The Volvo Group 2005

Strong increase in earnings
Aggressive product renewal
Strengthened competitiveness

VOLVO

The Volvo Group is one of the world's leading producers of trucks, buses, construction equipment, drive systems for marine and industrial applications as well as components for aircraft engines. The Volvo Group also provides

financial services to its customers. The Group has approximately 82,000 employees, production facilities in 18 countries and sales in some 185 countries. During 2005, the Volvo Group's sales rose by 14% to SEK 231 bn and income per share rose by 37% to SEK 32.21. The share is listed on the Stockholm Stock Exchange and NASDAQ in the US.

Information about IFRS

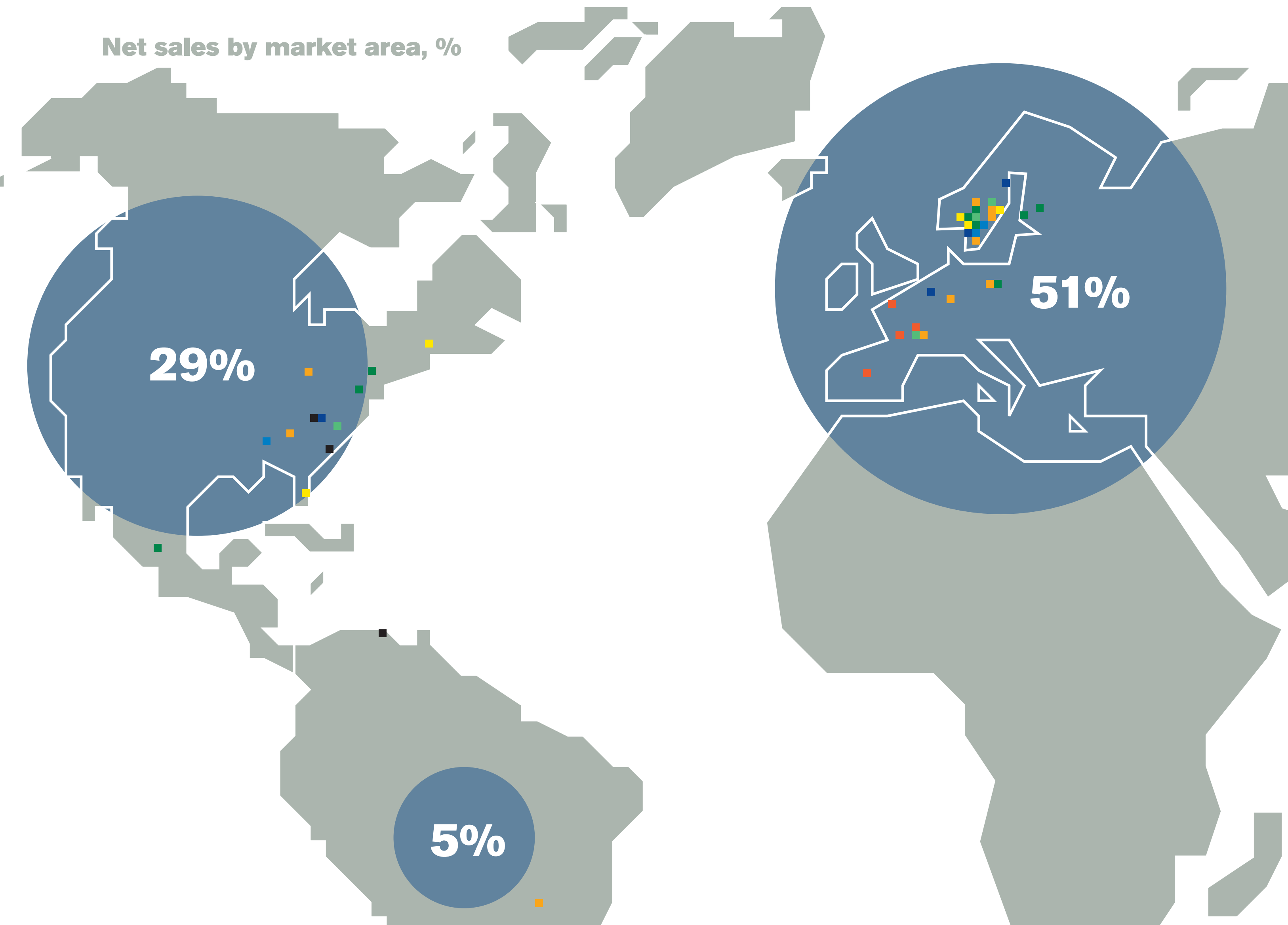
As of January 1, 2005 AB Volvo complies with International Financial Reporting Standards (IFRS), previously known as IAS, as adopted by the European Union. Figures for the corresponding periods in 2004 have been restated according to IFRS. In the financial information on pages 1–79, Volvo Financial Services is reported in accordance with the equity method. Reporting in accordance with IAS 1 begins on page 80.

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 to have been 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.

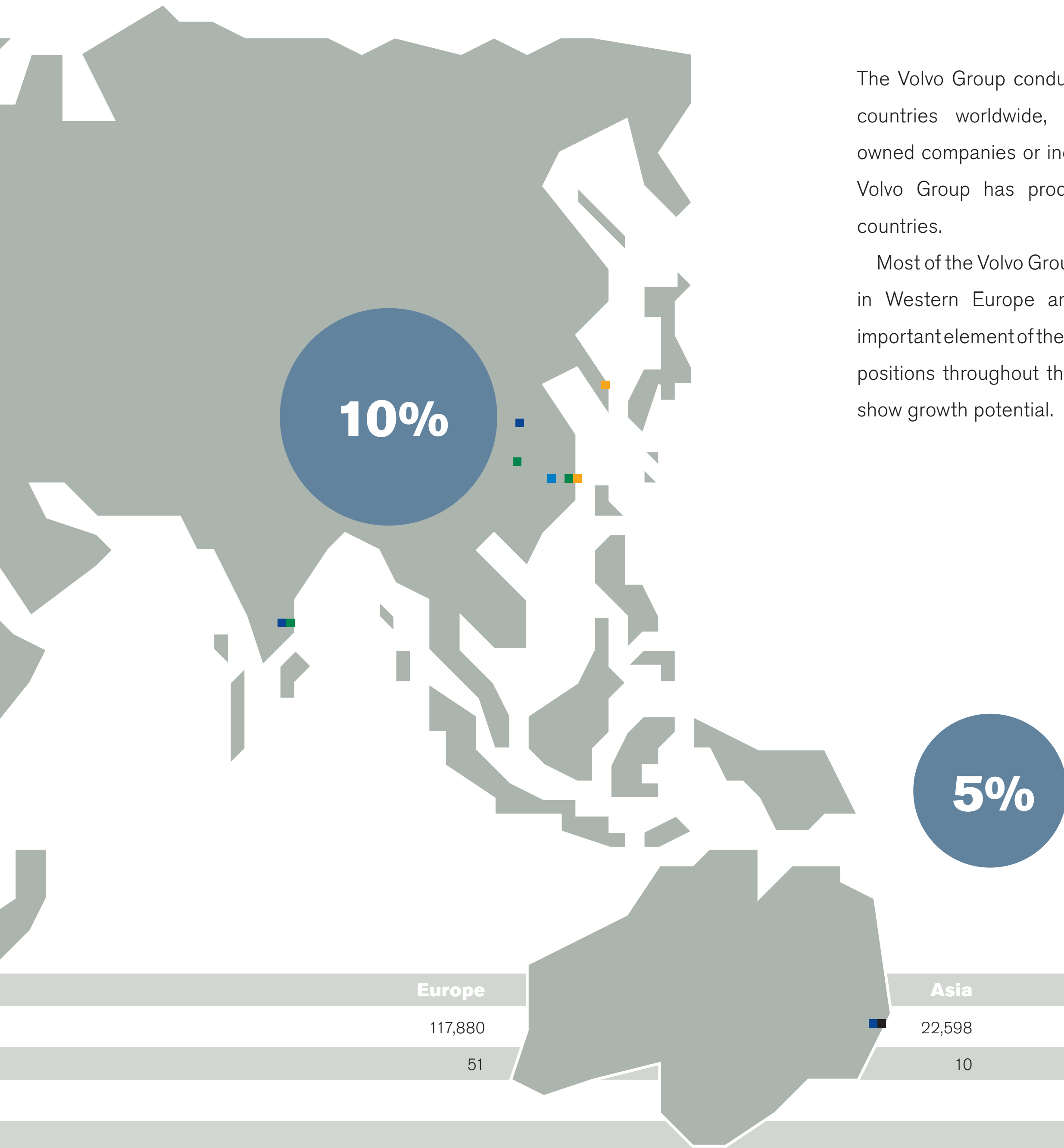
This report does not imply that the company has undertaken to revise these forward-looking statements, beyond what is required under the company's registration contract with the Stockholm Stock Exchange if and when circumstances arise that will lead to changes compared to the date when these statements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

The Volvo Group's formal financial reports are presented on pages 44-71 and 80-144 and has been audited by the company's auditors. The other pages has been reviewed.

A global group



	North America	South America	
Net sales, SEK M	67,233	11,901	
Percentage of the Volvo Group's sales, %	29	5	
Production facilities			
Mack Trucks	Macungie, New River Valley (USA)	Las Tejerias (Venezuela)	
Renault Trucks			
Volvo Trucks	New River Valley (USA)	Curitiba (Brazil)	
Buses	St Claire, St Eustache (Canada), Mexico City (Mexico)	Curitiba (Brazil)	Borås, Säff
Construction Equipment	Asheville (USA), Goderich (Canada)	Pederneiras (Brazil)	Arvika, Braås, Eskilstuna, Hallsberg (S
Volvo Penta	Lexington (USA)		
Volvo Aero	Boca Raton, Newington (USA)		
Volvo Powertrain	Hagerstown (USA)	Curitiba (Brazil)	



The Volvo Group conducts sales in about 185 countries worldwide, either through wholly owned companies or independent dealers. The Volvo Group has production facilities in 18 countries.

Most of the Volvo Group's sales are to markets in Western Europe and North America. An important element of the strategy is to strengthen positions throughout the world in markets that show growth potential.

Europe	Asia	Rest of world
117,880	22,598	11,579
51	10	5
		Brisbane (Australia)
Blainville, Bourg-en-Bresse, Limoges (France), Villaverde (Spain)		
Göteborg, Umeå (Sweden), Ghent (Belgium)	Bangalore (India), Jinan* (China)	Durban (South Africa), Brisbane (Australia)
rås, Säffle, Uddevalla (Sweden), Tampere, Turku (Finland), Wroclaw (Poland)	Bangalore (India), Shanghai*, Xian* (China)	Durban (South Africa)
lsberg (Sweden), Konz-Könen (Germany), Belley (France), Wroclaw (Poland)	Changwon (South Korea), Shanghai (China)	
Göteborg, Vara (Sweden)	Wuxi* (China)	
Bromma, Trollhättan (Sweden), Kongsberg (Norway)		
Köping, Skövde, (Sweden), Vénissieux (France)		

* Ownership ≥ 50%

The Volvo Group 2005

- **Strong sales growth** Net sales increased by 14% to SEK 231,191 M (202,171)

- **Continued good profit development** Income for the year increased by 32% to SEK 13,106 M (9,907) and return on shareholders equity increased to 17.8% (13.9)

- **Significant investments in research** and development for future competitivness of the next generation of engines and trucks

- **Earnings per share** increased by 37% to SEK 32.21 (23.58)

- **Proposed dividend** SEK 16.75 per share equal to a total dividend of SEK 6,775 M for 2005

Key ratios	2004	2005
Net sales, SEK M	202,171	231,191
Operating income, SEK M [1]	13,859	18,151
Revaluation of shares	820	–
Operating income, SEK M	14,679	18,151
Operating margin, %	7.3	7.9
Income after financial items, SEK M	13,036	18,014
Income for the period, SEK M	9,907	13,106
Earnings per share, SEK	23.58	32.21
Dividend per share, SEK [2]	12.50	16.75
Return on shareholders' equity, %	13.9	17.8

1 Excluding revaluation of shares in Scania AB and Henlys Group Plc 2004.
2 Proposed dividend 2005.

Organization

Business areas

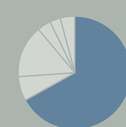
The Volvo Group has about 82,000 employees. The Volvo Group is organized into eight product-related business areas and a number of supporting business units. The organization, with business areas and support units, creates the conditions for proximity to customers and efficient resource utilization within the Group.

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

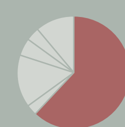
Renault Trucks offers many types of vehicles from light trucks for delivery to heavy trucks for long haulage.

Mack Trucks manufactures heavy-duty trucks primarily for the vocational segment and heavy regional transports.

Percentage of the Volvo Group's sales, %



Percentage of the Volvo Group's operating income, %



Position on world market

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

Number of employees

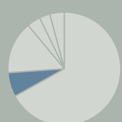
35,680

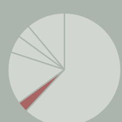
Business units

The business units are responsible for development and delivery of components, services and support to the business areas worldwide. The four largest business units are Volvo Powertrain, Volvo IT, Volvo Parts and Volvo 3P.

Number of employees	Business unit
2,930	**Volvo 3P** is responsible for product planning, product development and for purchasing for the Group's truck operations.
8,130	**Volvo Powertrain** supplies the Volvo Group with diesel engines, transmission systems and axles.
3,500	**Volvo Parts** supplies services to support the aftermarket for business areas within the Group.
380	**Volvo Technology** develops new technologies and business solutions for the Group companies.
980	**Volvo Logistics** develops and manages logistics solutions for the automotive and aerospace industries worldwide.
4,390	**Volvo Information Technology** supplies IT solutions for industrial and commercial processes within and outside the Group.

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

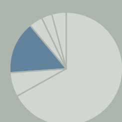


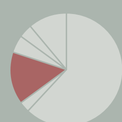


Volvo Buses is one of the world's largest producers of buses.

7,710

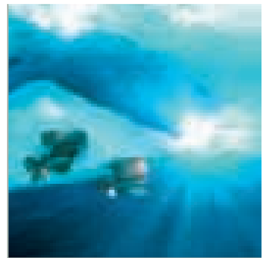
Construction Equipment
manufactures equipment for construction applications and related industries.



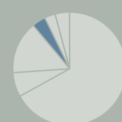


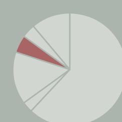
Volvo Construction Equipment is one of the world's largest manufacturers in its product segments.

10,290



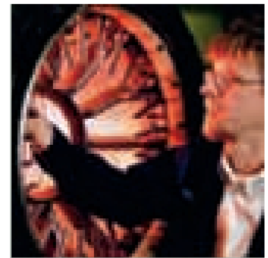
Volvo Penta
provides engines and power systems for leisure and commercial craft, as well as for industrial applications such as gensets and water pumps.



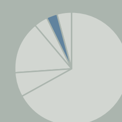


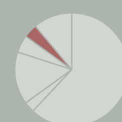
Volvo Penta is the world's largest producer of diesel engines for leisure boats.

1,560



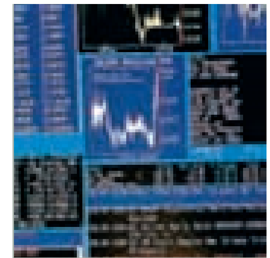
Volvo Aero
offers components for aircraft and space applications, plus a wide range of services for the aerospace industry.



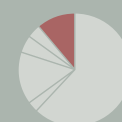


Volvo Aero holds a leading position as an independent producer, with components in about 80% of all large commercial aircraft.

3,460



Financial Services
conducts operations in customer finance and insurance, serves as the Group's in-house bank and is active in managing the Group's property holdings.



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

1,070

Vision, mission and values

Our vision

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

Volvo Group's mission

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

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

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

Our values

The Volvo Group views corporate culture as a unique asset, since it is difficult for competitors to copy. Through applying and strengthening the expertise and culture we have accumulated through 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 an important component 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 exceed their expectations. With a customer focus based on everyone's commitment and participation, combined with a process culture, our aim is to be number one in customer satisfaction. This is based on a culture in which all employees are responsive and aware of what must be accomplished to be the best business partner.

Safety

Safety involves how our products are used in society. Many associate us with safety and our goal is that they continue to do so in the future. A focus on safety has long been an integral part of our product development efforts. Our employees are highly aware of safety issues and apply the knowledge gained in our internal crash investigation teams in product development. Our goal is to reduce the risk of accidents and on the prevention of injury in the event of an accident and to improve the safety and work environment for the drivers of our vehicles and machines.

Environmental care

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

Strongest year ever

Demand was favorable in almost all major markets during 2005. With sales of SEK 231 billion and operating income of slightly more than SEK 18 billion, the Volvo Group broke all previous records. The Group's operating margin rose from 7.3% to 7.9%.

The operating cash flow was positive, SEK 6.8 billion. In addition, we paid SEK 4.4 billion into the pension foundations for our employees' future pensions. Earnings per share rose 37% to SEK 32.21.

All business areas improved their operating income during 2005.

Volvo Aero posted the largest improvement in earnings and increased sales for the first time since the downturn within the airline industry starting in 2001. Profitability improved sharply, due mainly to strong sales development within components and spare parts.

Volvo Buses' sales increased, mostly due to the large order for nearly 1,800 buses to Santiago, Chile. Volvo Buses continued to improve profitability, though from a low level.

With improved productivity and a continued good sales development, Construction Equipment advanced very strongly to an operating income of almost SEK 2.8 billion, an increase by 45%.

Financial Services continued to develop in the right direction. The credit portfolio grew by 10% to nearly SEK 79 billion, with sustained stability.

The truck market reached record levels, both in Europe and North America, and our sales within Trucks rose by 14%. Operating income for the Group's truck operations increased by 30% to SEK 11.7 billion.

During the latter part of 2005 we started the final phase of the structural changes that we planned at the acquisition of Renault Trucks and Mack Trucks. It comprises a new product generation and the transition to a more efficient production and product structure.

As we have often stated, the timetable for the changes is driven by the new emission legislations that becomes effective on October 1, 2006 in Europe and January 1, 2007 in North America.

This means that the intensive period of industrial realignment and product renewal will continue throughout 2006.

All of the business areas, except Volvo Aero and Financial Services, are directly affected as an entirely new generation of diesel engines is being successively launched in the Group.

Trucks is the business area implementing the most extensive product renewal. Virtually the entire product range is being replaced and we can be pleased that the products rolled out to date have been very well received by the customers, among other factors due to the new engine generation delivering up to 5% lower fuel consumption than the previous generation.

Order bookings for trucks rose sharply in Europe in the fourth quarter of 2005, of which a part is probably attributable to a pre-buy ahead of the new emissions standards.

The other business areas also reported favorable order bookings during the latter half of 2005 and our assessment is that all business areas will benefit from competitive products and continued strong demand during 2006.

Naturally, there are risks inherent in implementing such comprehensive changes in a period of high production volumes. As expected, production costs rose during the fourth quarter, due among other factors to using old and new production systems in parallel combined with high utilization during the transition period, in primarily 2006.

This applies, among other, to Renault Trucks, which is consolidating from three to two assembly plants, and Volvo Powertrain, which is transitioning from eighteen to two engine families.

On the other hand, we view the situation of implementing changes in a period of strong demand and favorable profitability as an advantage.

We have previously carried out a number of efficiency enhancements and improvements within the distribution and service network. Combined with the new industrial and product structures, this provides us highly favorable possibilities to further advance positions on the market in the coming years. The new product lines are well on their way to becoming the most competitive ever.

Standing solidly on the new and more efficient structure, we are moving forward with our long-term objectives.

We think that a major share of our future growth will occur in Asia. A major future issue is how we can best gain ground in the Chinese and Indian markets.

We have had a cautious strategy, with relatively modest risk-taking, but our involvement in Asia is long term.

At the same time we are working to broaden our customer offering. In this respect, our increased efforts in the area of customer financing have been highly successful.

Environmental issues are also high on the agenda. In addition to the aforementioned new engine generation, we have also accelerated the intensity in development of alternative drivelines, with the diesel engine as the base. We have developed a unique hybrid concept for heavy vehicles that reduces fuel consumption significantly. Combined with new and more cost-efficient battery technology, it can be a commercially viable alternative on the market within a few years. We are also conducting promising trials using non-fossil fuel to power diesel engines.

Our position as the world's largest manufacturer of heavy diesel engines naturally provides a solid base for this development work.

The rapid rate of change and the sharply improved earnings during 2005 could not have been achieved without the excellent efforts of the personnel at our various units. I would like to take the opportunity to thank everyone for a work very well performed. As a result of the increase in the return on shareholders' equity from slightly less than 14% to nearly 18%, our global employee profit-sharing program received a maximum allotment of SEK 450 M.

We have high expectations for continued growth and increased profitability over the business cycle and are looking forward to continue developing the Group. We anticipate yet another exciting year in 2006.

Leif Johan

Leif Johansson
President and CEO

An industry with long-term growth...

Demand for the Volvo Group's products is increasing due to the general economic development with rising trade among the various regions of the world, growing transportation needs and an increasing need to build new infrastructure.

The Volvo Group is active in an industry that is cyclical with an underlying growth rate in mature markets of about 4% over a business cycle. In growth regions, such as Asia and Eastern Europe, the rate of increase is considerably higher.

Under transformation

Increasingly stringent environmental requirements are a factor that has contributed to rising costs for product development and manufacturing. One of the main reasons is that substantial investments are required to conduct research and development into new technologies to reduce emissions from vehicles and into supplementary fuels and alternative drivelines. To ensure that these costs are spread among larger volumes, a consolidation process is under way among manufacturers through mergers and acquisitions.

In mature markets in the US and Europe, the truck industry has been consolidating for several decades and has made considerable progress, also with several intercontinental acquisitions. In other areas, such as the construction equipment sector, the pressure for consolidation is expected to increase.

At the same time, in growth markets, new competitors have grown into significant regional players. This structural transformation is creating opportunities for the Volvo Group, which has a strong financial position.

New opportunities

The Volvo Group occupies an established position in European and North American markets, which are showing relatively firm underlying growth. However, the fastest growth rates are noted in parts of the world where the Group had very insignificant operations just 10–15 years ago. In these markets, such as Asia, the Volvo Group intends to grow.

China and India are examples of markets that have already reached a considerable size and in the future will become even more important for the Volvo Group's development. The market in Eastern Europe is also growing strongly and the Group is well positioned to capitalize on the market trend.

...a focused strategy...

The Volvo Group focuses its business on products for commercial use. The Group's business areas have competitive volumes and strong global positions. The objective is to be number 1 or 2 in terms of size in the sectors in which we are active, or to show a superior growth rate. An important element of this strategy is to strengthen positions on markets with high growth potential and to increase the customer base.

Customer-oriented strategy

The ability to attract various categories of customers is one of our most valuable assets. Our brands are well-known and strong in most parts of the world. Strong brands combined with an attractive product portfolio enable the Group to stay competitive.

Currently, we are working intensively with developing the dealer networks and as a result improving service to our customers.

Strong product portfolio

The Volvo Group's large volumes provide resources to aggressively develop customized customer offerings optimized for various applications. Concurrently, this provides the Group the possibility to invest in future technologies such as alternative drivelines and supplementary fuels.

In recent years, the rate of product renewal has increased significantly within all of the business areas and 2005 was another year dominated by major product launches. By capitalizing on economies of scale and Group-wide technologies and architecture, the Volvo Group will further strengthen its product portfolio in the years ahead and thus increase its competitiveness.

Capitalize on economies of scale

The Group's size and structure create opportunities for effectively utilizing Volvo's collective resources and achieving economies of scale in a number of key areas. The development and manufacturing of engines have been concentrated in a separate business unit, Volvo Powertrain, which provides the Group with engines and other driveline components. There is also Volvo Parts, which optimizes inventory management and distribution of spare parts, and Volvo Logistics, which handles optimal logistics solutions for the Group's materials flow.

...and continued efficiency enhancement...

Reduced costs

With the aim of reducing the costs of developing and manufacturing products, the Group establishes systems and structures for the transfer of technologies and best practices. Common production methods and internal processes are increasingly being used, which creates flexibility and efficiency. In addition, the larger volumes make the Volvo Group an attractive business partner, which increases the possibilities of attracting the best suppliers.

We are working on increasing the degree of shared components and utilizing shared modules. For example, Volvo Powertrain has developed two Group-wide engine platforms that gradually will replace the previous 18 engine platforms. This will be occurring in pace with the introduction of new products in the coming years. We are engaged in increasing numbers of Group-wide development projects, often in cooperation with selected suppliers.

Flexibility

An important task in the internal efficiency enhancement work is to achieve a more rapid adjustment to fluctuations in the economy. This involves both the ability to increase production and sales in upturns and to reduce them in economic downturns. This trend also requires increased flexibility among suppliers.

Capital rationalization

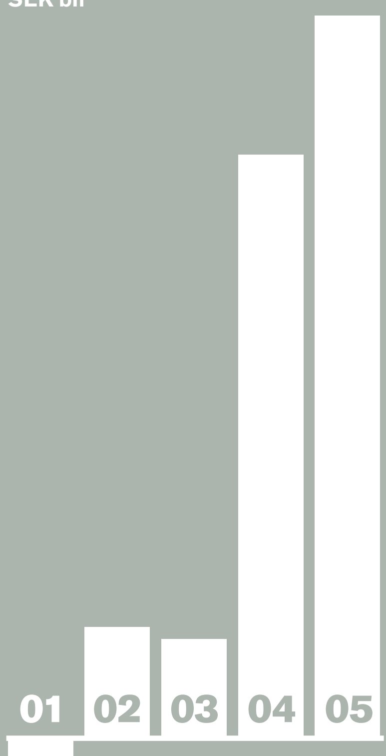
Since 2001, working capital turnover has been significantly improved, mainly for inventories and accounts receivable. In combination with the increased profitability, the capital that has been released has created a strong cash flow, which has enabled the Volvo Group to engage in product renewal throughout the entire business cycle. In the coming years work in this area will focus on using sales and administrative resources more efficiently.

...creates a stronger Volvo Group

The actions taken by the Volvo Group within the framework of its long-term strategy have in all significant respects been successful. They have resulted in an improved cash flow and a financial strength that can be used for business opportunities and substantial investments in product and market development for the future.

Operating income[1]

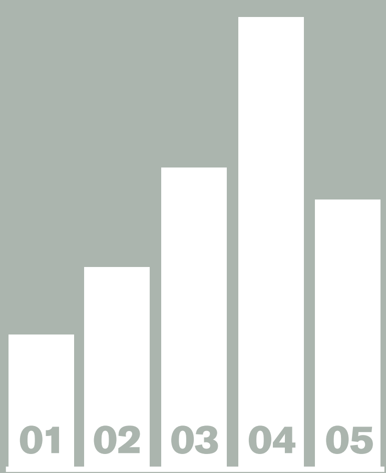
SEK bn



(0.7) 2.8 2.5 14.7 18.2

Operating cash flow[1, 2]

SEK bn



3.4 5.1 7.6 11.4 6.8

1 Years 2004 and 2005 are reported in accordance with IFRS and 2001, 2002 and 2003 in accordance with prevailing Swedish GAAP. See Note 1 and 3.

2 Excluding Financial Services.

Targets and execution

The Volvo Group's ambition is to achieve a sustainable level of profitability above the industry average. The Group has a number of financial targets covering growth, operating margins, return on shareholders' equity and capital structure. These financial targets are set and evaluated over a business cycle.

The Volvo Group's ambition is that net sales will increase by an annual average of more than 10%. This objective should be achieved through both organic growth and acquisitions. Net sales rose by 14% in 2005. During 2001-2005, the average annual growth rate, excluding divested operations, was 14%.

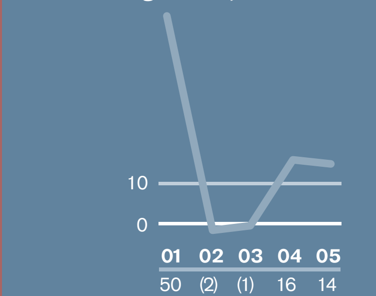
The target range for the operating margin is between 5% and 7% over a business cycle. The operating margin in 2005 was 7.9%. The average annual operating margin for the Volvo Group during 2001-2005 was 3.9%.

The objective is to achieve a return on shareholders' equity of 12% to 15%. The average annual return on shareholders' equity during 2001-2005 was 6.4%. The return on equity in 2005 was 17.8%.

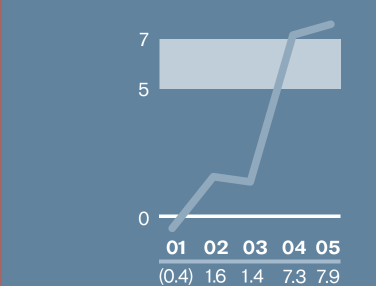
The Group's objective is to maintain a net financial position ratio, excluding Financial Services, between a net financial assets position of 15% and a net debt financial position of 30% of shareholders' equity and minority interest. Over a business cycle, the target for the equity ratio, excluding Financial Services, is approximately 40%.

At the end of December 2005, the Volvo Group had a net financial asset position of 23.7% of shareholders' equity and minority interests. Additionally, the equity ratio for the Group, excluding Financial Services, was 40.4% and the equity ratio for Financial Services was 11,2%.

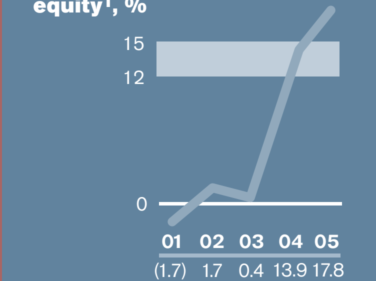
Net sales growth[1], %



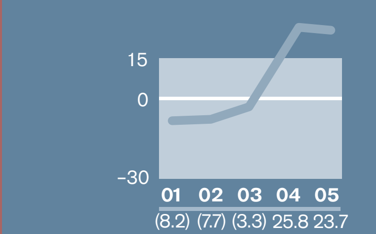
Operating margin[1], %



Return on shareholders' equity[1], %



Net financial position as percentage of shareholders' equity and minority interest[1], %



1 Years 2004 and 2005 are reported in accordanc with IFRS and 2001, 2002 and 2003 in accordance with Swedish GAAP. See Note 1 and 3.

Shareholder value

Shareholder value

Volvo's financial strength and cash flow have enabled the Group to pay its shareholders a competitive return on their investment.

Dividend policy

Volvo's objective is that the effective return to the shareholders (dividend combined with the change in the share price) will exceed the industry average.

