

**Shareholders, ladies and gentlemen,**

This is the thirteenth time that I stand before you to summarize activities during the preceding year. Through the years, I have talked about acquisitions and divestments of companies, interesting new markets and how the Volvo Group has developed into one of the world's largest producers of commercial vehicles and construction equipment.

This year, I can honestly say I have never summarized a year as dramatic as 2009. It was a year during which we saw virtually all of our markets decline sharply, reaching levels we haven't seen in almost 20 years in Europe, 30 years in North America and as many as 50 years in Japan. Our sales declined an almost inconceivable SEK 90 billion as a result of the exceptional developments in the world. SEK 90 billion, that was the combined amount of sales invoiced during 2008 by Volvo CE, Buses, Penta and Aero.

As you can understand, it was a difficult year in strong headwinds, and we were forced to convert to a sharply lower cost structure in the Group. We carried substantial costs for write-downs of inventories, credit losses, restructuring and production adjustments. And I am extremely sorry to say that we have also been forced to terminate skilled employees in several parts of the world.

However, let me also describe 2009 as a year in which global economic conditions showed gradual improvement. Toward year-end, and even more clearly in the beginning of 2010, we have noted that several of our markets have turned toward recovery, including markets in Europe. We have also noted a return to growth in order bookings and sales. And our establishments in different markets have performed favorably, perhaps most notably in Asia.

During 2008 and 2009, we worked hard to reduce our costs, which also yielded results. Our goal, which we have largely achieved as a result of exceptional work efforts throughout the entire Group, was to reduce costs by SEK 21 billion. We have also surpassed our goal to reduce inventories by SEK 15 billion, reaching total reductions of SEK 17 billion – an excellent result. Working with inventories on par with demand, we have raised the production rate at our plants, and we reinstated a small number of employees in the beginning of the year.

We now see signs of improvement, and I believe the worst is behind us. The greatest costs have been taken and the most difficult decisions have been made. Instead, we can now concentrate on meeting the growing demand from our customers and continue to deliver what we believe are the world's best trucks, buses, construction equipment, engines, driveline systems and aircraft engine components. It will be a long journey before we get back to the sales levels of earlier years but, as I said, the most difficult year is behind us.

## MOVING FORWARD

I am sometimes asked what we within the Group have learned from the crisis. We could use a cliché and reply, what doesn't kill you makes you stronger... In fact, there is some truth in that. We have gone through one of the toughest periods in the history of the Volvo Group. Although we were never close to death's door, if we hadn't taken appropriate actions, the consequences could have been devastating. We have been forced to endure some soul-searching and a thorough review of the entire Group. And we have addressed problems that, to be honest, should have been addressed earlier. I dare say that we have a much better organization today, more efficient.

We have also learned that we are vulnerable when our customers face serious problems with their liquidity – which was the case when the global banking system collapsed. Because of the globally integrated finance markets, countries in all parts of the world were impacted simultaneously, which was totally unique. In a normal economic recession, demand declines about 25 percent over two years. With the recent financial crisis, demand fell 50 percent in just two quarters. This provides a clear picture of just how rapidly and sharply the market declined.

So where do we stand today? In spite of everything, I believe that we have a very favorable position with significant opportunities to achieve good profitability in parallel with the market's recovery. As you know, we grew strongly over a period of many years, both organically and through acquisitions. Our strategy was to become the world's largest supplier of commercial vehicles and construction equipment – and that is exactly where we stand today.

We have deliberately been highly expansive, which also generated some criticism. Today, however, we are able to state that our acquisitions helped create very strong positions in several key markets. In India, for example, we have a market share of more than 30 percent for midsize trucks, thanks in large part to our joint-venture company Eicher Motors. In Japan, UD Trucks, formerly known as Nissan Diesel, has a market share of nearly 25 percent for heavy trucks. And in China, we are on the verge of becoming the second largest manufacturer of construction equipment through our acquisition of Lingong. These positions secure the Group's competitiveness over the long term and will serve as extremely valuable assets when the market, starting in Asia, starts to recover and gains momentum.

We have achieved significant growth through our acquisitions, and we have now reached a point at which we are large enough to utilize the Group's resources more effectively. Our focus during the next few years will be concentrated on greater internal efficiency and raising productivity in the Group.

Naturally, we will also continue to focus on efforts to develop and offer world-leading products and services for both new and old customers. Because regardless of economic development, there will always be a need for transport vehicles. Transports may be described as one of society's circulatory systems, and they will always be needed, in good times and bad.

