4,487**
Total	**-**	**3,624**	**-**	**3,624**	**-**	**4,607**	**-**	**4,607**

The levels in the table above reflect to what extent market values have been used when valuating financial assets and liabilities. Financial instruments in level 1 are valued based on unadjusted quoted market prices for identical assets or liabilities. Level 2 instruments are valued based on inputs, other than quoted prices within level 1, that are observable either directly (as prices) or indirectly (derived from prices). Level 3 instruments would be valued based on unobservable inputs, i.e. using a valuation technique based on assumptions. Volvo has no financial instruments classified as level 3 instruments.

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 party. 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, 2010, Volvo recognizes SEK 1.2 billion (2.2) corresponding to Volvo's continuous involvement, mostly within the customer financing operations.

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.

	2009			2010		
	Gains/ Losses	Interest income	Interest expenses	Gains/ Losses	Interest income	Interest expenses
Financial assets and liabilities at fair value through profit and loss[1]						
Marketable securities	248	0	0	290	0	0
Derivatives for financial exposure	(1,272)	0	0	319	0	0
Loans receivable and other receivables	0	10	0	0	7	0
Financial assets available for sale						
Shares and participations for which a market value can be calculated	11	–	–	40	–	–
Shares and participations for which a market value cannot be calculated	19	–	–	10	–	–
Cash and cash equivalents	0	299	0	0	423	0
Financial liabilities valued at amortized cost	0	0	(6,007)	0	0	(5,486)
Effect on income	(994)	309	(6,007)	659	430	(5,486)

1 Accrued and realized interest is included in gains and losses related to Financial assets and liabilities at fair value through profit and loss. Accrued and realized interest on derivates for commercial exposure is neg 17 (neg: 68).

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 table below:

	2009	2010
Derivatives for financial exposure	(1,205)	(1,545)
Cash and cash equivalents[1]	–	(274)
Loans originated by the company and financial liabilities value at amortized cost - Volvo internal	958	1,560
Effect on income	**(247)**	**(259)**

1 The net effect of forein exchange gains and losses on Cash and cash equivalents pertains to the devaluation in Venezuela, loss 274. Net effect of foreign exchange gains and losses on derivatives for commercial exposure have affected operating income in the Volvo group with 676 (neg: 3,322).

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, 2009		Dec 31, 2010	
	Notional amount	Carrying value	Notional amount	Carrying value
Interest-rate swaps				
– receivable position	64,162	3,560	70,067	3,539
– payable position	100,460	(2,948)	65,576	(3,924)
Forwards and futures				
– receivable position	0	0	900	0
– payable position	30,274	(3)	400	0
Foreign exchange derivative contracts				
– receivable position	16,165	172	13,336	143
– payable position	15,424	(214)	25,192	(381)
Options purchased				
– receivable position	1,985	116	1,126	181
– payable position	353	(3)	0	0
Options written				
– receivable position	13	0	0	0
– payable position	2,572	(117)	976	(182)
Total		**563**		**(624)**

Outstanding forward contracts and options contracts for hedging of currency risk and interest risk of commercial receivables and liabilities

	Dec 31, 2009		Dec 31, 2010	
	Notional amount	Carrying value	Notional amount	Carrying value
Foreign exchange derivative contracts				
– receivable position	9,307	416	6,418	188
– payable position	5,448	(281)	3,381	(75)
Options purchased				
– receivable position	1,222	51	558	9
– payable position	–	–	–	–
Options written				
– receivable position	–	–	–	–
– payable position	1,193	–	558	(4)
Subtotal		**186**		**118**
Raw materials derivative contracts				
– receivable position	367	42	579	168
– payable position	106	(58)	39	(41)
Total		**170**		**245**

Hedge accounting

Cash-flow hedging

Volvo only hedges firm flows whereof the major part is realized within six months. The hedged amount of firm flows for all periods are within the framework of Volvo's currency policy.

Derivative financial instruments used for hedging of future commercial currency exposure that is firm and forecasted electricity consumption have, in accordance with IAS 39, been reported at fair value in the balance sheet. Since the fourth quarter 2009 hedge accounting is not applied on new financial instruments used for hedging of commercial flows. However, for the major part of previously entered financial instruments hedge accounting is continuously applied. The majority of those financial instruments have expired during the year.

When hedge accounting is not applied, unrealized gains and losses from fluctuations in the fair values of the financial instruments are reported in the income statement in the segment Group headquarter functions and other. This has positivley affected the Group's operating income by 124 (neg: 27) in 2010. When the derivative financial instrument has been realized the income effect is reported within the respective segments.

When cash-flow hedge accounting is applied for previously entered financial instruments Volvo tests for effectiveness. Hedging is considered to be effective when the forecasted future cash flow's currency fluctuation and maturity date coincide with those of the financial 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 2010, Volvo reported 4 (loss 36) as a gain related to the ineffectiveness of cash-flow hedging.

As of January 1, 2011 unrealized changes in fair value of financial instruments related to a receivable or payable will be reported within the respective segments. All other unrealized changes in fair value of financial instruments will henceforth be reported in the income statement in the segment Group headquarter functions and other.

Hedge accounting is applied on the financial instruments hedging forecasted electricity consumption. The fair value is debited or credited to a separate component in other comprehensive income to the extent the requirements for cash-flow hedge accounting are fulfilled. Accumulated changes in the value of the hedging instruments are reported in the income statement of the same time as the underlying hedged transaction affects the Groups results. The table in note 23, Shareholders' equity shows how the electricity consumption reserve has changed during the year. To the extent that the requirements for hedge accounting are not met, any changes in the value attributable to derivatives are immediately charged to the income statement.

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 2009, Volvo reported 4 (4) related to the ineffectiveness of the hedging of forecasted electricity consumption.

Hedging of currency and interest rate risks on loans

Volvo has chosen to apply hedge accounting for a loan of approximately EUR 1 billion borrowed in the second quarter of 2007. Fair value of the outstanding hedge instrument amounts to 1,168 (1,159). The carrying value of the loan related to hedge accounting amounts to a negative 977 (neg: 970). The changes in the fair value of the outstanding hedge instruments and the changes in the carrying value of the loan are reported in the income statement.

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. In the future, 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 negative 202 (neg 314) in shareholders' equity relating to hedging of net investments in foreign operations was reported in 2010.

The Volvo Group's outstanding forward contracts and options contracts for hedging of commercial currency risks

		Currencies				Other currencies	Fair value
Million		USD	GBP	EUR	JPY	Net SEK	
Due date 2011	amount	687	68	93	(2,488)	570	
Due date 2012	amount	(4)	–	–	–	313	
Due date 2013	amount	(3)	–	–	–	20	
Total		**680**	**68**	**93**	**(2,488)**	**903**	
Average contract rate		7.04	11.03	9.37	0.08		
Fair value of outstanding forward contracts		**85**	**14**	**28**	**3**	**(12)**	**118**

The hedged amount of firm flows for all periods are within the framework of Volvo's currency policy.

PARENT COMPANY AB VOLVO

Corporate registration number 556012-5790.

Amounts in SEK M unless otherwise specified. Amounts within parentheses refer to preceding year.

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.

Income from investments in Group companies includes dividends amounting to 8,145 (10,275) and Group contributions and transfer price adjustments, net of 5,126 (neg: 16,859). Dividends were received from Volvo Holding Sverige AB, 5,200, Volvo Construction Equipment NV, 1,801 and from Volvo Korea Holding AB, 1,000.

The carrying value of shares and participations in Group companies amounted to 59,429 (57,062), of which 58,903 (56,536) 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 90,261 (91,944).

In 2010 shareholders' contributions were made to Volvo Group Japan Corporation, 3,493, consisting of preference shares in UD Trucks Corporation, and to Kommersiella Fordon Europa AB, 1,801.

Other shares and participations include the direct and indirect ownership in 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 to the 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 170 (206) 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 322 (300). Shares and participations in non-Group companies include listed shares in Deutz AG with a carrying value of 458, corresponding to the quoted market price at year-end. In 2010 revaluation of the ownership has increased the value by 172, recognized in equity and included in Other comprehensive income in the income statement.

Financial net debt amounted to 30,376 (18,922).

AB Volvo's risk capital (shareholders' equity plus untaxed reserves) amounted to 41,857 corresponding to 54% of total assets. The comparable figure at year-end 2009 was 45%.

INCOME STATEMENT

SEK M		2009	**2010**
Net sales	Note 2	698	**564**
Cost of sales	Note 2	(698)	**(564)**
Gross income		0	**0**
Administrative expenses	Note 2, 3	(485)	**(652)**
Other operating income and expenses	Note 4	(13)	**8**
Income from investments in Group companies	Note 5	(6,584)	**13,252**
Income from investments in associated companies	Note 6	4	**(94)**
Income from other investments	Note 7	2	**3**
Operating income		(7,076)	**12,517**
Interest income and similar credits	Note 8	1	**0**
Interest expenses and similar charges	Note 8	(393)	**(893)**
Other financial income and expenses	Note 9	(8)	**(65)**
Income after financial items		(7,476)	**11,559**
Allocations	Note 10	700	**0**
Income taxes	Note 11	4,537	**(1,231)**
Income for the period		(2,239)	**10,328**

Other comprehensive income		
Income for the period	(2,239)	**10,328**
Available-for-sale investments	74	**172**
Other comprehensive income, net of income taxes	74	**172**
Total comprehensive income for the period	(2,165)	**10,500**

BALANCE SHEET

SEK M		December 31, 2009		**December 31, 2010**	
Assets					
Non-current assets					
Intangible assets	Note 12		96		**103**
Tangible assets	Note 12		16		**16**
Financial assets					
Shares and participations in Group companies	Note 13	57,062		**59,429**	
Other shares and participations	Note 13	2,363		**2,498**	
Deferred tax assets	Note 11	4,712		**3,657**	
Other long-term receivables		0	64,137	**0**	**65,584**
Total non-current assets			64,249		**65,703**
Current assets					
Short-term receivables from Group companies			4,707		**12,226**
Current tax receivables			0		**0**
Other short-term receivables	Note 14		247		**261**
Cash and bank accounts			0		**0**
Total current assets			4,954		**12,487**
Total assets			69,203		**78,190**
Shareholders' equity and liabilities					
Shareholders' equity					
Restricted equity					
Share capital (2,128,420,220 shares, quota value SEK 1.20)		2,554		**2,554**	
Statutory reserve		7,337	9,891	**7,337**	**9,891**
Unrestricted equity					
Non-restricted reserves		211		**383**	
Retained earnings		23,490		**21,251**	
Income for the period		(2,239)	21,462	**10,328**	**31,962**
Total shareholders' equity			31,353		**41,853**
Untaxed reserves	Note 15		4		**4**
Provisions					
Provisions for pensions	Note 16	136		**133**	
Other provisions		0	136	**1**	**134**
Non-current liabilities	Note 17				
Liabilities to Group companies		7		**7**	
Other non-current liabilities		–	7	**10**	**17**
Current liabilities					
Trade payables		94		**78**	
Other liabilities to Group companies		37,370		**35,835**	
Other current liabilities	Note 18	239	37,703	**269**	**36,182**
Total shareholders' equity and liabilities			69,203		**78,190**
Assets pledged			–		**-**
Contingent liabilities	Note 19		254,299		**250,606**

CHANGES IN SHAREHOLDERS' EQUITY

	Restricted equity		Unrestricted equity				
SEK M	Share capital	Statutory reserve	Share premium reserve	Fair value reserve	Retained earnings	Total	Total share-holders' equity
Balance at December 31, 2008	**2,554**	**7,337**	**188**	**(53)**	**27,543**	**27,678**	**37,569**
Income for the period	-	–	–	–	(2,239)	(2,239)	(2,239)
Other comprehensive income							
Available-for-sale investments:							
Gain/(loss) at valuation to fair value	–	–	–	74	–	74	74
Other comprehensive income	–	–	–	74	–	74	74
Total income for the period	**-**	**-**	**-**	**74**	**(2,239)**	**(2,165)**	**(2,165)**
Transactions with shareholders							
Cash dividend	–	–	–	–	(4,055)	(4,055)	(4,055)
Share-based payments	–	–	2	–	2	4	4
Transactions with shareholders	–	–	2	–	(4,053)	(4,051)	(4,051)
Balance at December 31, 2009	**2,554**	**7,337**	**190**	**21**	**21,251**	**21,462**	**31,353**
Income for the period	–	–	–	–	10,328	10,328	10,328
Other comprehensive income							
Available-for-sale investments:							
Gain/(loss) at valuation to fair value	–	–	–	172	–	172	172
Other comprehensive income	–	–	–	172	–	172	172
Total income for the period	**-**	**-**	**-**	**172**	**10,328**	**10,500**	**10,500**
Balance at December 31, 2010	**2,554**	**7,337**	**190**	**193**	**31,579**	**31,962**	**41,853**

Further information regarding the share capital of the Parent Company is shown in Note 23 to the consolidated financial statements.