Higher earnings and increased dividend

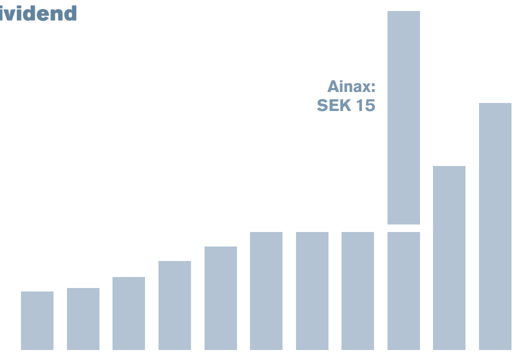
During 2005, earnings per share rose to SEK 32:21 (23:58). The Board of Directors proposed that the dividend for 2005 be increased to SEK 16.75 (12.50) per share. Although the Volvo Group is active in a cyclical industry, the ordinary cash dividend has increased continuously since 1995.

Competitive total return

The total return on the Volvo share (share price development including re-invested dividends) has averaged 25% annually since 2001.

During the same period, the total return on the Stockholm Stock Exchange as a whole was 4% annually, according to the SIX Return Index.

Historically stable dividend

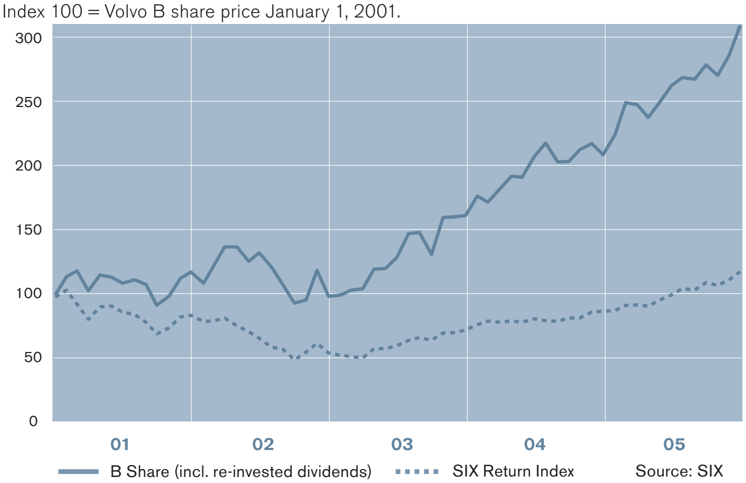


	95	96	97	98	99	00	01	02	03	04	05
Dividend per share, SEK	4.00	4.30	5.00	6.00	7.00	8.00	8.00	8.00	8.00	12.50	16.75
Direct return, %	2.9	2.9	2.3	3.2	3.2	5.1	4.5	5.6	10.5[1]	4.7	4.5

1 Including dividend from Ainax.

Total return, Volvo B

Index 100 = Volvo B share price January 1, 2001.



More information about the Volvo share is presented on pages 28 and 150.

Development of tomorrow's products

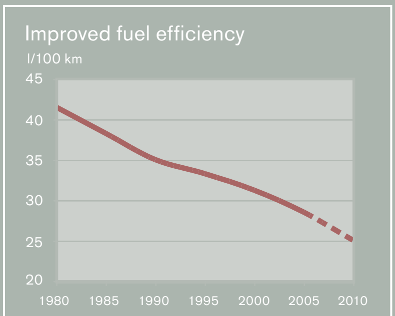
At the same time that Volvo's shareholders have received a favorable return in the form of dividends, the Volvo Group has continued to invest in the products of tomorrow. These are products that sharpen our competitiveness, generate value for our customers and thereby contribute to creating future value for our shareholders.

Diesel engine in focus

The Volvo Group is the world's largest manufacturer of heavy-duty diesel engines. A few years ago, all development and production of diesel engines and gearboxes was concentrated into Volvo Powertrain.

These diesel engines are used in most of the Group's products. They are the key to the development of forthcoming product generations and have helped many of the Group's vehicles, construction machines, marine engines and generator units attain market-leading positions. The focus on remaining at the leading edge of development continues. For example, the new generation of engines is a world leader in terms of fuel efficiency and environmental performance.

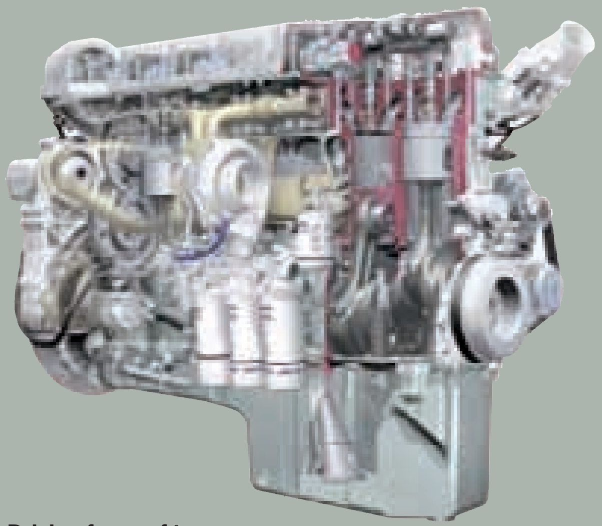
Development and production of heavy engines in the 9- to 16-liter range is carried out in Volvo Powertrain. Volvo has a strategic cooperation agreement with Deutz for development and production of medium-heavy 4- to 7-liter engines.



Trend of fuel consumption (liters per 100 kilometers) Volvo's FH12 truck model, 40 tons
Source: Volvo

High rate of development and increased cooperation

To an increasing extent, product development is conducted by means of cooperation between several of the Volvo Group's operations. All of the business areas have increased their rate of product development, which was particularly evident during 2005 when a large number of new products were launched.



Driving force of tomorrow

As a result of increasingly stringent emission regulations and more expensive fossil fuels, the Volvo Group is increasing its development resources for optimization of engines and drivelines. The Group engages in research in other areas, such as supplementary fuels and alternative drivelines. Development efforts focus on such features as hybrid technologies for saving fuel and reducing the environmental impact of carbon dioxide emissions.

New Volvo FH, Volvo FM and Volvo VT 880

During 2005, Volvo Trucks launched the new Volvo FH and Volvo FM model trucks, equipped with new fuel-efficient engines that satisfy forthcoming statutory emission requirements in Europe through to the Euro 6 standard, which is expected to become effective sometime during 2012/2013. In North America, the product range was expanded through the launch of the new flagship, Volvo VT 880.

Renault Magnum and Renault Premium Route

Renault Trucks maintained its high rate of product renewal in 2005 through the introduction of the new Renault Magnum intended for long haulage and the new Renault Premium Route for national haulage, both with new fuel efficient engines.

New products from Mack Trucks

During 2005, Mack Trucks launched a completely new series of trucks for construction applications and for regional transportation purposes, as well as a new 11-liter engine that satisfies future stringent emission regulations. This involves new models of the successful Mack Granite and Mack Granite Axle Back construction trucks, and a new series of tractors for heavy regional transportation purposes known as Mack Pinnacle.

Volvo Buses introduces low-floor chassis

During the year, Volvo Buses introduced the Volvo B9S as a low-floor chassis. The chassis is highly suited for modern mass transit systems, so-called Bus Rapid Transit (BRT), featuring quick and comfortable entering and exiting for passengers. The new chassis is delivered as an articulated bus in the BRT system in Santiago, Chile and bi-articulated bus in Göteborg, Sweden.

New excavator from Volvo Construction Equipment

Volvo Construction Equipment launched a new 70-ton excavator, the Volvo EC700B, which represents the next generation of construction machinery. The Volvo EC700B is designed and tested to withstand extreme conditions during heavy work, for example, highway and water projects and large-scale loading and excavation in stone quarries.

Revolutionary drive system from Volvo Penta

Volvo Penta continued with the introduction of the Volvo Penta IPS (Inboard Performance System), a revolutionary drive system for boats. The system is fitted in leisure and commercial boats. Volvo Penta IPS has been a sensation in the marine world and has received several important awards for innovativeness.

Strong brands

The Volvo Group has strong brands that offer both functional and emotional properties and attract various groups of customers. It is the properties that customers associate with the brands that form the foundation for their expectations regarding everything we do – from the hard segment, the products, to the functional benefits, such as services, reception and support.

The ability to attract various categories of customers and increase our customer base, is one of our principal assets.

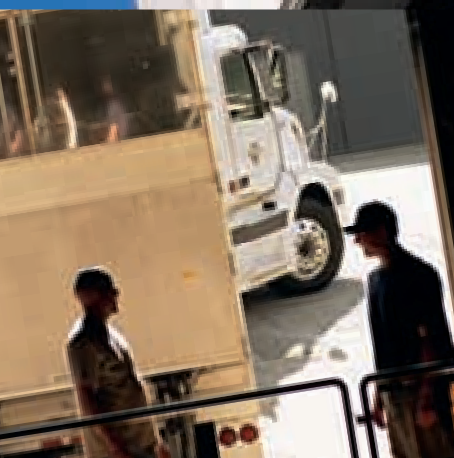
It is important to develop and strengthen each of the brands' special qualities while at the same time utilizing Group-wide components and systems. By being successful in both areas, we can achieve our profitability and growth targets.

Our products' features and appearance, the quality of sales and service are of great importance, but more than anything else it is the people in our organization – their knowledge, values, attitudes and behavior – that give prominence to our brands and credibility to the company.

Customer-driven solutions

The Volvo Group offers global transport solutions for customers with high demands. Our product range consists of trucks, buses, construction equipment, engines for leisure boats and commercial marine application and generator units. In addition, we have manufacturing of components for aircraft engines.

We have noticed a trend in which customers desire a total solution, which in addition to the product includes our other services: financing, insurance, rental and IT solutions. Our objective is to offer customers the best solution for their operations, products and services, thus strengthening their efficiency and competitiveness.



The capital of movies, Hollywood, is more than just celebrities, glamour and premieres. It is a large-scale industry like any other in which smoothly functioning logistics are essential. At the illustrious Universal Studios, Volvo Trucks plays a part in keeping the production of movies and TV programs rolling.

Universal's transport department is comparable to a major haulage company. With a fleet of 400 heavy-duty trucks, it is the largest operation in the industry and provides transportation over the entire American continent when required, which is often the case. Approximately 50 tractor-trailers are needed to transport all the equipment required by a normal Hollywood production.

Volvo's trucks are known for their reliability, drivability and safety, but other characteristics are also important when Universal chooses its trucks: horsepower and appearance.


PROVISIONS
GROCERIES
FRAGILE

Volvo Buses is the world leader in buses for modern transport systems, regardless of whether they are used in the largest cities in the world, such as Mexico City, or in medium-sized cities, such as Göteborg, Sweden. Volvo Buses delivered all the 1,779 buses needed for Transantiago, the new transport system in Santiago, Chile. The buses were manufactured in Sweden and Brazil and driven over the Andes to Chile.

Bus Rapid Transport systems are becoming increasingly popular when cities look for more efficient, safer and more environmentally compatible public transport services. The systems consist of separate bus lanes, high-frequency service, efficient ticket systems, modern high-capacity buses and bus stops adapted to ensure rapid entering and exiting from buses.

A modern mass-transit system based on buses is just as effective as a railway system, at a fraction of the cost. In addition, the time between decision and traffic start is far shorter.


TÚ PUEDES

Volvo Construction Equipment offers machinery for all types of construction work. The machines are designed to complement one another. This is why you often see them working alongside each other on job sites around the world.

Whether it be articulated haulers working with wheel loaders and excavators, backhoes working with skid steers or compact wheel loaders working with motor graders, their Volvo design, quality and safety are what gave Volvo Construction Equipment its good reputation.

Outside the Whistler ski resort in British Columbia, Canada, Volvo excavators are handling the toughest excavation conditions. The 2010 Winter Olympic Games will attract tens of thousands of athletes and spectators to this area around Vancouver. The excavators load the blasted rock into the Volvo articulated haulers, making this an efficient operation.


VOLVO

With Volvo Penta IPS, boating becomes cleaner, quieter, simpler and more comfortable. Compared with conventional shaft installations, the boat's performance is superior in most areas and, naturally, the world's leading boat builders realize this. In the past year, increasing numbers of boat models adapted to the new drive system have been launched.

Volvo Penta IPS is refined continuously. The latest addition is the acclaimed joystick. Even experienced boaters may feel uncomfortable at the prospect of docking a large boat in a congested harbor, especially a harbor that is full of observers. Volvo Penta's joystick helps to calm the nerves. With a few simple hand movements, even a beginner can dock a boat elegantly.

Volvo Penta's innovative IPS system has the potential to offer many more exciting functions that will enable boaters to enjoy even more of their moments at sea.

In what may become the company's largest-ever commercial aviation contract, Volvo Aero will be responsible for the development of three and manufacturing of five key components in General Electric's new engine program, the GEnx.

These comprise the fan hub frame, booster spool, turbine rear frame, aft fan case and a component in the high-pressure turbine.

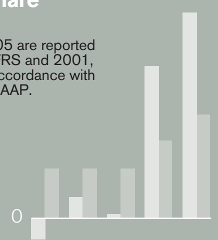
Volvo Aero's expertise was decisive for the contract. A unique technology is used for the turbine rear frame, which merges an optimal combination of small castings and sheet-metal parts with the help of computer simulation. The result is lower weight, reduced costs and a more robust design.

The GEx will be put into service in 2008 in the Boeing 787 Dreamliner, followed by the Airbus A350 the following year and the Boeing 747-8 in 2010.

The share

Earnings[1] and cash dividend per share

1 Years 2004 and 2005 are reported in accordance with IFRS and 2001, 2002 and 2003 in accordance with prevailing Swedish GAAP. See Note 1 and 3.

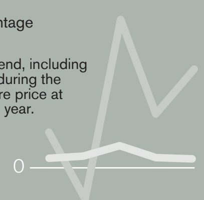


	01	02	03	04	05
Earnings[1] per share, SEK	(3.5)	3.3	0.7	23.6	32.2
Dividend per share, SEK	8.0	8.0	8.0	12.5	16.75

Direct return[1] and effective return[2], %

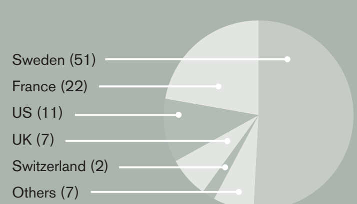
1 Dividend as percentage of share price.

2 Share price at year-end, including proposed dividend during the year, divided by share price at the beginning of the year.



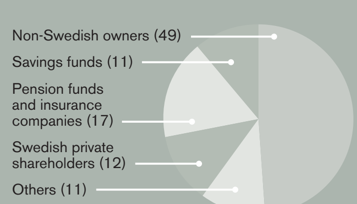
	01	02	03	04	05
Direct return	4.5	5.6	10.5	4.7	4.5
Effective return	17.6	(14.8)	71.2	25.5	48.5

Ownership by country[1], %



1 Share of capital, registered shares.

Ownership categories[1], %



1 Share of capital, registered shares.

Favorable share performance

The trend on the world's leading stock exchanges during 2005 was generally favorable. On the Stockholm Stock Exchange, the Affärsvärlden General Index (AFSX) rose by 33%.

On the Stockholm Stock Exchange, the Volvo B share gained 42% during 2005, compared with an increase of 48% for the MSCI Europe Machinery Index, Morgan Stanley's European index of engineering companies.

At the end of the year, the share price for the B share was SEK 374.50, compared with SEK 263.50 at the end of 2004. The highest price paid during the year was SEK 378.50, on December 30, 2005, a record high. The lowest price paid was SEK 260.00 on January 5, 2005.

Market capitalization

At December 31, 2005, the market capitalization of Volvo amounted to SEK 150 billion, compared with SEK 107 billion at December 31, 2004. Volvo's market capitalization was equivalent to 4.5% of the total market capitalization of the Stockholm Stock Exchange.

Trading

The majority of trading in Volvo shares takes place via the Stockholm Stock Exchange, where the shares have been listed since 1935. Trading in Volvo involves Volvo A and Volvo B shares with the tickers VOLV A and VOLV B respectively. A trading block comprises 100 shares.

During 2005, a total of 558 (540) million shares were traded on the Stockholm Stock Exchange, corresponding to a daily average of 2.2 (2.1) million shares traded. The turnover rate was 129%, compared with 124% for the Stockholm Stock Exchange as a whole.

Volvo included in Dow Jones Sustainability Index

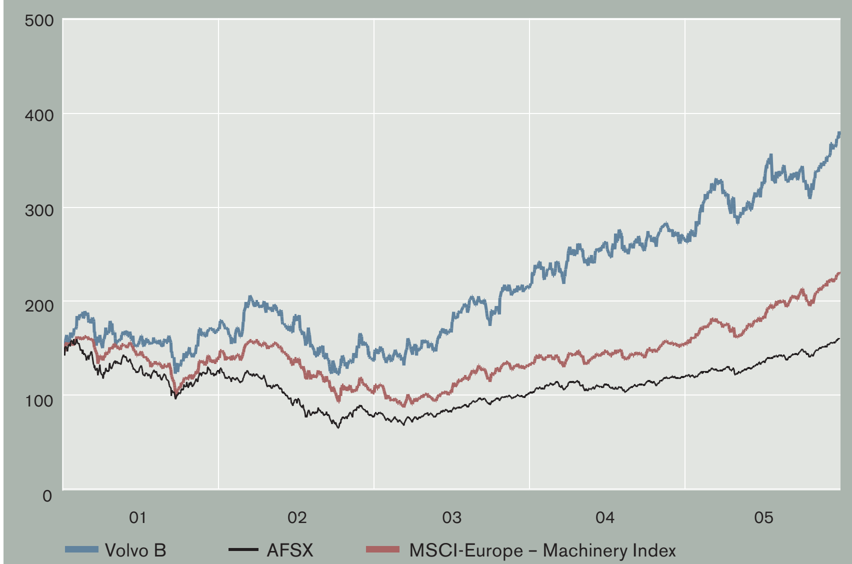
Since 2002, Volvo has been included in the Dow Jones Sustainability World Index (DJSI World). DJSI World is a worldwide index based on global companies' efforts regarding sustainable development. Companies are evaluated annually according to a model embracing finance, environment and social factors. DJSI World comprises the highest-ranked 10% of the 2,500 companies included in the Dow Jones Global Index. Volvo is also one of slightly more than 170 companies included in the Dow Jones STOXX Sustainability Index, which comprises leading European companies. Further information is available at

www.sustainability-indexes.com

ADR program in the United States

Since 1985, a program for American Depositary Receipts (ADRs) has existed in the United States. Each ADR represents one Volvo B share and the Volvo ADR is traded with the ticker VOLVY on NASDAQ. In 2005, the average daily volumes of ADRs traded were 78,555 (94,695) and the total number of outstanding ADRs at year-end was about 13 million (20 million).

Price trend, Volvo Series B shares, SEK



Source: Stockholmsbörsen

Dividend policy

The objective is that the effective return to the shareholders, the dividend combined with the change in the share price, should exceed the average for the industry.

Dividend

For fiscal year 2005, the Board of Directors proposes that the shareholders at the Annual General Meeting approve a cash dividend of SEK 16.75 per share, a total of approximately SEK 6,775 M. This corresponds to a direct return of 4.5% calculated at the year-end 2005/2006 rate of SEK 374.50 for the Volvo B share.

Long-term credit rating

In October, AB Volvo signed an agreement with Moody's Investor Services for long-term credit rating services, since Moody's had, for several years, evaluated the credit worthiness of the Volvo Group without having a contract. The long-term A3 credit rating provides access to additional sources of financing and improved access to the financial market.

A3 is among the highest credit ratings in the transport and vehicle industry and one of the highest among Nordic industrial companies.

Credit rating at December 31, 2005

	Short term	Long term
Moody's	P-2 stable	A3 stable
Standard & Poor	A2 stable	Not rated

The largest shareholders in AB Volvo, December 31, 2005[1]

	Share capital, %[2]
Renault SA	20.7
AMF Pension	4.1
Alecta	3.0
Robur fonder (savings funds)	2.7
SEB Fonder / Trygg Försäkring	2.7

1 Following the repurchase of its own shares, AB Volvo held 5.0% of the Company´s shares on Dec. 31, 2005.
2 Based on all registered shares.

Share capital, December 31, 2005

Registered number of shares[1]	425,684,044
of which, Series A shares[2]	135,520,326
of which, series B shares[3]	290,163,718
Quota value, SEK	6
Share capital, SEK M	2,554
Number of shareholders	195,442
Private persons	185,637
Legal entities	9,805

1 Following the repurchase of the Group's own shares, the number of outstanding shares was 404,463,509.
2 Series A shares carry one vote each.
3 Series B shares carry one tenth of a vote each.

More details on the Volvo share can be found on page 150.

Volvo Group works for sustainable development

We believe that efficient transport is a fundamental condition for economic growth, competitiveness as well as environmental and social development. These are prerequisites for the distribution of services and goods as well as for people's choices regarding work and living conditions. We also know, however, that transport has negative effects on the society in the form of traffic accidents, emissions and other environmental effects. The Volvo Group's aim, as an employer and producer, is to assume responsibility in all these areas.

Corporate values with tradition

Volvo Group seeks to limit the negative social effects of its operations by developing efficient vehicles and transport solutions, equipment that can help to prevent accidents and mitigate the consequences when accidents happen, and by constantly working to reduce environmental impact from its products and production. Our commitment with regard to contributing to positive social development and creating value for customers is reflected in our Code of Conduct and the Volvo Group's corporate values: quality, safety and environmental care.

From the very start, our operations have been based to a great extent on our strong values. The company's founders made it clear at an early stage that operations should be based on concern for people. Safety and quality became key words for the company and its products. Environmental care was added at the beginning of the 1970s. By virtue of this long tradition, the corporate values have become an integral part of all the Group's operations through the entire value chain.

The Volvo Group has a number of different activities, policies and control systems aimed at promoting sustainable development within its sphere of interest.

Volvo Group's Code of Conduct

On June 17, 2003, AB Volvo's Board of Directors adopted a Code of Conduct that covers the Board and all Volvo Group employees. The Code of Conduct details the principles that govern the Group's relations with its employees, business partners and other stakeholders in matters relating to business principles, environmental care, human rights and the work environment.

Volvo Group's Code of Conduct is based on the United Nations Global Compact, which contains ten principles based on international conventions, and also on recommendations from the financial markets and the Group's corporate values.

Volvo Group also encourages suppliers, dealers, consultants and other business partners to observe the principles of the Code. The Code of Conduct is used to evaluate both current and future suppliers.

All Volvo Group managers have a responsibility to communicate the contents and spirit of the Code of Conduct.

In the Volvo Group management, Senior Vice President Per Löjdquist is responsible for issues relating to corporate social responsibility.

The complete Code of Conduct is available for downloading from Volvo's website:
➡ **www.volvo.com**

Volvo Group supports UN's Global Compact

Since 2001, Volvo Group has supported the UN's Global Compact and the treaty's ten principles, which are based on the UN's Universal Declaration of Human Rights, the UN Convention Against Corruption, the conventions of the International Labor Organization (ILO) governing basic principles and rights in working life and the Rio Declaration on the Environment and Development.

The Global Compact was instituted to promote responsible business enterprise worldwide. By supporting the Global Compact, the Volvo Group commits itself to realizing and integrating ten principles regarding human rights, work conditions and the environment in its operations. More information is available at
➡ **www.unglobalcompact.org**

Volvo in Global 100

For the second consecutive year, the Volvo Group is ranked as one of the world's 100 best companies in sustainable development. The ranking is presented at the World Economic Forum in Davos, Switzerland. The aim of the Global 100 is to raise awareness of sustainable development and spotlight companies that have shown their willingness to lead the way toward a sustainable society.

Customer- and quality-driven organization

The Volvo Group is a customer- and quality-driven organization. Our products are often crucial to our customers' success and must therefore meet the highest standards. Our long-term goal is to be number one in terms of image and customer satisfaction.

The conditions for reliability and customer benefit are already established at the product design and development stage. Our quality concept is based on the customers' needs, which include how we perform service, how we provide access to information and how we treat people. By measuring customer satisfaction, we know that we are focusing on the right items and the result is built into our efforts for continuous improvement. To be able to continuously offer high-quality products and services requires strong commitment from the organization, which is why the Volvo Group management assigns a very high priority to quality issues.

Ambitious quality policy

Volvo Group's quality policy stipulates that the Group shall rank as leader for quality among the world's producers of vehicles and transport-related products and services. This goal is to be achieved through a customer focus based on:

- commitment from managers
- the active involvement of all employees
- a process-oriented approach.

Clear customer focus

Quality is a measure of how well we succeed in the eyes of our customers. Our success in the market depends on our ability to understand and fulfill customers' needs and exceed their expectations. To achieve this, we must be better than our competitors, which requires that we listen to our customers and work systematically to bring about lasting improvements based on their observations.

Management commitment

All managers are expected to show clear commitment to quality issues by communicating clear targets and proceeding from words to actions. It is also vitally important that managers help to ensure that the competence of all employees is strengthened, by seeing that employees are given the opportunity to achieve their targets and by delegating responsibility and authority as far as possible.

Employees involvement

All employees within the Volvo Group, as well as the employees of suppliers, distributors and dealers, must be given the opportunity to understand both their importance in efforts to achieve quality targets and their responsibility for quality in their daily work. Employees must be well-informed about established targets and are expected, together with their colleagues, to actively contribute to the achievement of the Group's goals.

Process-oriented approach

The Volvo Group strives to be a proactive organization with the aim of always getting it right from the start. We continuously identify, document and develop our processes by:

- working to achieve maximum customer satisfaction and zero defects
- striving toward targets and measuring results against them
- comparing ourselves with others and always learning from the best.

Established and extended quality organization

All units within the Group have their own quality managers and apply a common method for process improvement and product development. Among other tools, this involves checkpoints with clear requirements about what results must be achieved before product development projects are allowed to proceed. Safety and environmental requirements are included in the same process.

Quality work is coordinated at Group level by the Quality Council. The members of which comprise the quality managers from each business area. Group management is represented by Michel Gigou, Senior Vice President of AB Volvo, who is responsible for quality issues.

The Quality Council supports executive management and the Board in overseeing and reviewing quality systems. The Council serves as an advisory body on Group-wide quality issues.

External awards

Volvo Penta's new IPS drive system received several international awards during the year, notably the innovation prize "Best Technological Innovation Trophy" at the Genoa International Boat Show and US boating magazine Motor Boating's "Best of the Year Award." Volvo Penta's IPS system was also rewarded with Volvo's technology prize for 2005.

In October, the Renault Magnum was named the world's most beautiful truck by the international jury charged with selecting "The World's Most Beautiful Automobile." The Volvo FH16 HP "Black Metal" came second and the Renault Premium fourth.

Quality management system in place

Everyone in the organization is responsible for day-to-day quality work. Key concepts are quality and participation through open dialogue and clear targets. All units within the Group have action plans for continuous improvements. Most employees in the Volvo Group's operations work within certified quality management systems in accordance with ISO 9001:2000.

Requirements on suppliers

The Volvo Group imposes rigorous requirements not only on its own organization but also on its subcontractors, who are continuously evaluated to ensure that they meet the requirements. In regard to quality, this means, for example, that subcontractors must have an explicitly stated target of zero defects, as well as established quality management systems, a focus on continuous improvements and a holistic view of the product life cycle that also covers how our customers use the products.

Constant focus on safety

The increasing numbers of vehicles on the roads, combined with increasingly higher traffic speeds, increase safety requirements on both drivers and vehicles. For the Volvo Group, safety is about how our products are used in society. We work continuously to minimize the risks and the consequences of accidents and to improve safety and the work environment for drivers.

Safety policy

Our safety program has two focal points: to prevent accidents, to the greatest possible extent, and to prevent injuries in the event of accidents. Our safety policy stipulates:

- The Group's products are characterized by safety.
- The Group shall offer its customers products that satisfy the highest safety requirements.
- The Group shall be regarded as the leading manufacturer of safe vehicles and transport products, equipment and systems.

For the Group's business areas that mainly supply components for installation in finished products manufactured by other companies, such as boats and aircraft, safety is synonymous with quality and reliability.

The safety organization

The overall safety work is coordinated by the Volvo Group's Safety Committee, which includes safety experts from Group companies. The Safety Committee continuously follows-up the action plans prepared by each company against the background of the challenging safety objectives established by the Group Executive Committee. In 2005, Senior Vice President Karl-Erling Trogen, who was then a member of the Group Executive Committee, was Chairman of the Safety Committee. He will be succeeded by Jan-Eric Sundgren in 2006.

Continuous process

The Group has its own specialists, which analyze accidents involving vehicles from the Volvo Group. The findings are used in product development, safety testing and manufacturing of new products. Furthermore, all of the Volvo Group's products are safety tested using realistic methods.

The basis for good safety is reliable and efficiently functioning products that respond in the anticipated manner. The user must be offered optimal conditions for handling the product, even in complex situations.

The fact that a driver or operator can use their vehicle or machine in the correct way is a basic requirement for enhanced safety. Accordingly, driver information and training are important elements of the Group's undertaking, as is the training of mechanics who ensure that the maintenance of vehicles and engines is conducted and quality controlled. We encourage our customers to provide their employees with the right training and the opportunity to follow the safety guidelines of the Volvo Group and authorities. For example, using the safety belts currently provided in Volvo's trucks, buses and construction equipment. An important issue in the future is the development of a system that contributes to the increased use of safety belts.

Focal point 1 – Accident prevention

Human errors or misjudgments are major contributing causes in most traffic accidents, which reflects the importance of preventive safety characteristics such as good visibility, driving qualities and brakes. Furthermore, the human factor is most often the cause of accidents with construction machines.

The driver's workplace is an area of focus. Using various methods, the Volvo Group is creating the conditions for enhanced interaction between the user, vehicle and the surrounding environment. The company has made considerable progress in developing systems that help the driver or operator to handle the vehicle as safely as possible.

For example, trucks and buses can be equipped with electronically controlled disc brakes that can be used in combination with a stabilization system – Electronic Stability Program (ESP). Another example is the Adaptive Cruise Control (ACC), a radar based system that automatically adjusts the vehicle speed and distance in relation to the vehicle ahead.

The safety solutions of the future include systems that warn the driver or operator if he or she becomes tired or distracted. One example is the Lane Departure Warning system. It detects if the vehicle has an unintentional change of direction – a sign that the driver has fallen asleep or has lost concentration.

Focal point 2 – Injury prevention

The Volvo Group is a leader in designing vehicles that protect the driver and passengers in the event of a collision. Safety solutions include overturn-tested cabs and bodies,

Alco-locks

In December 2005, Volvo Trucks participated in a seminar on alco-locks in Brussels arranged by Swedish authorities. The aim of the meeting was to demonstrate how the equipment works and to persuade the EU to introduce the alco-lock as standard on all commercial vehicles.

For the past couple of years the alco-lock has been available as an option on Volvo trucks in Scandinavia. In 2005, sales of the system rose sharply. Today, more than 5,000 buses and trucks in Sweden are equipped with the system and the Volvo Group is convinced that it contributes to saving lives.