For example, take all the food that we eat, all the garbage we throw away or all the transports to and from our plants and to our export markets. Or all the buses that transport people to and from work in all parts of the world; without them, everyday life would not function very

effectively. Or take the thousands of Volvo construction machines that are used every day to build roads, railroads and ports – they describe very well society's dependence on functional transports.

Every year, as the global population grows and society continues to develop, the need for effective modes of transportation becomes greater. Today's transport policy unfortunately, places different means of transportation against each other, often paralyzed with the argument that road transports are an inferior alternative. In this context, the European Commission's forecast shows that economic growth without road transports is not possible. Instead, co-existence is needed between road transports, railways, shipping and air cargo in order to meet tomorrow's transport requirements. We need *unified* solutions that enable different modes of transportation to interact with each other, not independently.

I also want to emphasize the importance of a more expansive and highly functional public transport system. Only a stone's throw from here, at Korsvägen, buses travel to and from virtually all parts of western Sweden. They enable passengers to commute to workplaces outside Gothenburg, or attend schools relatively far from their homes, and simply and efficiently visit other people they hold near and dear.

Today, as increasingly large numbers of people are concentrated in metropolitan areas, the need is growing for safe and environmentally adapted transports for us human beings. In terms of space considerations, environmental and, not least, financial considerations, public transport is the only option able to meet today's requirements. For example, take one of the largest cities in the world, Mexico City, which uses BRT systems today in which Volvo buses drive in dedicated bus lanes. Every day, hundreds of thousands of people are transported to and from work – Volvo buses are a prerequisite for functional everyday life for these people.

The next time you see a Volvo bus or truck on the road, try to see more than a beautiful vehicle. Instead, remember that a professional driver is contributing to social development. A person is meeting our needs for travel, food, clothing and other goods.

## ECONOMIES THAT DRIVE GROWTH

The strongest growth in the transport sector today lies in young economies such as Brazil, India and China. We have maintained a presence in Brazil for many years, and we are pleased to note that strong growth is continuing both for Brazil as a country and for us as a company. Looking at Asia, economic growth in China is expected to increase nearly 10 percent during 2010 and by 8 percent in India. This means very good business opportunities for the Volvo Group. We established a presence in Asia at a relatively early stage and are now positioned with a fully developed, on-site structure to capitalize on the region's growth.

More than one million midsize and heavy trucks are sold every year in Asia, which you can understand offers an enormous potential. Through our acquisitions and our joint-venture company with Eicher Motors, as I mentioned earlier, we have established strong market positions. In several countries, including India, comprehensive projects are now in progress to expand and improve the infrastructure, which will gradually increase demand for both midsize and heavy trucks. Eicher, which is the third largest producer of commercial vehicles in India, launched a new generation of trucks and buses as recently as January.

There is also excellent potential for growth in the construction sector. The Chinese market for wheel loaders, for example, is about twice as large today as the rest of the global market combined. The market for excavation machinery is also the world's largest. In the future, continued investments in infrastructure and housing will increase the need for construction equipment. To meet this demand, Volvo CE will introduce four new tracked excavation machines during the coming year under the SDLG trademark, with production in Lingong's plant in Linyi, China.

For full-year 2009, Asia strengthened its position as the Group's second largest market after Europe. At year-end, Asia accounted for slightly more than 20 percent of total sales and has now passed North America. South America, which has been impacted only marginally by the economic crisis, also continues to show positive development, accounting for about 8 percent of total Group sales.

Looking forward, as I mentioned earlier, we see very good growth opportunities both for trucks and construction equipment. These opportunities lie in the form of increased exports to countries both within and outside Asia's borders. We also see continued growth for our products and services in Asia, with opportunities to manufacture trucks and construction equipment adapted to specific local conditions – both in terms of performance and cost levels.

#### PRODUCT OFFERING

Let me also say a few words about the Group's total product offering. As you know, we operate in extremely competitive industries, where satisfied customers are critical for the achievement of profitability. During recent years, we have invested large amounts of time, energy and capital in research and development of new products and services. We have dared to be aggressive, which yields results already today but also bodes well for the future. Today, we have our broadest product range ever, and we can offer our customers what we believe are the industry's best and most efficient vehicles – and the safest. We have a long tradition of research focused on safety and, with each passing year, we offer increasingly sophisticated solutions. Thanks to advanced electronic systems developed by our engineers, we are now able to anticipate and prevent many accidents. Our vision is that no accidents should ever occur using Volvo products.

During 2009, our business areas presented several exciting new products. Here we see Volvo Truck's flagship for truly heavy and advanced transports, the Volvo FH 16. In May, Renault introduced Premium Optifuel, which reduces fuel consumption by about 6 percent. A key element in the reduction is our highly successful Group-wide gearbox, which is produced in Köping. The gearbox was also introduced recently in North America by Mack.