CASH-FLOW STATEMENT

SEK M			2009		**2010**
Operating activities					
Operating income			(7,076)		**12,517**
Depreciation and amortization			14		**16**
Other adjustments of operating income	Note 20		15,361		**(20,543)**
Changes in working capital:					
(Increase)/decrease in receivables			(48)		**148**
Increase/(decrease) in liabilities and provisions			(27)		**(6)**
Interest and similar items received			45		**0**
Interest and similar items paid			(431)		**(888)**
Other financial items			(8)		**(65)**
Income taxes (paid)/received			423		**(176)**
Cash-flow from operating activities			8,253		**(8,997)**
Investing activities					
Investments in fixed assets		0		**(11)**	
Shares and participations in Group companies, net	Note 20	(11,091)		**(2,386)**	
Shares and participations in non-Group companies, net	Note 20	(1)	(11,092)	**(63)**	**(2,460)**
Cash-flow after net investments			(2,839)		**(11,457)**
Financing activities					
Increase/(decrease) in loans	Note 20	6,894		**11,457**	
Cash payment to AB Volvo shareholders		(4,055)	2,839	**-**	**11,457**
Change in liquid funds			0		**0**
Liquid funds, January 1			0		**0**
Liquid funds, December 31			0		**0**

Liquid funds
Liquid funds include cash and bank balances.

NOTES AND COMMENTS

GENERAL INFORMATION

Amounts in SEK M unless otherwise specified. The amounts within parentheses refer to the preceding year, 2009.

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 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 Parent Company decided to early adopt the presentation of comprehensive income applied as of 2010, from January 1, 2009.

The share-based incentive programs adopted at the Annual General Meeting from 2004–2009 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 UFR 2, a statement issued by the Swedish Financial Reporting Board. Group contributions are reported among Income from investments in Group companies.

NOTE 2 INTRA-GROUP TRANSACTIONS

Of the Parent Company's net sales, 499 (578) pertained to Group companies while purchases from Group companies amounted to 449 (357).

NOTE 3 ADMINISTRATIVE EXPENSES

Depreciation

Administrative expenses include depreciation of 16 (14) of which 1 (0) pertains to machinery and equipment, 0 (0) to buildings and 15 (14) to other intangible assets.

Fees to the auditors	2009	2010
PricewaterhouseCoopers		
– Audit fees	17	17
– Audit-related fees	1	1
– Tax advisory services	1	0
Total	19	18

See note 35 for the Group for a description of the different categories of fees to the auditors.

Personnel

Wages, salaries and other remunerations amounted to 211 (160). Social costs amounted to 142 (87) of which pension costs, 104 (55). Of the pension costs, 9 (8) pertained to Board members and Presidents. The Parent Company does not have any outstanding pension obligations to these individuals.

The number of employees at year-end was 198 (190). 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	2009	2010
Total absence due to illness in percentage of regular working hours	1.2	1.1
of which, continuous sick leave for 60 days or more, %	21.4	41.4
Absence due to illness in percentage of regular working hours		
Men, %	0.7	1.1
Women, %	1.8	1.1
29 years or younger, %	0.2	3.0
30–49 years, %	1.2	1.1
50 years or older, %	1.3	0.9

NOTE 4 OTHER OPERATING INCOME AND EXPENSES

Other operating income and expenses include profit-sharing payments to employees in the amount of 1 (1).

NOTE 5 INCOME FROM INVESTMENTS IN GROUP COMPANIES

Of the income reported, 8,145 (10,275) pertain to dividends from Group companies. Of the dividends, 5,200 (6,000) pertain to dividend from Volvo Holding Sverige AB, 1,801 (–) from Volvo Construction Equipment NV and 1,000 (2,000) from Volvo Korea Holding AB. The shares in Alviva AB were written down by 19.

Transfer price adjustments and Group contributions total a net of 5,126 (neg 16,859).

NOTE 6 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 a negative 94 (4). Dividend of 14 (–) was received from VE Commercial Vehicles. The participations in Blue Chip Jet I HB and Blue Chip Jet II HB have effected the income with 8 (neg: 4) and a negative 116 (8) respectively.

NOTE 7 INCOME FROM OTHER INVESTMENTS

A dividend of 2 (2) reveived from Eicher Motors Ltd. is included in Income from other investments.

NOTE 8 INTEREST INCOME AND EXPENSES

Interest income and similar credits amounting to 0 (1) included interest in the amount of 0 (0) from subsidiaries, and interest expenses and similar charges totalling 893 (393) included interest of 888 (386) to subsidiaries.

NOTE 9 OTHER FINANCIAL INCOME AND EXPENSES

Other financial income and expenses include guarantee commissions from subsidiaries, costs for credit facilities, costs for credit rating, financial costs pertaining to changed taxable income previous years and costs of having Volvo shares registered.

NOTE 10 ALLOCATIONS

	2009	2010
Allocation to additional depreciation	0	0
Tax allocation reserve	700	–
Total	**700**	**0**

NOTES AND COMMENTS

NOTE 11 INCOME TAXES

	2009	2010
Current taxes	59	(176)
Deferred taxes	4,478	(1,055)
Total income taxes	**4,537**	**(1,231)**

Current taxes relate to prior periods.

Claims as a consequence of tax audit carried out previously for which provisions are not deemed necessary amount to – (249). 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 an expense of 1,063 (4,472) and to changes in other temporary differences to 8 (6).

The table below shows the principal reasons for the difference between the corporate income tax of 26.3% and the tax for the period.

	2009	2010
Income before taxes	(6,776)	11,559
Income tax according to applicable tax rate	1,782	(3,040)
Capital gains/losses	0	0
Non-taxable dividends	2,703	2,146
Non-taxable revaluations of shareholdings	(1)	(8)
Other non-deductible expenses	(23)	(156)
Other non-taxable income	17	3
Adjustment of current taxes for prior periods	59	(176)
Income taxes for the period	**4,537**	**(1,231)**

Specification of deferred tax assets	2009	2010
Tax-loss carryforwards	4,550	3,487
Valuation allowance for doubtful receivables	1	1
Provision for post-employment benefits	161	169
Deferred tax assets	**4,712**	**3,657**

NOTE 12 INTANGIBLE AND TANGIBLE ASSETS

Acquisition cost	Value in balance sheet 2009	Investments	Value in balance sheet 2010
Rights	52		52
Other intangible assets	116	22	138
Total intangible assets	**168**	**22**	**190**
Buildings	6	–	6
Land and land improvements	3	–	3
Machinery and equipment	45	1	46
Total tangible assets	**54**	**1**	**55**

Accumulated depreciation	Value in balance sheet 2009[1]	Depreciation[2]	Value in balance sheet 2010	Net carrying value in balance sheet 2010[3]
Rights	52	–	52	0
Other intangible assets	20	15	35	103
Total intangible assets	**72**	**15**	**87**	**103**
Buildings	2	0	2	4
Land and land improvements	0	0	0	3
Machinery and equipment	36	1	37	9
Total tangible assets	**38**	**1**	**39**	**16**

The assessed value of buildings was 3 (3) and of land 3 (3). Capital expenditures in intangible and tangible assets amounted to 22 (–) and 1 (0) respectively. Capital expenditures approved but not yet implemented at year-end 2010 amounted to 0 (–).

1 Including accumulated write-downs.
2 Including write-downs.
3 Acquisition value, less accumulated depreciation, amortization and write-downs.

NOTE 13 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	
	2009	2010	2009	2010
Balance December 31, previous year	46,122	57,062	2,280	2,363
Acquisitions/New issue of shares	85	–	2	87
Divestments	–	(3,493)	–	0
Shareholder contributions	10,855	5,879	1	–
Write-downs/participations in partnerships	–	(19)	6	(124)
Revaluation of shares in listed companies	–	–	74	172
Balance, December 31	**57,062**	**59,429**	**2,363**	**2,498**

Shares and participations in Group companies
In December, 2010, AB Volvo transferred the company's holding of preference shares in UD Trucks Corporation, with the book value of 3,493, as shareholders' contribution to Volvo Group Japan Corporation.

Shareholders' contribution was also made to Kommersiella Fordon Europa AB, 1,801, Volvo Financial Services AB, 225, Volvo China Investment Co Ltd, 217, and Volvo Holding Mexico, 143.

Write-down was made at year-end of the holding of shares in Alviva AB with 19.

During 2009, AB Volvo acquired total number of shares in Volvo Logistics AB from Fortos Ventures AB in an amount of 85.

During 2009, shareholders' contributions were made to Volvo Treasury AB, 10,000, Volvo Information Technology AB, 500, and Volvo China Investment Co Ltd, 355.

Shares and participations in non-Group companies
AB Volvo acquired Volvo Personvagnar AB's participation (5%) in Blue Chip Jet I HB in 2010 and in 2009 half of Skandia's participation in Blue Chip Jet I HB (5%) was acquired. AB Volvo's participation in Blue Chip Jet I HB is 50% after the acquisitions. During 2010 a capital contribution of 76 was made to Blue Chip Jet II HB. The book value of the participations in the partnerships Blue Chip Jet I HB and Blue Chip Jet II HB decreased during the year by a net of 113 (8).

The revaluation of AB Volvo's ownership in the listed company Deutz AG has increased the value by 172 (74), recognized in other comprehensive income.

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.

NOTE 14 OTHER SHORT-TERM RECEIVABLES

	2009	2010
Accounts receivable	35	3
Prepaid expenses and accrued income	199	226
Other receivables	13	32
Total	**247**	**261**

The valuation allowance for doubtful receivables amounted to 4 (15) at the end of the year.

NOTE 15 UNTAXED RESERVES

The composition of, and changes in, untaxed reserves	Value in balance sheet 2009	Allocations 2010	Value in balance sheet 2010
Accumulated additional depreciation			
Land	3	–	3
Machinery and equipment	1	0	1
Total	**4**	**0**	**4**

NOTES AND COMMENTS

NOTE 16 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, 0 (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 104 (55).

The accumulated benefit obligation of all AB Volvo's pension obligations at year-end 2010 amounted to 611, which has been secured in part through provisions in the balance sheet and through transfer of funds to pension foundations. Net asset value in the Pension Foundation, marked to market, accrued to AB Volvo was 48 higher than the corresponding pension obligations.

NOTE 17 NON-CURRENT LIABILITIES

Non-current debt matures as follows:	
2013	10
2016 or later	7
Total	**17**

NOTE 18 OTHER CURRENT LIABILITIES

	2009	2010
Wages, salaries and withholding taxes	102	94
Other liabilities	4	2
Accrued expenses and prepaid income	133	173
Total	**239**	**269**

No collateral is provided for current liabilities.

NOTE 19 CONTINGENT LIABILITIES

Of the contingent liabilities amounting to 250,606 (254,299), 250,597 (254,041) pertained to Group companies.

Guarantees for various credit programs are included in amounts corresponding to the credit limits. These guarantees amount to 243,089 (247,010), of which guarantees on behalf of Group companies totaled 243,089 (247,010).

At the end of each year, the utilized portion amounted to 108,562 (130,961), including 108,476 (130,872) pertaining to Group companies.

NOTE 20 CASH-FLOW

Other adjustments of operating income	2009	2010
Revaluation of shareholdings	(4)	116
Group contributions and transfer price adjustments, current year	14,016	(6,673)
Payments of previous year's Group contributions and transfer price adjustments	1,351	(14,016)
Other	(2)	30
Total	**15,361**	**(20,543)**

Further information is provided in notes 5, 6 and 7.

Shares and participations in Group companies, net		
Investments	(11,091)	(2,386)
Net investments in shares and participations in Group companies	**(11,091)**	**(2,386)**

Investments and sales of shares in Group companies are shown in note 13.