The alco-lock is easy to use and features a starter inhibitor and a log function. The lock consists of a central unit and a hand-held unit with a replaceable mouthpiece. In order to start the engine, the driver must first activate the alco-lock and then blow into the mouthpiece. If the driver's breath contains traces of alcohol, the central unit will cut the supply of current in the electrical system, thus preventing the engine from starting.

frontal collision protection, deformation zones, safety belts and deformable fittings and airbags. Safety belts are undoubtedly the most important safety detail.

At an early stage, Volvo Group worked on improving safety for other road-users. A large number of accidents between trucks and passenger cars involve frontal collisions. As early as 1996, we introduced the Front Under Run Protection System to prevent passenger cars from being wedged under a truck in a frontal collision. As of 2001, the protection system is standard on Volvo trucks within the EU, and in 2003, the protection system became a legal requirement in the EU. Accident investigations show that the Front Under Run Protection System substantially reduces injuries.

Own accident research since 1969

All of the Volvo Group's business areas have well-developed systems for the investigation of accidents involving vehicles from the Volvo Group. Since 1969, Volvo Trucks has had its own team for accident research, which is an integral part of product development. Renault Trucks also has such a team. These two teams cooperate and share methods, basic statistics and analysis. They conduct detailed investigations of traffic accidents involving vehicles from the Volvo Group. They also interview the drivers involved in serious incidents.

Information is compiled in databases. The findings from the analysis contribute significantly to the Group's safety work. Many of the Volvo Group's safety solutions originate from this research, including energy-absorbent cab zones, deformable steering wheels and three-point safety belts. The findings also form the basis for safety training.

Extensive safety research

The Volvo Group conducts research within all areas and stages of accidents: preventive measures, before, during, and following the accident.

The Volvo Group cooperates with other automotive manufacturers, researchers and authorities in various joint projects in the safety area. Intelligent Vehicle Safety Systems, IVSS, is one example. IVSS is a Swedish cooperative venture between authorities and other manufacturers, that commenced in 2003 and covers seven research areas relating to future traffic safety. The program will be conducted through 2008. Volvo Group is also involved in a Human Machine Interaction project, that is, communication between people and machine.

Milestones in the Volvo Group's safety work

1969	**Formation of the Volvo Trucks Accident Research Team.**
1977	**Volvo Trucks launches safety cab.**
1986	**Brake discs introduced on the front wheels on a 13-ton truck.**
1992	**Two-point safety belts fitted in buses.**
1996	**Volvo Trucks becomes the world's first truckmaker to introduce a Front Under Run Protection System to protect passenger cars in frontal collisions.**
1998	**Introduction of disc brakes which, together with EBS (Electronic Braking System), improves braking safety significantly.**
2001	**ESP (Electronic Stability Program) reduces the risk of trucks skidding off the road and the risk of the truck overturning.**
2003	**Safety on board – information, safety brochures and safety film on buses, similar to what is available on aircraft. Adaptive Cruise Control (ACC) on trucks. ACC keeps the distance to the vehicle ahead.**
2004	**ESP (Electronic Stability Program) on buses. FIP (Front Impact Protection), extra collision protection on the Volvo 9700.**

Care for the environment

As one of the world's largest producers of heavy vehicles, the Volvo Group feels responsibility to limit the environmental impact caused by its products and its own operations. Volvo Group's environmental work focuses on energy efficiency, reduced emissions and alternative fuels.

The Volvo Group has a long history of successful environmental work. The results are clearly evident in products that are increasingly environmentally adapted and in the reduced impact from our production facilities and internal transports. We do not intend to rest on our laurels, however, but will continue working to reduce the environmental impact from our operations.

Environmental policy governs environmental efforts

The Group's environmental policy is the primary and guiding instrument for our environmental efforts. The policy states that Volvo Group's environmental program shall be characterized by a holistic view, continuous improvements, technical development and efficient use of resources. The policy is in turn broken down into strategies and goals for the organization.

Decentralized environmental organization

Responsibility for environmental work at production facilities is a normal aspect of operational responsibility. All production facilities have environmental coordinators. Issues relating to emission levels, fuel consumption and choice of materials are handled by the development departments in the respective business areas and the Group-wide development units. Every business area has an environmental manager. The Volvo Group has internal consultants, with specialized expertise in such areas as chemicals, life-cycle assessments, environmental audits and environmental protection.

At the Group level, coordinating responsibility lies with the Environmental Affairs function. There is a Group-wide Environmental Council, which comprises the environmental managers of the various business areas and business units. Within Group management, the Chairman of the Environmental Council is responsible for environment-related issues. During 2005, this position was held by Karl-Erling Trogen, Senior Vice President of AB Volvo. He will be succeeded by Jan-Eric Sundgren in 2006.

Environmental management system in place

Environmental care is a key aspect of daily work within the Volvo Group. At the close of 2005, 96% of all production unit employees were working in accordance with certified environmental management systems – principally ISO 14001:2004. The objective is for all employees to be encompassed by environmental management systems. Other areas within the Group, such as product development and the marketing organizations, are also covered by environmental management systems.

When a company or property is acquired, an examination of the company's status, known as "due diligence," is conducted. In addition to the financial and legal aspects, this examination also addresses environmental factors and environmental risks.

Product development with holistic approach

Life-cycle analyses show that up to 90% of the total environmental impact from the Volvo Group's products occurs during their use, through carbon dioxide and other emissions from burning fossil fuels. Accordingly, the Volvo Group has a holistic approach to the environmental impact of its products and operations, and actively employs life-cycle analysis focusing on complete product lifetimes, from raw materials to waste products.

To describe the environmental impact from some of the Group's most important products, environmental declarations are produced. The products covered by environmental declar-

Volvo Environment Prize supports environmental research

On October 26, 2005, the Volvo Environmental Prize was presented for the sixteenth time to researchers who have made significant contributions in the environment area. The prize, which is awarded by an independent foundation, was established in 1988 to support and encourage research and development in the environmental area and has since grown to become one of the world's most prestigious environmental awards. Over the years, winners of the prize have included a number of prominent researchers and pioneers in the area.

The Volvo Environment Prize for 2005 was awarded to two prominent researchers from the southern hemisphere for their contributions in the field of conserving biodiversity. The research was carried out by Dr. Mary Kalin Arroyo, working in Chile, and Professor Aila Keto, working in Australia.

The 2005 prize, worth SEK 1.5 M, was presented by the Swedish Minister for Sustainable Development, Mona Sahlin, Volvo's CEO, Leif Johansson, and Fredrik Arp, President of Volvo Cars. The prize ceremony has developed into an important meeting-place for interested parties from the business community, politics and voluntary organizations.

www.environment-prize.com

ations include the L60E-L330E wheel loaders, Volvo FH 12 and Volvo FM 12 trucks with Euro 3 engines, the Volvo 8500 articulated bus and the Volvo 8500 low-entry bus. Preparations are under way in North America to attach environmental declarations to one model each from Mack Trucks and Volvo Trucks.

The declarations consist of three parts: production, use and scrapping. The basic principle is that each new product must cause less environmental impact than the product it replaces, which sets rigorous environmental requirements for the development of new products. Designers have access to a number of different tools for deciding which materials, designs and production processes have the least impact on the environment.

The "Production" section describes aspects such as energy consumption, emissions and waste, while the "Use" section gives details of fuel consumption, emissions and the use of spare parts. The third section deals with scrapping. The Group's products are recyclable to a large extent. And as much as 95% of some trucks can be recovered. Disassembly manuals are available as an aid in the recovery process. The manuals describe the procedures for dismantling trucks, as well as the color-coding system for components, which shows what materials they consist of. Recovered materials are also reused in production.

Volvo Group's internal environmental prize for 2005 was awarded to Volvo 3P for a technique for using color-impregnated plastic in for example the front end of Volvo trucks, wind deflector and other cab components, instead of lacquering them. Using color-impregnated plastic substantially reduces both environmental impact and costs. Other positive features are that the material saves weight and is fully recyclable.

Reduced emissions

The Volvo Group primarily uses diesel engines in its products, due to their high energy efficiency and their potential for low emissions. The main focus in development is on diesel engines. Improved fuel efficiency is an effective way of reducing carbon dioxide emissions, as well as reducing costs for the Group's customers.

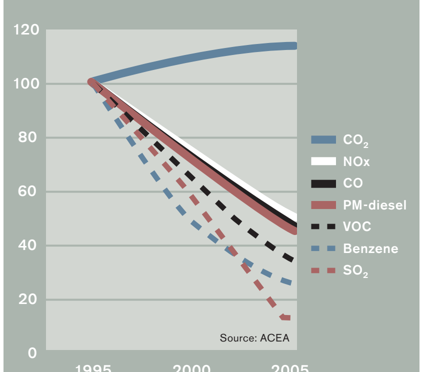
In order to improve air quality, regulators in many countries are placing even more stringent requirements on reducing emissions, especially of nitrogen oxides and particulates. In the US and the EU, among other places, the requirements are set to become considerably more rigorous during the next few years. For more detailed information about future emissions requirements, see the fact box on this page.

To meet these requirements, the Volvo Group is continuously developing new engine technology to reduce fuel consumption and emissions.

To fulfill the new requirements for trucks and buses due to be introduced in Europe in 2006 (Euro 4) and 2009 (Euro 5), new solutions are needed for diesel engines. The Group's solution to meet the requirements is diesel engines with even more efficient combustion and after treatment of exhaust gases with the additive AdBlue and Selective Catalytic Reduction (SCR). In North America, the Volvo Group has chosen to use an exhaust recirculation system – High-performance Exhaust Gas Recirculation (HEGR) – to reduce emissions of nitrogen oxides (NOx), combined with a diesel particulate filter.

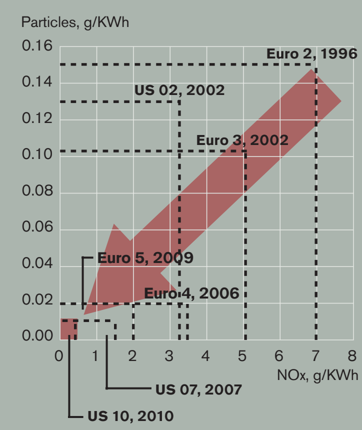
How a vehicle is driven also has a significant

Sharply reduced emissions



Emissions from highway transports in the EU

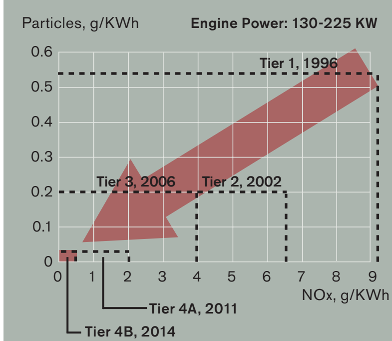
Emission standards for trucks and buses



All heavy trucks and buses registered in the EU from October 1, 2006 must meet the Euro 4 emissions standards.

There are significant differences concerning exhaust emissions between an engine fulfilling the current Euro 3 requirements and one that meets the Euro 4 requirements. Emissions of nitrogen oxides (NOx) have to be reduced from 5 to 3.5 g/KWh, corresponding to a reduction of 30%. Particle emissions (PM) have to be reduced from 0.1 to 0.02 g/KWh, a reduction of no less than 80%. Euro 5, which will take effect on October 1, 2009 will require that NOx emissions levels in accordance with Euro 4 be halved.

Emission legislation for construction equipment



Since 1996, emissions of nitrogen oxides and particulates have decreased by some 60%. In connection to the implementation of Tier 3, Volvo CE introduced products equipped with the new technology, V-ACT (Volvo Advanced Combustion Technology).

This is a technology to adjust the burning in the combustion chamber to achieve low emissions. By 2014, emissions of both nitrogen oxides and particulates are to be reduced by another 90% compared to the current Tier-3 level.

effect on fuel consumption. For example, the same vehicle's fuel consumption can vary by as much as 20% between different drivers. In some markets, the Volvo Group companies offer driver training programs that cover both fuel-efficient driving and safe driving.

Alternative drivelines and fuels

While the primary focus is on improving diesel engines, the Volvo Group has made significant strides in the area of alternative engine types for fuels that can be produced from biomass and thereby be carbon-dioxide neutral, including biogas, rapeseed methyl ester (RME) and synthetic diesel.

Today, the transport sector is almost entirely dependent on oil. One of the fuel alternatives being considered by the Volvo Group is dimethylether (DME). The Volvo Group's studies show that DME has great long-term potential as a competitive alternative. The argument for DME is that it can be used in a converted diesel engine, that it can be produced from renewable raw materials that do not add any extra carbon dioxide into the atmosphere and that it is currently the alternative fuel that has the highest level of efficiency in total and among the lowest level of nitrogen oxides and particulate emissions. Volvo Trucks presented a DME truck during the year, a prototype with second-generation technology.

The Group is also conducting research in the hybrid area, which can be considered a competitive and promising solution for heavy vehicles. During the year, Mack Trucks produced a prototype hybrid driveline. Earlier, the Group has presented two concept vehicles, which are hybrids based on a gas turbine with integrated high-speed generator and on batteries connected to an electrical motor for emission-free driving in sensitive areas.

Environmentally adapted production

Environmental protection and responsible utilization of our shared natural resources are obvious aspects of all production. The Volvo Group places environmental challenges on all its facilities. These challenges include guidelines for the utilization of chem-icals, energy use, emissions into the air and water, waste management, environmental organization and improvement efforts. The fundamental principle is that the facilities shall follow the very strictest requirements, that is, either the Volvo Group's environment requirements or local laws and regulations.

Since 1989, routine audits are conducted in order to monitor environmental efforts. The Volvo Group has insurance coverage for environmentally related damages to the immediate surroundings, for example in the event of a sudden emission.

All of Volvo Group's production facilities have the requisite environmental permits. In Sweden, there are 16 facilities that require permits. Those permits encompass waste, noise and emissions into the air, ground and water. One Swedish environmental permit is subject to renewal in 2006.

During the year, AB Volvo decided to invest SEK 650 M in a new topcoat paint shop at its cab plant in Umeå, in northern Sweden. The new paint shop will be the cleanest shop in the world, with very low emission levels and a low impact on the environment due to an investment in entirely new lacquering and paint technology. Total emission levels will be one

First carbon-dioxide-free vehicle plant

The Volvo Group works actively to reduce carbon-dioxide emission levels from its facilities. The truck facility in Tuve, Sweden, is to be the first carbon-dioxide-free vehicle plant in the world. Together with Göteborg Energy, Volvo will build wind power plants and a fuel facility that will provide the factory with all the energy it requires for production.

fifth to one sixth of EU limits for new painting facilities. Investments in technology for environmental improvements amount to approximately SEK 245 M.

Each year the existence of polluted land on properties owned by the Volvo Group is catalogued. In general, these occurrences have a historical background. During 2005 cleaning-up activities took place in five properties.

The Volvo Group generates transports to and from production facilities all over the world. The Group's logistics managers regularly review these flows and continuously make improvements to achieve considerably fewer transports and a significant reduction in the total impact on the environment. In order to better assess the impact on the environment from our logistics work, Volvo Logistics has produced a system for calculating the environmental load.

In September 2005, Volvo Truck's New River Valley factory in Virginia in the US was awarded the Governor's Environmental Excellence Award for Manufacturers. This prize is awarded to recognize companies that strive to maintain the highest levels of quality in their environmental work and who do more than merely fulfill prescribed requirements.

In the beginning of 2005, Renault Trucks introduced a new process for electrolytic coating of the cab. The new coating process has reduced water consumption by some 20% and chemical oxygen demand by some 35% per cab.

Requirements on suppliers and dealers

Since 1996, the Volvo Group has imposed demands on the environmental efforts of suppliers and dealers. Environmental requirements form part of our evaluation of suppliers and our subsequent purchases. Recently, focus has also been directed toward the environmental efforts of dealers. For example, Volvo Trucks North America is conducting a joint project for the purpose of further improving environmental efforts of North American dealers.

Greater energy efficiency

The Volvo Group has ambitious environmental challenges for energy consumption in production facilities. All of the companies and operations in the Group have been challenged to reduce energy consumption by 50% per manufactured unit during a five-year period. Reducing carbon-dioxide emissions is another target. The challenge is to double the utilization of carbon-dioxide neutral energy over a five-year period.

Energy savings are not only positive for the environment, they also involve cost savings. For example, Volvo Trucks invested SEK 80 M in energy-saving measures between 2001 and 2004, leading to a 29% reduction in energy utilization. These investments resulted in savings of SEK 200 M during the period and are expected to save at least SEK 50 M annually.

An ambitious energy savings program at the truck factory in New River Valley in the US was introduced in 2003. The program resulted in a 20% reduction in the use of electricity and natural gas during 2004. Savings to date amount to approximately SEK 20 M.

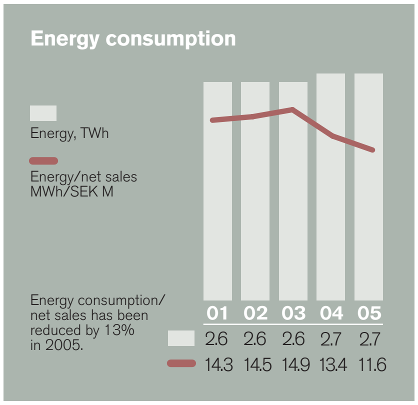
In the US, Volvo Trucks is working with Mack Trucks in a voluntary project to reduce carbon-dioxide consumption. The project is called Climate Leaders and is being managed by the US Environmental Protection Agency (EPA).

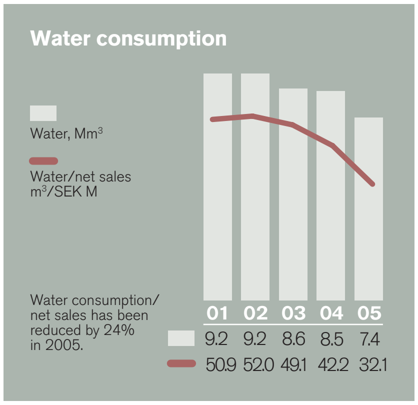
Detailed environmental data from all Volvo Group plants is available on page 153.

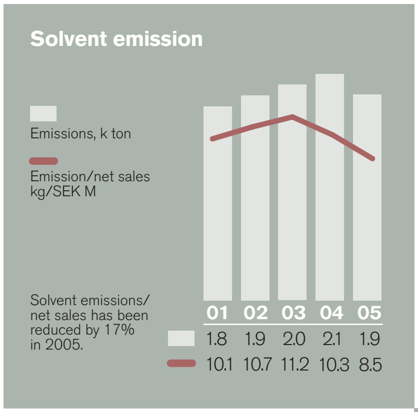
More information

More information about Volvo's environment efforts including policies, environmental information about products and production, emissions requirements and educational materials is available at:

www.volvo.com







Continuous competence development

The Volvo Group's vision involves being regarded as the world's leading supplier of commercial transport solutions. Our employees knowledge and expertise play a decisive role in fulfilling this vision.

The Group had 81,856 employees at the end of 2005. Each employee is part of a team and is expected to participate actively in the Group's development, process of change and future. To support such development, a work environment characterized by energy, passion and respect for individuals is required. To make the vision a reality, we need to continuously develop our expertise within key areas and succeed in attracting new, talented employees.

Volvo's corporate culture – The Volvo Way

The ability to develop a competitive culture is of critical, long-term importance to the Group's profitability. Unlike technologies, strategies and business models, competitors find it difficult to copy a corporate culture.

Volvo Group's values and culture are outlined in The Volvo Way, which forms a central guide for the Group and whose principles set the direction for leaders and employees in their daily work.

The Volvo Way is based on the conviction that all employees have the capability and desire to improve operations and, by so doing, to develop their own competencies. By moving from word to action, focusing on implementation and realizing necessary changes faster than competitors, we strive to secure sustainable success.

Individual responsibility

Leaders throughout the Volvo Group's organization are expected to involve their teams in the decision-making process and to then focus on execution. Customer focus, open dialogue, feedback and personal commitment are key principles in The Volvo Way, aimed at aligning Group strategies and objectives with daily teamwork. Objectives and goals are established for each unit, department, work team and individual.

By working towards an open decision-making process, we strive to attain personal commitment to common objectives. We believe that individuals who feel that their competence, experience and perspectives contribute to developing the Group will also assume responsibility for achieving the goals.

Competence development

To become successful, the Volvo Group encourages a corporate culture that develops employees in their work. This results in increased personal satisfaction and a competitive edge for the company. Competence development is a continuous process that is supported by an internal training organization. This organization offers employees a large range of courses and training programs within such areas as diversity and culture, leader development, project work and business understanding, as well as economics, technology, personal development, communication, IT and languages. All courses are designed to contribute to attaining the Group's commercial targets.

Feedback and recognition are keys to promoting team and individual development. Each manager is expected to conduct regular performance appraisals and to involve employees in planning their competence development. Leaders and employees also review these plans.

It is the shared responsibility of leaders and employees to ensure that each team has the necessary skills, expertise and resources to become successful.

Increased diversity – a key objective

Among other requirements, the Volvo Group's Code of Conduct prescribes that the Group must support internationally recognized human rights and that all employees are to be treated in such a way that no one is discriminated against on the grounds of gender, race, belief, age, disability, sexual preference, nationality, political conviction, trade union membership or social/ethnic origins.

Capitalizing on the diversity that exists throughout the organization is a key strategic objective. For a group with global operations, it is essential that the organization reflects its customers and understands the conditions prevailing in local markets and in various cultures. By taking advantage of different types of knowledge, experiences and perspectives, the Volvo Group continues to create the conditions necessary for success.

Leaders are responsible for leveraging the strengths represented by diversity. Several units have appointed diversity managers to facilitate continuous improvements in this area. Diversity is something that is considered early in the recruitment process. Other important performance indicators, such as the percentage of women in leading positions within Volvo Group companies, are also measured and monitored.

In North America, a project is under way aimed at stimulating diversity among the Group's suppliers. In Sweden CEO Leif Johansson is participating in a project intended to ensure that more women are assigned to senior executive positions within the Volvo Group and in the business community.

Safe work environment

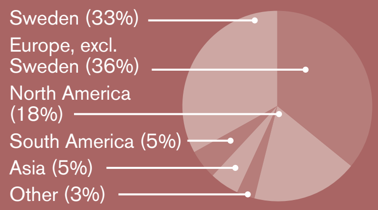
The Volvo Group engages in active environmental efforts designed to facilitate a creative, healthy and energizing work environment without undue health hazards. Various projects are in progress in different parts of the world aimed at, for example, exchanging experiences about how to best create a healthy workplace and conducting preventive activities. This knowledge will be spread at an individual, department and company level. In addition, a project is under way aimed at coordinating rules and procedures for the work-environment area.

As part of the work performed in the work-environment area, a number of operations have been certified in accordance with OHSAS

Key figures	2004	2005
Number of employees at year-end	81,078	81,856
Share of women, %	16	17
Share of women, Board members, %	15	10
Share of women, Presidents and other senior executives, %	16	16

Absence due to illness in the Group's Swedish companies	
Total absence due to illness of regular working hours, %	5.2
of which, continuous sick leave for 60 days or more, %	51.4
Absence due to illness (as percentage of regular working hours) by gender	
Men, %	4.9
Women, %	6.7
Absence due to illness (as percentage of regular working hours) by age	
29 years or younger, %	4.8
30–49 years, %	4.9
50 years or older, %	6.2

Geographic distribution of employees, %



18001, the international standard for work-environment management systems. The system is a tool to check work-environment risks and make necessary improvements. The certified operations include Volvo Trucks' plants in Belgium and Mack Trucks' in Canada. The Group's US plants in New River Valley and Asheville are planned to be be certified in 2006. Volvo Construction Equipment in China, whose plant was certified in accordance with OHSAS 18001 during 2005, received recognition during the year for its efforts in the work environment field from the Pudong Safety Production Supervising Bureau, part of the Chinese Department of Labor.

Volvo European Dialogue

The right to be a trade union member and the right to negotiate collective agreements are respected throughout the Volvo Group and are a principle in our Code of Conduct. In Europe, the Volvo European Works Council was formed in 1996 with the purpose of creating a forum for dialogue between the employer and employees. Volvo European Dialogue is a meeting where representatives of the employer and employees meet once a year. The Chairman is Volvo Group's President Leif Johansson.

Volvo Group Attitude Survey

The Volvo Group Attitude Survey is a yearly Group-wide survey of employee attitudes toward their work and to what needs to be improved. The results of the survey are compiled and discussed within each team to identify key improvement areas and are also included in the appraisal of each manager's performance.

The percentage of satisfied employees throughout the Volvo Group has steadily improved. In 2005 the share of satisfied employees was 83%, compared with 81% a year earlier, 77% in 2003 and 74% in 2002. Other key indicators monitor how well each manager involves and communicates with his or her team members, gives feedback on performance and contributes to resolving conflicts.

Volvo's social involvement

The Volvo Group is involved extensively in social issues, which are important because the Group is a major employer in many communities and is active in areas that attract considerable public interest. The Group's social involvement is based on such issues as safety and environmental care. The aim is that the Volvo Group shall function as an active partner in society. Together with local authorities, voluntary organizations and private citizens, the Group tries in various ways to contribute to a positive social development.

Active exchange of information

The Volvo Group engages in an active exchange of information with stakeholders at many different levels and in many different contexts and strives to communicate clearly and honestly. This pertains to customers, employees and prospective employees, suppliers, investors, analysts, authorities, voluntary organizations and the media. The Group participates in networks and conferences with the aim of facilitating interaction with society as a whole.

As a global company that conducts transport-related operations, the Group participates in a large number of forums worldwide that deal with transport-related issues. We believe that new technologies and systems have the ability to create transports which serve society in a more efficient way, with less negative impact on people and environment. Accordingly, the Volvo Group strives to maintain a positive and open dialogue about these opportunities with authorities and other stakeholders in order to support a sustainable development.

Cooperation with universities

Sharing knowledge with other stakeholders is one of the principal objectives of our projects and partnerships, as exemplified by our Future Urban Transport foundation, in which we exchange knowledge with universities and research institutes regarding future transportation in urban areas. The Group also collaborates extensively with universities and colleges in a large number of countries and has initiated several projects of social interest.

Cooperative projects

The Volvo Group participates in many different projects at a local, national and global level, some of which are described below.

Volvo Traffic Safety Program in Brazil

In Brazil, Volvo do Brasil has been operating a comprehensive program for the past 15 years aimed at improving traffic safety in the country. Among other activities, Volvo works to educate young people in traffic-safety matters. One project, Transitando, involves students from approximately 350 schools and has received numerous awards.

Share the Road

In the US, Mack Trucks has sponsored Share the Road, the American Trucking Association's highway safety program, for six consecutive years. The aim of this initiative is to increase traffic safety by teaching motorists how to safely share the road with trucks.

➡ **www.atastr.org**

Volvo Adventure

In partnership with the UN's environmental program, UNEP, Volvo is engaged in a web-based educational program concerning environmental issues. The program, called Volvo Adventure, targets young people ages 10 to 16. Each team works on a project aimed at reducing negative environmental effects. During 2005, children from 47 countries participated in Volvo Adventure.

➡ **www.volvoadventure.org**

Young Enterprise

Volvo supports the Swedish non-profit organization Young Enterprise (UF), which has been working since 1980 to promote the spirit of enterprise and involve the business community in the Swedish educational system. Young people are given an opportunity to develop creativity, enterprise and entrepreneurship. In consultation with 1,000 instructors and 2,500 advisors from industry, 10,000 young people operate their own UF businesses each year.

➡ **www.ungforetagsamhet.se**

Sponsorship

Sport and culture have been the focus of the Volvo Group's sponsorship since the 1970s. The activities that the Volvo Group chooses to sponsor have points of reference with our customer groups. The goal of sponsorship is to create deeper relationships with our customers and to strengthen the Volvo Group's brand.

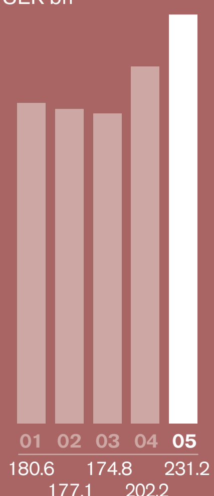
Volvo currently has five long-term sponsorship commitments: Volvo Ocean Race, the golf tournaments Volvo Masters in Europe and Asia and Volvo China Open, the Gothenburg Symphony Orchestra, the Gothenburg Opera and the Nobel Museum in Stockholm. In addition, Renault Trucks sponsors the Olympique Lyonnais soccer team.

➡ **www.volvooceanrace.org**
www.gso.se
www.opera.se
www.nobelprize.org/nobel/nobelmuseum
www.olweb.fr

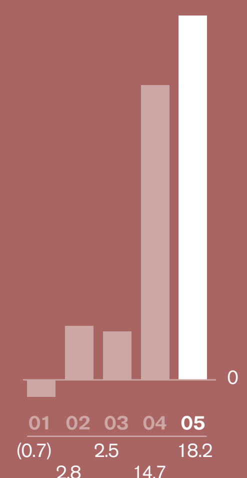
Board of Directors' report

The Volvo Group 2005

Net sales[1]
SEK bn



Operating income[1]
SEK bn



1 Years 2004 and 2005 are reported in accordance with IFRS and 2001, 2002 and 2003 in accordance with prevailing Swedish GAAP. See Note 1 and 3.

In the Board of Directors' Report through page 79, Volvo Financial Services is reported in accordance with the equity method.

Significant events

Volvo Trucks launched new flagship in North America

In February, Volvo Trucks unveiled its new flagship for the North American market, the Volvo VT 880. The new truck is aimed at the prestige segment and is equipped with the new 16-liter engine, which was previously launched in Europe. The 16-liter engine incorporates advanced emissions controls and is designed to be able to meet emissions standards that will go into effect in 2007 and 2010. Towards the end of the year, the engine was also launched for the Volvo VN models.

Volvo Trucks launched its cleanest and most fuel-efficient trucks ever

In September, Volvo launched a new generation of trucks, the Volvo FH and Volvo FM. They are powered by an entirely new 13-liter engine and an improved 9-liter engine with SCR (Selective Catalytic Reduction) technology that meets forthcoming European exhaust emissions requirements.

With the launch of the new Volvo FH and Volvo FM models, Volvo Trucks takes a large step forward with regard to technology and environmental care. The all-new 13-liter engine has more power and better driveability than its predecessor and is available with power outputs of up to 520 hp. Compared with the current 12-liter engine, its fuel consumption is reduced by up to 5%. At the same time, the 9-liter engine has been upgraded and is now more powerful, offering better driveability. Both engines also meet the new emissions requirements that come into force in 2006 and, once the engines' software is updated, also the requirements that become effective in 2009 (Euro 5). The new truck models went into production in Göteborg, Sweden, and Ghent, Belgium, towards the end of the year.