Volvo CE also launched several new models during the year. New excavation machines, wheel loaders and a new generation of road construction machines were introduced, to name just a few.

Today, we see greater demand for vehicles with low fuel consumption. It is not unusual that fuel accounts for one-third of our customers' costs, and lower consumption means both better economy and increased competitiveness. It also reduces the negative impact on the environment, an argument that is becoming increasingly important to our customers.

As one of the world's largest vehicle manufacturers, we are well-aware that our products, to some extent, are a cause of some environmental detriment, and we consider it our responsibility to not only follow but also to lead the development of more sustainable products and solutions. It was gratifying, therefore, when we became the first manufacturer in the world to gain approval for, and clearance to deliver, trucks that meet the extremely stringent emission demands that were introduced in North America at year-end 2009. Emission levels of nitric oxides have been reduced more than 80 percent compared with the generation they are replacing and, combined with emissions of particles, are very close to zero. To quote our customer Knight Transportation, a company that ordered nearly 400 trucks that meet the new demands: "These trucks are better for the environment and they are better for us."

Let me also mention Japan, which has very wisely introduced government incentives to promote sales of vehicles with low fuel consumption and the scrapping of old and dirty vehicles. This has benefitted us, leading to higher market shares, since our vehicles are the most fuel-efficient in the market.

We are also pleased to note that development of the Group's hybrid vehicles is continuing with very good results. Last year, you heard me describe how several of our business areas had launched new hybrid vehicles and conducted field tests both in Sweden and abroad. The tests have been highly successful, confirming fuel savings of 20 to 30 percent for trucks and as much as 30 percent for buses.

We have also delivered the first commercially viable hybrid buses to one of our customers (FILM). This shows what things looked like at our plant in Wroclaw, in Poland, when Volvo Buses CEO Håkan Karlsson presented a symbolic key to the transport company Sales-Lentz in Luxembourg. In the Nordic region, Nettbuss of Norway was the first company with hybrid buses for commercial operations.

Development of hybrids is also continuing in the trucks sector, with ongoing field tests of hybrid garbage trucks in Gothenburg, London, Lyon and New York.

Our hybrids are receiving very favorable comments today from customers, drivers and passengers, which is gratifying and a sign that our Group-wide and proprietary hybrid solutions maintain high standards. When we started the project with fourth-generation hybrids, our primary goal was to reduce emissions of carbon dioxide from our vehicles. Today, we see even more positive effects. With lower fuel consumption, emissions of particles and nitric oxides have also been reduced. With lower fuel costs, in turn, our customers enjoy better operating economy and, thanks to the low noise levels, the vehicles can also be driven in densely populated areas without disturbing the residents. Furthermore, the work environment for the drivers is better.

Long-term and clearly focused investments in research and development generate results. Mainly in the form of competitive products that meet the demands imposed by our customers and lead to profitability for the Group. But also by helping to solve problems in modern society. I believe we have an economic responsibility, but also a social, ethical and environmental responsibility – to our shareholders, our customers and society in general.

While we are talking about research and development, I would like mention a subject in which I am deeply involved, and one that impacts not only the Volvo Group's future, but also the future of Sweden and Europe. As large numbers of today's engineers retire and start to collect their pensions, combined with weak interest among today's younger citizens, there could be a very serious shortage of engineers about 10-15 years from now. Young people today seem reluctant to choose career pursuits in the natural sciences, mathematics and technology, especially young women. In time, Europe is expected to lack hundreds of thousands of engineers – which will impact industry directly and, in turn, the economies of Europe and Sweden. Without engineers, we cannot continue to develop tomorrow's technology and maintain our leadership position in engineering and technology, which will have direct impact on our future competitiveness.

If Europe is to remain competitive, change is needed. Industry, in cooperation with academic and public authorities, must assume a shared responsibility for efforts to attract young men and women to studies in the natural sciences, mathematics and various areas of engineering and technology. Education, beginning at the elementary school level, must be strengthened, cooperation between schools and private industry must be developed and information must be improved to communicate the fantastic opportunities that are offered by the engineering profession. And I am speaking from personal experience. I was afforded the benefits as a young engineer to travel and work in all parts of the world, experience that I bring with me today.

As Chairman of the Swedish government's Technology Delegation, I have gained a clear insight into the problems. In my capacity as Volvo's President and CEO, one of my responsibilities is to try to change the attitudes of today's young people toward the engineering profession. We need to explain more clearly that a highly favorable labor market awaits today's engineering graduates. We also need to illustrate the career opportunities that await, the creative work assignments and opportunities to affect the world around us that these jobs actually offer – increasingly important parameters when young people choose their educational pursuits today.