Shares and participations in non-Group companies, net	2009	2010
Investments	(1)	(78)
Disposals	–	15
Net investments in shares and participations in non-Group companies	**(1)**	**(63)**

Investments and sales of shares in non-Group companies are presented in note 13.

Increase in loans

Increase in loans is related to the company's liability in the group account at Volvo Treasury AB. The liability has increased by 11,457 (6,894).

AB VOLVO'S HOLDING OF SHARES

AB Volvo's holding of shares and participations in non-Group companies[1]	Registration number	Percentage holding[2]	Dec 31, 2009 Carrying value, SEK M	Dec 31, 2010 Carrying value, SEK M
Deutz AG, Germany	–	7	286	458
Blue Chip Jet II HB, Sweden	969717-2105	50	206	170
Other investments			26	22
Total carrying value, non-Group companies			**518**	**650**

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, 2009 Carrying value, SEK M	Dec 31, 2010 Carrying value, SEK M
Volvo Lastvagnar AB, Sweden	556013-9700	100	8,678	8,678
Volvo Truck Center Sweden AB, Sweden	556072-7777	100	–	–
Volvo Finland AB, Finland	–	100	–	–
Volvo Group Belgium NV, Belgium	–	100	–	–
Volvo Group UK Ltd, Great Britain	–	100	–	–
Volvo India Ltd, India	–	100	–	–
Volvo Holding Sverige AB, Sweden	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 Group Canada Inc., Canada	–	100	–	–
Prévost Car Inc, Canada	–	100	–	–
Volvo Group Australia Pty Ltd, Australia	–	100	–	–
Volvo Group Automotive Ticaret, Ltd, Sirketi, Turkey[1]	–	100	–	–
Volvo Holding France SA, France	–	100	–	–
Volvo Trucks France s.a.s., France	–	100	–	–
Volvo Compact Equipment s.a.s., France	–	100	–	–
Volvo CE Europe s.a.s., France	–	100	–	–
VFS Finance France s.a.s., France	–	100	–	–
VFS Location France s.a.s., France	–	100	–	–

NOTES AND COMMENTS

AB Volvo's holding of shares and participations in major Group companies (cont.)	Registration number	Percentage holding	Dec 31, 2009 Carrying value, SEK M	Dec 31, 2010 Carrying value, SEK M
Renault Trucks s.a.s., France	–	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	–	–
Volvo Group Japan Co, Japan	–	100	2,886	6,379
UD Trucks Corporation, Japan	–	100	3,493	–
DRD Co., Ltd, Japan	–	100	–	–
UD Trucks Japan Co, Japan	–	100	–	–
UD Trucks South Africa (Pty) Ltd., South Africa	–	80	–	–
Volvo Bussar AB, Sweden	556197-3826	100	1,882	1,882
Volvo Construction Equipment NV, The Netherlands	–	100	2,582	2,582
Volvo Construction Equipment AB, Sweden	556021-9338	100	–	–
Volvo Maskin AS, Norway	–	100	–	–
Volvo Construction Equipment Europe GmbH, Germany	–	100	–	–
ABG Algemeinen Baumaschinen GmbH, Germany	–	100	–	–
AB Volvo Penta, Sweden	556034-1330	100	421	421
Volvo Aero AB, Sweden	556029-0347	100	2,885	2,885
Volvo Aero Norge AS, Norway	–	78	–	–
VNA Holding Inc., USA	–	100	2,491	2,491
Volvo Group North America Inc., USA	–	100	–	–
Arrow Truck Sales, Inc., USA	–	100	–	–
Mack Trucks Inc., USA	–	100	–	–
Volvo Construction Equipment North America Inc., USA	–	100	–	–
Volvo Penta of The Americas Inc., 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, 2009 Carrying value, SEK M	Dec 31, 2010 Carrying value, SEK M
Volvo Financial Services AB, Sweden	556000-5406	100	1,720	1,945
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[2, 7]	–	50	–	–
Volvo Treasury AB, Sweden	556135-4449	100	13,044	13,044
Sotrof AB, Sweden	556519-4494	100	1,388	1,388
Volvo Group Real Estate AB, Sweden	556006-8313	100	–	–
Volvo Korea Holding AB, Sweden	556531-8572	100	2,655	2,655
Volvo Group Korea Co Ltd, South Korea	–	100	–	–
Volvo China Investment Co Ltd, China	–	100	879	1,096
Shanghai Sunwin Bus Co, China[2]	–	50	–	–
XIAN Silver Bus Co, China[2]	–	50	–	–
Shandong Lingong Construction Machinery, China	–	70	–	–
Volvo Automotive Finance (China) Ltd, China	–	100	491	491
Volvo Group UK Ltd, Great Britain[3]	–	100	413	413
Volvo Holding Mexico, Mexico	–	100	388	531
Volvo Technology Transfer AB, Sweden	556542-4370	100	361	361
Volvo Powertrain AB, Sweden	556000-0753	100	498	498
Volvo Information Technology AB, Sweden	556103-2698	100	663	663
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 Financiari Spa, Italy[4]	–	100	79	79
Kommersiella Fordon Europa AB, Sweden	556049-3388	100	89	1,890
Volvo Norge AS, Norway	–	100	56	56
Volvo Malaysia Sdn, Malaysia	–	100	48	48
ZAO Volvo Vostok, Russia[5]	–	100	34	34
Volvo Italia Spa, Italy	–	100	556	556
Volvo Logistics AB, Sweden	556197-9732	100	85	85
Rossareds Fastighets AB, Sweden	556009-1190	100	26	26
Alviva AB, Sweden	556622-8820	100	25	5
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	5
Total carrying value Group companies[6]			**57,062**	**59,429**

1 Total holding by Volvo Holding Sverige and Volvo Lastvagnar is 100%.
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 Region Central Europe is 100%.
6 AB Volvo's share of shareholders' equity in subsidiaries (including equity in untaxed reserves) was 90,261 (91,944).
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 1,845. 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

The proposal by the Board of Directors of AB Volvo to be adopted by the Annual General Meeting April 6, 2011.

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 2010 sets out details on the total remuneration and benefits awarded to the Executives during 2010.

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 75% of the fixed annual salary and, as regards the other Executives, a maximum of 60% 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 shall before each Annual General Meeting evaluate whether a share or share-price related incentive program shall be proposed to the Annual General Meeting or not. Such proposal may concern a program comprising one or several financial years. The Annual General Meeting decides upon such programs. The Board of Directors has decided to propose to the Annual General Meeting 2011 to approve the adoption of a share-based incentive program relating to the financial years 2011, 2012 and 2013.

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-benefit 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 twelve months and six months from the Executive. In addition thereto, the Executive, provided that termination has been made by the Company, will be entitled to twelve 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 is responsible for (i) preparing the Board's decisions on issues concerning principles for remuneration, remunerations and other terms of employment for Executives, (ii) monitoring and evaluating programs for variable remuneration, both ongoing and those that have ended during the year, for Executives, (iii) monitoring and evaluating the application of this Policy, and (iv) monitoring and evaluating current remuneration structures and levels in the Company.

The Remuneration Committee prepares and the Board decides on (i) terms of employment and remuneration of the President and the Executive Vice President, if any, and (ii) principles for remuneration (incl. pension and severance pay) for the Group Executive Committee. The Remuneration Committee shall approve proposals on remuneration of the members of the Group Executive Committee.

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 that has not become due for payment at the time of the Annual General Meeting 2011 fall within the framework 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 Meting 2010 is provided in note 34 Personnel.

PROPOSED DISPOSITION OF UNAPPROPRIATED EARNINGS

AB Volvo	SEK
Retained earnings	21,634,556,869.50
Income for the period 2010	10,327,605,961.72
Total retained earnings	**31,962,162,831.22**

The Board of Directors and the President propose that the above sum be disposed of as follows:

	SEK
To the shareholders, a dividend of SEK 2.50 per share	5,068,567,563.00
To be carried forward	26,893,595,268.22
Total	**31,962,162,831.22**

The record date for determining who is entitled to receive dividends is proposed to be Monday, April 11, 2011.

In view of the Board of Directors' proposal to the Annual General Meeting to be held April 6, 2011, to decide on the distribution of a dividend of SEK 2.50 per share, the Board hereby makes the following statement in accordance with Chapter 18, Section 4 of the Swedish Companies Act.

The Board of Directors 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 53.5% to 50.3% and the Group's solvency from 23.3% to 22.1%, calculated as per year end 2010. 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. In doing so, no circumstance has appeared that does not justify the proposed dividend.

If the Annual General Meeting resolves in accordance with the Board of Directors' proposal, SEK 26,893,595,268.22 will remain of the Company's non-restricted equity, calculated as per year end 2010.

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 193,353,379.00 less.

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 July 19, 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, February 24, 2011

Louis Schweitzer
Board Chairman

Peter Bijur
Board member

Jean-Baptiste Duzan
Board member

Leif Johansson
President, CEO and
Board member

Hanne de Mora
Board member

Anders Nyrén
Board member

Ravi Venkatesan
Board member

Lars Westerberg
Board member

Ying Yeh
Board member

Martin Linder
Board member

Mikael Sällström
Board member

Berth Thulin
Board member

Our audit report was issued on February 24, 2011

PricewaterhouseCoopers AB

Göran Tidström
Authorized Public Accountant
Lead Partner

Johan Rippe
Authorized Public Accountant

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 2010. The company's annual accounts and the consolidated accounts are included in the printed version on pages 24–127. 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 the consolidated accounts. As a basis for our opinion concerning 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 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 IFRSs 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 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, February 24, 2011

PricewaterhouseCoopers AB

Göran Tidström
Authorized Public Accountant
Lead Partner

Johan Rippe
Authorized Public Accountant
Partner

ELEVEN-YEAR SUMMARY

The eleven-year summary presents each year in accordance with the Generally Accepted Accounting Practice (GAAP) for that year. Earlier years are not restated when new accounting standards are applied. The years 1999–2003 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 2005 and 2006 Annual Reports. 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 Volvo 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	2000	2001	2002	2003	2004	2005	2006	2007	2008	2009	2010
Net sales	**130,070**	**189,280**	**186,198**	**183,291**	**211,076**	**240,559**	**258,835**	**285,405**	**303,667**	**218,361**	**264,749**
Cost of sales	(104,548)	(155,592)	(151,569)	(146,879)	(164,170)	(186,662)	(199,054)	(219,600)	(237,578)	(186,167)	(201,797)
Gross income	**25,522**	**33,688**	**34,629**	**36,412**	**46,906**	**53,897**	**59,781**	**65,805**	**66,089**	**32,194**	**62,952**
Research and development expenses	(4,876)	(5,391)	(5,869)	(6,829)	(7,614)	(7,557)	(8,354)	(11,059)	(14,348)	(13,193)	(12,970)
Selling expenses	(10,140)	(15,766)	(16,604)	(16,866)	(19,369)	(20,778)	(21,213)	(26,068)	(27,129)	(25,334)	(24,149)
Administrative expenses	(4,974)	(6,709)	(5,658)	(5,467)	(5,483)	(6,301)	(6,551)	(7,133)	(6,940)	(5,863)	(5,666)
Other operating income and expenses	622	(4,096)	(4,152)	(1,367)	(618)	(588)	(3,466)	163	(1,915)	(4,798)	(2,023)
Income (loss) from investments in associated companies	444	50	182	200	27	(557)	61	430	25	(14)	(86)
Income from other investments	70	1,410	309	(3,579)	830	37	141	93	69	(6)	(58)
Restructuring costs	–	(3,862)	–	–	–	–	–	–	–	–	
Operating income (loss)	**6,668**	**(676)**	**2,837**	**2,504**	**14,679**	**18,153**	**20,399**	**22,231**	**15,851**	**(17,013)**	**18,000**
Interest income and similar credits	1,588	1,275	1,217	1,096	821	654	666	952	1,171	390	442
Interest expenses and similar charges	(1,845)	(2,274)	(1,840)	(1,888)	(1,254)	(972)	(585)	(1,122)	(1,935)	(3,559)	(3,142)
Other financial income and expenses	(165)	(191)	(201)	(55)	(1,210)	181	(181)	(504)	(1,077)	(392)	213
Income (loss) after financial items	**6,246**	**(1,866)**	**2,013**	**1,657**	**13,036**	**18,016**	**20,299**	**21,557**	**14,010**	**(20,573)**	**15,514**
Income taxes	(1,510)	326	(590)	(1,334)	(3,129)	(4,908)	(3,981)	(6,529)	(3,994)	5,889	(4,302)
Income (loss) for the period	**4,736**	**(1,540)**	**1,423**	**323**	**9,907**	**13,108**	**16,318**	**15,028**	**10,016**	**(14,685)**	**11,212**
Attributable to											
Equity holders of the Parent Company	4,709	(1,467)	1,393	298	9,867	13,054	16,268	14,932	9,942	(14,718)	10,866
Minority interest	27	(73)	30	25	40	54	50	96	74	33	346
	4,736	**(1,540)**	**1,423**	**323**	**9,907**	**13,108**	**16,318**	**15,028**	**10,016**	**(14,685)**	**11,212**