New Renault Magnum

Renault Trucks launched a new generation of its Renault Magnum tractor for long haulage at the beginning of 2005. Roll-out of the new generation is an example of the product renewal under way at Renault Trucks. The new generation features a new chassis and is equipped with a new engine, the DXI 12, and gearboxes such as the automated Optidriver II.

New Renault Premium Route

In September, Renault Trucks introduced a new generation of its truck model for regional transportation, Renault Premium Route. Among other improvements, the new generation features a new driveline and chassis.

It is equipped with a new 11-liter engine in power classes up to 440 hp and is designed for a wide range of transport needs. The new 11-liter engine is more efficient and, compared with the earlier engine, delivers up to 5% fuel savings. Other new features include an automatic Optidriver II transmission, an improved cab and a new front-end design. The first deliveries of the new Renault Premium occurred in October 2005.

New products from Mack Trucks

In October, Mack Trucks introduced a new range of trucks and heavy-duty diesel engines scheduled for launch in 2006. The new Mack Pinnacle is aimed at Mack Trucks' core customers for local and regional hauling, while the upgraded Mack Granite series reinforces Mack Trucks' leading position in the segment for construction vehicles in North America. First to be introduced from the new Mack-Power (MP) engine line is the 11-liter MP7, which features the new base architecture necessary to meet EPA 2007 emissions standards. Mack Trucks also plans to launch a 13-liter version of the engine, the MP8, in 2007.

New Volvo FH16 – strongest truck on the market

In the beginning of February 2006, Volvo Trucks launched a new Volvo FH16 with an engine rated at 660 hp. As the result of a newly developed engine brake, braking power was increased by 15%. The strong driveline features Volvo's I-Shift gearbox system dimensioned to handle trailer weights of 60 tons or more.

First order for Volvo's new gas bus

Volvo Buses is one of Europe's leading manufacturers of gas buses with more than 1,000 gas-powered vehicles delivered since 1992.

During 2005, the company advanced to the next phase with the launch of its new 9-liter gas engine for natural gas or biogas. The new 9-liter engine has better performance than its predecessor and maintains emission levels below both Euro 5 and EEV, the European Union's special environmental class for environmentally adapted vehicles.

In September, Volvo Buses received its first order for the new Volvo 7700 with a gas engine. The local transit company in Bern, Switzerland placed an order for 32 articulated buses, with an option for 39 more.

Volvo Buses closed plant in Heilbronn, Germany

Volvo Buses manufactured one of its coach models, the Volvo 9900, a unique low-volume product, at its Heilbronn plant. The financial results for the Volvo 9900 had been unsatisfactory for many years. The decision to close is in line with Volvo Buses' long-term strategy for achieving profitability and continuing to upgrade its global coach range and concentrate manufacturing at its main plants. Costs related to the closure, approximately SEK 95 M, were charged against second quarter earnings in 2005.

Volvo Buses received order for 2,000 city buses in China

In December it was announced that Volvo Buses received its largest order to date in China. Shanghai's largest transit company Shanghai Ba-Shi (Group) Industrial Co. Ltd., ordered 2,000 Volvo B6R, a new 10.5-meter city bus. The bus has a high portion of locally purchased components and, consequently, complies with the Chinese Automotive Policy established in April 2005. Some 1,000 buses will be delivered through to summer 2006 and the remaining 1,000 through summer 2007. The chassis will be provided as package modules from Volvo Buses' plant in Borås, Sweden. They will be assembled at the Sunwin bus plant in Shanghai, where the bodies are also being manufactured.

Volvo CE launched a new series of motor graders

In November, Volvo Construction Equipment launched an entire new series of motor graders, G900. The series comprises two platforms totaling seven models from 15 to 21 tons. The two smaller models are equipped with the 7.2-liter Volvo D7 engine, while the larger graders have the 9.4-liter engine, Volvo D9. The engines feature the new technology, VAC-T (Volvo Advanced Combustion Technology), which gives low emissions corresponding to standards in accordance with EU Stage IIIA and US Tier 3.

Volvo Aero signed major contracts

It was announced in December that Volvo Aero in Trollhättan, Sweden, will produce parts of the world's largest aircraft engine, GE90-115B, which is on the Boeing 777-200LR and 777-300ER. In accordance with a new contract with General Electric, Volvo Aero will manufacture components to the GE90-115B for an estimated order value of about SEK 2 billion during the next ten years. Volvo Aero will start production of several components of the engine in 2006.

Volvo Aero reported in January 2006 that it had signed a contract covering production of the largest component in an aircraft engine, the fan case, for the Rolls-Royce Trent 1000 engine. The engine will be mounted on Boeing's new aircraft, the 787 Dreamliner. The fan case will be produced in titanium and have a diameter of three meters. The sales value of the contract is estimated at SEK 1.1 billion during a period of 15–20 years.

It was also announced in January 2006, that Volvo Aero and General Electric have agreed that Volvo Aero will increase its part of GE's new engine, GEnx. Volvo Aero will manufacture additional components for the engine. The new contract is expected to generate sales of SEK 6 billion over a 30-year period.

AB Volvo sold Celero Support service company

AB Volvo announced in October that it would sell the Group's service company Celero Support AB to Coor Service Management for SEK 680 M less the company's net debt. The sale resulted in a capital gain of about SEK 430 M, which was recognized in the fourth quarter AB Volvo has some residual obligations to purchase services from Celero Support AB going forward. Celero Support AB provides various office and workplace services as well as maintenance of industrial plants and properties. Celero Support AB had 1,100 employees, with sales of about SEK 1.4 billion.

Write-down of holding in Blue Bird

During the fourth quarter, AB Volvo wrote down its shareholding in Peach County Holdings, Inc. by about SEK 550 M. As of December 31, 2005, Volvo held 42.5% of the US-based company, which in turn owns the American school bus manufacturer Blue Bird. Since its reconstruction in the preceding year, Blue Bird has not developed well. Since Volvo decided not to be further involved in continued activities regarding the company's funding needs and improved liquidity, a write-down was made. After the write-down, the value is zero. In January 2006, Peach County Holdings entered into bankruptcy proceedings (Chapter 11) and as a consequence of Volvo choosing not to participate in the continued reconstruction, Volvo's shares in the company were cancelled.

Sale of properties resulted in gain of SEK 188 M

In February, Danafjord AB (the Volvo Group's real estate company) sold some of its non-strategic properties in Torslanda and Kalmar which were valued at approximately SEK 515 M. The sale resulted in a capital gain of SEK 188 M for Volvo Financial Services, which manages Danafjord.

Tax rulings yielded Volvo SEK 300 M

The Swedish Administrative Court of Appeal delivered rulings in several tax cases affecting various companies in the Volvo Group. In all, 16 different rulings were delivered covering the tax-assessment years 1991–1999. All of the cases involved appeals of County Administrative Court rulings. To a large extent, the Court of Appeal's verdicts followed previous rulings by the lower courts. The Court of Appeal did, however, overturn a lower court ruling and granted AB Volvo a tax deduction of SEK 1.5 billion on the sale of shares in Volvo Trucks North America to an American subsidiary in 1996. To a large extent, the Volvo Group had already made provisions for tax expenses based on the original rulings of the lower courts. Accordingly, the rulings of the Court of Appeal had a positive effect of nearly SEK 300 M on AB Volvo, including SEK 70 M in interest.

US Supreme Court supported Volvo Trucks in antitrust case

In January 2006, the US Supreme Court issued a ruling in favor of Volvo Trucks in a dispute with one of its dealers regarding competitive pricing practices. The US Supreme Court found that Volvo Trucks North America did not violate applicable federal antitrust laws by granting different levels of discounts in unrelated transactions. Volvo's position in the case, which has broad implications beyond the heavy-truck industry, was supported by the US Department of Justice.

Share buyback completed

March 1, 2005 marked the completion of the share repurchase program, authorization for which the Board received at the Annual General Meeting on April 16, 2004. The goal of the repurchase program was to optimize AB Volvo's capital structure. A total of 300,000 Series A shares and 14,475,000 Series B shares were repurchased, corresponding to SEK 4,295 M. Following the repurchase, AB Volvo held a total of 7,230,246 Series A shares and 29,890,797 Series B shares, corresponding to approximately 8.4% of the total number of shares in the company. Following the below described cancellation AB Volvo owns 5% of its own shares.

New share-based incentive program

During the Annual General Meeting it was decided to implement a new, share-based incentive program during the second quarter of 2005 for senior executives at the Volvo Group. The program stipulated that a maximum of 185,000 Series B shares in the Company could be allotted to a maximum of 165 senior executives (including members of Group Management), during the first six months of 2006. For further information, refer to Note 34 on page 117.

Cancellation of shares and new repurchase mandate

The Annual General Meeting resolved that the Company's share capital be reduced by SEK 95,021,046 through cancellation without repayment of 3,084,619 Series A shares and 12,752,222 Series B shares that the company repurchased. The cancellation was implemented during the second quarter of 2005. After the cancellation, AB Volvo owns 5% of its own shares. The Annual General Meeting also resolved to authorize the Board of Directors of AB Volvo to decide on the purchase and transfer of the company's own shares. Following the decision no further purchases of own shares were made during the remainder of 2005.

Allotment of shares in incentive program

By the end of April, senior executives in the Volvo Group were allotted 63,667 Series B Volvo shares under the framework of the incentive program approved by the 2004 Annual General Meeting. Shares were allotted based on the degree of fulfillment of certain financial goals for fiscal year 2004, as established by the Board.

Financial performance

Net sales by business area

SEK M	2004	**2005**	%[1]
Trucks	136,879	155,396	+14
Buses	12,722	16,589	+30
Construction Equipment	29,360	34,816	+19
Volvo Penta	9,057	9,776	+8
Volvo Aero	6,925	7,538	+9
Other	7,228	7,076	(2)
Volvo Group[2]	**202,171**	**231,191**	**+14**

1 Percentage change pertains to 2005/2004.
2 Adjusted for changes in currency rates, net sales increased by 12%.

Net sales by market area

SEK M	2004	**2005**	%[1]
Western Europe	102,498	106,479	+4
Eastern Europe	10,556	11,401	+8
North America	52,426	67,233	+28
South America	6,949	11,901	+71
Asia	20,699	22,598	+9
Other markets	9,043	11,579	+28
Volvo Group	**202,171**	**231,191**	**+14**

1 Percentage change pertains to 2005/2004.

Operating income (loss) by business area

SEK M	2004	**2005**
Trucks	8,992	11,717
Buses	253	470
Construction Equipment	1,898	2,752
Volvo Penta	940	943
Volvo Aero	403	836
Financial Services	1,365	2,033
Other	8	(600)
Operating income[1]	**13,859**	**18,151**
Revaluation of shares	820	–
Operating income	**14,679**	**18,151**

1 Excluding revaluation of shares in Scania AB and Henlys Group Plc, 2004.

Net sales

Net sales in 2005 amounted to SEK 231,191 M (202,171), an increase of 14% compared with a year earlier. Adjusted for changes in currency rates, net sales rose 12%.

Net sales for the Group's truck operations amounted to SEK 155,396 M, which adjusted for changed exchange rates corresponded to an increase of 11%. The increase was attributable to higher sales, primarily in North America, South America and Other markets. Demand in North America was driven by a continued strong US economy, which resulted in increased transport needs. In addition, there is a need to renew truck fleets, which certain hauling companies are doing prior to the new, stricter emission legislation becoming effective at the beginning of 2007. In Europe, demand rose somewhat from an already historically high level. In total, Volvo delivered 214,379 trucks in 2005, 11% more than in the preceding year.

Net sales within Buses rose 30% compared with 2004. Adjusted for currency effects and purchase of the outstanding 50% of Prévost and Nova Bus, the increase was 18%. The increase is attributable mainly to South America, where a large number of buses were delivered to the new, efficient rapid transit bus system in Santiago, Chile. As a result of a broadened production range and improved market shares in a rising world market, net sales in Construction Equipment increased by 19%. Adjusted for currency effects and divested operations, the increase was 18%. Volvo Penta succeeded in offsetting the reduction in deliveries of industrial engines to China through growing on other markets. Net sales rose 8% in 2005, or 7% adjusted for currency changes. The recovery in the aerospace industry affected Volvo Aero positively and, after several years of reduced sales, net sales again increased. The upturn was 9% in 2005, and adjusted for changes in currency rates, the increase was the same.

Strong economic growth combined with a major need to replace ageing fleets of trucks and construction equipment contributed an increase of 28% in net sales in North America. The rate of growth in Europe was significantly lower for the Group, which is reflected in the weaker economic development in Europe in many important countries. Net sales in South America were up 71% as a consequence of the increased sales of mainly trucks and buses.

Operating income

Operating income in 2005 increased 24% to SEK 18,151 M (14,679). Excluding a positive effect on operating income from revaluation of shares in Scania AB and Henlys Group of SEK 820 M in 2004, the increase was 31%. The improvement is due mainly to increased volumes, higher gross margins and a higher portion of accrued development expenses.

Trucks reported operating income of SEK 11,717 M (8,992), up 30%. The increase is attributable primarily to North America, where Mack Trucks and Volvo Trucks increased profitability through a favorable price realization and increased volumes. In Europe, Renault Trucks continued to improve its earnings while profitability for Volvo Trucks' operations in Europe declined somewhat from a favorable level. Operating income for the European truck operations was impacted by increased costs during the second half of 2005 as a consequence from launches and production changeovers in connection to the introduction of a new generation of trucks and engines.

Operating income in Buses continued to improve as a result of the restructuring implemented earlier and higher sales volumes, particularly in South America. Operating income for full-year 2005 was SEK 470 M, an increase of 86%. Through strong cost control and increased volumes, Volvo Construction Equipment continued to improve its profitability. Operating income rose by 45% to SEK 2,752 M in 2005.

Consolidated income statements[1]

SEK M	2004	2005
Net sales	202,171	231,191
Cost of sales	(158,453)	(180,823)
Gross income	**43,718**	**50,368**
Research and development expenses	(7,614)	(7,557)
Selling expenses	(18,317)	(19,616)
Administrative expenses	(5,310)	(6,147)
Other operating income and expenses	7	(399)
Income from Financial Services[1]	1,365	2,033
Income from investments in associated companies	2	(568)
Income from other investments	828	37
Operating income	**14,679**	**18,151**
Interest income and similar credits	993	816
Interest expenses and similar charges	(1,426)	(1,134)
Other financial income and expenses[2]	(1,210)	181
Income after financial expenses	**13,036**	**18,014**
Income taxes	(3,129)	(4,908)
Income for the period[3]	**9,907**	**13,106**
[3] Attributable to:		
Equity holders of the parent company	9,867	13,052
Minority	40	54
	9,907	**13,106**
Earnings per share, SEK	**23.58**	**32.21**

1 Financial Services reported in accordance with the equity method.
2 2004 includes a write-down relating to the holding in Henlys Group Plc of SEK 1,196 M.

Operating margin

%	2004	2005
Trucks	6.6	7.5
Buses	2.0	2.8
Construction Equipment	6.5	7.9
Volvo Penta	10.4	9.6
Volvo Aero	5.8	11.1
Volvo Group[1]	**6.9**	**7.9**
Volvo Group	**7.3**	**7.9**

1 Excluding revaluation of shares in Scania AB and Henlys Group Plc.

Change in operating income

SEK bn	
Operating income 2004	**14.7**
Higher volumes and improvement of gross margins	5.4
Higher income from Financial Services	0.7
Changes in currency exchange rates	0.1
Higher capitalization of development costs	1.3
Higher research and development expenditures	(1.1)
Higher selling and administrative expenses	(2.0)
Revaluation of shares in Scania AB and Henlys Group, 2004	(0.8)
Other	(0.1)
Operating income 2005	**18.2**

Volvo Penta maintained its high profitability during 2005 and at the same time implemented aggressive investments in product development and substantial marketing efforts to capitalize on the new and competitive product portfolio. Operating income remained at the same level as in 2004, SEK 943 M (940).

As an effect of the recovery in the aerospace industry, volumes rose for Volvo Aero. Combined with a favorable product mix and price realization, this resulted in an increase in operating income of 107% to SEK 836 M in 2005.

During the year Celero Support AB was divested with a capital gain of SEK 430 M. In total during 2005, Volvo's holding in Peach County Holding Inc. (Blue Bird) impacted operating income negatively with an amount of SEK 653 M including a write-down of SEK 550 M during the fourth quarter.

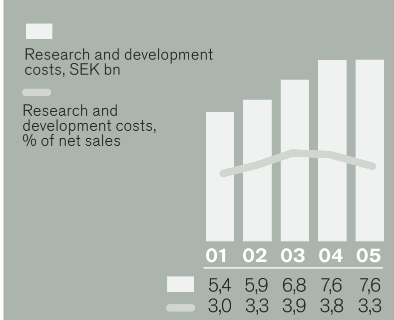
Impact of exchange rates on operating income

The average exchange rates between the Swedish krona and other major currencies such as the US dollar and the Euro were almost unchanged for 2005 compared to 2004. As a consequence, the impact on operating income from currency movements was significantly less in 2005 with a positive impact of about SEK 100 M.

Financial net

The net interest expense for 2005 amounted to SEK 318 M compared to SEK 433 M for the previous year. The improvement is primarily a result of lower cost for the pension liability

Research and development costs[1]



1 Years 2004 and 2005 are reported in accordance with IFRS and 2001, 2002 and 2003 in accordance with prevailing Swedish GAAP. See Note 1 and 3.

Financial position

due to lower pension debt as a result of capital injections to the Group's pension foundations.

Other financial income and expenses were positively impacted by marked-to-market revaluation of derivatives used for hedging of the customer finance portfolio. The positive revaluation impact is a result of higher long-term interest rates in the US and Canada and was for the full year SEK 251 M. There was no revaluation impact in 2004, as marked-to-market valuation was not applicable in Swedish GAAP.

Income taxes

The income tax expense for 2005 was SEK 4,908 M corresponding to a tax rate of 27%, compared to an income tax expense of SEK 3,129 M and a tax rate of 24% in 2004.

Income for the period

Income for the period amounted to SEK 13,106 M (9,907) corresponding to an earnings per share of SEK 32.21 (23.58). The return on shareholders equity was 17.8% (13.9%).

Impact of exchange rates on operating income

Compared with preceding year, SEK bn	
Net sales[1]	5,3
Cost of sales	(3,6)
Research and development expenses	(0,1)
Selling and administrative expenses	(0,6)
Other operating income and expenses	(0,8)
Income from investments in shares	0
Total effect of changes in exchange rates on operating income	**0,1**

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

Operating net flow per currency

SEK M	2004	**2005**
USD	13,100	18,300
EUR	6,700	9,300
GBP	4,200	5,200
CAD	2,800	3,300
Other currencies	9,300	11,100
Total	**36,100**	**47,200**

Balance sheet

Total assets in the Volvo Group amounted to SEK 257.1 billion at December 31, 2005 – up SEK 33.2 billion over the preceding year – of which SEK 18.8 billion was a result of currency movements. Assets also increased as a result of good growth in Financial Services' credit portfolio, higher inventory levels and receivables as a result of increased production and higher sales. Shareholders' equity at December 31, 2005 amounted to SEK 78.8 billion, corresponding to an equity ratio of 40.4%, excluding Financial Services. Changes in shareholders' equity during the period are specified on page 83. The Group's net financial assets at the same date amounted to SEK 18.7 billion, corresponding to 23.7% of shareholders' equity. Changes in net financial position are specified in the adjoining table. The consolidated balance sheet is affected by the adoption of IAS 39. See Note 3 page 91 for further information. Total contingent liabilities at December 31, 2005, amounted to SEK 7.9 billion, a reduction of SEK 1.3 billion compared with December 31, 2004. The decrease is mainly attributable to credit guarantees.

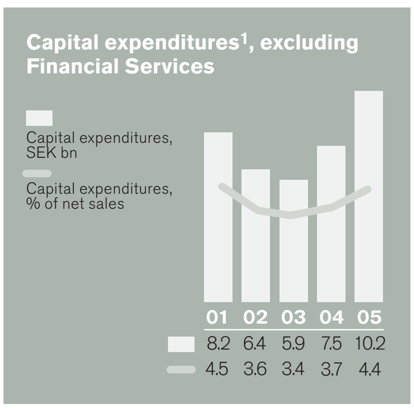
Change in net financial position

SEK bn	
December 31, 2004	**18.1**
Cash flow from operating activities	16.1
Investments in fixed assets and leasing assets, net	(9.3)
Operating cash flow, excluding Financial Services	**6.8**
Investments and divestments of shares, net	0.1
Acquired and divested operations	0.6
IFRS transition effect	(3.3)
Change in provision for post-employment benefits	4.4
Repurchase of own shares	(1.8)
Dividend paid to AB Volvo's shareholders	(5.1)
Currency effect	(1.6)
Other	0.5
Total change	**0.6**
December 31, 2005	**18.7**

Consolidated balance sheets December 31	**Volvo Group, excl Financial Services**[1]		**Financial Services**		**Total Volvo Group**	
SEK M	2004	**2005**	2004	**2005**	2004	**2005**
Assets						
Intangible assets	17,570	20,348	42	73	17,612	20,421
Property, plant and equipment	27,260	31,263	3,891	3,738	31,151	35,001
Assets under operating leases	8,477	10,260	773	700	19,534	20,839
Shares and participations	10,116	10,357	193	28	2,003	751
Long-term customer-financing receivables	147	725	33,887	39,083	25,187	31,184
Long-term interest-bearing receivables	1,797	1,399	5	60	1,741	1,433
Other long-term receivables	6,492	7,237	212	271	6,100	7,021
Inventories	28,291	33,583	307	342	28,598	33,937
Short-term customer-financing receivables	83	652	29,531	38,907	26,006	33,282
Short-term interest-bearing receivables	10,330	6,292	0	0	1,643	464
Other short-term receivables	30,043	36,750	1,628	1,607	29,647	35,855
Marketable securities	25,839	28,662	116	172	25,955	28,834
Cash and cash equivalents	8,789	7,385	914	868	8,791	8,113
Total assets	**175,234**	**194,913**	**71,499**	**85,849**	**223,968**	**257,135**
Shareholders' equity and liabilities						
Shareholders' equity[2]	70,155	78,768	8,306	9,634	70,155	78,768
Provisions for post-employment benefits	14,677	11,966	26	20	14,703	11,986
Other provisions	14,115	17,164	845	1,264	14,993	18,556
Loans	13,968	13,097	57,860	69,993	61,807	74,885
Other liabilities	62,319	73,918	4,462	4,938	62,310	72,940
Shareholders' equity and liabilities	**175,234**	**194,913**	**71,499**	**85,849**	**223,968**	**257,135**
Shareholders' equity and minority interests as percentage of total assets	40.0%	40.4%	11.6%	11.2%	31.3%	30.6%

1 Financial Services reported in accordance with the equity method.
2 Whereof minority interests SEK 260 M (229).

Cash flow statement



1 Years 2004 and 2005 are reported in accordance with IFRS and 2001, 2002 and 2003 in accordance with prevailing Swedish GAAP. See Note 1 and 3.

Cash flow

Operating cash flow, excluding Financial Services, amounted to SEK 6.8 billion. The positive development during 2005 was related to an increase in earnings. Working capital increased by SEK 1.2 billion due to strong sales growth. During the year transfers were made to pension foundations, which is reported in the item "Change in working capital", in the amount of SEK 4.4 billion.

Cash flow after net investments within Financial Services was negative SEK 4.4 billion in 2005 (neg. 5.5) as a result of continued growth in the credit portfolio.

Investments

Investments in fixed assets in 2005, excluding Financial Services, amounted to SEK 9.9 billion (7.2). Capital expenditures in Trucks, which amounted to SEK 6.8 billion (4.7), were made to improve efficiency in the European industrial system, increase the number of service workshops for the dealer network in Europe, continued modification of the Hagerstown plant in North America for manufacturing of engines and transmissions and for a changeover for production of a new 13-litres engine in Skövde, Sweden, and a new 11-liter engine in Vénissieux. Capital expenditures increased in Construction Equipment from SEK 0.7 billion to SEK 0.9 billion, mainly for development of production plants and in tools and equipment for new products. In Volvo Aero the level of capital expenditures increased from 0.5 billion to SEK 0.8 billion. A major part of the investments relate to entrance fees to become a partner in the new GEnx engine and in the LM2500 industrial gas turbines, according to agreements with General Electric. Investments remained at the same level as last year in Buses at SEK 0.2 billion and decreased in Volvo Penta from SEK 0.3 billion to SEK 0.2 billion.

Approved future capital expenditures amounting to SEK 7.8 billion (8.2) relate mainly to investments for the next generation of trucks and engines.

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

Acquisitions and divestments

Net divestments in shares during 2005 had a positive effect on cash flow amounting to SEK 0.3 billion (15.1). The divestment in 2004 of the Scania B shares amounted to SEK 14.9 billion and had a significant effect on the cash flow.

Acquired and divested companies had a positive effect on cash flow SEK 0.7 billion (neg 0.1). The amount includes among others the sale of properties in Danafjord and the sale of the service company Celero Support.

Financing and dividend

Net borrowings increased during 2005 by SEK 3.6 billion. The new borrowing during the year, mainly through the issue of bonds, contributed SEK 42 billion. In 2004, net borrowings decreased by SEK 8.8 billion.

An ordinary dividend amounting to SEK 5.1 billion, corresponding to SEK 12.50 per share, was paid to AB Volvo's shareholders during the year. During 2005 AB Volvo repurchased own shares to the amount of SEK 1.8 billion.

Change in liquid funds

The Group's liquid funds decreased by SEK 0.7 billion during the year amounting to SEK 8.1 billion at December 31, 2005.

Consolidated cash-flow statements, SEK billion

SEK bn	2004	**2005**
Operating income	13.3	16.1
Depreciation and amortization	7.1	7.3
Other non-cash items	(0.6)	0.2
Change in working capital	(1.4)	(5.6)
Financial items and income taxes paid	(0.2)	(1.9)
Cash flow from operating activities	**18.2**	**16.1**
Investing activities		
Investments in fixed assets	(7.2)	(9.9)
Investment in leasing assets	(0.3)	(0.3)
Disposals of fixed assets and leasing assets	0.7	0.9
Operating cash flow excluding Financial Services	**11.4**	**6.8**
Operating cash flow, Financial Services	**(5.5)**	**(4.4)**
Operating cash flow, Eliminations	**0.0**	**(0.6)**
Operating cash flow, Volvo Group total	**5.9**	**1.8**
Investments and divestments of shares, net	15.1	0.3
Acquired and divested operations, net	(0.1)	0.7
Interest-bearing receivables including marketable securities, net	(6.4)	(1.3)
Cash flow after net investments	**14.5**	**1.5**
Financing activities		
Change in other loans, net	(8.8)	3.6
Repurchase of own shares	(2.5)	(1.8)
Dividend to AB Volvo's shareholders	(3.4)	(5.1)
Other	0.0	0.0
Change in cash and cash equivalents excl translation differences	**(0.2)**	**(1.8)**
Translation differences on cash and cash equivalents	(0.2)	1.1
Change in cash and cash equivalents	**(0.4)**	**(0.7)**

Future capital expenditures, approved[1]

SEK bn	
Trucks	5.5
Buses	0.2
Construction Equipment	0.6
Volvo Penta	0.2
Volvo Aero	0.5
Other	0.8
Total	**7.8**

1 In property, plant and equipment.

Condensed cash-flow statements, Financial Services

SEK bn	2004	**2005**
Cash flow from operating activities	(2.5)	(4.2)
Net investments	(3.0)	(0.2)
Operating cash flow	(5.5)	(4.4)

Risk management

Commercial vehicles industry is cyclical

Historically, the Volvo Group's markets have undergone significant changes in demand as the general economic environment has fluctuated. Investments in infrastructure, major industrial projects, mine operations and housing construction all impact the Group's operations, since its products are an important part of these activities. Economic trends in Europe and North America are particularly important for the Volvo Group, since a significant portion of the Group's net sales are generated in these markets.

The cyclical demand for the Group's products has, at times, restricted, and may in the future temporarily restrict, the ability of the Volvo Group to manufacture and deliver orders in a timely manner. A prolonged delay in the Group's ability to deliver ordered products on a timely basis at a time when its competitors are not experiencing the same difficulty could adversely affect the Group's market shares.

To cope with the peaks and troughs in our industries, we need to act appropriately in the various stages of the business cycle. This may involve adjusting production capacity and operating expenses.

Intense competition

Continued consolidation in the industry is expected to create fewer but stronger competitors. Volvo's products face substantial competition from commercial vehicles and engines provided by these and other manufacturers, and such competition may have a significant impact on the prices Volvo receives for its products and on the Group's future sales volume. Our major competitors are DaimlerChrysler, 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 on their domestic markets, but are expected to also increase their presence in other parts of the world.

Our brands are well-known and strong in many parts of the world. For the Volvo Group, it is important that all brands in the Group are developed and supported. Strong brands together with an attractive product portfolio make it possible for Volvo to be competitive.

Prices for commercial vehicles may become unstable

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 an economic downturn in the Group's major markets or worldwide, potentially leading to further increased price pressure.

The financial result of the business depends on our ability to quickly react to changes in demand and particularly to adapt production levels, to reduce production and operating expenses, as well as deliver new competitive products and services.

Group's operations exposed to currency fluctuations

Approximately 90% of the net sales of the Volvo Group are 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. The Volvo Group's income statement is affected primarily by the translation of revenues and costs in foreign currencies, while the balance sheet is affected primarily by the translation of the net assets of foreign subsidiaries into Swedish kronor. In addition, currency movements may affect Volvo's pricing of products sold and materials purchased in foreign currencies as well as those of its competitors, which may be affected differently by such movements. Since Volvo has substantial manufacturing operations in Sweden and generates a substantial portion of its revenues in currencies other than the Swedish krona, Volvo's earnings in Swedish kronor could be adversely affected by an appreciation of the Swedish krona against other currencies.

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

See Note 36 on page 121 for more information about financial risks and instruments.

Volvo Group's 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. It is highly important to meet and exceed customer expectations to be competitive in established markets and to be able to expand into additional markets and/or product segments.

Many of our products take a long time to develop from initial idea to finished product. It is important to involve customers in the early stages of the development process, to ensure the success of new products and at the same time being at the forefront in the research and development of new technologies that are important to the development of efficient products.

Volvo Group relies on suppliers

Volvo purchases raw materials, parts and components from numerous outside suppliers. A majority 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 are standard throughout the industry, whereas others are internally developed and require unique tools that are time-consuming to replace. A supplier's inability to deliver could have negative consequences for production at certain Volvo Group manufacturing sites.

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.

The companies in the Volvo Group and their suppliers work closely together to manage material flows by monitoring suppliers' financial stability, quality systems and production flexibility.