If Sweden and Europe do not succeed in their efforts to attract more young men and women to technical fields of education, we and the rest of private industry will be forced to transfer our operations to regions where engineers are available – as China and India. To strengthen Europe's competitiveness, it must once again be natural for young women and men to choose the natural sciences, mathematics and engineering.

## BUSINESS AREAS DEVELOPMENT AND RESULTS

### OVERALL GROUP

Having said that, let us now look at our results in 2009. The first half of the year in particular was characterized, as you know, by the financial crisis and collapse of the financial system. Demand fell dramatically in virtually all markets – in Europe alone, registrations of heavy trucks declined 49 percent. And although the second half of 2009 was somewhat better, demand in our main markets remained low, as reflected in the Group's operating result, which amounted to a loss of 17 billion for the full year. Sales declined 28 percent to about SEK 218 billion.

Due to the financial crisis, we were forced to increase our burden of debt during 2009. At the close of the first half of 2009, the net debt ratio of our industrial operations was about 80 percent, calculated as a percentage of shareholders' equity. We managed to reduce that level to 70 percent by year-end by decreasing our working capital during the fourth quarter by nearly SEK 12 billion.

During the next few years, we see good potential to further reduce our debt to a more normal level corresponding to 40 percent of shareholders' equity. Profitability will improve gradually, and the Volvo Group is a well-invested group without any significant need for major investments in its industrial operations. The investments we see in the future are related mainly to new product launches. Otherwise, we have a modern production structure.

I should also mention work efforts to reduce our inventories, which created a positive cash flow during the fourth quarter amounting to nearly SEK 9 billion. With inventories at a level corresponding to demand, we have slowly been able to increase the production rate at our plants again. And as I mentioned in the beginning of my address, we have also reinstated a small number of employees now at the beginning of this year.

## TRUCKS

Looking at the Group's truck operations, which were strongly impacted by weak demand in our largest markets – North America, Europe and Japan. The market in North America, which has reflected low levels for the past few years, declined another 38 percent as a result of weak growth in the North American economy. Considering that the average age of heavy trucks is more than eight years, it is somewhat surprising this trend has still not reversed. We believe, however, the market in North America will remain weak during the first half of 2010, followed by some improvement in the latter part of the year. Instead, as I mentioned earlier, it is first and foremost in Asia, outside Japan and, in South America, that we project stronger demand for the Group's trucks.

After a very sluggish start in Europe during 2009, we saw some signs of recovery toward year-end. Order bookings rose gradually, albeit from extremely low levels. Our estimation of present conditions leads us to believe the European truck market will improve gradually during 2010. However, the fleet of trucks is relatively young, and the current need for new purchases is low. Instead, we see good potential for our aftermarket business activities. In parallel with economic growth in Europe, freight volumes will increase, as well as the need for service and spare parts.

In terms of financial results, truck sales invoiced by the Group declined to SEK 139 billion, and we incurred an operating loss of SEK 11 billion. During the past year, our truck companies have implemented a large number of measures designed to reduce costs in production operations as well as sales and administration. They have consisted of measures necessitated in part by the decline in volume, but also actions of a more structural character that will make us more efficient when the volumes recover.

## BUSES

As for Buses, the total bus market noted a decline in demand both for tourist coaches and city buses. The market for tourist coaches declined 35 to 60 percent, depending on the market, and the corresponding figure for city buses was 0 to 25 percent. Despite the sharp decline, however, Volvo Buses was able to maintain deliveries at about the same levels reported in the

preceding year. This particular success was attributable to investments in public transport and stimulus packages for environmental buses, mainly in China and India, where Volvo Buses also reported increased sales. A shift was noted in the total bus market from Europe and North and South America to countries in Asia.

With regard to financial results, sales increased 6 percent to slightly more than SEK 18 billion. The operating result reflected a deficit of SEK 350 million as a result of lower margins in Asia, compared with Europe and America.

## CONSTRUCTION EQUIPMENT

Construction equipment is the business area that has been hit hardest by the crisis, and comprehensive efforts during the year were concentrated on continued reductions in the company's operating costs. Among other actions, Volvo CE implemented a major reorganization and comprehensive program that involved closures of several production plants. The business area was also successful in efforts to reduce its inventories. At year-end, the level of inventories had been reduced 47 percent, and I'm pleased to note that inventories are now on par with prevailing demand.