Consolidated income statements Industrial Operations

SEK M	2000	2001	2002	2003	2004	2005	2006	2007	2008	2009	2010
Net sales	**120,392**	**180,615**	**177,080**	**174,768**	**202,171**	**231,191**	**249,020**	**276,795**	**294,932**	**208,487**	**257,375**
Cost of sales	(97,131)	(149,477)	(145,453)	(141,256)	(158,453)	(180,823)	(192,400)	(214,160)	(232,247)	(179,578)	(197,480)
Gross income	**23,261**	**31,138**	**31,627**	**33,512**	**43,718**	**50,368**	**56,620**	**62,635**	**62,685**	**28,909**	**59,895**
Research and development expenses	(4,876)	(5,391)	(5,869)	(6,829)	(7,614)	(7,557)	(8,354)	(11,059)	(14,348)	(13,193)	(12,970)
Selling expenses	(9,285)	(14,663)	(15,393)	(15,891)	(18,317)	(19,616)	(19,999)	(24,671)	(25,597)	(23,752)	(22,649)
Administrative expenses	(4,651)	(6,474)	(5,464)	(5,259)	(5,310)	(6,147)	(6,481)	(7,092)	(6,921)	(5,838)	(5,640)
Other operating income and expenses	309	(3,071)	(2,989)	(540)	7	(397)	(3,275)	249	(1,457)	(2,432)	(659)
Income from Volvo Financial Services	1,499	325	490	926	1,365	2,033	–	–	–	–	–
Income (loss) from investments in associated companies	341	(86)	126	166	2	(568)	61	428	23	(15)	(86)
Income from other investments	70	1,408	309	(3,581)	828	37	141	93	69	(13)	(57)
Restructuring costs	–	(3,862)	–	–	–	–	–	–	–	–	–
Operating income (loss)	**6,668**	**(676)**	**2,837**	**2,504**	**14,679**	**18,153**	**18,713**	**20,583**	**14,454**	**(16,333)**	**17,834**

ELEVEN-YEAR SUMMARY

Consolidated balance sheets

SEK M	2000	2001	2002	2003	2004	2005	2006	2007	2008	2009	2010
Intangible assets	6,925	17,525	17,045	16,756	17,612	20,421	19,117	36,508	43,958	41,628	40,714
Property, plant and equipment	22,231	33,234	30,799	30,640	31,151	35,068	34,379	47,210	57,270	55,280	54,242
Assets under operating leases	14,216	27,101	23,525	21,201	19,534	20,839	20,501	22,502	25,429	20,388	19,647
Shares and participations	30,481	27,798	27,492	22,206	2,003	751	6,890	2,219	1,953	2,044	2,098
Inventories	23,551	31,075	28,305	26,459	28,598	33,937	34,211	43,645	55,045	37,727	39,837
Customer-financing receivables	41,791	48,784	46,998	46,002	51,193	64,466	64,742	78,847	98,489	81,977	72,688
Interest-bearing receivables	19,228	8,079	5,490	6,632	3,384	1,897	4,116	4,530	5,101	3,044	2,757
Other receivables	26,352	39,946	33,990	32,621	35,747	42,881	42,567	55,152	61,560	50,575	53,154
Non-current assets held for sale	–	–	–	–	–	–	805	–	–	1,692	136
Liquid funds	15,968	27,383	25,578	28,735	34,746	36,947	31,099	31,034	23,614	37,910	32,733
Assets	**200,743**	**260,925**	**239,222**	**231,252**	**223,968**	**257,207**	**258,427**	**321,647**	**372,419**	**332,265**	**318,007**
Shareholders' equity[1]	88,931	85,576	78,525	72,636	70,155	78,760	87,188	82,781	84,640	67,034	74,121
Provision for post-employment benefits	2,632	14,647	16,236	15,288	14,703	11,986	8,692	9,774	11,705	8,051	7,510
Other provisions	14,941	18,427	16,721	15,048	14,993	18,556	20,970	27,084	29,076	19,485	18,992
Interest-bearing liabilities	66,233	81,568	72,437	74,092	61,807	74,885	66,957	108,318	145,727	156,852	123,695
Liabilities associated with assets held for sale	–	–	–	–	–	–	280	–	–	272	135
Other liabilities	28,006	60,707	55,303	54,188	62,310	73,020	74,340	93,690	101,271	80,571	93,554
Shareholders' equity and liabilities	**200,743**	**260,925**	**239,222**	**231,252**	**223,968**	**257,207**	**258,427**	**321,647**	**372,419**	**332,265**	**318,007**
[1] of which minority interests	593	391	247	216	229	260	284	579	630	629	1,011
Assets pledged	2,990	3,737	3,610	3,809	3,046	3,255	1,960	1,556	1,380	958	3,339
Contingent liabilities	6,789	10,441	9,334	9,611	9,189	7,850	7,726	8,153	9,427	9,607	11,003

Consolidated balance sheets, Industrial Operations

SEK M	2000	2001	2002	2003	2004	2005	2006	2007	2008	2009	2010
Intangible assets	6,781	17,366	16,919	16,662	17,570	20,348	19,054	36,441	43,909	41,532	40,613
Property, plant and equipment	19,652	30,370	27,789	27,248	27,260	31,330	30,493	47,132	57,185	55,208	54,169
Assets under operating leases	4,245	15,020	11,155	8,976	8,477	10,260	11,822	13,850	16,967	13,539	13,217
Shares and participations	37,366	35,145	34,750	30,022	10,116	10,357	16,565	2,189	1,935	2,025	2,080
Inventories	22,998	30,557	27,564	25,848	28,291	33,583	33,893	43,264	54,084	35,765	38,956
Customer-financing receivables	15	114	99	118	230	1,377	1,193	1,233	975	1,367	1,428
Interest-bearing receivables	19,286	12,426	8,495	9,413	12,127	7,691	13,214	13,701	6,056	8,010	11,153
Other receivables	24,882	38,815	34,256	33,079	36,535	43,992	43,335	55,970	60,586	49,008	52,358
Non-current assets held for sale	–	–	–	–	–	–	805	–	–	1,692	136
Liquid funds	10,958	24,874	24,154	28,102	34,628	36,047	29,907	30,026	22,575	37,404	31,491
Assets	**146,183**	**204,687**	**185,181**	**179,468**	**175,234**	**194,985**	**200,281**	**243,806**	**264,272**	**245,550**	**245,602**
Shareholders' equity	88,931	85,576	78,525	72,636	70,155	78,760	87,188	75,129	75,046	58,485	66,101
Provision for post-employment benefits	2,619	14,632	16,218	15,264	14,677	11,966	8,661	9,746	11,677	8,021	7,478
Other provisions	8,277	14,085	13,893	12,792	14,115	17,164	19,385	25,372	27,015	17,456	17,240
Interest-bearing liabilities	18,233	29,710	22,494	24,677	13,968	13,097	9,779	38,286	46,749	78,890	59,857
Liabilities associated with assets held for sale	–	–	–	–	–	–	280	–	–	272	135
Other liabilities	28,123	60,684	54,051	54,099	62,319	73,998	74,988	95,273	103,785	82,426	94,791
Shareholders' equity and liabilities	**146,183**	**204,687**	**185,181**	**179,468**	**175,234**	**194,985**	**200,281**	**243,806**	**264,272**	**245,550**	**245,602**

ELEVEN-YEAR SUMMARY

Consolidated cash-flow statements

SEK bn	2000	2001	2002	2003	2004	2005	2006	2007	2008	2009	2010
Operating income	6.7	(0.7)	2.8	2.5	14.7	18.2	20.4	22.2	15.9	(17.0)	18.0
Depreciation and amortization	6.3	10.0	10.8	10.2	10.0	9.9	12.4	12.5	13.5	15.2	13.8
Other items not affecting cash	(0.4)	0.5	2.0	4.9	(0.1)	0.4	0.7	(0.5)	(0.2)	4.4	1.6
Change in working capital	(3.3)	6.4	1.0	0.4	(1.4)	(4.7)	(7.7)	(9.9)	(23.3)	16.9	4.8
Customer financing receivables, net	(4.5)	(3.7)	(5.7)	(4.3)	(7.4)	(7.8)	–	–	–	–	–
Financial items and income tax	(1.3)	(2.1)	(1.3)	(0.9)	(0.5)	(2.0)	(4.3)	(5.9)	(5.2)	(4.6)	(5.5)
Cash-flow from operating activities	**3.5**	**10.4**	**9.6**	**12.8**	**15.3**	**14.0**	**21.5**	**18.4**	**0.7**	**14.9**	**32.7**
Investments in fixed assets	(5.4)	(8.1)	(6.7)	(6.0)	(7.4)	(10.3)	(10.0)	(10.1)	(12.7)	(10.5)	(10.4)
Investments in leasing assets	(5.7)	(5.8)	(5.2)	(5.3)	(4.4)	(4.5)	(4.6)	(4.8)	(5.4)	(4.2)	(4.8)
Disposals of fixed assets and leasing assets	2.1	2.6	3.2	2.9	2.4	2.6	3.2	2.9	2.9	3.8	3.1
Shares and participations, net	(1.6)	3.9	(0.1)	(0.1)	15.1	0.3	(5.8)	0.4	0.0	0.0	(0.1)
Acquired and divested subsidiaries and other business units, net	0.0	13.0	(0.2)	0.0	(0.1)	0.7	0.5	(15.0)	(1.3)	0.2	0.6
Interest-bearing receivables including marketable securities	11.7	(3.7)	(1.5)	(2.0)	(6.4)	(1.3)	7.7	3.6	10.9	(8.9)	6.8
Cash-flow after net investments	**4.6**	**12.3**	**(0.9)**	**2.3**	**14.5**	**1.5**	**12.5**	**(4.6)**	**(4.9)**	**(4.7)**	**27.9**
Increase (decrease) in loans	8.1	6.2	(0.1)	1.9	(8.8)	3.6	(2.6)	28.7	18.2	12.6	(25.7)
Repurchase of own shares	(11.8)	(8.3)	–	–	(2.5)	(1.8)	–	–	–	0.0	–
Cash dividend/payment to AB Volvo's shareholders	(3.1)	(3.4)	(3.4)	(3.4)	(3.4)	(5.1)	(6.8)	(20.3)	(11.1)	(4.1)	0.0
Cash payment to minority	–	–	–	–	–	–	–	–	–	–	(0.1)
Other	0.0	0.1	0.1	0.1	0.0	0.0	0.0	0.0	0.0	(0.1)	0.0
Change in cash and cash equivalents excluding translation differences	**(2.2)**	**6.9**	**(4.3)**	**0.9**	**(0.2)**	**(1.8)**	**3.1**	**3.8**	**2.2**	**3.7**	**2.1**
Translation differences on cash and cash equivalents	0.3	0.6	(0.7)	(0.6)	(0.2)	1.1	(0.5)	0.0	1.0	(0.2)	(0.4)
Change in cash and cash equivalents	**(1.9)**	**7.5**	**(5.0)**	**0.3**	**(0.4)**	**(0.7)**	**2.6**	**3.8**	**3.2**	**3.5**	**1.7**