Commercial vehicles industry is subject to extensive government regulation

Regulations regarding exhaust emission levels, noise, safety and levels of pollutants from production plants are extensive within the industry. These regulations are subject to change, often making them more restrictive. The costs to comply with these regulations can be significant for the automotive industry.

Most of the regulatory challenges regarding products relate to reduced engine emissions. The Volvo Group is a large player in the commercial vehicle industry and the world's largest producer of heavy-duty diesel engines. The product development capacity within the Volvo Group is well consolidated to be able to focus resources for research and development to meet tougher emission regulations. Future product regulations are well known (provided that they are not changed), and the product development strategy is well tuned to the introduction of new regulations. The new regulations regarding product emissions are stringent, but our current assessment is that they are manageable for the Volvo Group.

Volvo has had production facilities in numerous countries worldwide for many years. A worldwide production standard for environmental performance has been introduced, enabling production plants to achieve best industry standard.

Volvo Group is reliant on the proper protection and maintenance of its intangible assets

The Volvo Group's products are primarily sold under the brand names "Volvo", "Volvo Penta", "Volvo Aero", "Renault", "Mack", "Prévost" and "Nova Bus". AB Volvo owns or otherwise has rights to a number of patents and brands that refer to the products the Company manufactures. These patents and brands, acquired over a number of years, have been valuable as the Volvo Group's operations expanded and may continue to be valuable in the future. We do not consider that any of the Group's operations are heavily dependent on any single patent or group of patents.

Through Volvo Trademark Holding AB, AB Volvo and Volvo Car Corporation jointly own the brand "Volvo". AB Volvo has the exclusive right to use the Volvo name and trademark for its products and services. Similarly, the Volvo Car Corporation has the exclusive right to use the name and trademark Volvo for its products and services. To protect these rights and avoid any weakening of the brand, AB Volvo and the Volvo Car Corporation jointly introduced a control function governing the use of the brand name, to prevent others from taking unfair advantage of it.

Similar control functions apply to the use of the "Mack" brand name, which is owned by AB Volvo. The Volvo Group's rights to use the Renault brand are restricted to the truck industry only and are regulated by a license from Renault SA, which owns the "Renault" brand.

Complaints and legal actions by customers and other third parties

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 financial and management resources that could be used for other purposes.

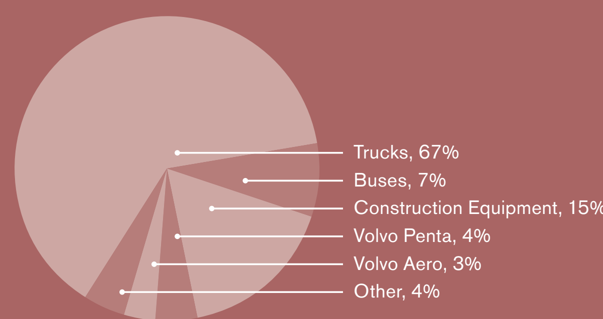
Volvo continuously reviews its manufacturing and administrative processes with the aim of ensuring that Volvo products and operations meet applicable legal and other regulatory requirements. Volvo does also have insurance coverage in certain areas, for example product liability, business interruption and property.

New accounting principles

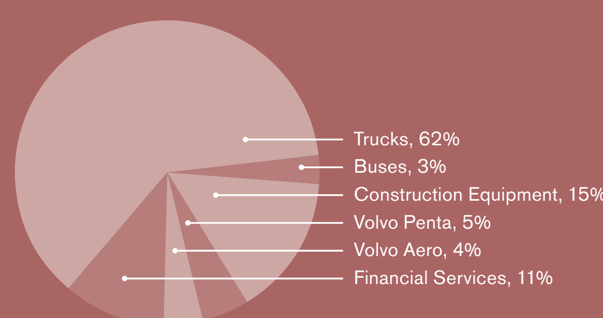
In this annual report, Volvo has changed its accounting principles from generally accepted accounting principles in Sweden (Swedish GAAP) to International Financial Reporting Standards (IFRS), as was also done by other listed companies in Europe during 2005. Many of the standards are new and we anticipate a rapid development of new standards, including many conceptual changes. Companies, auditors, regulatory authorities and other external players may, over time, encounter issues where judgments may have a material effect on the future outcome of the company's reported financial condition. Over time, practice or statements from standard setters or regulatory authorities may develop in a way that does not correspond with those choices and judgments concerning the application of the new principles made by Volvo, which could result in adjustments to the financial reports and affect Volvo's reported financial position. Volvo works actively to follow development of the new accounting principles and how these can affect Volvo's reporting.

Business areas

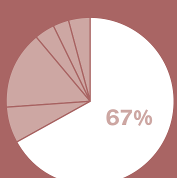
Percentage of Group's net sales



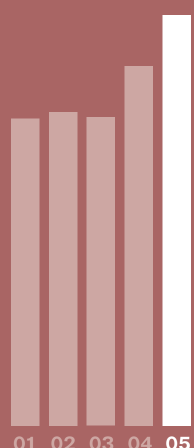
Percentage of Group's operating income



Trucks – advances positions

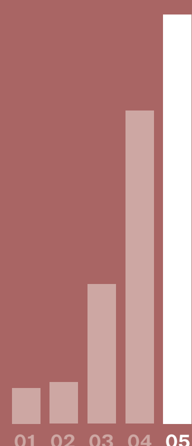


Net sales as percentage of Volvo Group sales



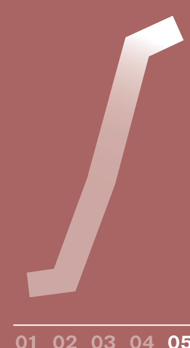
116.6 118.8 117.0 136.9 155.4

Net sales[1]
SEK bn



1.0 1.2 4.0 9.0 11.7

Operating income[1, 2]
SEK bn



0.9 1.0 3.4 6.6 7.5

Operating margin[1, 2]
%

1 Years 2004 and 2005 are reported in accordance with IFRS and 2001, 2002 and 2003 in accordance with Swedish GAAP. See Note 1 and 3.

2 Excluding restructuring costs.

Ambitions 2005

- **Successful introductions and production start-ups within all three brands.**
- **Begin launch of engine series that meets forthcoming emissions standards in Europe and North America.**
- **Continue development of distribution network in Europe, North America and Asia.**
- **Deal with increased costs for raw materials, supply of certain components and balance effects of currency fluctuations.**

Outcome 2005

- **Extensive product renewal: Mack Pinnacle, Mack Granite, Renault Magnum, Renault Premium Route, Volvo FH, Volvo FM and Volvo VM.**
- **Roll-out of new engines that meet the Euro 4/5 standards. In North America, engines were shown that meet the US 07 standard.**
- **The distribution network was strengthened.**
- **The business area managed to compensate for increased raw material costs through active pricing. More efficient purchasing and closer cooperation with suppliers resulted in improved component supply.**

Ambitions 2006

- **Successful introductions and production change-overs.**
- **Introduce engines in all trucks that meet future emissions standards in Europe and the US.**
- **Maintain high pace of activity in the development of alternative drivelines.**
- **Further development of dealer network.**

The Volvo Group is the world's second largest manufacturer of heavy trucks. During 2005, an extensive renewal of the product line within the Group's three brands, Mack, Renault Trucks and Volvo, was carried out.

With the new trucks, the Group's truck operations are improving their rankings in a number of key segments and further strengthening competitiveness.

Renewed product line from Mack Trucks

Mack Trucks is one of the leading producers of heavy-duty trucks in North America. Since its founding, 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 US, Mack Trucks is the predominantly leading producer of trucks in the construction, economic haul and refuse segments. In total, Mack Trucks has sales and service in more than 45 countries.

Mack Trucks' deliveries rose 42% to 36,222 trucks in 2005, compared with 25,469 trucks in the preceding year. The improved sales are the result of increased demand in Mack Trucks' core segments in North America.

The positive development of the American economy fueled a high pace of activity in the construction and transport industries, which consequently resulted in Mack Trucks posting historically high order bookings at the beginning of 2005. When the industry's production capacity for 2005 reached its ceiling, customers became more cautious with ordering trucks for delivery in 2006. Demand slowed to more sustainable levels during the rest of the year, but remained highly favorable bolstered by the strong economy in the US.

In October, Mack Trucks took the largest step to date in the renewal of its product line with the launch of two model series, Mack Pinnacle and Mack Granite, and a new line of heavy-duty diesel engines.

The new trucks are based on the Advantage and Cornerstone chassis introduced in 2004 and early 2005, which means that Mack Trucks' range in construction and highway transport will be completely renewed when Mack shifts to the new engine generation in the beginning of 2007.

The new engine series, Mack Power (MP), features many different engine alternatives and is the key in Mack Trucks' solution to the new emission standards that become effective in January 2007. The first engine introduced is the 11-liter MP7, which meets current standards and will be sold in 2006. This will be followed by an upgraded version of the MP7 and a new 13-liter engine, MP8, which meet the emission standards that become effective in 2007.

New products from Renault Trucks

With a product range stretching from light commercial vehicles for city distribution to heavy trucks for long-distance transport, Renault Trucks is equipped to meet the demands placed on various types of highway transportation.

Renault Trucks has a strong market presence, with 1,350 dealerships and service locations in Europe and 650 in the rest of the world.

The total renewal of the product range, which began at the end of 2003 and continued through 2004, was completed in 2005 with the new Renault Magnum and Renault Premium Route.

Number of vehicles delivered

	2004	**2005**
Western Europe	90,746	91,087
Eastern Europe	11,920	12,535
North America	49,273	64,974
South America	9,190	11,248
Asia	24,881	25,706
Other markets	7,209	8,829
Total	**193,219**	**214,379**

Largest markets

	2004		**2005**	
	Registered heavy trucks	Market share, %	Registered heavy trucks	Market share, %
Volvo Trucks				
US	20,323	10.0	26,446	10.5
Iran	9,979	n/a	10,830	n/a
Great Britain	5,658	16.6	6,011	16.8
Brazil	6,354	13.1	5,944	13.6
France	4,722	12.3	5,627	12.2
Germany	4,584	8.5	3,991	7.1
Spain	4,317	14.9	4,420	13.9
Canada	3,374	11.1	3,316	9.6
Renault Trucks				
France	13,702	35.7	14,485	31.3
Spain	4,910	17	5,258	16.6
Italy	1,987	8.1	1,974	7.7
Great Britain	1,622	4.8	1,387	3.9
Germany	944	1.7	1,033	1.8
Mack Trucks				
US	20,670	10.2	27,303	10.8
Canada	1,767	5.8	2,285	6.6

Net sales per market

SEK M	2004	**2005**
Europe	77,431	79,706
North America	35,154	46,129
South America	5,223	7,657
Asia	12,378	13,551
Other markets	6,693	8,353
Total	**136,879**	**155,396**

Number of trucks produced

	2004	**2005**
Volvo		
Volvo FH	45,008	42,951
Volvo VN, VT and VHD	25,637	32,256
Volvo FM9, 10, and 12	19,154	20,102
Volvo FL	4,979	5,052
Volvo NH	1,169	2,312
Volvo VM	1,607	1,842
Total	**97,554**	**104,515**
Mack		
Mack CH / CHN	2,006	3,786
Mack CL	170	364
Mack Vision	7,283	9,403
Mack Granite	10,935	16,568
Mack DM	519	365
Mack LE	849	1,238
Mack MR	2,603	3,325
Mack RB	130	23
Other	1,142	1,126
Total	**25,637**	**36,198**
Renault		
Renault Mascott	11,574	12,461
Renault Kerax	7,063	8,800
Renault Midlum	16,018	15,484
Renault Premium Distribution	6,432	6,663
Renault Premium Route	10,818	12,328
Renault Magnum	8,801	8,202
SISU	49	0
Total	**60,755**	**63,944**

The new Renault Magnum was introduced in February 2005. It features a new chassis, new engine and gearbox and extensive improvements in driver comfort. In addition, fuel consumption was reduced considerably.

A new version of the Renault Premium, a truck for national transports, was introduced in September. Among other features, the new version offers an improved driver cab, new driveline and chassis as well as being equipped with a more powerful and fuel-efficient engine.

In October, a new version of Renault Magnum was shown. It is fitted with a new 13-liter engine, developing 500hp and meeting the Euro4/5 with SCR-technology.

Deliveries by Renault Trucks amounted to 74,461 vehicles, which was 6% more than a year earlier. Deliveries in Europe rose 3% to 60,988 trucks, while deliveries in the rest of the world increased by 22% to 13,473.

Extensive launches by Volvo Trucks

Volvo Trucks has developed into one of the world's largest producers of heavy trucks with a total weight exceeding 16 tons. Volvo Trucks' products are marketed in more than 130 countries. The trucks are used for a wide range of applications, from distribution in congested city traffic to heavy-duty construction in desert heat or timber transport in remote forestlands.

Volvo Trucks' competitive product range was strengthened further in 2005. At the beginning of the year, Volvo Trucks launched the Volvo VT 880 flagship with a 16-liter Volvo engine in the North American market. Later in the year, the 16-liter engine was also offered in the Volvo VN models in North America and in April, the first D12 engine manufactured in the US was delivered.

During the autumn, Volvo Trucks rolled out the new Volvo FH and Volvo FM models with the new 13- and 9-liter engines. The engines comply with the forthcoming Euro 4 and Euro 5 emission standards and improvements include a reduction in fuel consumption of up to 5%. Moreover, a new generation of Volvo VM was launched in Brazil and the product line was expanded with a three-axle model that handles a total weight of 26 tons.

During 2005, Volvo Trucks delivered 103,696 trucks, an increase of 7% compared with a year earlier. Deliveries rose 23% in North America and 2% in Asia, in which the Middle East accounted for 80% of the volumes. Deliveries in Europe decreased by 1%.

During the year, Volvo Trucks continued to strengthen its dealer network in Europe, including the inauguration of the first wholly owned service facility in Russia, outside St. Petersburg.

Total markets at high levels

Overall, demand was very high on the markets in Europe, North America and South America. The total market for heavy trucks in Europe 27 (EU member countries plus Norway and Switzerland) rose 9% to 276,700 trucks in 2005, which is a new record level. Registration in the UK increased by 5%, in France by 21%, while the market in Germany was up 4% and in Spain by 10%.

The market for heavy trucks in North America (Class 8) rose 29% in 2005 to 328,900 heavy trucks, compared with 255,500 trucks in 2004. This was driven by the continued strong US economy, with rising transport needs. In addition, demand was driven by a need to renew truck fleets and that some customers wanted to purchase new trucks prior to the new, stricter emissions legislation becoming effective on January 1, 2007.

The market for heavy trucks in Brazil declined by 9%.

Price alignment to high demand

As a result of the strong demand in Europe and North America, the capacity utilization of truck manufacturers overall was high during the year. However, the investments in increased capacity were limited, due in part to supplier difficulties in meeting the already high pace of production for new trucks.

Instead of investing in increased production, truck manufacturers focused on raising capacity utilization in existing plants through various forms of efficiency enhancement measures and by aligning prices to the prevailing market demand.

The sharp price hikes on certain raw materials, mainly steel, receded during the year. The business area succeeded in offsetting the higher raw material costs through increased efficiency and active pricing.

Development of market shares

The total market share for the Volvo Group's truck operations in the heavy trucks segment in Europe 27 was 25.2% in 2005, compared with 26.5% a year earlier. Volvo Trucks' market share declined to 14.4% (15.2) primarily due to lower deliveries to central Europe. Renault Trucks' market share declined to 10.8% (11.3) as a result of a lower share of the French market.

In North America, the total market share for heavy trucks (Class 8) was 19.6% (19.4). Volvo Trucks' market share declined to 9.3% (9.7), primarily as a result of limitations in production capacity. Mack Trucks increased its market share due to the very high demand in the company's core segments to 10.3% (9.7).

In Brazil Volvo Trucks' market share increased to 13.6% (13.1).

Good earnings trend

Net sales for Volvo's truck operations amounted to SEK 155,396 M, which adjusted for changed exchange rates corresponded to an increase of 11%. The increase was attributable to higher sales, primarily in North America, South America and Other markets. Demand in North America was driven by a continued strong US economy, which resulted in increased transport needs. In addition, there is a need to renew truck fleets, which certain hauling companies are doing prior to the new, stricter emission legislation becoming effective at the beginning of 2007. In Europe, demand rose somewhat from an already historically high level. In total, Volvo delivered 214,379 trucks in 2005, 11% more than in the preceding year.

Trucks' operating income increased by 30% to SEK 11,717 M (8,992) for 2005. The increase is primarily related to North America, where both Mack Trucks and Volvo Trucks improved profitability as a result of good price realization and increased sales volumes. In Europe, Renault Trucks continued to improve profitability, while it came down somewhat, from a good level, for Volvo Trucks. The operating income in Europe was impacted by increased costs during the second half of 2005 as a consequence of launches and production changeovers in connection with the introduction of a new generation of trucks and engines.

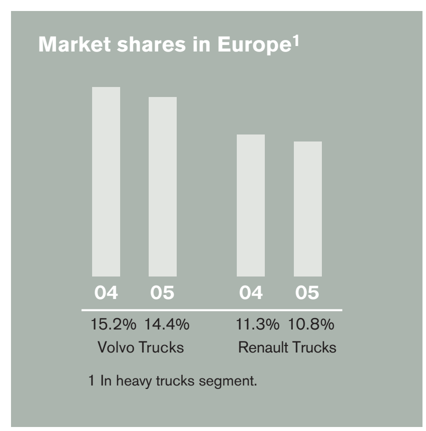
Production and investments

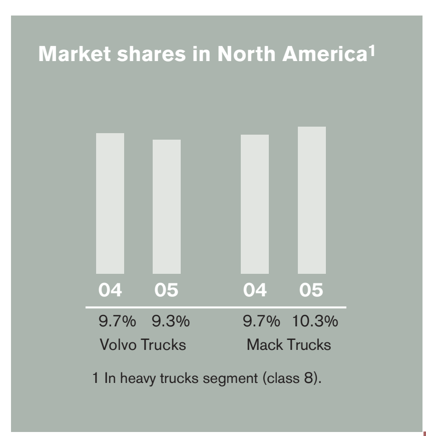
Renault Trucks' plant in Blainville, France opened a new, ultramodern facility for pre-treatment of cabs for painting, with higher capacity, better quality and improved environmental features.

To meet the favorable demand for products in the construction segment, Mack Trucks started a second shift in May 2005 at the plant in Macungie, Pennsylvania, in the US, which increased production capacity by about 40%.

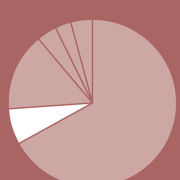
Investments to produce the engines of tomorrow for the North American market continued in Hagerstown, Maryland in the US. During the year, series production of Volvo's 12- and 16-liter engines was started and pre-production of the new Mack engines series was initiated toward year-end.

Volvo Trucks opened a new assembly plant in Durban, South Africa, as a consequence of operations being discontinued at the plant in Botswana. AB Volvo decided during the year to invest SEK 650 M in a new paint shop at the Umeå cab plant in Sweden. The new facility is expected to be the world's cleanest topcoat paint shop.

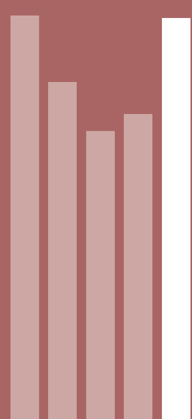




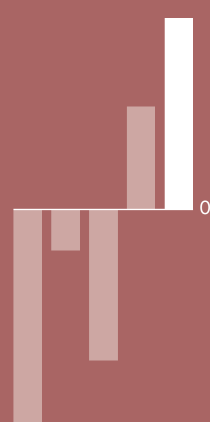
Buses
– restructuring results in increased profitability



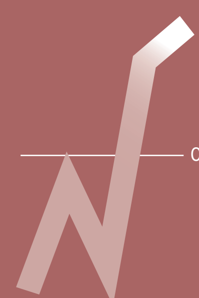
Net sales as percentage of Volvo Group sales



Net sales[1]
SEK bn



Operating income (loss)[1, 2]
SEK M



Operating margin[1, 2]
%

1 Years 2004 and 2005 are reported in accordance with IFRS and 2001, 2002 and 2003 in accordance with prevailing Swedish GAAP. See Note 1 and 3.
2 Excluding restructuring costs and write-down of shares.

Ambitions 2005

- **Continue to conduct earnings-improvement program.**
- **Initiate restructuring of operations in Mexico and China.**
- **Continue to standardize the global product program to secure economies of scale.**
- **Increase component commonality between the buses and trucks within the Volvo Group.**

Outcome 2005

- **Earnings-improvement program included the closure of the plant in Heilbronn, Germany.**
- **A new industrial and commercial structure was established in Mexico. Restructuring work in China commenced.**
- **The new standardized Volvo B9S chassis is the base for buses in a number of markets.**
- **Increased component commonality between the buses and trucks within the Volvo Group, such as common engines in Euro 3, Euro 4 and Euro 5.**

Ambitions 2006

- **Continue the implementation of the earnings-improvement program within Volvo.**
- **A reduction in product costs through such measures as increased standardization and enhancement of the production process.**
- **Renewal of the engine program to meet the requirements of Euro 4 and Euro 5.**
- **Improved customer service through expanded cooperation with dealers and service centers.**

Volvo Buses has a broad range of modern buses that offer efficient transport solutions. The product offering includes complete buses and chassis for city and intercity traffic, as well as coaches.

In 2005, a low-floor version of the Volvo B9S was launched, both as an articulated bus and a bi-articulated bus. The new Volvo B6R midibus was presented in China together with an updated version of the Volvo 9300. In India, the Volvo B7RLE city bus was launched and an updated version of the Volvo 8300 was introduced in Mexico. In Europe, the Volvo 8700 BLEA articulated bus was launched.

The business area also continued its broadening of a complete offering to customers, including such actions as opening new Bus Service Centers and a continued focus on service contracts and financial solutions. Also during the year, the company began to offer customers assistance with the analysis and improvement of fuel consumption.

Growing market in Asia

The total bus market rose moderately or continued at a high level in most parts of the world during 2005. However, a slowdown was noted in Europe at the end of the year. Economic growth in Asia remained strong and bus sales continued to rise in many countries. Considerable price pressure continued in many markets.

Increased customer demands

The consolidation trend toward large bus operators continues, however, there is still potential for small companies in the coach segment. The large operators are expected to become stronger as they focus on reliability and life-cycle costs. They want to cooperate with few suppliers who can offer complete solutions: vehicles, financing, after-market and various forms of software solutions.

Regional authorities and large cities are placing heavy demands on bus safety and minimal environmental impact. There is also an increasing demand for vehicles that operate on alternative fuels.

The increasingly difficult traffic situation in many large cities has led to a growing interest in Bus Rapid Transit (BRT) systems, which allows buses to travel in separate bus lanes. The buses are modern articulated buses with a high capacity and the bus stops are adapted for rapid boarding and exiting. Volvo Buses is the leading supplier of buses within BRT.

Increased deliveries in most markets

Volvo delivered 10,675 buses and bus chassis (8,232) during 2005. Increased sales were reported in many markets, including Europe, North America, South America and parts of Asia.

During the year, Volvo Buses received an order for 1,779 city buses for the Transantiago BRT system in Santiago, Chile.

However, volumes were lower in China during the year, even though at the end of the year Volvo Buses received its largest order to date when Shanghai's largest transport company, Shanghai Ba-Shi Group, ordered 2,000 buses. The order was for the Volvo B6R, Volvo's new 10.5-meter long city bus. The buses will be delivered by the end of summer 2007.

Volvo's market share was strengthened in nearly all markets, with the exception of China and Brazil. The company maintained its position as market leader in the Nordic region and in the UK. In Europe, the market share increased to 15.0% (14.1) and in the North American coach segment market share rose to 19.9% (18.9).

Number of vehicles delivered

	2004	**2005**
Western Europe	3,073	3,385
Eastern Europe	344	338
North America	1,388	1,546
South America	624	2,297
Asia	2,341	2,554
Other markets	462	555
Total	**8,232**	**10,675**

Net sales per market

SEK M	2004	**2005**
Europe	6,948	7,142
North America	2,960	4,247
South America	521	2,641
Asia	1,632	1,612
Other markets	661	947
Total	**12,722**	**16,589**

Positive earnings trend

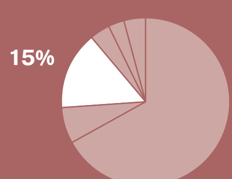
Net sales during 2005 rose to SEK 16,589 M (12,722). The increase was attributable largely to increased sales and improved pricing. Operating income increased from SEK 158 M, including a write-down of shares SEK 95 M, to SEK 470 M. The improved earnings were due to increased volumes, higher prices, prior restructuring and general cost reductions. Earnings were adversely affected by SEK 95 M in costs for the closure of the plant in Heilbronn, Germany.

Increased production

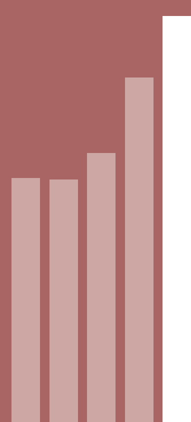
During the year, Volvo produced 10,406 buses (8,089) and bus chassis. The chassis plant in Borås, Sweden, produced more complete chassis and kits than ever before and the plant in Wroclaw, Poland, manufactured a record number of buses.

Construction Equipment

– increased sales and strengthened profitability

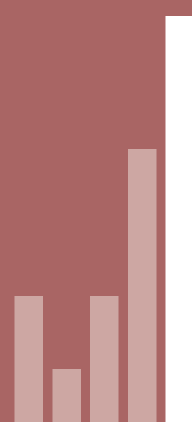


Net sales as percentage of Volvo Group sales



01 02 03 04 **05**
21.1 21.0 23.2 29.4 34.8

Net sales[1]
SEK bn



01 02 03 04 **05**
0.9 0.4 0.9 1.9 2.8

Operating income[1, 2]
SEK bn

01 02 03 04 **05**
4.2 1.9 3.9 6.5 7.9

Operating margin[1, 2]
%

1 Years 2004 and 2005 are reported in accordance with IFRS and 2001, 2002 and 2003 in accordance with prevailing Swedish GAAP. See Note 1 and 3.
2 Excluding restructuring costs.

Ambitions 2005

- Grow and develop the after-market and the range of services offered.
- Continue the dealer development program on a global basis.
- Expand rental operations.
- Further strengthen distribution network acquired from Bilia.
- Introduce Tier-3 engines in the US.
- Launch products for new segments and new customer groups.

Outcome 2005

- Sales of spare parts, accessories and services rose 20%.
- Sales in international markets increased 23%.
- Volvo CE Rents opened ~40 new rental outlets.
- Bilia's distribution network now fully integrated.
- Delivery of machines with 9- and 12-liter engines certified for Tier 3 commenced.
- Introduction of the EC 700 B excavator and an entirely new generation of motor graders, the G 900 series.

Ambitions 2006

- Further develop excavator business.
- Capitalize on investments made in Korea, China and Germany.
- Continue to focus on the after-market and on rental operations, as well as reduce expenses for sales and administration.
- Continue the dealer development program.
- New products and services for new segments and customers.

Volvo Construction Equipment's products, spare parts and services are offered worldwide in more than 125 markets. Customers are using the products in a number of different applications including general construction, road construction and maintenance and in the refuse, mining and forestry industries.

Volvo Construction Equipment's product portfolio includes wheeled and crawler excavators, articulated haulers, wheel loaders, motor graders and a range of compact equipment such as wheel loaders, excavators, backhoe loaders and skid-steer loaders. The pace of product renewal in the past few years has been high. The customer offering includes services such as financing, leasing and used equipment sales. Manufacturing facilities are located in Sweden, Germany, France, Poland, the US, Canada, Brazil, Korea and China.

Volvo Construction Equipment's rental initiative, Volvo Rents, continues to develop favorably. During the year, about 40 new outlets were opened and the total number at year-end amounted to 116, with 65 in North America and 51 in Europe. A further 50 facilities are expected to open in 2006.

Growing total market

In 2005, the total market for heavy and compact construction machines in Volvo Construction Equipment's product segment rose by 10%. In North America, the market grew by 10%, Western Europe by 7%, while the other markets rose by 13%.

Total market growth was driven by both heavy and compact construction machines. The North American market for heavy construction machines grew 16%, while the market in Europe rose 4%. The other markets increased by 6%.

The total market for compact construction equipment grew in 2005 by 11%, compared with the preceding year. The North American market showed growth of 8% and the European market was up 8%. Other markets rose by 21%.

The Chinese market recovered from a temporarily low level, which is favorable for construction equipment in general and for the excavator business in particular. In contrast, the weak trend in Korea remained unchanged.

Industry trend

The industry was characterized by a general upswing in 2005. Consolidation among small and medium-size manufacturers continued, although it has not progressed as far as the truck sector. The large players concentrated on launching new products, strengthening their presence in key growth markets and expanding their distribution networks.

Increased market shares

In total, Volvo CE increased its market share during the year due to new products and improved distribution. Deliveries increased by 13% and reached an all-time high level of more than 33,000 units.

Strong earnings trend

Volvo CE's net sales rose by 19% to SEK 34,816 M (29,360). Adjusted for exchange-rate effects, the increase was 18%. The increase was attributable mainly to increased volumes, improved distribution and advantageous product and market mix.

Operating income improved by 45% during the year and amounted to SEK 2,752 M (1,898), which represents an operating margin of 7.9% (6.5). The earnings and margin improvements are due to advantageous product and market mix, increased productivity and good control of selling and administrative expenses. A program to lower selling and administration expenses was launched in 2005 to strengthen the operating margin.

Net sales per market

SEK M	2004	**2005**
Europe	13,453	15,524
North America	8,601	10,337
South America	922	1,238
Asia	4,961	5,717
Other markets	1,423	2,000
Total	**29,360**	**34,816**

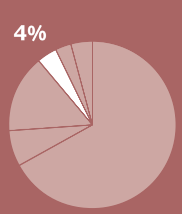
Increased competitiveness from several new products

To reduce costs and exploit synergies, Volvo Construction Equipment decided to institute joint management for wheel loaders and articulated haulers.

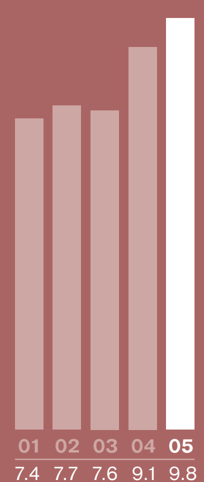
In mid-March, Volvo launched its largest excavator to date, the EC 700 B. This 70-ton excavator, which is manufactured in Korea, is in high demand. Volvo CE's excavator business has performed very well since the acquisition of Samsung's construction equipment division in 1998. Its annual volume has gone from approximately 5,000 machines to nearly 9,000 machines in 2005. A key component of Volvo Construction Equipment's strategy is to expand in excavators, since it is the largest product area in the industry.