Overall, the global market for heavy machinery, compact machinery and road construction machinery declined 39 percent. Sales by Volvo CE declined somewhat less, down 37 percent to almost SEK 36 billion. The operating result was negative, amounting to a loss of SEK 4 billion. Despite extremely difficult conditions, however, Volvo CE maintained its market shares in most markets.

Future growth in the construction sector is expected to be driven by the BRIC countries – Brazil, Russia, India and China. Last year, these countries accounted for 32 percent of Volvo CE's total sales. And with continued infrastructure investments and housing construction, the need for construction equipment is expected to increase. Volvo CE has a favorable position today and, working with Lingong, is able to meet the demand both with products and prices adapted to local market conditions.

## PENTA

For Volvo Penta, the total market for marine and industrial engines remained weak last year. In certain segments of North America and Europe, the market for recreational boats declined as much as 70 percent. Despite the decline, Volvo Penta was able to maintain and even strengthen its market shares in several sectors. In the marine sector, the IPS system with forward-facing propellers has been very successful. Volvo Penta has introduced a number of significant innovations for boating during recent years, as you also noted during the presentation of Volvo's Technology Award. During 2009, Volvo Penta launched a third IPS-version that can be connected to the Group's 13-liter engine. This means that Volvo is now able to deliver engines for boats up to about 100 feet in length.

Volvo Penta's sales of industrial engines have risen sharply during recent years, contributing substantial economies of scale and synergies with the Group's diesel engine production operations. One of our goals in the future is to broaden the offering to include other areas, such as power generators, pumps and engines for materials handling.



Net sales for the full year declined almost 30 percent to slightly more than SEK 8 billion. The operating result amounted to a loss of SEK 230 million. Volvo Penta reported black figures in the second half of 2009, however, as a result of sharply reduced costs.

## AERO

And now Aero. International air traffic declined sharply throughout virtually all of 2009, and many commercial airlines are facing serious economic difficulties. Due to weaker demand for spare parts in particular, and delays in certain aircraft projects among our customers, Volvo Aero reported a sharp decline in its operating result, which was down to SEK 50 million. Adjusted for exchange-rate fluctuations, net sales declined 11 percent.

Looking forward, Volvo Aero foresees continued growing demand for the company's technologies, with particular emphasis on engine components comprising lighter materials supported by increasing demands for lower fuel consumption in the aviation industry. Lightweight technology is one of Volvo Aero's strengths, and what you see in the picture is a fan structure comprising composite materials and titanium. It was shown for the first time at the Paris Air Show last summer. The total weight reduction amounts to about 20 percent.

## FINANCIAL SERVICES

And finally, a few words about our customer financing activities, Volvo Financial Services or VFS. Like our other companies, VFS has felt the effects of economic decline and its effects on the profitability of our customers. VFS reported a loss for 2009 amounting to SEK 680 million, driven by increased reserves for anticipated credit losses.

We worked hard during the year to help our customers and find solutions that will help them through the crisis. Our credit losses have now stabilized, although at a higher level. If the favorable development continues, however, we expect credit losses to decline in parallel with a rise in the need for transports, which will enable our customers to improve their business activities again.

## CONCLUSION

And so shareholders, we now put year 2009 behind us. It was an exceptional year in many respects, one of the most difficult that we have ever experienced in the Volvo Group. I want to thank all our employees throughout the world for their excellent work efforts. Many of them worked very hard and, as the Group's CEO, I cannot help but be proud of the way our employees have handled the situation.

It was a year in which we were forced to make several difficult decisions, including cutbacks in our workforce. I really feel for all the people who were affected, and I hope we have the opportunity soon again to welcome back at least some our employees. We have already recalled a small number of those who were laid off, and that has been very gratifying.

As I said, 2009 was far from a satisfactory year, particularly with regard to economic considerations. But let me emphasize that today we are already in a better position than we were just one year ago. We have reduced our costs, our inventories and capital commitments. We are financially stable, with solid liquidity and low financing requirements. We must continue to work hard during the years ahead, but the most serious stage has been passed and we are approaching, although from the bottom up, a more normal business recession.

Our primary focus in the future will be our customers. Good relations combined with good products and services and a first-class distribution network is the key to sales and future profitability. Internally, we will focus our resources on continued development of high quality vehicles and components based on common architecture and technologies. Equally important will be our efforts to improve internal efficiency within all parts of the Group.

Finally, let us now hope for stable growth combined with stronger demand for commercial transports and improved business trends for our customers. Let us hope for a slow and sustained recovery rather than a sharp acceleration that might lead to an overheated economy. With a sound global economy and determined work efforts, the future looks promising for the Volvo Group.

Thank you.