Operating cash flow Industrial Operations

SEK bn	2000	2001	2002	2003	2004	2005	2006	2007	2008	2009	2010
Operating income	5.2	(1.0)	2.3	1.6	13.3	16.1	18.7	20.6	14.5	(16.3)	17.8
Depreciation and amortization	3.8	7.0	7.8	7.2	7.1	7.3	9.8	10.3	11.8	12.4	11.4
Other items not affecting cash	(1.6)	0.0	1.0	4.1	(0.6)	0.2	0.2	(0.4)	(0.7)	2.3	0.1
Change in working capital	(3.0)	6.8	0.4	0.7	(1.4)	(5.6)	(3.1)	(0.1)	(10.9)	4.7	4.6
Financial items and income taxes	(0.8)	(2.3)	(1.1)	(0.7)	(0.2)	(1.9)	(3.7)	(6.0)	(5.0)	(4.7)	(5.1)
Cash flow from operating activities	**3.6**	**10.5**	**10.4**	**12.9**	**18.2**	**16.1**	**21.9**	**24.4**	**9.7**	**(1.6)**	**28.8**
Investments in fixed assets	(5.1)	(7.7)	(6.3)	(5.8)	(7.2)	(9.9)	(9.7)	(10.1)	(12.6)	(10.3)	(10.3)
Investments in leasing assets	(0.6)	(0.5)	(0.1)	(0.1)	(0.3)	(0.3)	(0.5)	(0.2)	(0.4)	(0.2)	(0.3)
Disposals of fixed assets and leasing assets	0.7	1.1	1.1	0.6	0.7	0.9	0.9	1.1	0.6	0.7	0.8
Operating cash-flow	**(1.4)**	**3.4**	**5.1**	**7.6**	**11.4**	**6.8**	**12.6**	**15.2**	**(2.7)**	**(11.4)**	**19.0**

Exports from Sweden

SEK M	2000	2001	2002	2003	2004	2005	2006	2007	2008	2009	2010
Volvo Group, total	46,251	50,394	52,730	49,300	62,653	71,133	80,517	88,606	96,571	41,829	72,688

Key ratios

	2000	2001	2002	2003	2004	2005	2006	2007	2008	2009	2010
Gross margin, %[1]	19.3	17.2	17.9	19.2	21.6	21.8	22.7	22.6	21.3	13.9	23.3
Research and development expenses as percentage of net sales[1]	4.1	3.0	3.3	3.9	3.8	3.3	3.4	4.0	4.9	6.3	5.0
Selling expenses as percentage of net sales[1]	7.7	8.1	8.7	9.1	9.1	8.5	8.0	8.9	8.7	11.4	8.8
Administration expenses as percentage of net sales[1]	3.9	3.6	3.1	3.0	2.6	2.7	2.6	2.6	2.3	2.8	2.2
Return on shareholders' equity, %	5.0	neg	1.7	0.4	13.9	17.8	19.6	18.1	12.1	(19.7)	16.0
Interest coverage, times[1]	4.5	neg	2.2	1.9	11.0	16.7	26.1	20.7	8.8	(4.7)	5.9
Self-financing ratio, %	39	92	110	152	163	116	189	153	5	137	270
Self-financing ratio Industrial Operations, %	72	148	196	243	268	173	235	265	78	(16)	294
Financial position, Industrial Operations, SEK M	9,392	(7,042)	(6,063)	(2,426)	18,110	18,675	23,076	(4,305)	(29,795)	(41,489)	(24,691)
Net financial position as percentage of shareholders' equity , Industrial Operations	10.6	(8.2)	(7.7)	(3.3)	25.8	23.7	29.2	(5.7)	(39.7)	(70.9)	(37.4)
Shareholders' equity as percentage of total assets	44.3	32.8	32.8	31.4	31.3	30.6	33.7	25.7	22.7	20.2	23.3
Shareholders' equity as percentage of total assets, Industrial Operations	60.8	41.8	42.4	40.5	40.0	40.4	40.6	30.8	28.4	23.8	26.9
Shareholders' equity excluding minority interest as percentage of total assets	44.0	32.6	32.7	31.3	31.2	30.5	33.6	25.6	22.6	20.0	23.0

1 Pertains to the Industrial Operations. For periods up to and including 2006, Volvo 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)[1]

	2000	2001	2002	2003	2004	2005	2006	2007	2008	2009	2010
Basic earnings, SEK[1]	2.24	(0.70)	0.66	0.14	4.72	6.44	8.03	7.37	4.90	(7.26)	5.36
Cash dividend, SEK	1.60	1.60	1.60	1.60	2.50	3.35	10.00[9]	5.50	2.00	0	2.50[10]
Share price at year-end, SEK (B share)	31.30	35.20	28.40	43.70	52.70	74.90	90.70	108.50	42.90	61.45	118.50
Direct return, % (B share)[2]	5.1	4.5	5.6	10.5[8]	4.7	4.5	11.0	5.1	4.7	–	2.1
Effective return, % (B share)[3]	(23)	17.6	(14.8)	71.2	25.5	48.5	39.8	25.7	(59)	43	97
Price/earnings ratio (B share)[4]	14	neg	43	310	11.2	11.6	11.3	14.7	8.8	neg	22.1
EBIT multiple[5]	10	25	23	14	9.2	9.3	10.3	9.7	3.6	neg	12.0
Payout ratio, %[6]	71	neg	242	1,143	53	52	62	75	41	–	47
Shareholders' equity, SEK[7]	44.40	40.60	37.40	34.60	34	38.80	43	41	41	33	36
Return on shareholders' equity	5.0	neg	1.7	0.4	13.9	17.8	19.6	18.1	12.1	neg	16.0

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, (2000 includes premium in connection with repurchase, 2003 includes distribution of shares in Ainax, 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 extra payment of SEK 5 through redemption of shares.
10 Proposed by the Board of Directors.

Other share data	2000	2001	2002	2003	2004	2005	2006	2007	2008	2009	2010
Number of shareholders at year-end	230,000	214,000	211,000	208,500	202,300	195,442	183,735	197,519	220,192	233,311	240,043
Number of Series A shares outstanding at year-end, million	124.7	131.7	131.7	131.7	131.5	131.4	131.4	657	657	657	657
Number of Series B shares outstanding at year-end, million	272.6	287.8	287.8	287.8	278.6	273.1	273.4	1,369	1,371	1,371	1,371
Average number of shares outstanding, million	421.7	422.4	419.4	419.4	418.5	405.2	404.7	2,025	2,027	2,027	2,027
Number of Series A shares traded in Stockholm during the year, million	42.4	40.3	27.3	31.4	42.0	39.3	56.4	172.3	308.0	147.0	203.2
Number of Series B shares traded in Stockholm during the year, million	391.2	344.4	349.4	404.8	498.0	518.7	617.0	2,712.4	3,130.0	2,713.9	2,272.4
Number of shares traded in ADR, NASDAQ during the year, million	16.0	15.0	11.0	10.4	24.0	19.8	14.1	113.5	–	–	–

The largest shareholders in AB Volvo, December 31, 2010[1]

	Number of shares	% of total votes	Share capital, %
Renault s.a.s.	138,604,945	17.5	6.8
Industrivärden	92,445,434	11.1	4.6
Violet Partners LP	43,727,400	5.5	2.2
SHB[2]	46,454,585	4.8	2.3
AMF Insurance & Funds	56,042,500	3.9	2.8
AFA Insurance	29,136,945	3.5	1.4
Alecta (pension funds)	69,725,000	3.5	3.4
Swedbank Robur Funds	90,469,158	3.5	4.5
SEB Funds/Trygg Life Insurance	50,605,131	2.6	2.5
Skandia Liv	21,619,796	2.5	1.1
Total	**638,830,894**	**58.4**	**31.6**

1 Based on the number of outstanding shares.
2 Comprises shares held by SHB, SHB Pension Fund, SHB Employee Fund, SHB Pensionskassa and Oktogonen.

Distribution of shares, December 31, 2010[1]

Volvo shareholders	Number of shareholders	% of total votes[1]	Share of capital, %[1]
1–1,000 shares	182,716	2.3	2.8
1,001–10,000 shares	52,572	5.4	7.3
10,001–100,000 shares	4,050	3.1	4.8
100,001–	703	89.2	85.1
Total	**240,043**	**100.0**	**100.0**

1 Based on all registered shares.

AB Volvo held 4.7% of the Company's shares on December 31, 2010.

Business area statistics

Net sales[1]

SEK M		2000	2001	2002	2003	2004	2005	2006	2007	2008	2009	2010
Trucks	Western Europe	30,415	60,841	61,406	63,097	68,664	70,567	80,116	86,035	86,994	58,754	60,139
	Eastern Europe	3,158	5,526	6,424	7,004	8,767	9,139	13,166	22,616	22,920	7,120	9,467
	North America	17,048	33,630	33,721	28,151	35,154	46,129	50,605	27,255	26,588	21,563	26,901
	South America	3,111	3,993	3,277	3,464	5,223	7,657	9,213	11,483	14,680	12,490	21,680
	Asia	3,432	4,659	5,919	9,206	12,378	13,551	8,975	26,593	37,515	26,943	35,231
	Other markets	1,911	7,919	8,005	6,047	6,693	8,353	9,190	13,910	14,538	12,069	13,887
	Total	**59,075**	**116,568**	**118,752**	**116,969**	**136,879**	**155,396**	**171,265**	**187,892**	**203,235**	**138,940**	**167,305**
Buses	Western Europe	6,767	6,263	6,695	6,153	6,422	6,564	7,390	7,204	6,987	7,269	6,088
	Eastern Europe	182	373	409	381	526	578	534	563	334	438	154
	North America	7,723	6,847	3,838	2,984	2,960	4,247	4,910	4,630	5,355	5,673	7,200
	South America	732	757	366	329	521	2,641	1,537	1,623	1,571	1,235	1,737
	Asia	1,269	1,839	2,022	1,447	1,632	1,612	2,003	1,802	2,094	2,749	3,299
	Other markets	514	596	705	684	661	947	897	786	971	1,101	2,038
	Total	**17,187**	**16,675**	**14,035**	**11,978**	**12,722**	**16,589**	**17,271**	**16,608**	**17,312**	**18,465**	**20,516**
Construction Equipment	Western Europe	10,029	10,326	10,383	11,576	12,443	14,213	18,438	21,852	20,763	11,188	13,471
	Eastern Europe	255	341	454	772	1,010	1,311	1,888	3,442	4,429	1,799	2,667
	North America	5,823	6,145	5,667	5,428	8,601	10,337	11,280	11,170	10,159	5,475	6,267
	South America	776	847	709	636	922	1,238	1,358	2,155	2,913	2,578	4,130
	Asia	2,484	2,773	3,048	3,707	4,961	5,717	6,903	12,179	13,738	12,957	24,352
	Other markets	626	703	751	1,035	1,423	2,000	2,264	2,835	4,077	1,661	2,923
	Total	**19,993**	**21,135**	**21,012**	**23,154**	**29,360**	**34,816**	**42,131**	**53,633**	**56,079**	**35,658**	**53,810**
Volvo Penta	Western Europe	3,204	3,789	3,846	4,081	4,723	4,845	5,748	6,290	6,100	4,113	4,221
	Eastern Europe	30	38	99	108	184	257	363	508	454	277	285
	North America	2,257	2,175	2,261	2,109	2,500	2,832	2,815	2,674	1,947	1,100	1,501
	South America	160	213	127	146	142	208	221	274	364	284	335
	Asia	794	988	1,141	947	1,324	1,427	1,359	1,624	2,082	2,054	2,008
	Other markets	154	177	195	205	184	207	268	349	486	331	366
	Total	**6,599**	**7,380**	**7,669**	**7,596**	**9,057**	**9,776**	**10,774**	**11,719**	**11,433**	**8,159**	**8,716**
Volvo Aero	Western Europe	4,651	4,788	3,422	3,951	3,130	3,346	3,674	3,431	3,468	3,914	3,744
	Eastern Europe	42	87	28	49	49	60	124	31	29	28	24
	North America	5,040	5,841	4,573	3,301	3,127	3,612	3,815	3,723	3,534	3,508	3,599
	South America	134	187	177	152	138	168	173	127	58	34	27
	Asia	701	708	497	428	400	284	356	234	234	205	233
	Other markets	145	173	140	149	81	68	91	100	125	114	81
	Total	**10,713**	**11,784**	**8,837**	**8,030**	**6,925**	**7,538**	**8,233**	**7,646**	**7,448**	**7,803**	**7,708**
	Other and eliminations	6,825	7,073	6,775	7,041	7,228	7,076	(654)	(703)	(575)	(538)	(680)
Net sales Industrial Operations			**180,615**	**177,080**	**174,768**	**202,171**	**231,191**	**249,020**	**276,795**	**294,932**	**208,487**	**257,375**
Customer Finance	Western Europe	6,240	5,314	5,573	5,604	6,114	4,213	4,009	3,845	6,021	5,417	3,909
	Eastern Europe	257	360	424	474	499	584	379	639	1,078	1,710	824
	North America	2,626	3,216	3,344	2,542	2,432	2,036	2,569	2,467	369	3,004	2,605
	South America	452	451	403	358	396	570	608	620	791	1,070	1,156
	Asia	0	24	49	65	90	101	45	87	158	435	435
	Other markets	103	130	132	110	67	45	38	47	68	75	101
	Total	**9,678**	**9,495**	**9,925**	**9,153**	**9,598**	**7,549**	**7,648**	**7,705**	**8,485**	**11,711**	**9,031**
	Eliminations	–	(830)	(807)	(630)	(693)	1,819	2,167	905	250	(1,836)	(1,658)
Volvo Group total		**130,070**	**189,280**	**186,198**	**183,291**	**211,076**	**240,559**	**258,835**	**285,405**	**303,667**	**218,361**	**264,749**

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.