At year-end, an entirely new generation of motor graders was introduced – the G 900 series. It consists of seven machines weighing from 15.5 to 20.9 tons. All machines are equipped with Volvo V-ACT engines. The new motor graders will be manufactured at the Goderich, Canada plant.

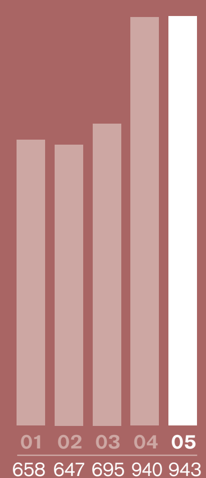
Volvo Penta
– a new generation of engines



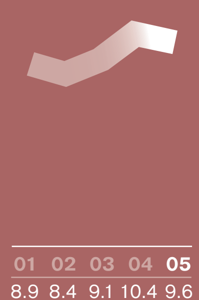
Net sales as percentage of Volvo Group sales



Net sales[1]
SEK bn



Operating income[1]
SEK M



Operating margin[1]
%

1 Years 2004 and 2005 are reported in accordance with IFRS and 2001, 2002 and 2003 in accordance with Swedish GAAP. See Note 1 and 3.

Ambitions 2005

- **Ensure the ongoing market success of new products such as the Volvo Penta IPS.**
- **Focus on cost control and cash flow.**
- **Adapt production and logistics systems.**

Outcome 2005

- **Several leading boat-builders launched boats incorporating the Volvo Penta IPS. Toward year-end 2005, the IPS was launched for commercial marine applications.**
- **Good cost control helped improve operating income.**
- **Volvo Penta's global production was grouped under a single organization.**

Ambitions 2006

- **Ensure more efficient production and logistics solutions for Volvo Penta customers.**
- **Ongoing focus on cost control and positive cash flow.**
- **Ensure the launch of the Volvo Penta IPS enjoys continuing success.**

Volvo Penta offers complete drive systems and service for leisure boats, workboats and industrial applications such as diesel-powered generating equipment. Volvo Penta operates in three areas of activity: Marine Leisure, Marine Commercial and Industrial. By supplying technologically superior products focused on performance, operational reliability and environmental characteristics, and by being sensitive to customer demands for effective service solutions, Volvo Penta has developed a global leadership and one of the industry's strongest brands. With more than 5,000 dealers in some 130 countries, Volvo Penta has a uniquely strong global presence.

Success for the new Volvo Penta IPS drive system

The award-winning new drive system for boats – the Volvo Penta IPS (Inboard Performance System) – replaces traditional shaft installations for boats in the 35 to 50-foot class. The Volvo Penta IPS provides dramatic improvements in top speed, acceleration and comfort. The new joystick function enables Volvo Penta IPS boats to maneuver and dock in a secure manner, even in confined harbors. In the leisure boat industry several new boat models based on the Volvo Penta IPS were launched during the year. Toward year-end 2005, the new drive system was launched for boats in commercial operation as well.

Volvo Penta introduced a new 16-liter diesel engine, which is the most important engine segment for the commercial marine business.

Strong market for large marine engines

The total market for large marine engines remained strong – however, demand for small engines subsided, due to lower demand for leisure boats in small-size classes. The world market for industrial engines was significantly lower than in the preceding year as a result of the sharp decline in the Chinese market. A recovery in global demand for industrial engines was noted, however, toward the end of the year.

Customer-adapted production and logistics solutions

Total volumes in the marine industry are considerably lower than in, for example, the automotive industry. Boat production has not yet undergone restructuring or standardization to the same degree as the production of passenger cars and trucks, however, the trend in the leisure boat industry has gained pace in recent years. Volvo Penta's operations have recently become increasingly integrated with boat builders' operations, particularly through specially adapted production and logistics solutions.

Due to the new Volvo Penta IPS power system, it is now possible to significantly rationalize boat production – a key success factor in the launch of the system.

In its Industrial and Marine Commercial segments, Volvo Penta endeavors to achieve the same type of integration with the manufacturer of the end-product, by promoting production efficiency.

Strengthened position in diesel engines for leisure boats

Volvo Penta's diesel engine business in Marine Leisure continued to grow in 2005. The addition of several new customers among boat builders in Europe and North America has strengthened Volvo Penta's position as a world-leading supplier of diesel engines for leisure boats.

In recent years in the US, Volvo Penta has strengthened its position significantly as a supplier of gasoline engines to independent boat builders. This trend continued in 2005. Volvo Penta's sterndrive gasoline engines attracted special attention during the year for their high quality.

Net sales per market

SEK M	2004	**2005**
Europe	4,907	5,102
North America	2,500	2,832
South America	142	208
Asia	1,324	1,427
Other markets	184	207
Total	**9,057**	**9,776**

Continued good profitability

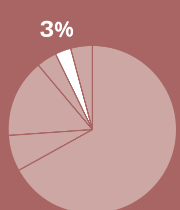
Sales rose by 8% to a total of SEK 9,776 M, compared with SEK 9,057 M in the preceding year, due mainly to the strong performance of the Marine Leisure segment. Volvo Penta maintained its high profitability during 2005 and at the same time implemented aggressive investments in product development and substantial marketing efforts to capitalize on the new and competitive product portfolio. Operating income remained at the same level as in 2004, SEK 943 M (940). The operating margin amounted to 9.6% (10.4).

High capacity utilization

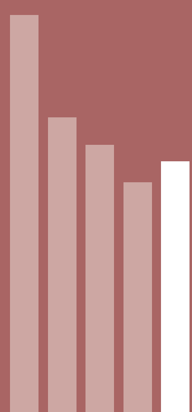
Capacity utilization at Volvo Penta plants was high during the year. In the second half of the year, measures were taken to reduce the number of temporary personnel at the diesel engine plant in Vara, Sweden, and the gasoline engine plant in Lexington, Tennessee, in the US – to ensure the ongoing favorable balance between production pace and demand.

At Volvo's joint engine plant in Skövde, Sweden, Volvo Penta helped improve capacity utilization through sales of 12- and 16-liter engines.

Volvo Aero – improved profitability and new, important contracts



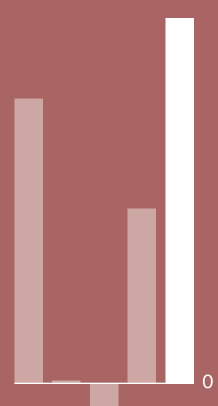
Net sales as percentage of Volvo Group sales



01 02 03 04 **05**

11.8 8.8 8.0 6.9 7.5

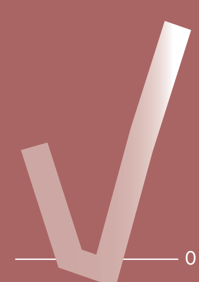
Net sales[1]
SEK bn



01 02 03 04 **05**

653 5 (44) 403 836

Operating income (loss)[1]
SEK M



01 02 03 04 **05**

5.5 0.1 (0.5) 5.8 11.1

Operating margin[1]
%

1 Years 2004 and 2005 are reported in accordance with IFRS and 2001, 2002 and 2003 in accordance with Swedish GAAP. See Note 1 and 3.

Ambitions 2005

- **Meet the sharp increase in demand for new engine components while continuing to focus on costs.**
- **Ensure that the development and production of components for the GEnx engine proceeds smoothly and on schedule.**
- **Integration of American component manufacturer Aero-Craft, acquired in 2004. Expansion of these operations to include fan housings.**
- **Improve after-market business by increasing volumes and reducing costs.**

Outcome 2005

- **Volvo Aero met the increased demand while maintaining cost control and improved profitability.**
- **In November, the first components of the GEnx engine were delivered – on schedule.**
- **Aero-Craft was integrated and the expansion of its operations is ongoing.**
- **Volumes in the after-market business rose while efficiency increased and costs were reduced.**

Ambitions 2006

- **Meet challenges in design and manufacturing, particularly regarding the new GEnx engine.**
- **Continue precision delivery of engine components without losing focus on costs.**
- **New development assignments for the RM12 Gripen engine.**
- **Increase after-market volumes and profitability.**

Volvo Aero develops and manufactures high-technology components for aircraft and rocket engines. In addition, it offers a broad range of services, including spare parts for aircraft engines and aircraft, sale, brokering and leasing of aircraft engines and aircraft, and maintenance and repair of aircraft engines. Volvo Aero also provides after-market services for gas turbines and turbine systems.

Volvo Aero has specialized its operations on developing and manufacturing certain selected components in aircraft engines. This is carried out in close cooperation with its corporate partners. Volvo Aero conducts operations on a global basis and has manufacturing plants in Sweden, Norway and the US.

Increased air traffic and more aircraft

Airline passenger traffic, having recovered in 2004, continued to improve in 2005. After the first eleven months, the increase in passenger traffic was 6%. Despite the increasing numbers of people flying today, the IATA still expects airlines to continue to report losses for 2005. There are large regional differences, however. European airlines and carriers in the Asia-Pacific region posted profits in 2005. The large American companies, on the other hand, continue to struggle with significant losses.

Order bookings for large commercial aircraft basically increased in each month of the year. Airbus and Boeing announced a combined order intake of 2,140 orders in 2005 compared with 647 in 2004. Aircraft deliveries increased by 10% from 606 to 668 in 2005.

Strong earnings trend

Volvo Aero's net sales rose by 9% to SEK 7,538 M (6,925). The sales increase comes primarily from increased volumes, particularly in component manufacturing.

Operating income amounted to SEK 836 M (403). The earnings improvement is mainly attributable to increased volumes and higher capacity utilization at the production plants in Trollhättan, Sweden and Kongsberg, Norway. Stronger demand for new spare parts and an advantageous product mix also contributed to the earnings improvement. Operating margin rose to 11.1% (5.8).

The most profitable segment is still the production of spare parts and components for commercial aircraft engines. The after-market contributed to the earnings improvement. Volumes continued to be low in the engine overhaul operations and profitability was unsatisfactory.

Several important contracts

During the year, cooperation with General Electric was increased. Volvo Aero and General Electric signed contracts whereby Volvo Aero increased its share in the LM2500 stationary gas turbine. Since 1997 Volvo Aero has been a risk-sharing partner on the LM2500, which became known as the most reliable gas turbine in its class. Over the next 12–15 years, total sales for Volvo Aero's share of the LM2500 are expected to amount to approximately SEK 250 M per year. At the end of November, almost exactly one year after signing the contract for the new GEnx aircraft engine, Volvo Aero delivered the first components – right on schedule.

Net sales per market

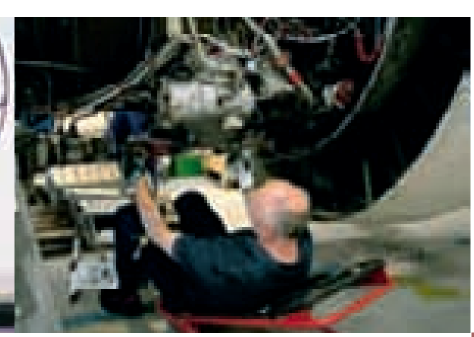
SEK M	2004	**2005**
Europe	3,179	3,406
North America	3,127	3,612
South America	138	168
Asia	400	284
Other markets	81	68
Total	**6,925**	**7,538**

On February 12, the new Ariane 5 rocket, the ECA, was successfully launched. Since December 2002, working under intense time constraints, Volvo Aero has further developed the exhaust nozzle of the rocket, which can support a significantly greater usable load than before. The launch of the rocket was extremely significant for the ongoing European space program.

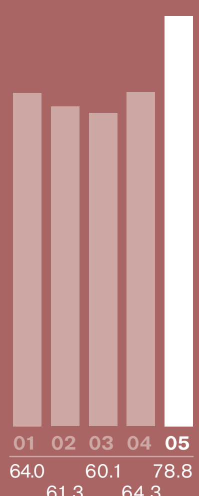
Volvo Aero Norway signed a contract with Pratt & Whitney to manufacture a component for the F135 engine for the F-35 JSF fighter aircraft.

Volvo Aero signed a contract with Snecma for the serial manufacture of nozzles and turbines for the Ariane 5. In addition, Volvo Aero and Snecma also signed a cooperation agreement to develop new turbine technologies for the aerospace industry.

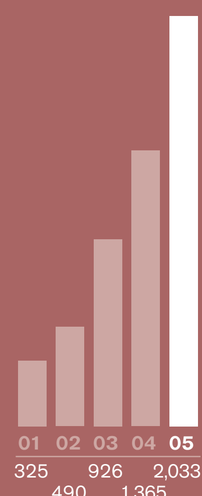
In April, the world's largest passenger aircraft, the Airbus A380, flew for the first time. The A380 has Trent 900-type Rolls Royce engines, an engine program in which Volvo Aero is part-owner. In addition Volvo Aero delivers components for the second engine alternative, the GP7000.



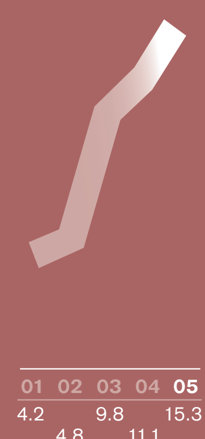
Financial Services – key component in the total offering



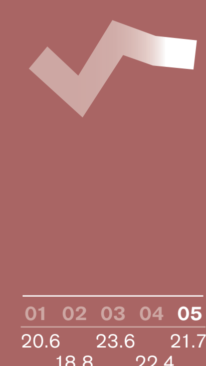
Credit portfolio, net[1]
SEK bn



Operating income[1]
SEK M



Return on shareholders' equity[1], %



Market penetration[1, 2]
%

1 Years 2004 and 2005 are reported in accordance with IFRS and 2001, 2002 and 2003 in accordance with Swedish GAAP. See Note 1 and 3.
2 Share of business funded by VFS in markets where VFS offers financial services.

Ambitions 2005

- **Growth in financing volume and assets.**
- **Maintain discipline in pricing and credit decisions.**
- **Conservative management of customer finance portfolio.**
- **Assure low-cost funding.**

Outcome 2005

- **Growth achieved in both new-financing volume and assets.**
- **Favorable balance achieved between credit risk, volume, sales penetration and pricing.**
- **Finance strategy based on diversification kept finance costs at a very low level and lent strong support to customer finance operations.**

Ambitions 2006

- **Expand customer finance operations in growth markets.**
- **Closely monitor and adapt operations to economic conditions.**
- **Maintain low costs for funding the Group's operations.**

Volvo Financial Services (VFS) provides services in three main areas: customer finance and insurance, treasury operations and real-estate management. These services enable Volvo to apply a Group-wide approach to financial risk. They also play a key role in Volvo's strategy for becoming the world's leading provider of commercial transport solutions.

Customer in focus

Volvo's expanding customer finance operations cover Europe, North America, Australia, and parts of South America and Asia. VFS conducts customer finance operations in more than 50 countries. Finance programs are offered to the dealers and end-customers of Volvo's business areas. The range of financial services includes installment contracts, financial and operational leasing, and the financing of dealers. In many markets insurance service and maintenance contracts are also offered separately or in combination with financing services.

Volvo's internal bank, Volvo Treasury, coordinates the Group's global funding strategy and financial infrastructure. It is responsible for the management of all interest-bearing assets and liabilities and the execution of foreign-exchange transactions. A diversified funding strategy kept the Group's borrowing cost at competitive levels and gave strong support to VFS's growing customer finance activities in 2005.

Operations within Danafjord, VFS's real-estate unit, include the renting and development of commercial real estate in Sweden and, increasingly, in other countries. During the year, Danafjord sold some of its non-strategic property in Kalmar and Torslanda generating a gain of SEK 188 M. The occupancy rate at the end of 2005 was 99.9% (99.8), and 52% (52) of the total was accounted for by tenants outside the Volvo Group. 81% (84) of the leases extend for five years or more.

Expanding credit portfolio

During 2005, the volume of new financing amounted to SEK 33 billion, up by more than SEK 3.5 billion compared with 2004.

On December 31, 2005, total assets amounted to SEK 86 billion (72), of which SEK 79 billion (64) related to the net credit portfolio. Adjusted for the effects of foreign-exchange movements, the credit portfolio grew by 10% during the year, compared with growth of 11% in the preceding year.

From a currency perspective, 37% of the portfolio was denominated in EUR, 35% in USD, 9% in GBP and 6% in CAD. The remaining 13% is primarily a mix of other European and Latin American currencies.

Good returns and profitability

Operating income for VFS in 2005 amounted SEK 2,033 M, up 49% from the SEK 1,365 M reported in 2004. Return on equity was 15.3% (11.1), with a year-end equity ratio of 11.2% (11.6). Throughout 2005, VFS successfully achieved a healthy balance among credit risk, volume, sales penetration and professional pricing. All customer finance regions improved performance over the prior year.

Write-offs in 2005 totaled SEK 297 M, corresponding to an annualized write-off ratio of 0.40% (0.66). On December 31, total credit reserves amounted to SEK 1,751 M giving a credit-reserve ratio at year-end of 2.17%.

Commercial Focus initiative

During 2005, VFS developed and launched a new strategic initiative called "Commercial Focus" (CF) to further improve its effectiveness and contribute greater value to the Group's Business Areas, its dealers and customers. The goals of CF are to integrate VFS's activities more closely with those of the other Business Areas, enhance the depth and breadth of VFS's services and develop how services are provided to key accounts. The first six of numerous global projects were started in 2005 to support these goals. VFS believes this initiative will increase its market share as it continues to maintain prudent pricing and credit levels.

Condensed income statement

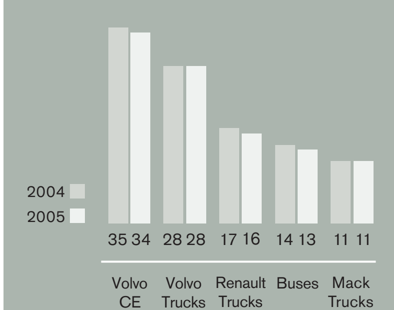
SEK M	2004	2005
Net sales	9,598	7,549
Income after financial items	**1,365**	**2,033**
Income taxes	(430)	(609)
Income for the period	**935**	**1,424**

Distribution of credit portfolio, net[1]

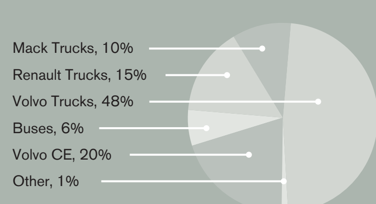
%	2004	2005
Operational leasing	20	1
Financial leasing	25	40
Installment contracts	38	41
Dealer financing	16	17
Other customer credits	1	1

1 Impact of IFRS leasing classification

Penetration, %



Credit portfolio by business area, %



Corporate Governance Report

Corporate bodies in corporate governance

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

Swedish Code of Corporate Governance

Volvo applies the Swedish Code of Corporate Governance ("the Code").

Between July 1, 2005 and December 31, 2005 Volvo did not deviate from any of the Code's regulations that were applicable during this period. With reference to Swedish Corporate Governance Board's statement regarding a transition solution for the Code's rules about internal controls for financial reporting, the Board's report on internal control in accordance with Section 3.7.2 of the Code, within the scope of this corporate governance report, is limited to a description of how internal control is organized without making any statement about how well it functions and without a review by the auditors.

This corporate governance report has been examined by the company's auditors.

Election Committee

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

In conjunction with the Election Committee proposing candidates for Chairman and the other members of the Board, the Election Committee shall comment on whether those persons who are proposed are to be considered as independent in relation to the company and company management as well as to large shareholders in the company. The Election Committee's proposal shall be presented to Volvo in sufficient time to be able to be included in the notice of the Annual General Meeting and at the same time on Volvo's website.

The Election Committee, which was appointed at Volvo's Annual General Meeting in 2005, comprises Volvo's Chairman Finn Johnsson, Lars Idermark, representing the Second Swedish National Pension Fund, Marianne Nilsson, representing Robur Funds, Curt Källströmer, representing Svenska Handelsbanken and Thierry Moulonguet, representing Renault SA. The Election Committee internally selected Lars Idermark as Chairman. The work of the Election Committee is governed by the instructions approved by the Volvo Annual General Meeting in 2005.

The Election Committee's proposal for the 2006 Annual General Meeting will be provided on Volvo's website.

The Board

In 2005, Volvo's Board of Directors consisted of eight members elected by the Annual General Meeting. In addition, the Board had three members and two deputy members appointed by employee organizations. The CEO, Leif Johansson, was a member of the Board.

The Board held six regular meetings and three extraordinary meetings in 2005.

The Board has adopted work procedures for its activities that contain rules pertaining to the distribution of work between the Board members, the number of Board meetings, matters to be handled at regular meetings of the Board and duties incumbent on the Chairman. In addition thereto, the work procedures contain directives concerning the tasks of the Audit Committee and the Remuneration Committee respectively. The Board has also issued written instructions specifying when and how information required to evaluate the company's and Group's financial position should be reported to the Board as well as the distribution of duties between the Board and the President and in what circumstances the Executive Vice President and Deputy CEO is to substitute for the CEO.

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 12, 2005 approved a total fee to the Board, for the time until the end of the next Annual General Meeting, of SEK 4,775,000. The fee was to be distributed among the Board Members according to the following. The Chairman of the Board receives a fee of SEK 1,350,000, the remaining members a total of SEK 2,700,000 to be distributed among the members as the Board decides. In addition, the Chairman of Audit Committee shall receive SEK 250,000 and the other two members of the Audit Committee SEK 125,000 each and the members of the Remuneration Committee SEK 75,000 each.

During the year, the Board reviewed the business plans and strategies for the various businesses in the Volvo Group. In addition thereto, the Board 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 is responsible for preparing for the Board's work through quality assurance of the company's financial reporting through reviewing the interim reports and the annual report. The Board has met with the company's auditors during 2005. The Board also dealt regularly with matters involving divestments, acquisitions, the establishment of new operations, and matters related to investments in product renewal and product development in the Group's business areas.

The Board's work is mainly performed through the 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 the on-going business and to ensure that the decisions taken by the Board are executed.

An account of each Board member's age, education, main professional experience, other board memberships, ownership of shares in Volvo and the years of membership on the Volvo Board is presented on page 79.

During 2005, the Board performed its yearly evaluation of the Board's work. The written report has been submitted to the Election Committee.

The Board's composition and attendance at meetings 1 January 2005–31 December 2005

	Board	Audit Committee	Remuneration Committee
Finn Johnsson	9		4
Per-Olof Eriksson	9	4	
Patrick Faure	9		
Haruko Fukuda	9	4	
Tom Hedelius	9		4
Leif Johansson	9		
Louis Schweitzer	8		3
Ken Whipple	8	4	
Martin Linder, employee representative	9		
Olle Ludvigsson, employee representative	9		
Johnny Rönnkvist, employee representative	9		
Total number of meetings	**9**	**4**	**4**

Independence requirements

The Board of Directors of Volvo must meet independence requirements pursuant to the rules of the Stockholm Stock Exchange, the Code and NASDAQ's regulations, as well as the Sarbanes-Oxley Act. Below follows a short description of the rules o the Stockholm Stock Exchange and the Code. The independence requirements mainly mean that only one person from the company's management may be a member of the Board, that a majority of the Board shall be independent of the company and the company management and that at least two of the members that are independent from the company and the company's management shall also be independent of the company's major shareholders. In addition, the Code demands that a majority of the members in the Audit Committee shall be independent of the company and that at least one member shall be independent of the company's major shareholders. 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.

The Election Committee has informed the company about its proposal for Board members and the Board Chairman that it intends to present to the Volvo Annual General Meeting.

Considering the above demands regarding the Board's independence, the Election Committee has reported to the company the following understanding about the proposed Board members independence from the company and the company management as well as the company's largest shareholders.

Finn Johnsson, Patrick Faure, Haruko Fukuda, Louis Schweitzer and Ken Whipple are all independent from the company and company management.

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

Tom Hedelius and Per-Olof Eriksson have been members of the Board of Volvo since January 19, 1994. Accordingly, they have, at the time of issuance of this corporate governance report, been members for more than 12 years and consequently in accordance with the Code are not to be considered independent of the company and company management.

Patrick Faure and Louis Schweitzer are employed by Renault SA and represent Renault SA on the company's Board. Since Renault SA controls more than 10% of the shares and votes in Volvo, these persons may not pursuant to the Code be considered as independent in relation to one of the company's major shareholders.

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 through quality assurance of the company's financial reporting through reviewing the interim reports and the annual report. In addition, the Audit Committee's task is to establish guidelines specifying what other services than audit the company may procure from the company's auditors and to provide guidelines for and decisions on transactions with companies and persons closely associated with Volvo. The Audit Committee is also responsible for evaluating the auditors' work as well as to provide the Election Committee with the results of the evaluation and to assist in preparing proposals for auditors.

In 2005, the Audit Committee comprised Board members Haruko Fukuda, Ken Whipple and Per-Olof Eriksson, Chairman. The Audit Committee held three ordinary meetings and one extraordinary meeting in 2005. The Audit Committee met with the external auditors and Head of Internal Audit at the ordinary meetings as well as the external auditors without the presence of the company management.

Remuneration Committee

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

In 2005, the Remuneration Committee comprised Board members Tom Hedelius, Louis Schweitzer and Finn Johnsson, Chairman. The Remuneration Committee held four meetings during the year.

Group Executive Committee

An account of their respective age, education, Board memberships, ownership of shares in Volvo, and year of joining Volvo for the CEO and each member of the Group Executive Committee is presented on page 77.

External auditing

Volvo's auditors are elected by the Annual General Meeting, for a period of four years. The current auditors were elected at the 2003 Annual General Meeting and the next election of auditors will be at the 2007 Annual General Meeting. Volvo's auditor is PricewaterhouseCoopers AB ("PwC"). Two PwC partners, Olof Herolf and Olov Karlsson, are responsible for the audit of Volvo. Olof Herolf has the primary responsibility.

The Auditors report their findings to the shareholders through the audit report, which they present to the Annual General Meeting of the shareholders. In addition, the auditors report the detailed findings made since the latest meeting to the Audit Committee at each of the ordinary meetings of the Audit Committee and to the full Board once a year.

PwC provides certain services to Volvo in addition to the audit. In 2005 such services included advice on the company's preparation and implementation of the testing and reporting of internal controls, which is mandatory under the provisions of the US Sarbanes-Oxley Act. PwC also advised on the transition to International Financial Reporting Standards. In addition, PwC provides tax advice and other audit related services to Volvo. 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 preapproval of the nature of the services and the fees. Accordingly, Volvo believes that the provision of the additional services does not jeopardize PwC's independence.

For more detailed information concerning auditors' fees see Note 35 of the notes to the consolidated financial statements.

The organization of the internal control over financial reporting

Volvo has since long had an internal control organisation.

Going forward policies and procedures have to be adjusted so that they comply with Sorbanes-Oxley Act (SOX) requirements due to the fact that Volvo' s shares are registered with the Securities & Exchange Commission (SEC) in the U.S. This adjustment shall ascertain that the work is following well-developed and documented processes. Policies and instructions shall be in accordance with internationally accepted standard and best practices, which are reassessed annually.

SOX section 404 requires an SEC registrant to include in its annual report a report on the internal control over financial reporting.

The report shall include a statement regarding the outcome of the company's evaluation of the effectiveness of the internal control over the financial reporting as at the end of the relevant financial year and shall be accompanied by an auditor's report. Volvo will make its first SOX 404 reporting in the filing of its U.S. annual report (Form 20) for the financial year ending at December 31, 2006.

During 2005, Volvo has continued the work initiated in 2004 on documenting relevant processes in order to ensure that the internal control over financial reporting is well functioning. In 2006, this work will be finalised, the relevant processes will be tested and an evaluation of the effectiveness of the internal control will be made.

In order to fulfil the requirements of SOX 404, an SEC registrant must implement a recognised internal control framework.

Volvo applies a framework introduced by the Committee of Sponsoring Organisations of the Treadway Commission (COSO). COSO consists of five interrelated components where a number of objectives have to be met in each component. The components are; control environment, risk assessment, control activities, information and communication and monitoring.

Volvo has an internal audit function (internrevision) of which the main responsibility is to ensure adherence to the internal control framework that the company applies. The internal audit function reports directly to the Group's CFO and has a dotted line to the Audit Committee of the Board of Directors.

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 material information that affects the share price.

The Committee comprises the heads of the corporate staffs, Corporate Finance, Internal Audit, Investor Relations, Corporate Legal and Financial Reporting.

Principles for remuneration and other employment terms for the Group Executive Committee

The Board has decided to propose to the 2006 Annual General Meeting principles for remuneration and other employment terms for the members of Volvo's Group Executive Committee ("Remuneration Policy") in accordance with Section 4.2.2 of the Code. The proposed principles comply with what has historically been applied within Volvo. The principles for remuneration and other employment terms can be summarized as follows.

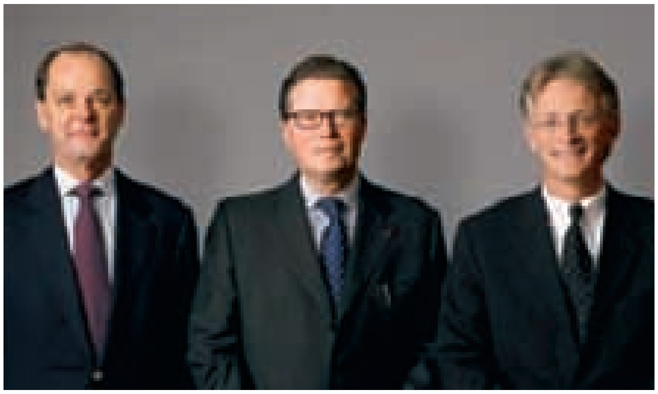
The guiding principle is that remuneration and other employment terms for company management shall be competitive to ensure that Volvo can attract and retain skilled persons in the Group Executive Committee. The fixed salary may be competitive and reflect the individual's area of responsibility and performance. In addition to the fixed salary a variable salary may be paid. A variable salary may amount to a maximum of 50% of the fixed annual salary and be based on the Volvo Group's and/or the executive's Group company's fulfillment of certain improvement goals. The improvement goals are decided by the Board of AB Volvo and may be related, for example, to operating income 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, housing and other benefits are provided. In addition to pension benefits provided by law and collective agreements, the members of the Group Executive Committee domiciled in Sweden are offered a defined-contribution pension whereby the amount of the individual's pension comprises the premium paid and any return. In individual cases, other pension solutions may be considered. Members of the Group Executive Committee domiciled outside Sweden are offered pension solutions that are competitive in the country in which the person is domiciled. With regard to notice of termination of employment for members of the Group Executive Committee domiciled in Sweden, the notification period is 12 months if the company terminates the employment and six months if the individual terminates employment. In addition, the employee is entitled to a severance pay of 12 months' salary if Volvo terminates employment. In individual cases, other principles for notification periods and severance pay may be considered. Those members who are domiciled outside Sweden are offered terms in this respect that are competitive in the country in which the person is domiciled.

A more detailed account of remuneration to the President and principles for the remuneration to other senior executives is presented in Note 34 to the consolidated financial statements.

Outstanding share- and share-price-related incentive programs

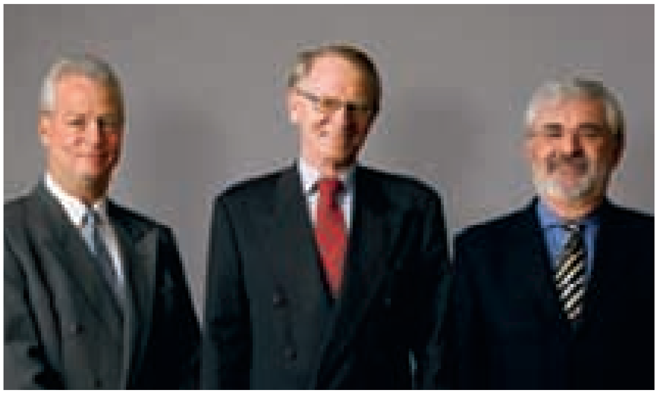
An account of outstanding share- and share-price-related incentive program is provided in Note 34 to the consolidated financial statements.

Group Management



Göran Gummeson • Leif Johansson • Stefan Johnsson

Paul Vikner • Jorma Halonen • Håkan Karlsson



Tony Helsham • Lars-Göran Moberg • Stefano Chmielewski

Fred Bodin • Eva Persson • Salvatore L Mauro

Per Löjdquist • Staffan Jufors

Karl-Erling Trogen • Pär Östberg • Michel Gigou

Leif Johansson
President and CEO

Born 1951. Master of Engineering. President of AB Volvo and Chief Executive Officer of the Volvo Group since 1997. With Volvo since 1997.
Board member: Bristol-Myers Squibb Company, Confederation of Swedish Enterprise and The Association of Swedish Engineering Industries. Member of the Royal Swedish Academy of Engineering Sciences. Member of Volvo Board since 1997.
Holdings in Volvo, own and related parties: 46,562 shares, including 39,538 Series B shares and 50,000 employee stock options.

Jorma Halonen
Executive Vice President and Deputy CEO

Born 1948. Bachelor of Science in Economics. Executive Vice President of AB Volvo and Deputy CEO of the Volvo Group since November 1, 2004. President of Volvo Truck Corporation 2001–2004. Prior to that various positions at Scania 1990–2001. Member of Group Executive Committee since January 2002. With Volvo since 2001. **Holdings in Volvo:** 2,000 Series B shares and 25,000 employee stock options.

Pär Östberg
Senior Vice President

Born 1962. Master of Business Administration. Senior Vice President of AB Volvo and CFO of the Volvo Group since December 2005. Member of the Group Executive Committee since December 2005, responsible for finance, strategy and business development. Pär Östberg has held various senior positions in the financial areas in the Volvo Group since 1990, most recently as Senior Vice President and CFO of Renault Trucks (2004–2005). **Holdings in Volvo:** none

Eva Persson
Senior Vice President

Born 1953. Master of Laws. Senior Vice President of AB Volvo and General Counsel of the Volvo Group. Member of Group Executive Committee since 1997, responsible for legal, tax and security matters. With Volvo since 1988. Secretary to the Board of Volvo since 1997. **Board member:** Handelsbanken Region Väst, Second Swedish National Pension Fund. Member of the Swedish Industry and Commerce Stock Exchange Committee. **Holdings in Volvo:** 2,500 shares, including 2,248 Series B shares and 25,000 employee stock options.

Stefan Johnsson
Senior Vice President

Born 1959. Master of Business Administration. Senior Vice President of AB Volvo responsible for business units and human resources. Member of Group Executive Committee since 1998. Senior Vice President of AB Volvo and CFO for the Volvo Group, 1998–November 2005. President of Volvo Group Finance Sweden 1994–1998. With Volvo since 1987. **Holdings in Volvo:** 2,075 shares including 2,000 Series B shares and 25,000 employee stock options.

Per Löjdquist
Senior Vice President

Born 1949. Senior Vice President of AB Volvo. Member of Group Executive Committee since 1997, responsible for Corporate Communications and Public Affairs. With Volvo since 1973. **Board member:** West Sweden Chamber of Commerce and Industry, and Nilörngruppen AB. **Holdings in Volvo:** 4,398 shares, including 1,224 Series B shares and 25,000 employee stock options.

Michel Gigou
Senior Vice President

Born 1946. Bachelor of Engineering and Master of Business Administration. Senior Vice President of AB Volvo. President of Volvo Trucks North America and Chairman of Mack Trucks, Inc. 2000–2003. President of Mack Trucks, Inc. 1996–2000. Previously at Renault SA, with various positions in Europe. Member of Group Executive Committee since January 2002. With Volvo since 2000. **Holdings in Volvo:** 25,000 employee stock options.

Karl-Erling Trogen
Senior Vice President

Born 1946. Master of Engineering. Senior Vice President of AB Volvo until January 31, 2006. Member of Group Executive Committee 1994–2005. President of Volvo Truck Corporation 1994–2000. President of Volvo Trucks North America 1991–1994. With Volvo since 1971. **Holdings in Volvo:** 3,000 Series B shares and 25,000 employee stock options.

Lars-Göran Moberg
President of Volvo Powertrain

Born 1943. Master of Engineering. President of Volvo Powertrain since January 2001. Member of Group Executive Committee since May 2001. With Volvo since 1995. **Holdings in Volvo:** 7,858 shares, including 7,652 Series B and 25,000 employee stock options.

Staffan Jufors
President of Volvo Truck Corporation

Born 1951. Master of Business Administration. President of Volvo Truck Corporation since November 1, 2004. President of AB Volvo Penta 1998–2004. Member of Group Executive Committee since 1998. With Volvo since 1975. **Board member:** EBP AB. **Holdings in Volvo:** 2,208 shares, including 1,054 Series B shares and 25,000 employee stock options.

Stefano Chmielewski
President of Renault Trucks

Born 1952. MA Master of Science Electronics/ Automation. President of Renault Trucks since May 1, 2003. Member of Volvo Group Executive Committee since May, 2003. With Volvo since 2001. **Holdings in Volvo:** 5,000 employee stock options.

Paul Vikner
President of Mack Trucks, Inc.

Born 1949. Bachelor of Arts. President of Mack Trucks, Inc. since 2001. Executive Vice President of Sales and Marketing, Mack Trucks, Inc. 1996–2001. Previously at Iveco Trucks North America and Isuzu Trucks North America 1972–1994. Member of Group Executive Committee since January 1, 2004. With Volvo since 2001. **Holdings in Volvo:** 25,000 employee stock options.

Håkan Karlsson
President of Volvo Bus Corporation

Born 1961. Master of Engineering. President of Volvo Bus Corporation and Member of Group Executive Committee since June 1, 2003. President of Volvo Logistics 2000–2003. With Volvo since 1986. **Holdings in Volvo:** 2,352 shares, including 2,085 Series B shares and 5,000 employee stock options.

Tony Helsham
President of Volvo Construction Equipment

Born 1954. Bachelor of Engineering. President of Volvo Construction Equipment since 2000. President and CEO of Euclid Hitachi Heavy Equipment 1995–1998. President of Volvo Construction Equipment Korea, 1998–2000. Member of Group Executive Committee since 2000. With Volvo since 1985. **Holdings in Volvo:** 25,000 employee stock options.

Göran Gummeson
President of Volvo Penta

Born 1947. President of Volvo Penta since November 1, 2004. Has held various positions at Volvo Penta since 1991, head of Volvo Penta's European operations 1998–2004. Member of Group Executive Committee since November 1, 2004. With Volvo since 1991. **Holdings in Volvo:** 750 Series B shares and 5,000 employee stock options.

Fred Bodin
President of Volvo Aero Corporation

Born 1947. Bachelor of Laws. President of Volvo Aero Corporation since 1997. General Counsel of Volvo Group, 1988–1997. Member of Group Executive Committee since 1993. With Volvo since 1981. **Holdings in Volvo:** 25,000 employee stock options.

Salvatore L Mauro
President of Volvo Financial Services

Born 1960. Bachelor of Science in Accounting. President of Volvo Financial Services since 2001. President of Volvo Car Finance Europe 1999–2001. Member of Group Executive Committee since 2001. With Volvo since 1985. **Holdings in Volvo:** 1,003 American Depositary Receipts (ADRs) and 25,000 employee stock options.

Changes in Group Executive Committee

Executive Vice President and Deputy Chief Executive Officer **Lennart Jeansson**, member of Volvo's Group Executive Committee since 1986, left the Group Executive Committee on June 30, 2005 in conjunction with his retirement. The role of Executive Vice President and Deputy Chief Executive Officer was assumed by Jorma Halonen.

Former Senior Vice President of AB Volvo, **Karl-Erling Trogen**, who had been a member of the Group Executive Committee since 1994, left the Group Executive Committee in December, 2005 and retired January 31, 2006.

Stefan Johnsson, Volvo's Senior Vice President and Chief Financial Officer since 1998, left this position on November 30, 2005, to assume responsibility for a number of Volvo's central business units. Stefan Johnsson continues to be a member of the Group Executive Committee. **Pär Östberg**, former Chief Financial Officer of Renault Trucks, has been appointed Chief Financial Officer for the Volvo Group and member of the Group Executive Committee.

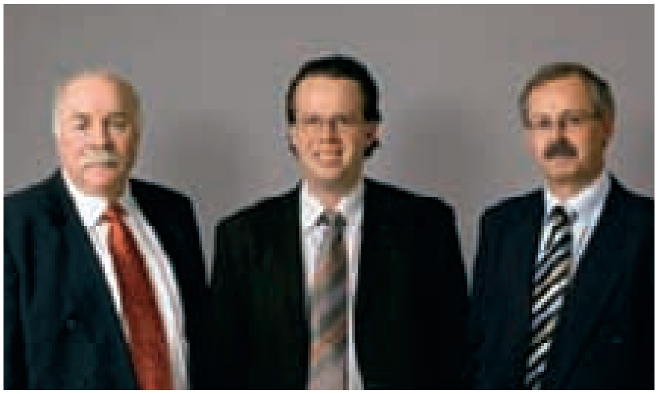
Michel Gigou, member of the Group Executive Committee since 2002, has announced that he will retire on April 30, 2006. Within the Group Executive Committee, Michel Gigou's responsibilities included Volvo's operations in China, a responsibility that will now be assumed by Jorma Halonen.

During 2006, Volvo's Group Executive Committee will be expanded through the addition of **Jan-Eric Sundgren**, currently President of Chalmers University of Technology. This transition will occur when a successor has been appointed at Chalmers. Jan-Eric Sundgren's responsibilities will include contacts with public authorities, universities and colleges. He will also focus on technological and research-related matters within the Volvo Group and have Group-wide responsibility for environmental and safety issues.

It was announced in December that **Olof Persson** will become the new President of Volvo Aero. Volvo Aero's current President, **Fred Bodin**, has announced his intention to retire at the end of 2006 in conjunction with his 60th birthday. Olof Persson, 41, is currently President of the Canadian aircraft and train manufacturer Bombardier's Mainline and Metro division for trains and subways. He will assume his new position as President on July 1, 2006 and will also be included in the Volvo Group Executive Committee.

Board of Directors and Auditors

Finn Johnsson • Leif Johansson



Johnny Rönnkvist • Martin Linder • Berth Thulin

Ken Whipple • Olle Ludvigsson • Tom Hedelius

Per-Olof Eriksson • Louis Schweitzer

Patrick Faure • Haruko Fukuda • Margareta Öhlin

Board members elected by Annual General Meeting

Finn Johnsson
Chairman of the Board
Chairman of the Remuneration Committee
Born 1946, Master of Business Administration. **Board Chairman**: Outokumpu Copper Oy, Thomas Concrete Group AB, Unomedical A/S, KappAhl AB and City Airline. **Board member**: Skanska AB and AB Industrivärden. Member of Volvo Board since 1998. Chairman since February 2004. **Holdings in Volvo:** 2,000 Series B shares.

Principal work experience: Machine Division at Swedish Match; President Arenco Machine Co., USA; President Swedish Match Europe and Swedish Match Asia; President Tarkett AB; Executive Vice President Stora AB; President Industri AB Euroc; President United Destillers, UK; CEO of Mölnlycke Health Care AB.

Per-Olof Eriksson
Chairman of the Audit Committee
Born 1938, Master of Engineering, Hon. Dr. of Technology. **Board Chairman**: Callans Trä AB and Odlander, Fredriksson & Co. **Board member**: Investment AB Öresund, SSAB Svenskt Stål AB, Assa Abloy, Senea AB, Elkem AS, Södersjukhuset AB, Cross country Systems AB and KTH Holding AB. Member of the Royal Swedish Academy of Engineering Sciences. Member of Volvo Board since 1994. **Holdings in Volvo, own and related parties:** 6,200 Series A shares.

Principal work experience: Engineer Uddeholms AB; numerous positions with Sandvik Group (in Sweden, Germany and the UK), President and CEO Seco Tools AB; President and CEO Sandvik AB.

Patrick Faure
Born 1946. Bachelor of Laws.
Chairman and Chief Executive Officer of Renault F1 Team. **Board member:** VINCI, ERTICO.
Member of Volvo Board since 2001.
Holdings in Volvo: 2,000 Series B shares.

Principal work experience: Secretary General Précision Mécanque Labinal; numerous positions with Renault Group (among others Secretary General, Executive Vice President Marketing and Sales and Chairman and CEO Renault V.I.), Executive Vice President of Renault SA.

Haruko Fukuda
Member of the Audit Committee
Born 1946. OBE, MA (Cantab), DSc.
Board member: Caliber Global Investment Ltd. (Chairman), Investec plc, Aberdeen Asian Smaller Companies Investment Trust plc. **Senior Advisor** at Lazard, **Advisor** at METRO AG. **Honorary Fellow** of New Hall Cambridge, **Chairman** of the Advisory Board of New Hall Cambridge, **Honorary Vice President** of the Japan Society, **Trustee** of Mitsubishi Trust Oxford Foundation, **Freeman** of the City of London. Member of Volvo Board since 2003. **Holdings in Volvo:** None.

Principal work experience: Economics Department at IBRD (the World Bank), USA; Economist on Japan, Vickers, da Costa & Co Ltd.; Partner, James Capel & Co; Vice Chairman and Board Director, Nikko Europe Plc; Chief Executive and Board Director World Gold Council.

Tom Hedelius
Member of the Remuneration Committee
Born 1939, Master of Business Administration, Hon. Dr. of Economics. **Board Chairman:** AB Industrivärden, Bergman & Beving AB and Sandrews.
Honorary Chairman: Svenska Handelsbanken.
Vice Chairman: Addtech AB and Lagercrantz Group AB and Jan Wallanders och Tom Hedelius stiftelse.
Board member: Svenska Cellulosa Aktiebolaget SCA and Lundbergs AB. Member of Volvo Board since 1994. **Holdings in Volvo, own and related parties:** 2,693 shares, including 693 Series B shares.

Principal work experience: AB Industrikredit; numerous positions with Svenska Handelsbanken (Credit Director, Executive Vice President, President and CEO, Chairman).

Leif Johansson
Born 1951, Master of Engineering.
President of AB Volvo and Chief Executive Officer of the Volvo Group since 1997. Member of Volvo Board since 1997. **Board member:** Bristol-Myers Squibb Company, Confederation of Swedish Enterprise and The Association of Swedish Engineering Industries. Member of the Royal Swedish Academy of Engineering Sciences.
Holdings in Volvo, own and related parties: 46,562 shares, including 39,538 Series B shares and 50,000 employee stock options.

Principal work experience: Project consultant Indevo; Assistant to President Centro Maskin Morgårdshammar; President Husqvarna Motorcyklar; Division Manager Office Machines Facit Sweden; President Facit; Division Manager AB Electrolux Major Appliances; Division President AB Electrolux Major Appliances; Executive Vice President AB Electrolux; President AB Electrolux; CEO Electrolux Group.

Louis Schweitzer
Member of the Remuneration Committee
Born 1942. Bachelor of Laws.
Board Chairman: Renault SA, AstraZeneca Plc.
Board member: Philips, Electricité de France, BNP-Paribas, VEOLIA and L´Oréal. Member of Volvo Board since 2001. **Holdings in Volvo:** 2,000 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), Professor Institut d'Etudes Politiques de Paris; numerous positions with Renault SA (Chief Financial Officer and Executive Vice President Finance and Planning, President and Chief Operating Officer, Chairman and Chief Executive Officer).

Ken Whipple
Member of the Audit Committee
Born 1934. Bachelor of Business and Engineering.
Board Chairman: CMS Energy Corporation and Glenlore Enterprises. **Board member:** 14 JP Morgan Fleming Mutual Funds and Korn-Ferry International AB. Member of Volvo Board since 2001.
Holdings in Volvo: None.

Principal work experience: Numerous positions with Ford Motor Company mainly within finance and marketing, President Ford Credit, Chairman and CEO Ford Europe, President Ford Financial Services Group, Chairman and CEO Ford Motor Credit Company, CEO CMS Energy Corporation and Glenlore Enterprises.

Board members and deputies appointed by employee organisations

Martin Linder
Born 1973.
Employee representative. With Volvo since 1994. Member of Volvo Board since 2004.
Holdings in Volvo: None.

Olle Ludvigsson
Born 1948.
Employee representative. With Volvo since 1968. Deputy member of Volvo Board 1983–1988; member since 1988. **Holdings in Volvo:** 155 shares, including 105 Series B shares.

Johnny Rönnkvist
Born 1947.
Employee representative. With Volvo since 1965. Member of Volvo Board since 1999.
Holdings in Volvo: 285 shares, including 50 Series B shares.

Berth Thulin
Born 1951.
Employee representative. With Volvo since 1975. Deputy member of Volvo Board since 1999.
Holdings in Volvo: 100 Series B shares.

Margareta Öhlin
Born 1947.
Employee representative. With Volvo since 1983. Deputy member of Volvo Board since 2005.
Holdings in Volvo: None.

Eva Persson
Secretary to the Board
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: 2,500 shares, including 2,248 Series B shares and 25,000 employee stock options.

Auditors

PricewaterhouseCoopers AB

Olof Herolf
Authorized Public Accountant
Lead Partner

Olov Karlsson
Authorized Public Accountant
Partner

Financial Report 2005

Consolidated income statements

SEK M		2004	2005
Net sales	Note 7	211,076	**240,559**
Cost of sales		(164,170)	**(186,662)**
Gross income		46,906	**53,897**
Research and development expenses	Note 7	(7,614)	**(7,557)**
Selling expenses		(19,369)	**(20,778)**
Administrative expenses		(5,483)	**(6,301)**
Other operating income and expenses	Note 8	(618)	**(590)**
Income from investments in associated companies	Note 7, 9	27	**(557)**
Income from other investments	Note 10	830	**37**
Operating income	Note 7	14,679	**18,151**
Interest income and similar credits		821	**654**
Interest expenses and similar charges		(1,254)	**(972)**
Other financial income and expenses	Note 11	(1,210)	**181**
Income after financial items		13,036	**18,014**
Income taxes	Note 12	(3,129)	**(4,908)**
Income for the period		9,907	**13,106**
Attributable to:			
Equity holders of the parent company		9,867	**13,052**
Minority interests	Note 13	40	**54**
		9,907	**13,106**
Basic earnings per share, SEK		23.58	**32.21**
Diluted earnings per share, SEK		23.55	**32.16**

Consolidated balance sheets

SEK M			December 31, 2004		**December 31, 2005**
Assets					
Non-current assets					
Intangible assets	Note 14		17,612		**20,421**
Tangible assets	Note 14				
Property, plant and equipment		29,764		**33,930**	
Investment property		1,387		**1,071**	
Assets under operating leases		19,534	50,685	**20,839**	**55,840**
Financial assets					
Associated companies, other shares and participations	Note 15	2,003		**751**	
Long-term customer-financing receivables	Note 16	25,187		**31,184**	
Deferred tax assets	Note 12	5,078		**5,332**	
Other long-term receivables	Note 17	2,763	35,031	**3,122**	**40,389**
Total non-current assets			103,328		**116,650**
Current assets					
Inventories	Note 18		28,598		**33,937**
Short-term receivables					
Customer-financing receivables	Note 19	26,006		**33,282**	
Current tax assets		1,426		**855**	
Other receivables	Note 20	29,864	57,296	**35,464**	**69,601**
Marketable securities	Note 21		25,955		**28,834**
Cash and cash equivalents	Note 22		8,791		**8,113**
Total current assets			120,640		**140,485**
Total assets			223,968		**257,135**
Shareholders' equity and liabilities					
Shareholders' equity	Note 23				
Share capital		2,649		**2,554**	
Additional contributed capital		–		**-**	
Reserves		(71)		**2,924**	
Retained earnings		57,481		**59,978**	
Income for the period		9,867		**13,052**	
Equity attributable to the equity holders of the parent company		69,926		**78,508**	
Minority interests		229		**260**	
Total shareholders' equity			70,155		**78,768**
Non-current provisions					
Provisions for post-employment benefits	Note 24	14,703		**11,986**	
Provisions for deferred taxes	Note 12	515		**2,265**	
Other non-current provisions	Note 25	7,296	22,514	**7,012**	**21,263**
Non-current liabilities	Note 26				
Bond loans		27,612		**27,570**	
Other loans		12,799		**15,985**	
Other long-term liabilities		4,653	45,064	**5,259**	**48,814**
Current provisions	Note 25		7,182		**9,279**
Current liabilities	Note 27				
Loans		21,396		**31,330**	
Trade payables		30,813		**35,693**	
Current tax liabilities		1,753		**1,726**	
Other current liabilities		25,091	79,053	**30,262**	**99,011**
Total shareholders' equity and liabilities			223,968		**257,135**
Assets pledged	Note 28		3,046		**3,255**
Contingent liabilities	Note 29		9,189		**7,850**

Changes in consolidated Shareholders' equity

		Shareholders´ equity attributable to equity holders of the parent company						
SEK M		Share capital	Other reserves	Translation reserve	Retained earnings	**Total**	Minority interest	**Total equity**
Balance at January 1, 2004		**2,649**	**-**	**-**	**69,666**	**72,315**	**217**	**72,532**
Translation differences		–	–	(151)	–	(151)	(6)	(157)
Translation differences on hedge instruments of net investments in foreign operations		–	–	80	–	80	–	80
Net income recognised directly in equity		**-**	**-**	**(71)**	**-**	**(71)**	**(6)**	**(77)**
Income for the period		–	–	–	9,867	9,867	40	9,907
Total recognised income and expense for the period		**-**	**-**	**(71)**	**9,867**	**9,796**	**34**	**9,830**
Cash dividend		–	–	–	(3,356)	(3,356)	(9)	(3,365)
Distribution of shares in Ainax AB to shareholders		–	–	–	(6,310)	(6,310)	–	(6,310)
Repurchase own shares	Note 23	–	–	–	(2,532)	(2,532)	–	(2,532)
Share based payments	Note 34	–	–	–	14	14	–	14
Other changes		–	–	–	(1)	(1)	(13)	(14)
Balance at December 31, 2004		**2,649**	**-**	**(71)**	**67,348**	**69,926**	**229**	**70,155**
IFRS Transition effect IAS 39		–	1,007	–	(659)	348	–	348
Balance at January 1, 2005		**2,649**	**1,007**	**(71)**	**66,689**	**70,274**	**229**	**70,503**
Translation differences		–	24	3,543	–	3,567	24	3,591
Translation differences on hedge instruments of net investments in foreign operations		–	–	(220)	–	(220)	–	(220)
Available-for-sale investments:	Note 15							
Valuation gains/(losses) taken to equity		–	83	–	–	83	–	83
Cash flow hedges	Note 36	–	(1,442)	–	–	(1,442)	–	(1,442)
Net income recognised directly in equity		**-**	**(1,335)**	**3,323**	**-**	**1,988**	**24**	**2,012**
Income for the period		–	–	–	13,052	13,052	54	13,106
Total recognised income and expense for the period		**-**	**(1,335)**	**3,323**	**13,052**	**15,040**	**78**	**15,118**
Cash dividend		–	–	–	(5,055)	(5,055)	(28)	(5,083)
Repurchase own shares	Note 23	–	–	–	(1,764)	(1,764)	–	(1,764)
Share based payments	Note 34	–	–	–	23	23	–	23
Decrease of share capital	Note 23	(95)	–	–	95	–	–	–
Other changes		–	–	–	(10)	(10)	(19)	(29)
Balance at December 31, 2005		**2,554**	**(328)**	**3,252**	**73,030**	**78,508**	**260**	**78,768**

Consolidated cash-flow statements

SEK M		2004	2004	**2005**	**2005**
Operating activities					
Operating income			14,679		**18,151**
Depreciation and amortization	Note 14		10,003		**9,894**
Other items not affecting cash	Note 30		(30)		**415**
Changes in working capital:					
(Increase)/decrease in receivables			(4,017)		**(1,253)**
(Increase)/decrease in customer finance receivables	Note 30		(7,382)		**(7,773)**
(Increase)/decrease in inventories			(2,243)		**(2,438)**
Increase/(decrease) in liabilities and provisions			4,797		**(983)**
Interest and similar items received			1,047		**2,430**
Interest and similar items paid			(335)		**(2,341)**
Other financial items			(25)		**(70)**
Income taxes paid			(1,194)		**(2,023)**
Cash flow from operating activities			15,300		**14,009**
Investing activities					
Investments in fixed assets		(7,405)		**(10,271)**	
Investments in leasing assets		(4,360)		**(4,549)**	
Disposals of fixed assets and leasing assets		2,444		**2,646**	
Shares and participations, net	Note 30	15,064		**336**	
Acquired and divested subsidiaries and other business units, net	Note 4, 30	(141)		**650**	
Interest-bearing receivables including marketable securities		(6,413)	(811)	**(1,359)**	**(12,547)**
Cash flow after net investments			14,489		**1,462**
Financing activities					
Increase (decrease) in bond loans and other loans	Note 30	(8,840)		**3,564**	
Cash dividend to AB Volvo shareholders'		(3,356)		**(5,055)**	
Repurchase of own shares		(2,532)		**(1,764)**	
Dividends to minority shareholders		(9)		**(28)**	
Other		38	(14,699)	**15**	**(3,268)**
Change in cash and cash equivalents, excluding translation differences			(210)		**(1,806)**
Translation difference on cash and cash equivalents			(205)		**1,128**
Change in cash and cash equivalents			(415)		**(678)**
Cash and cash equivalents, January 1	Note 22		9,206		**8,791**
Cash and cash equivalents, December 31	Note 22		8,791		**8,113**

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.

Notes to consolidated financial statements

Amounts in SEK M unless otherwise specified. The amounts within parentheses refer to the preceding year, 2004.

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. Those 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, RR30 Supplementary Rules for Groups, was applied, issued by the Swedish Financial Accounting Standards Council. IFRS differs in some respects from US GAAP, see further in Note 37.

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 fiscal periods.

Changes of accounting principles

Effective in 2005 Volvo has applied International Financial Reporting Standards (IFRS) in its financial reporting. In accordance with the IFRS transition rules in IFRS 1, Volvo applies retroactive application from the IFRS transition date at January 1, 2004. The general rule is that restatement of financial reporting for periods after the transition date should be made as if IFRS has been applied historically. All comparison figures from 2004, in tables and the notes, have been restated. There are certain exceptions from the general rule of which the most significant for Volvo are:

– IAS 39 Financial instruments: Recognition and measurement which is applicable from January 1, 2005.

– Non-amortization of intangible assets with indefinite useful lives (e.g. goodwill) in accordance with IFRS 1 should be applied retroactively only from the transition date January 1, 2004.

The transition from Swedish GAAP to IFRS is being made according to a regulation applicable to all listed companies within the European Union as of 2005. Refer to Note 3, Effect of transition to IFRS for a more detailed overview of the transition.

Refer to the 2004 Annual Report for a description of the previous Swedish accounting principles applied by Volvo.

New accounting principles in 2005

The following IFRS standards are applied as of 2005, in accordance with the respective standards transition rules or in accordance with IFRS 1, IAS 39: Financial Instruments: Recognition and Measurement, and IFRS 5, Non-Current Assets Held for Sale and Discontinued Operations. Neither of these standards requires retroactive reporting. Accordingly, the comparison year 2004 is not restated with regard to these standards. Volvo has decided to apply the amended IAS 39 regarding hedging of commercial cash flows with earlier adoption from January 1, 2005.

New accounting principles in 2006

As of 2006, Volvo applies IFRIC 4, Determining Whether an Arrangement Contains a Lease. The International Financial Reporting Interpretation Committee (IFRIC) issue its interpretations of IASB's accounting standards. The effect of applying IFRIC 4 for Volvo mainly comprises certain type-bound supplier tools and is expected to be limited, see also note 37, US GAAP. IFRS 6, Exploration for and Evaluation of Mineral Assets, is not applicable to Volvo, while IFRS 7, Financial Instruments: Disclosure, shall be applied for the financial year beginning after January 1, 2007. IFRS 7 involves disclosure requirements and does not affect Volvo's financial position.

IFRIC 5, Rights to interests arising from Decommissioning Restoration and Environmental Rehabilitation Funds, IFRIC 6, Liabilities arising from participating in a Specific Market - Waste Electrical and Electronic Equipment, IFRIC 7, Applying the Restatement Approach under IAS 29 Financial reporting in Hyperinflationary Economies and IFRIC 8, Scope of IFRS 2, which should be adopted as from 2006 or later are not expected to have any significant effects on Volvo's financial position.

Consolidated financial statements

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 influence. Joint ventures are companies over which Volvo has joint control together with one or more external parties. Associated companies are companies in which Volvo has a significant influence, which is normally when Volvo's holding equals to at least 20% but less than 50% of the voting rights.

The consolidated financial statement have been prepared in accordance with the principles set forth in IAS 27, Consolidated and Separate Financial Statements. Accordingly, intra-Group transactions and gains on transactions with associated companies are eliminated.

All business combinations are accounted for in accordance with the purchase method. Volvo applies IFRS 3, Business Combinations for acquisitions after January 1, 2004, in accordance with the IFRS 1 transition rules. Volvo has decided not to restate prior acquisitions. Volvo values acquired identifiable assets, tangible and intangible, and liabilities at fair value. Surplus amounts compared with the purchase consideration are reported as goodwill. Any lesser amount, so-called negative goodwill, is reported in the income statement.