1 Net sales 2000–2001 have been restated in accordance with new organization effective from 2002.

ELEVEN-YEAR SUMMARY

Operating income

SEK M	2000	2001[4]	2002	2003[3]	2004[2]	2005	2006[1]	2007	2008	2009	2010
Trucks[5]	1,414	(2,066)	1,189	3,951	8,992	11,717	13,116	15,193	12,167	(10,805)	10,112
Buses	440	(916)	(94)	(790)	158	470	745	231	(76)	(350)	780
Construction Equipment	1,594	527	406	908	1,898	2,752	4,072	4,218	1,808	(4,005)	6,180
Volvo Penta	484	658	647	695	940	943	1,105	1,173	928	(230)	578
Volvo Aero	621	653	5	(44)	403	836	359	529	359	50	286
Customer Finance	1,499	325	490	926	1,365	2,033	1,686	1,649	1,397	(680)	167
Other	616	143	194	(3,142)	923	(598)	(684)	(762)	(731)	(994)	(102)
Operating income (loss) Volvo Group	**6,668**	**(676)**	**2,837**	**2,504**	**14,679**	**18,153**	**20,399**	**22,231**	**15,851**	**(17,013)**	**18,000**

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 Refers to Volvo Trucks for 2000.

Operating margin

%	2000	2001	2002	2003	2004	2005	2006	2007	2008	2009	2010
Trucks	2.4	(1.8)	1.0	3.4	6.6	7.5	7.7	8.1	6.0	(7.8)	6.0
Construction Equipment	8.0	2.5	1.9	3.9	6.5	7.9	9.7	7.9	3.2	(11.2)	11.5
Buses	2.6	(5.5)	(0.7)	(6.6)	1.2	2.8	4.3	1.4	(0.4)	(1.9)	3.8
Volvo Penta	7.3	8.9	8.4	9.1	10.4	9.6	10.3	10.0	8.1	(2.8)	6.6
Volvo Aero	5.8	5.5	0.1	(0.5)	5.8	11.1	4.4	6.9	4.8	0.6	3.7
Volvo Group Industrial Operations	**5.5**	**(0.4)**	**1.6**	**1.4**	**7.3**	**7.9**	**7.9**	**7.8**	**5.2**	**(7.8)**	**6.9**

Number of employees at year-end

Number[1,2]	2000	2001	2002	2003	2004	2005	2006	2007	2008	2009	2010
Trucks	24,320	44,180	43,470	46,900	49,450	50,240	49,900	64,390	64,280	56,505	57,796
Buses	9,060	6,230	6,660	6,680	7,700	7,710	7,760	9,290	8,930	9,541	8,685
Construction Equipment	8,830	7,780	8,410	9,280	9,930	10,290	11,050	19,710	19,810	16,126	16,648
Volvo Penta	1,480	1,370	1,410	1,440	1,580	1,560	1,650	3,000	2,940	2,928	2,353
Volvo Aero	4,240	4,040	3,660	3,440	3,350	3,460	3,510	3,550	3,510	3,278	3,120
Financial Services	1,220	1,080	1,060	1,060	1,100	1,070	1,010	1,150	1,290	1,234	1,235
Other	5,120	6,240	6,490	6,940	7,970	7,530	8,310	610	620	596	572
Volvo Group, total	**54,270**	**70,920**	**71,160**	**75,740**	**81,080**	**81,860**	**83,190**	**101,700**	**101,380**	**90,208**	**90,409**

1 As of 2007, employees in business units are allocated to the business areas.
2 As of 2009 regular employees are shown, previously temporary employees were also included.

Employees

Number[1]	2000	2001	2002	2003	2004	2005	2006	2007	2008	2009	2010
Sweden	25,030	24,350	25,420	26,380	28,530	27,070	27,830	28,660	28,190	22,763	23,073
Europe, excluding Sweden	12,320	27,800	27,130	29,120	28,930	29,650	30,070	32,780	32,940	29,793	29,239
North America	11,410	12,670	12,440	12,270	14,620	15,140	14,820	15,750	14,200	12,640	12,844
South America	2,100	2,090	2,020	2,640	3,110	3,690	3,890	4,640	4,380	4,257	4,322
Asia	2,570	2,550	2,590	3,710	4,130	4,210	4,420	17,150	19,090	18,416	18,535
Other markets	840	1,460	1,560	1,620	1,760	2,100	2,160	2,720	2,580	2,339	2,396
Volvo Group total	**54,270**	**70,920**	**71,160**	**75,740**	**81,080**	**81,860**	**83,190**	**101,700**	**101,380**	**90,208**	**90,409**

1 As of 2009 regular employees are shown, previously temporary employees were also included.

Delivered units

Number	2000	2001	2002	2003	2004	2005	2006	2007	2008	2009	2010
Heavy-duty trucks (>16 tons)	76,470	117,180	120,200	120,920	152,300	172,242	179,089	172,322	179,962	82,675	123,522
Medium-duty trucks (7–15.9 tons)	5,360	17,310	16,220	15,870	18,800	18,643	14,695	27,933	30,817	21,653	30,657
Light trucks (<7 tons)	–	20,820	20,710	19,200	22,120	23,494	26,147	36,101	40,372	23,354	25,811
Total trucks	**81,830**	**155,310**	**157,130**	**155,990**	**193,220**	**214,379**	**219,931**	**236,356**	**251,151**	**127,681**	**179,989**

Number		2000	2001	2002	2003	2004	2005	2006	2007	2008	2009	2010
Trucks	Total Europe	46,140	98,040	96,290	92,080	102,670	103,622	114,417	128,070	121,847	49,145	65,503
	Western Europe	42,050	90,460	87,490	82,670	90,750	91,087	97,074	100,106	95,969	43,919	56,215
	Eastern Europe	4,090	7,580	8,800	9,410	11,920	12,535	17,343	27,964	25,878	5,226	9,288
	North America	23,610	34,650	36,510	34,760	49,270	64,974	70,499	33,280	30,146	17,574	24,282
	South America	4,530	5,790	5,360	5,980	9,190	11,248	11,646	15,264	18,092	12,587	21,483
	Asia	5,560	6,600	9,140	16,290	24,880	25,706	12,817	39,916	60,725	34,800	53,833
	Other markets	1,990	10,230	9,830	6,880	7,210	8,829	10,552	19,826	20,341	13,575	14,888
	Total	**81,830**	**155,310**	**157,130**	**155,990**	**193,220**	**214,379**	**219,931**	**236,356**	**251,151**	**127,681**	**179,989**
Buses	Total Europe	3,994	3,115	3,413	3,087	3,417	3,723	3,570	3,748	3,313	3,164	2,395
	Western Europe	3,870	2,899	3,076	2,782	3,073	3,385	3,081	3,377	3,140	2,896	2,336
	Eastern Europe	124	216	337	305	344	338	489	371	173	268	59
	North America	3,869	3,128	1,945	1,553	1,388	1,546	1,741	1,547	1,884	1,539	2,092
	South America	980	1,009	495	369	624	2,297	1,236	1,318	995	690	1,174
	Asia	1,659	2,209	2,639	2,227	2,341	2,554	3,349	2,757	3,033	3,839	3,477
	Other markets	513	492	567	581	462	555	464	546	712	625	1,091
	Total	**11,015**	**9,953**	**9,059**	**7,817**	**8,232**	**10,675**	**10,360**	**9,916**	**9,937**	**9,857**	**10,229**

Environmental performance of Volvo production plants, Industrial operations

Absolute values related to net sales	2006	2007[1]	2008	2009	2010
Energy consumption (GWh; MWh/SEK M)	2,612; 10.5	2,426; 9.6	2,530; 8.6	1,888; 9.1	2,315; 9.0
CO_2 emissions (1,000 tons; tons/SEK M)	282; 1.1	242; 1.0	291; 1.0	213; 1.0	279; 1.1
Water consumption (1,000 m3; m3/SEK M)	7,596; 30.6	7,067; 27.9	8,205; 27.8	6,637; 31.8	7,519; 29.2
NOx emissions (tons; kilos/SEK M)	606; 2.4	542; 2.1	800; 2.7	322; 1.5	719; 2.8
Solvent emissions (tons; kilos/SEK M)	2,048; 8.3	1,979; 7.8	1,945; 6.6	1,435; 6.9	2,294; 8.9
Sulphur dioxide emissions (tons; kilos/SEK M)	69; 0.3	58; 0.2	64; 0.2	38; 0.2	33; 0.1
Hazardous waste (tons; kg/SEK M)	26,987; 109	27,120; 107	27,675; 94	17,558; 84	22,730; 88
Net sales, SEK bn	248.1	253.2	294.9	208.5	257.4

1 Excluding UD Trucks and Ingersoll Rand Road Development.

GROUP MANAGEMENT

Olof Persson   Leif Johansson   Pär Östberg

Dennis Slagle   Jan-Eric Sundgren

Satoru Takeuchi   Stefano Chmielewski

Staffan Zackrisson   Per Löjdquist   Mikael Bratt   Stefan Johnsson

Göran Gummeson   Staffan Jufors   Håkan Karlsson

Eva Persson   Peter Karlsten   Martin Weissburg

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. **Chairman:** ERT (European Round Table of Industrialists). **Board member:** Bristol-Myers Squibb Company, Svenska Cellulosa Aktiebolaget SCA and The Confederation of Swedish Enterprise. 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.

Staffan Jufors
President of Volvo Trucks

Born 1951. Master of Business Administration. President of Volvo Trucks 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:** 40,863 shares, including 34,937 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.

Dennis Slagle
President and CEO of North American Trucks

Born 1954. Bachelor of Science. President and CEO of North American Trucks since November 1, 2009. 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. **Board member:** West Virginia Wesleyan Collage Board of Trustees. **Holdings in Volvo, own and related parties:** 8,838 Series B shares.

Satoru Takeuchi
President of UD Trucks, included in Trucks Asia

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

Håkan Karlsson
President of Volvo Buses

Born 1961. M. Sc. Engineering. President of Volvo Buses 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:** 37,333 shares, including 35,842 Series B shares.

Olof Persson
President of Volvo Construction Equipment

Born 1964. Bachelor of Business Administration. President of Volvo Aero 2006–2008. President of Volvo Construction Equipment since 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.

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:** 108,962 shares, including 108,862 Series B shares.

Staffan Zackrisson
President of Volvo Aero

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

Martin Weissburg
President of Volvo Financial Services

Born 1962. Bachelor of Science, Master of Business Administration. President of Volvo Financial Services since May 15, 2010. President of Volvo Financial Services the Americas 2005–2010. Member of the Group Executive Committee since May 15, 2010. With Volvo since 2005. **Holdings in Volvo, own and related parties:** 4,500 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:** 142,406 shares, including 142,250 series B shares.

Pär Östberg
Senior Vice President and President 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. **Holdings in Volvo, own and related parties:** 150,767 shares, including 150,667 Series B shares.

Stefan Johnsson
Senior Vice President

Born 1959. Master of Business Administration. Senior Vice President of AB Volvo responsible for business units, human resources and coordination of the Group's soft products business. 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 Association of Swedish Engineering Industries, The Chalmers University of Technology Foundation and GU School of Executive Education AB. **Holdings in Volvo, own and related parties:** 149,198 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 2008. Responsible for finance, strategy and business development. Has held various senior positions in the financial areas in the Volvo Group, 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 and General Counsel

Born 1953. Master of Laws. Senior Vice President of AB Volvo and General Counsel of the Volvo Group. Responsible for legal, compliance, tax and security matters. Member of the Group Executive Committee since 1997. With Volvo since 1988. Secretary to the Volvo Board since 1997. **Board member:** Handelsbanken Region Väst and Norsk Hydro ASA. **Holdings in Volvo, own and related parties:** 75,823 shares, including 74,407 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. **Holdings in Volvo, own and related parties:** 114,142 shares, including 97,362 Series B shares.

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. **Chairman:** SP Technical Research Institute of Sweden. **Board member:** Hogia AB and Lindholmen Science Park AB. 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

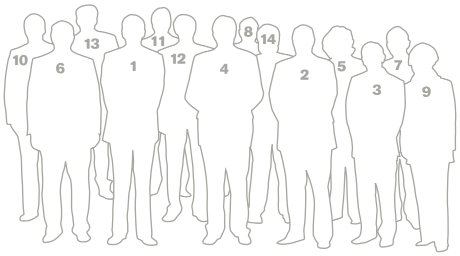
Tony Helsham, Senior Vice President responsible for soft products, resigned from the Group Executive Committee on March 31, 2010.

Martin Weissburg has been appointed as new President of the Volvo Group's customer finance company, Volvo Financial Services (VFS). Weissburg assumed his new position on May 15, 2010 and replaced Salvatore L Mauro, who was appointed new head of the Volvo Group's representation office in New York.

On December 8, 2010 Leif Johansson informed his intention to resign as CEO of the Volvo Group in conjunction with his 60th birthday in the summer of 2011.

BOARD OF DIRECTORS AND AUDITORS

In October 2010, the Board visited UD Trucks in Ageo, Japan.



Board members elected by the Annual General Meeting

1. Louis Schweitzer
Chairman of the Board since January 15, 2010
Chairman of the Remuneration Committee

Born 1942. Bachelor of Laws. **Board Chairman:** AstraZeneca Plc. **Board member:** BNP-Paribas, L'Oréal and Véolia. Member of the Volvo Board since 2001. Chairman of the Board since January 15, 2010. **Holdings in Volvo, own and related parties:** 40,000 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 of the French High Authority against Discrimination and for Equality, HALDE (2005–2010); numerous positions with Renault S.A. (Chief Financial Officer and Executive Vice President Finance and Planning, Chief Operating Officer, Chairman and Chief Executive Officer).

2. 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.

3. Jean-Baptiste Duzan
Member of the Audit Committee

Born 1946. Graduate of the Ecole Polytechnique. Advisor to the Chief Executive Officer, Renault S.A. Senior Advisor Lazard Frères. **Board member:** Nissan Motor Co. Ltd. Member of the Volvo Board since 2009. **Holdings in Volvo, own and related parties:** 1,000 Series B shares.

Principal work experience: Began his career at Citibank. Has held various positions within Renault since 1982 – director of financial services at Renault V.I.; director of financial operations; project director for the car model Safrane; Senior Vice President, Purchasing; and joined the Renault Management Committee. He was also named Chairman and Managing Director, Renault Nissan Purchasing Organization.

4. 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. **Chairman:** ERT (European Round Table of Industrialists). **Board member:** Bristol-Myers Squibb Company, Svenska Cellulosa Aktiebolaget SCA and The Confederation of Swedish Enterprise. 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.

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.

5. Hanne de Mora

Born 1960. BA in Economics from HEC in Lausanne, MBA from IESE in Barcelona. **Board Chairman:** a-connect (group) ag. **Board member:** Sandvik AB. Member of the Volvo Board since 2010. **Holdings in Volvo, own and related parties:** 3,000 Series B shares.

Principal work experience: Credit Analyst Den Norske Creditbank in Luxemburg 1984, various positions within brand management and controlling within Procter & Gamble 1986–1989, Partner McKinsey & Company, Inc. 1989–2002, one of the founders and owners, also Chairman of the Board, of the management company a-connect (group) ag since 2002.

6. Anders Nyrén
Member of the Remuneration Committee

Born 1954. Graduate of the Stockholm School of Economics, MBA at UCLA. President and Chief Executive Officer of AB Industrivärden. **Board Chairman:** Sandvik AB. **Vice Chairman:** Svenska Handelsbanken. **Board member:** AB Industrivärden, Ernströmgruppen, SSAB Svenskt Stål AB, Svenska Cellulosa Aktiebolaget SCA, Telefonaktiebolaget LM Ericsson and SSE Association. Member of the Volvo Board since 2009. **Holdings in Volvo, own and related parties:** 5,200 Series B shares.

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

7. Ravi Venkatesan

Born 1963. MBA and M Sc Industrial Engineering. Chairman of Microsoft India and responsible for Microsoft's marketing, operational and business development efforts in India. **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.

8. 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 Svenskt Stål AB and Sandvik 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 AB and Autoliv Inc.

9. Ying Yeh
Member of the Remuneration Committee

Born 1948. BA, Literature & International Relations. Vice President and Chairman of Nalco Company, Greater China 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, latest as President and Chairman, North Asia Region.

Board members and deputies appointed by employee organisations

10. Martin Linder

Employee representative. Born 1973. With Volvo since 1994. Member of the Volvo Board since 2004. **Holdings in Volvo, own and related parties:** 212 Series A shares.

11. Mikael Sällström

Employee representative. Born 1959. With Volvo 1980–1999 and since 2009. Member of the Volvo Board since 2009. **Holdings in Volvo, own and related parties:** None.

12. Berth Thulin

Employee representative. Born 1951. With Volvo since 1975. Deputy member of the Volvo Board since 2009 **Holdings in Volvo, own and related parties:** 1,425 Series B shares.

13. Lars Ask

Employee representative. Born 1959. With Volvo since 1982. Deputy member of the Volvo Board since 2009. **Holdings in Volvo, own and related parties:** 406 shares, including 250 Series B shares.

14. Peteris Lauberts

Employee representative. Born 1948. With Volvo since 1999. Deputy member of the Volvo Board since 2010. **Holdings in Volvo, own and related parties:** 156 Series A shares.

Changes in the Board

Board members elected by the Annual General Meeting
On January 15, 2010, Finn Johnsson resigned as Chairman and Board member. In connection therewith, Louis Schweitzer was appointed new Chairman until the next Annual General Meeting.
At the Annual General Meeting 2010 Louis Schweitzer was appointed Chairman of the Board until the next Annual General Meeting. Hanne De Mora was appointed new member of the Board at the Annual General Meeting 2010.

Board members and deputies appointed by employee organisations
On January 11, 2010, Margareta Öhlin left her assignment as deputy. In connection therewith, Peteris Lauberts was appointed new deputy.

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:** 75,823 shares, including 74,407 Series B shares.

Auditors

PricewaterhouseCoopers AB

Göran Tidström

Authorized Public Accountant.
Lead Partner.

Auditor since 2006.

Other assignments: Auditor of Trelleborg AB, Meda AB and Kungliga Operan. President of IFAC (International Federation of Accountants).

Born 1946.

Johan Rippe

Authorized Public Accountant.

Auditor since 2010.

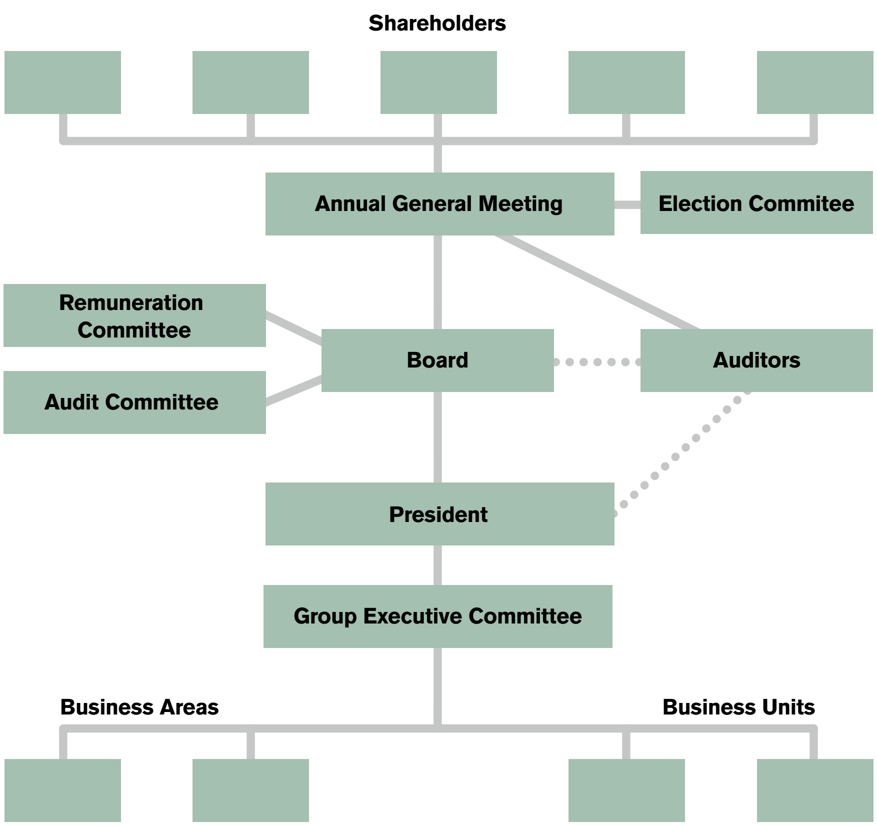
Other assignments: Auditor of Getinge AB and Elanders AB.

Born 1968.

CORPORATE GOVERNANCE REPORT

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

The Volvo Group Corporate Governance Model



Corporate bodies in corporate governance

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

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

An Election Committee, appointed by the Annual General Meeting of AB Volvo, proposes candidates to serve as Board members, Board Chairman and external auditors. The Board is responsible for the Group's long-term development and strategy, for controlling and evaluating the company's operations and for the other duties set forth in the Companies Act. In addition, the Board appoints the President of AB Volvo, who is also the Chief Executive Officer (CEO). The duties of the Board are partly exercised through its Audit Committee and its Remuneration Committee. The CEO is in charge of the daily management of the Group in accordance with guidelines and instructions provided by the Board.

The CEO is in charge of the daily management of the Group through primarily two different bodies, the Group Executive Committee and the business areas' and business units' Boards of Directors. The Group Executive Committee comprises those who report directly to the CEO. The Group Executive Committee meetings, which are led by the CEO, deal with Group-wide issues and issues affecting more than one business area/unit, and sharing of information concerning the Group's performance. The CEO or another member of the Group Executive Committee is the Chairman of the Boards of all business areas and business units, which are comprised mainly of other members of the Group Executive Committee. The Boards of the business areas and business units effect control and follow-ups of business areas' and business units' financial development, business plans and goals as well as make decisions regarding, for example, investments.

Swedish Code of Corporate Governance

Volvo applies the Swedish Code of Corporate Governance (the Code), which is available at www.bolagsstyrning.se.

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

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

Election Committee

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

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

The Election Committee's proposal shall be presented to Volvo in sufficient time to be included in the notice to attend the Annual General Meeting and to be published on Volvo's website at the same time. In conjunction with the notice to attend the Annual General Meeting is published, the Election Committee shall, among other things, comment on whether those persons who are proposed to be elected as Board members are to be considered as independent in relation to the company and company management as well as to major shareholders in the company and further to comment on their material assignments and holding of shares in Volvo. Moreover, the Committee shall report on how it conducted its work.

In accordance with existing instructions, the Annual General Meeting shall select five members to serve on the Election Committee, of which four shall represent the largest shareholders in the company, in terms of the number of votes, who have expressed their willingness to participate. In addition, one of the members shall be the Chairman of the AB Volvo Board. Additionally, the Election Committee can offer other larger shareholders to appoint one representative as a member of the Election Committee. If such an offer is made, it should be directed in turn to the largest shareholder in terms of voting rights not already being represented on the Election Committee. The number of members on the Election Committee, however, may not exceed seven.

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

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

The Board

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

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

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

1 Left the Board on January 15, 2010.

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

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

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

On January 15, 2010, Finn Johnsson resigned as Chairman of the Board and Board member. Thereby, the number of Board members elected by the Annual General Meeting decreased to eight. In connection with Finn Johnsson resigning as Chairman of the Board and Board member, the Board of Directors appointed Louis Schweitzer as new Chairman of the Board until the next Annual General Meeting.

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

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

During 2010, six regular meetings, one statutory meeting and one extraordinary meeting were held.

The Board has adopted work procedures for its activities that contain rules pertaining to the distribution of work between the Board members, the number of Board meetings, matters to be handled at regular meetings of the Board and duties incumbent on the Chairman. In accordance with these procedures, the Board's Chairman shall organize and guide the Board's work, be responsible for contacts with the owners regarding ownership matters and provide the owners' viewpoints to the Board, ensure that the Board receives adequate information and decision documents for its work and to control that the Board's decisions are complied with. In addition, the work procedures contain directives concerning the tasks of the Audit Committee and the Remuneration Committee respectively. The Board has also issued written instructions specifying how financial information should be reported to the Board as well as defining the distribution of duties between the Board and the President.

The Annual General Meeting decides on the fees to be paid to the Board members elected by the shareholders. The Annual General Meeting held on April 14, 2010 approved a fee to the Board, for the time until the end of the next Annual General Meeting, according to the following: Chairman of the Board should receive a fee of SEK 1,500,000 and each of the remaining members should receive a fee of SEK 500,000, with the exception of the President. In addition, the Chairman of the Audit Committee should receive SEK 250,000, the other two members of the Audit Committee SEK 125,000 each and the members of the Remuneration Committee SEK 75,000 each.

During the year, the Board reviewed the business plans and strategies for the various businesses in the Volvo Group. The Board also reviewed the financial positions of AB Volvo and the Volvo Group on a regular basis and acted in order to ascertain that there are efficient systems in order to follow-up and control the business and financial position of the Volvo Group. In connection therewith, the Audit Committee was responsible for preparing for the Board's work to assure the quality of the Group's financial reporting through reviewing the interim reports, the annual report and the consolidated accounting. In connection therewith, the Board met with the company's auditors during 2010. The Board continuously evaluated the performance of the CEO.

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

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

The Board's work is mainly performed through Board meetings and through meetings in the respective committees of the Board. In addition thereto, the Chairman of the Board is in regular contact with the CEO in order to discuss on-going business and to ensure that the decisions taken by the Board are executed. An account of each Board member's age, main education, professional experience, assignments in the Company, other important board memberships, their and related parties' ownership of shares in Volvo as of February 24, 2011, and the years of membership on the Volvo Board, is presented in the section Board of Directors and auditors on page 141.

During 2010, the Board performed its yearly evaluation of the Board's work. The Chairman has informed the Election Committee on the result of the evaluation.

Independence requirements

The Board of Directors of AB Volvo must meet independence requirements pursuant to the Code. Further, the Audit Committee must meet independence requirements pursuant to the Swedish Companies Act. Below follows a short description of the independence requirements. The independence requirements mainly state that only one person from the company's management may be a member of the Board, that a majority of the Board members elected by the General Meeting shall be independent of the company and the company management and that at least two of the Board members elected by the General Meeting who are independent of the company and the company's management shall also be independent of the company's major shareholders. In addition, the Code demands that a majority of the members in the Audit Committee shall be independent of the company and the company management and that at least one of the members who is independent of the company and the company management shall also be independent of the company's major shareholders. According to the Swedish Companies Act, the members of the Audit Committee may not be employees of the company and that at least one member of the audit Committee shall be independent of the company, company management and the company's largest shareholders and shall have accounting and auditing expertise. With regard to the Remuneration Committee, the Code sets the requirement that members of the Remuneration Committee, with the exception of the Board Chairman if a member of the Remuneration Committee, shall be independent of the company and company management.

Prior to the Annual General Meeting 2010, considering the above requirements regarding the Board's independence, the Election Committee reported the following understanding with regard to the Board members who were elected at the Annual General Meeting in 2010:

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

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

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

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

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

The Election Committee must also meet independence requirements pursuant to the Code. According to the Code, the majority of the members of the Election Committee are to be independent of the company and the company management. At least one member of the Election Committee is to be independent of the company's largest shareholder in terms of votes or any group of shareholders that act in concert in the governance of the company. Neither the CEO nor other members of the executive management are to be members of the Election Committee. If Board members are included in the Election Committee, these may not constitute a majority of the Election Committee's members. The Chairman of the Board of the company or other Board member may not be the Chairman of the Election Committee. If Board members are included in the Election Committee, not more than one of them may be dependent in relation to the company's largest shareholders. All members of the Election Committee have been considered to be independent of the company and the company management. All members of the Election Committee except Thierry Moulonguet and Louis Schweitzer have, prior to being appointed, been considered to be independent of Volvo's largest shareholder in terms of votes. This conclusion is based on the facts that Renault s.a.s. is Volvo's largest shareholder in terms of votes, that Thierry Moulonguet represents Renault s.a.s. in the Election Committee and that Louis Schweitzer at the time of the Annual General Meeting 2010, when he was appointed as member of the Election Comittee, represented Renault s.a.s. in the Board. As stated above Louis Schweitzer has however, prior to the Annual General Meeting 2011, been considered as independant from Renault s.a.s., Volvo's largest shareholder in terms of votes.

Audit Committee

In December 2002, the Board established an Audit Committee primarily for the purpose of overseeing the accounting and financial reporting processes and the audit of the financial statements. The Audit Committee is responsible for preparing the Board's work to assure the quality of the Group's financial reporting by reviewing the interim reports, the annual report and consolidated accounting. In addition, the Audit Committee's task is to establish guidelines specifying what other services, beyond auditing, the company may procure from the company's auditors and to provide guidelines for transactions with companies and persons closely associated with Volvo.The Audit Committee also has the task of reviewing and overseeing the impartiality and independence of the company's auditor. The Audit Committee is also responsible for evaluating the internal and external auditors' work, providing the Election Committee with the results of the evaluation of the eternal auditors and to assist in preparing proposals for auditors. Finally, the Audit Committee shall evaluate the quality, relevance and efficiency of the Group's system for internal control over financial reporting, internal audit and risk management.

At the statutory Board meeting following the 2010 Annual General Meeting, Lars Westerberg, Peter Bijur and Jean-Baptiste Duzan were appointed members of the Audit Committee. Lars Westerberg was appointed Chairman of the Audit Committee.

The Audit Committee met with the external auditors and Head of Internal Audit at the meetings of the Audit Committee. The Audit Committee has also met separately with the external auditors and the Head of Internal Audit without the presence of the company management. The Audit Committee and the external auditors have among other things discussed the external audit plan and risk management. The Audit Committee held six meetings during 2010.

Remuneration Committee

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

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

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

In conjunction with resigning as Chairman and member of the Board of the company on January 15, 2010, Finn Johnsson also left the Remuneration Committee. Thereafter, Ying Yeh was appointed as a new member of the Remuneration Committee and Louis Schweitzer was appointed as the new Chairman of the Remuneration Committee. At the statutory meeting of the Board following the 2010

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

Group Executive Committee

An account of their respective age, principal education, Board memberships, their and related parties' ownership of shares in Volvo as of February 24, 2011, and year of joining Volvo for the CEO and each member of the Group Executive Committee is presented in the Group Management section on page 139.

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

External auditing

Volvo's auditors are elected by the Annual General Meeting. The current auditor is PricewaterhouseCoopers AB (PwC), which was elected at the 2010 Annual General Meeting for a period of four years. Two PwC partners, Göran Tidström and Johan Rippe, are responsible for the audit of Volvo. Göran Tidström is the Lead Partner.

The external auditors discuss the external audit plan and risk management with the Audit Committee. The auditors review the interim report for the period January 1 to June 30 and the annual report and the consolidated accounting. The auditors also express an opinion whether this Corporate Governance Report was prepared or not and in such respect whether certain information therein coincides with the annual and consolidated accounting. The auditors report their findings with regard to the annual report , consolidated accounting and the Corporate Governance Report through the audit reports and a separate opinion regarding the Corporate Governance Report, which they present to the Annual General Meeting. In addition, the auditors report detailed findings from their reviews to the Audit Committee twice a year and, once a year, to the full Board of Directors.

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

Disclosure Committee

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

The Committee comprises the heads of the departments Corporate Finance, Internal Audit, Investor Relations, Corporate Legal, Business Control and Financial Reporting. Chairman of the Disclosure Committee is the company's Senior Vice President responsible for Corporate Communications.

Outstanding share and share-price related incentive programs

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

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

The Board is responsible for the internal controls according to the Swedish Companies Act and the Code. The purpose of this report is to provide shareholders and other interested parties an understanding of how internal control is organized at Volvo with regard to financial reporting. The report has been prepared in accordance with the Annual Accounts Act. Consequently the report is limited to internal control over financial reporting.

Introduction

Volvo primarily applies internal control principles introduced by the Committee of Sponsoring Organizations of the Treadway Commission (COSO). The COSO principles consist of five interrelated components. The components are: control environment, risk assessment, control activities, information and communication and follow-up.

Volvo has a specific function for internal control. The objective of the Internal Control function is to provide support for management groups within business areas and business units, that allows them to continuously provide good and improved internal controls relating to financial reporting. Work that is conducted through this function is based primarily on a methodology, which aim is to ensure compliance with directives and policies, as well as to create good conditions for specific control activities in key processes related to financial reporting. The Audit Committee is informed of the result of the work performed by the Internal Control function within Volvo with regard to risks, control activities and follow-up on the financial reporting.

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

Control environment

Fundamental to Volvo's control environment is the business culture that is established within the Group and in which managers and employees operate. Volvo works actively on communications and training regarding the company's basic values as described in The Volvo Way, an internal document concerning Volvo's business culture, and the Group's Code of Conduct, to ensure that good morals, ethics and integrity permeate the organization.

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

Risk assessment

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

Control activities

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

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

Information and communication

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

Follow-up

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

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

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

Göteborg, February 24, 2011

AB Volvo (publ)

Board of Directors

Auditor's report on the Corporate Governance Report

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

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

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

Göteborg, February 24, 2011

PricewaterhouseCoopers AB

Göran Tidström
Authorized Public Accountant
Lead Partner

Johan Rippe
Authorized Public Accountant

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.

EBITDA
EBITDA is the operating income before depreciation and amortization of tangible and intangible assets. This key figure is calculated by adding back depreciation and amortization on the operating income of the Industrial operations.

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 6, 2011

The Annual General Meeting of AB Volvo will be held in Göteborg in Lisebergshallen (entrance from Örgrytevägen) Wednesday, April 6, 2011, at 3:00 p.m.

Notice

Those who wish to participate must be recorded in the share register maintained by Euroclear Sweden AB on March 31, 2011 and give notice of intention to attend, not later than March 31, 2011, preferably before 12:00:

- by telephone, +46 8 402 90 76, beginning March 7, 2011
- by mail addressed to AB Volvo (publ), "AGM", P.O. Box 7481, SE-103 98 Stockholm, Sweden
- on AB Volvo's website 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, several banking days prior to March 31, 2011, request temporary owner-registration, so-called voting-right registration, at the bank or broker holding the shares.

Volvo's Election Committee

The following persons are members of Volvo's Election Committee:

Thierry Moulonguet	Chairman of the Election Committee, Renault s.a.s.
Ingrid Bonde	AMF Pension
Carl-Olof By	AB Industrivärden
Lars Förberg	Violet Partners LP
Håkan Sandberg	Handelsbanken SHB Pension Fund, SHB Pensionskassa, SHB Employee Fund and Oktogonen
Louis Schweitzer	Chairman of the AB Volvo Board

Among other duties, the Election Committee is responsible for submitting to the Annual General Meeting proposals for candidates to serve as members of the Board of Directors and Chairman of the Board. The Committee also proposes the amount of the fees to be paid to the holders of these positions.

Preliminary publication dates

Report for the first three months 2011	April 27, 2011
Report for the first six months 2011	July 22, 2011
Report for the first nine months 2011	October 25, 2011
Report on 2011 operations	February, 2012
Annual Report 2011	March, 2012

The reports are available on www.volvogroup.com on date of publication and are also sent electronically to 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.

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