Companies that have been divested are included in the consolidated financial statements up to and including the date of divestment. Companies acquired during the year are consolidated as of the date of acquisition.

Joint ventures are reported by use of the proportionate method of consolidation.

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 are included in operating income due to that the investments are of operating nature.

For practical reasons, most of the associated companies are included in the consolidated accounts with a certain time lag, normally one quarter. Dividends from associated companies are not included in consolidated income. In the consolidated balance sheet,

Notes to consolidated financial statements

Exchange rates

Country	Currency	Average rate 2004	Average rate 2005	Year-end rate 2004	Year-end rate 2005
Brasil	BRL	2.5388	3.0947	2.5125	3.4215
Canada	CAD	5.6495	6.1864	5.4635	6.8435
Denmark	DKK	1.2285	1.2471	1.2126	1.2651
Euro	EUR	9.1408	9.2943	9.0163	9.4393
Great Britain	GBP	13.4515	13.5849	12.7163	13.7388
Japan	JPY	0.0680	0.0679	0.0638	0.0679
Norway	NOK	1.0926	1.1611	1.0890	1.1770
South Korea	KRW	0.0065	0.0073	0.0064	0.0079
United States	USD	7.3655	7.4791	6.6138	7.9538

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.

Translation to Swedish kronor of foreign companies

AB Volvo's functionell currency is Swedish kronor. All reporting in group companies for group purposes is made in the currency where the company has the majority of their revenues and expenses; normally the currency of the country where the company is located. AB Volvo's and The Volvo Group's reporting currency is Swedish kronor. In preparing the consolidated financial statements, all items in the income statements of foreign subsidiaries and joint ventures (except subsidiaries in highly inflationary economies) are translated to Swedish kronor at the average exchange rates during the year (average rate). All balance sheet items are translated at exchange rates at the respective year-ends (year-end rate). The differences in consolidated shareholders' equity arising as a result of variations between year-end exchange rates are charged or credited directly to shareholders' equity as a separate component.

The accumulated translation differance derived from a certain subsidiary, joint venture or associated company is reversed to income as a part of the income 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 are charged against earnings for the year. Currently, Volvo has no subsidiaries with a functional currency that could be considered a hyperinflationary currency.

Receivables and liabilities in foreign currency

In the individual Group companies as well as in the consolidated accounts, receivables and liabilities in foreign currency are valued at period-end exchange 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.

Currency swap contracts are reported at fair value, unrealized gains on exchange rates are reported as short term receivables and unrealized losses on exchange rates are reported as short term liabilities.

Exchange rate differences on loans and other financial instruments in foreign currency, which are used to hedge net assets in foreign subsidiaries and associated companies, are offset against translation differences in the shareholders' equity of the respective companies.

Exchange rate gains and losses on payments during the year and on the valuation of assets and liabilities in foreign currencies at year-end are credited to, or charged against, income in the year they arise. The more important exchange rates applied are shown above.

Net sales and revenue recognition

The Group's reported net sales pertain mainly to revenues from sales of goods and services. Net sales are reduced by the value of discounts granted and by returns.

Income from the sale of goods is recognized when significant risks and rewards of ownership have been transferred to external parties, normally when the goods are delivered to the customers. If, however, the sale of goods is combined with a buy-back agreement or a residual value guarantee, the sale is accounted for as an operating lease transaction if significant risks of the goods are retained in Volvo. Income from the sale of workshop services is recognized when the service is provided. Rental revenues and interest income in conjunction with financial leasing or installment contracts are recognized during the underlying contract period. Revenue for maintenance contracts are recognized according to how costs associated with the contracts are distributed during the contract period.

Interest income is recognized on a continuous basis and dividend income when it is received.

Leasing – Volvo as the lessor

Leasing contracts are defined in two categories, operational and financial, depending on the contract's financial implications. Operational leasing contracts are reported as non-current assets in Assets in operational leases. Income from operational 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 calculated realizable value when the undertaking expires. Assessed impairments are charged in the income statement. The product's assessed realizable value at expiration of the undertaking is reviewed continually on an individual basis.

Financial leasing agreements are reported as Non-current respective Short-term receivables in the customer financing operations. Income from financial leasing contracts is distributed between interest income and amortization of the receivable in the customer financing operations.

In accordance with IAS 14, Segment reporting, operational leasing contracts should be reclassified to financial in the segment reporting of Volvo Financial Services if the residual value in these contracts is guaranteed to Volvo Financial Services by another Volvo business area. In the Volvo Group's consolidated balance sheet, these leasing agreements are still reported as operating leases. Reclassification from operational to financial leasing contract also affects the income statement with regards to sales and depreciation. Volvo Financial Service's sales are reduced as a result of the reclassification as well as depreciation, which affect cash flow from operating activities.

However, the Volvo consolidated balance sheet and income statement still recognizes leasing contracts as operational and, accordingly, reports higher sales and depreciation.

Investments in other companies

Volvo accounts for all investments in companies, except if these investments are classified as associated companies in accordance with IAS 39, Financial Instruments: Recognition and Measurement. Companies listed on a financial exchange should be reported in the balance sheet to market value. Under IAS 39, unrealized gains and losses attributable to the change in market value of investments are reported in a separate component of shareholders' equity except when decline in value is other than temporary. If the value decline is considered other than temporary, the value should be written down through the income statement. IAS 39 is applied by Volvo as of January 1, 2005 and the difference in valuation compared with Swedish GAAP and the 2004 accounting principles is that all such investments have been carried at their cost of acquisition unless there has been a permanent decrease in value. The difference between the valuation at December 31, 2004 and January 1, 2005 is reported in shareholders' equity. Unlisted shares, for which a reliable fair value can not be determined, should be reported at a historical cost reduced in appropriate cases by write-downs.

Reporting of financial assets and liabilities

Volvo reports marketable securities in accordance with IAS 39 based on classification of these assets into a category valued at fair value through profit and loss. As of January 1, 2005, Volvo applies IAS 39, regarding the time that financial assets should be derecognized from the balance sheet. This occurs when substantially all risks and rewards have been transferred to an external party. Corresponding principles are applied regarding financial assets in Volvo's segment reporting. Under Swedish GAAP, for the 2004 comparison year, financial assets should be derecognized at settlement or if the ownership of the financial assets had been transferred to an external party.

Financial liabilities are reported at historical value reduced by amortization. Transaction cost in connection with raising financial liabilities are amortized over the financial loan's duration as a financial expense.

Receivables

Accounts receivables are initially recognized at fair value, normally equal with the nominal amount. In cases in which the payment terms exceed one year, the receivable is carried at its discounted present value. Provisions for doubtful receivables are made on a current basis after an assessment of whether the customer's ability to pay has changed.

Hedge accounting

In accordance with IAS 39, which is applied by Volvo as of January 1, 2005, certain financial instruments shall be reported at fair value in the balance sheet. In order to apply hedge accounting, the following criteria must be met: the position being hedged is identified and exposed to market value movements, for instance related to exchange-rate or interest-rate movements, the purpose of the loan/instrument is to serve as a hedge and the hedging effectively protects the underlying position against changes in the fair value. Financial instruments used for the purpose of hedging future currency flows are accounted for as hedges if the currency flows are considered highly probable to occur.

– For financial instruments used to hedge forecasted internal commercial cash flows and forecasted electricity consumption, the fair value is debited or credited to a separate component of equity to the extent the requirements for cash-flow hedge accounting are fulfilled. To the extent that the requirements are not met, the unrealized gain or loss will be charged to income statement. Gains and losses on hedges are reported at the same time that the gains and losses arise on the items hedged and are recognized in consolidated shareholders' equity.

– For financial instruments used to hedge interest and currency risks on loans, Volvo previously applied through and including 2004 hedge accounting in accordance with Swedish GAAP. The difference between the carrying value according to Swedish GAAP and the fair value according to IFRS as of January 1, 2005 will be charged against the income statement over the remaining time of the hedged instrument. Under the more complex rules in IAS 39, Volvo has chosen not to apply hedge accounting. The difference between carrying values reported under Swedish GAAP and fair values to be reported under IFRS pertains to unrealized interest-rate gains and losses attributable to the period between the reporting date and maturity dates of the derivatives. The unrealized gains and losses will be charged to the financial net in the income statement.

– Volvo applies hedge accounting for certain net investments in foreign operations. The current result for such hedges is reported in a separate component in shareholders' equity. In the event of a divestment, the accumulated result from the hedge is recognized in the income statement.

Research and development expenses

Volvo applies IAS 38, Intangible Assets, for reporting of research and development expenses. In accordance with this accounting recommendation, 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. The rules means that high demands are established in order for these development expenditures to be reported as assets. For example, it must be possible to prove the technical functionality of a new product or software prior to this 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.

Depreciation, amortization and impairments of tangible and intangible non-current assets

Volvo applies historical costs for valuation of intangible and tangible assets. Loan expenses during the acquisition period for a non-current asset are expenses. Depreciation is based on the historical cost of the assets, adjusted in appropriate cases by write-downs, and estimated useful lives.

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
Product and software development	3–8 years

In connection with its participation in aircraft engine projects with other companies, Volvo Aero in certain cases pays an entrance fee. These entrance fees are capitalized as an immaterial asset and amortized over 5 to 10 years.

Notes to consolidated financial statements

The estimated value of investment property is based on discounted cash flow projections. The valuation 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.

Goodwill is reported as intangible non-current assets with indefinite useful life. Annually, testing is carried out to determine any impairment 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.

Similarly, impairment testing is carried out at the closing date if there is any indication that a non-current asset has declined in value.

Leasing – Volvo as the lessee

Volvo evaluates leasing contracts in accordance with IAS 17, Leases. In those cases in which the financial risk and benefits that are related to ownership are in significant respects held by Volvo, Volvo reports the asset in the balance sheet at the lowest of the leased object's fair value or the present value of minimal leasing fees. The future leasing fees are reported as loans. The lease object is depreciated in accordance with Volvo's principle for the respective non-current asset. The leasing fees are distributed between amortization and interest expenses.

Non-current assets held for sale and discontinued operations

Volvo applies IFRS 5, Non-current Assets Held for Sale and Discontinued Operations as of 2005. 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 other than 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 valued at fair value after deduction for selling expenses if impaired.

Inventories

Inventories are stated at the lower of cost, in accordance with the first-in, first-out method (FIFO), or net realizable value. The historical 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 is tested regularly an adjustment is 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 the new share-based incentive program adopted at the Annual General Meetings in 2004 and 2005. IFRS 2 distinguishes "cash-settled" and "equity-settled", in Volvo case, shares, components of share-based payments. The Volvo program include both a cash-settled and an equity-settled part. The value of the equity-settled payments is determined at the grant-date, recognized as an expense during the vesting period and credited to equity. The fair value is calculated according to share price reduced by dividend connected to the share before the allotment. The additional social costs are reported as a liability, revalued at each balance sheet date in accordance with URA 46, issued by the Swedish Financial Accounting Standards Council's Emergency Issue Task Force. 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 of payment will be fulfilled is made continuously. If the assessment changes, the expense will be adjusted. The equity-settled part was earlier accounted for at fair value and provided for as an accrued expense over the vesting period with a "true-up"each reporting date.

Pensions and similar obligations (Postemployment 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 un-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 are treated as actuarial gains or losses which are amortized over the employees' average remaining service period to the extent these exceed the corridor value for each plan. Deviations between expected return on plan assets and actual return are 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.

In accordance with the IFRS transition rules, the carrying amount of the liability is determined at January 1, 2004 in accordance with IAS 19 and the actuarial gains and losses set at zero. As a supplement to IAS 19, Volvo applies URA 43 in accordance with the recommendation from the Swedish Financial Accounting Standards Council in calculating the Swedish pension liabilities.

For defined contribution plans premiums are expensed as incurred.

Provisions for residual value risks

Residual value risks are attributable to operational leasing contracts and 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 of current prices, expected future price development, expected inventory turnover period and expected variable and fixed selling expenses. If the residual value risks are pertaining to products that are reported as tangible assets in Volvo's balance sheet, these risks are reflected by depreciation or write-down of the carrying value of these assets. If the residual value risks are pertaining to products, which are not reported as assets in Volvo's balance sheet, these risks are reflected under the line item short-term provisions.

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.

Deferred taxes, allocations and untaxed reserves

Tax legislation in Sweden and other countries sometimes contains rules other than those identified with generally accepted accounting principles, and which pertain to the timing of taxation and measurement of certain commercial transactions. Deferred taxes are provided for 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 regards 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 (restricted reserves). 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. The reported operating cash flow for 2005 was affected by the adoption of IAS 39. The adjusted opening value at January 1, 2005 was used in calculating cash flow.

Cash and cash equivalents include cash, bank balances and parts of Marketable Securities. Marketable Securities comprise interest-bearing securities, the majority of which with terms exceeding three years. However, these securities have high liquidity and can easily be converted to cash. In accordance with IAS 7, certain investment in marketable securities are excluded from the definition of cash and cash equivalents in the cash-flow statement if the date of maturity of such instruments is later than three months after the investment was made.

Earnings per share

Earnings per share is calculated as the period's net income attributed to the shareholders of the parent company, divided with the average number of outstanding shares per reporting period. To calculate the result after dilution per share, the average number of shares is adjusted with the value of the share based incentive program and employee stock option program recalculated to number of shares.

Note 2 Key sources of estimation uncertainty

Key sources of estimation uncertainty

Volvo's significant accounting principles are set out in note 1, Accounting Principles and conform to IFRS as adopted 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, as a result, 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 our valuations. Intangible and tangible non-current assets amounted to 55,840 whereof 11,072 represents goodwill. For Goodwill and certain other intangible assets with indefinite life-time an annual impairment review is performed at the year-end closing. Such an impairment review will require management to determine the fair value of Volvo's cash generating units, reporting units for US GAAP purposes, on the basis of projected cash flows and internal business plans and forecasts. Volvo has since 2002 performed a simliar impairment review in accordance with US GAAP. No impairment charges were required for the period 2002–2005.

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. The products, primarily trucks, for which Volvo has a residual value commitment, 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

Notes to consolidated financial statements

of the commitment. Estimated impairment losses are immediately charged to income. The estimated net realizable value of the products at the end of the residual value commitments is monitored individually on a continuing basis. In monitoring estimated net realizable value of each product under a residual value commitment, management makes consideration of current price-level of the used product model, value of options, mileage, condition, future price deterioration due to expected change of market conditions, alternative distribution channels, inventory lead-time, repair and reconditioning costs, handling costs and overhead costs in the used product divisions. Provisions for residual value risk amount to 931.

Revenue recognition

Revenue from the sale of goods is recognized when significant risks and rewards of ownership have been transferred to external parties, normally when the goods are delivered to the customers. If, however, the sale of goods is combined with a buy-back agreement or a residual value guarantee, the sale is accounted for as an operating lease transaction under the condition that significant risks of the goods are retained by Volvo. In certain cases Volvo enters into a buy-back agreement or residual value guarantee after Volvo sold the product to an independent party or in combination with an undertaking from the customer that in the event of a buy-back to purchase a new Volvo product. In such cases, there may be a question of judgement regarding whether or not significant risks and rewards of ownership have been transferred to the customer. If it is determined that such an assessment was incorrect, Volvo's reported revenue and income for the period will decline and instead be distributed over several reporting periods.

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 against deferred tax assets where management does not expect such assets to be realized based upon current forecasts. In the event that actual results differ from these estimates or management adjusts these estimates in future periods, changes in the valuation allowance may need to be done that could materially impact our financial position and the income for the period. At December 31, 2005, a valuation allowance of 2.972 was established for the value of deferred tax assets. Net of this valuation allowance, deferred tax assets net of 10.216 were recognized in the Group's balance sheet.

Inventory obsolescence

Inventories are reported at the lower of historical cost, in accordance with the first-in, first-out method (FIFO), and net realizable value. The estimated net realizable value includes management consideration of out-dated articles, over-stocking, physical damages, inventory-lead-time, handling and other selling costs. If the estimated net realizable value is lower than historical cost, a valuation allowance is established for inventory obsolescence. The total inventory value, net from inventory obsolescence allowance, is per December 31, 2005, 33.937.

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 collateral. At December 31, 2005, the total credit loss reserves in Volvo Financial Services amounted to 2.17% of the total credit portfolio, SEK 79 billions.

Pensions and other post-employment benefits

Provisions and costs for post-employment benefits, i.e. 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 each population in the respective countries of Volvo's operations. The assumptions include discount rates, health care cost trends rates, inflation, salary growth, long-term return on plan assets, retirement rates, mortality rates and other factors. Discount rate assumptions are based on long-term high quality corporate bond and government bond yields available at year-end. Health care cost trend assumptions are developed based on historical cost data, the near-term outlook, and an assessment of likely long-term trends. Inflation assumptions are based on an evaluation of external market indicators. The salary growth assumptions reflect the long-term actual experience, the near-term outlook and assumed inflation. Retirement and mortality rates are based primarily on officially available mortality statistics. We review our actuarial assumptions on an annual basis and make modifications 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 and, therefore, generally affect the recognized expense and recorded provisions in such future periods. See Note 24 for more information regarding costs and assumptions for post-employment benefits. At December 31, 2005 net provisions for post-employment benefits amounted to 11.462.

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 virtually certain. At December 31, 2005 warranty cost provisions amounted to 8.163.

Legal proceedings

Volvo only recognizes liabilities in the accounts where Volvo has a present obligation from a past event, a transfer of economic benefits is probable and Volvo can make a reliable estimate of what the transfer might be. In instances such as these, a provision is calculated and recognized in the balance sheet. In instances where these criteria are not met, a contingent liability may be disclosed in the notes to the accounts. A contingent liability will be disclosed when a possible obligation has arisen but its existence will only be confirmed by future events not wholly within Volvo's control or in circumstances where an obligating event has occurred but it is not possible to quantify the size or likelihood of that obligation crystallizing. Realization of any contingent liabilities not currently recognized or disclosed in the financial statements could have a material effect on Volvo's financial condition. Volvo regularly reviews significant outstanding legal cases following developments in the legal proceedings in order to assess the need for provisions in our financial statements. Among the factors that Volvo considers in making decisions on provisions are the nature of the litigation, claim or assessment, the legal processes and potential level of damages in the jurisdiction in which the litigation, claim or assessment has been brought, the progress of the case (including progress after the date of the financial statements but before those statements are issued), the opinions or views of legal counsel and other advisers, experience in similar cases, and any decision of Volvo's management as to how Volvo intends to respond to the litigation, claim or assessment. To the extent the determinations at any time do not reflect subsequent developments or the eventual outcome of any claim, our future financial statements may be materially affected, with an adverse impact upon our results of operation, financial position and liquidity.

Note 3 Impact of IFRS

Reporting in accordance with IFRS as from 2005

The Volvo Group's financial reporting is up to 2004 prepared in accordance with generally accepted accounting principles in Sweden ("Swedish GAAP"). Effective from 2005, all listed companies within the European Union ("the EU") are required to prepare their consolidated financial reporting in accordance with International Financial Reporting Standards ("IFRS"), as adopted by the EU. The purpose of the presentations on the following pages is to describe and explain the expected impact on Volvo's financial reporting as a consequence of transition to IFRS. Volvo Group's previous accounting principles are described in Note 1 of the 2004 Annual Report. The presentation below focuses on the areas in which the transition to IFRS resulted in a change in accounting principles for Volvo.

Restatements and transition effects

In accordance with the IFRS transition rules (IFRS 1), Volvo applies IFRS as of January 1, 2005, with retroactive application from the IFRS transition date at January 1, 2004. The general rule is that restatement of financial reporting for periods after the transition date should be made as if IFRS has been applied historically. There are certain exceptions from the general rule of which the most significant for Volvo are:

- IAS 39 Financial instruments: Recognition and measurement which can be applied from January 1, 2005.
- Non-amortization of intangible assets with indefinite useful lives (e.g. goodwill) in accordance with IFRS should be applied retroactively only from the transition date January 1, 2004.
- IFRS 3 Business Combinations which can be applied from January 1, 2004, without restatements of previous acquisitions.
- IFRS 2 Share-based payments are applied for share-based payments granted after November 7, 2002.

The enclosed income statements and other specifications prepared in accordance with IFRS therefore include restatements and transition effects as follows:

Capitalization and amortization of development costs

Effective on January 1, 2001, Volvo adopted the accounting standard RR 15 "Intangible Assets" under Swedish GAAP. According to this accounting standard, expenditures relating to development of new and existing products and software should be capitalized and amortized over their estimated useful life. According to the transition rules for RR 15, no retroactive application was permitted. According to the transition rules for IFRS, the accounting standard IAS 38, Intangible Assets, which is mainly similar to RR 15 regarding the accounting for development costs, should be applied retroactively for development costs incurred prior to 2001. The restatements and transition effects attributable to this accounting change therefore pertains to retroactive capitalization and amortization of development costs incurred prior to 2001.

Minority interests

In accordance with IFRS, minority interests are presented as a separate component of Shareholders' equity and is included in the income for the period in the income statement.

Non-amortization of intangible assets with indefinite useful lives

According to Swedish GAAP, all intangible assets have been amortized over their estimated useful lives. In accordance with IFRS, intangible assets considered to have indefinite useful lives should not be amortized. Such assets should rather be subject to an annual impairment test. Volvo has determined that intangible assets with indefinite useful lives include only goodwill. Volvo has chosen not to apply IFRS 3, retroactively in accodance with the IFRS transition rules. The restatements and transition effects attributable to this accounting change therefore pertain to reversal of goodwill amortization charged to the income statement under Swedish GAAP for 2004 and a corresponding increase of the carrying value of goodwill at December 31, 2004, adjusted for currency translation differences.

Employee benefits

Effective on January 1, 2003, Volvo adopted RR 29 "Employee benefits" under Swedish GAAP. RR 29 is similar to the IFRS accounting standard IAS 19. The only difference between Swedish GAAP and IFRS relates to the date of transition. In accordance with the transition rules of RR 29, actuarial gains and losses arising prior to January 1, 2003, were set to zero and charged to equity as of the transition date. In accordance with the IFRS transition rules, actuarial gains and losses arising prior to January 1, 2004, could be set to zero and charged to equity as of the transition date. The transition effects attributable to the accounting change therefore pertain to recognizing actuarial gains and losses that have arisen between January 1, 2003 and January 1, 2004. Volvo has applied URA 43 according to the statement from the Swedish Financial Accounting Standards Council in calculating the Swedish pension liabilities, in addition to IAS 19.

Investments in other companies

Volvo accounts for all investments in companies, except if these investments are classified as associated companies in accordance with IAS 39, Financial Instruments: Recognition and Measurement. Companies listed on a financial exchange should be reported in the balance sheet to market value. Under Swedish GAAP such investments have been carried at their cost of acquisition unless there has been a permanent decrease in value. Under IAS 39, unrealized gains and losses attributable to the fair value of investments are reported in a separate component of shareholders' equity except when a decline in value is other than temporary. The transition effect on January 1, 2005, attributable to this accounting change is mainly related to Volvo's investment in Deutz AG.

Notes to consolidated financial statements

Fair value of derivative instruments

In accordance with IAS 39, which is applied by Volvo as of January 1, 2005, all derivative financial instruments should be reported in the balance sheet at fair value. The difference between IAS 39 and accounting principles applied for derivative financial instruments under Swedish GAAP is dependent on the use of the derivative instruments:

– Derivative financial instruments used for hedging of forecasted commercial cash-flows and forecasted electricity consumption:

Under Swedish GAAP Volvo has applied hedge accounting for the main part of these derivatives and these instruments have consequently not been reported in the balance sheet ("Off-balance sheet instruments"). Gains and losses on these contracts have been charged to the income statement at the time of maturity of the specific contracts. Under IFRS, the fair value of outstanding derivative instruments is debited or credited to a separate component of equity to the extent the requirements for cash-flow hedge accounting are fulfilled. To the extent that the requirements are not met, the unrealized gain or loss is charged to the income statement.

– Derivative financial instruments used for hedging of interest-rate risks and currency-rate risks on loans:

Under Swedish GAAP Volvo has applied hedge accounting for these derivatives and the carrying value of such derivatives has therefore corresponded to currency-rate and interest-rate gains and losses accruable up to the reporting date. Under the more complex rules in IAS 39 Volvo has chosen not to apply hedge accounting for interest rate contracts. The difference between carrying values reported under Swedish GAAP and fair values to be reported under IFRS pertains to unrealized interest rate gains and losses attributable to the period between the reporting date and maturity dates of the derivatives. The difference should be charged to income over the hedged instrument's remaining time to maturity. The unrealized gains and losses will be charged to the financial net in the income statement.

Derecognition of financial assets

In accordance with IAS 39, which ís applied by Volvo as of January 1, 2005, financial assets should be derecognized from the balance sheet when substantially all risks and rewards have been transferred to an external party. Under Swedish GAAP, financial assets should be derecognized at settlement or if the ownership of the financial assets has been transferred to an external party. The transition effect on January 1, 2005, attributable to this accounting change is mainly related to certain dealer financing arrangements for which Volvo has retained components of credit risk. Such credit risk commitments have under Swedish GAAP been reported as contingent liabilities. This has mainly affected the segment reporting and to a less extent Volvo's consolidated balance sheet.

Consolidation of temporary investments

Under Swedish GAAP, temporary investments in subsidiaries should not be consolidated. Under IFRS, all subsidiaries should be consolidated. Restatements and transition effects relating to this accounting change pertains mainly to Volvo's investment in the LB Smith distribution business. This operation was acquired in May 2003 and at December 31, 2004 the major part of this operation had been divested. The 2004 income statement is restated with the parts of LB Smith that have been divested during the year. The remaining part, still owned by Volvo, has been consolidated in full according to Swedish GAAP in the fourth quarter of 2004.

IFRS 2 Share-based Payments

Volvo has decided that the "new share-based incentive program" adopted at the 2004 Annual General Meeting is covered by IFRS 2 Share-based payments. The impact, however, was limited. The IFRS 2 distinguishes between "cash-settled" and "equity-settled" components of share-based payments, in Volvo cases, shares. The Volvo program include both a cash-settled and an equity-settled part. The equity-settled part was earlier accounted for at fair value and provided for as an accrued expense over the vesting period with a "true up" each reporting date. According to IFRS 2 the fair value is determined at the grant-date, recognized as an expense during the vesting period and credited to equity. Additional social costs are reported as a liability and is revalued at each balance sheet day in accordance with URA 46.

IFRS 5 Non-Current Asset Held for Sale and Discontinued Operations

IFRS 5 is applied prospectively from January 1, 2005, according to IFRS 1. Volvo had not identified any non-current assets that could be classified held for sales and which would have had material impact on the balance sheet as of December 31, 2004 and no effect has been identified in the 2004 income statement. Discontinued operations pertain to significant operations, such as operating segments, comprising one or more cash-generating units. The rules for discontinued operations have not been applicable for Volvo during 2004 and 2005.

Other transition rules according to IFRS 1 and IFRS standards

In applying IFRS, Volvo had the possibility to chose to measure property, plant and equipment at fair value. Volvo has chosen not to use this possibility but continue the present valuation of property, plant and equipment at historical cost less accumulated depreciation. The same treatment is also used for investment properties. IFRS 1 provides an option how to treat the effects of Changes in Foreign Exchange Rates, according to IAS 21. A first time adopter of IFRS could set the cumulative translation difference to zero for foreign operations. Volvo has chosen this possibility and set the translation difference to zero at January 1, 2004. Assumptions made under previous GAAP shall not be changed under the transition to IFRS unless there is objective evidence that those were in error. Volvo has made no changes in assumptions in the preparation of comparative information prepared in accordance with IFRS. According to SIC 12, Special Purpose Entities should be consolidated as from January 1, 2004. Volvo has not identified any such Special Purpose Entities.

Definition of cash and cash equivalents in presentation of cash-flow statements

Under Swedish GAAP, all investments in marketable debt securities have been included in the definition of cash and cash equivalents for the purpose of the cash-flow statement. In accordance with Volvo's financial risk policy, all such securities should fulfill requirements regarding low risk and high liquidity. Under IFRS, investments in marketable securities are excluded from the definition of cash and cash equivalents for the purpose of the cash-flow statement if these instruments have maturity dates beyond three months from the date of investment. In the 2004 closing no marketable securities were defined as cash equivalents according to IFRS. Classification of cash and cash equivalents in the cash-flow statement does not affect Volvo's net financial position.

In the transition to IFRS the following reclassification is done in the cash flow statement. Customer finance receivables, net, are reported within Cash flow from operating activities, instead of as previously being reported as Cash flow from investing activities. Cash flow related to customer financing operations arises mainly within Volvo Financial Services (VFS). Changes in customer financing are currently reported in Volvo's cash-flow statement with VFS consolidated in accordance with the equity method as changes in working capital, since Volvo's operations excluding VFS do not have any significant customer financing operations. Changes in customer financing operations are reported on a separate line in Volvo's cash-flow statement including VFS. Volvo's reported Operating Cash flow is not affected by the reclassification.

Classification of leasing contracts in segment reporting of Volvo Financial Services

In accordance with IFRS, operating lease contracts with end-customers are in segment reporting for Volvo Financial Services reported as financial leasing contracts if the residual value in these contracts is guaranteed to Volvo Financial Services by another Volvo business area. In the Volvo Group's consolidated balance sheet, these leasing agreements are still reported as assets under operating lease. In comparison with the 2004 closing approximately SEK 12 billion is reclassified to financial leases from operating leases in the Volvo Financial Services segment reporting.

Cash-flow statement	According to previous presentation		Presentation according to IFRS	
SEK billion	2004	2005	2004	2005
Operating activities				
Operating income	14,7	18,2	14,7	18,2
Depreciation and amortization	10,0	9,9	10,0	9,9
Other non-cash items	(0,1)	0,4	(0,1)	0,4
Change in working capital	(1,4)	(4,7)	(1,4)	(4,7)
Customer Finance receivables, net			(7,4)	(7,8)
Financial items and income taxes	(0,5)	(2,0)	(0,5)	(2,0)
Cash flow from operating activities	**22,7**	**21,8**	**15,3**	**14,0**
Investing activities				
Investments in fixed assets	(7,4)	(10,3)	(7,4)	(10,3)
Investment in leasing vehicles	(4,4)	(4,5)	(4,4)	(4,5)
Disposal of fixed assets and leasing vehicles	2,4	2,6	2,4	2,6
Customer Finance receivables, net	(7,4)	(7,8)		
Operating cash flow	**5,9**	**1,8**	**5,9**	**1,8**

Notes to consolidated financial statements

Financial position December 31, 2004

Updated, taking into account, all differences between Swedish GAAP and IFRS except IAS 39 Financial instruments: Recognition and measurement and IFRS 5, Non-Current Assets Held for Sale and Discontinued Operations. The first column is the closing balance per December 31, 2004 according to Swedish GAAP. The impact of IFRS is shown as IFRS adjustment and the third column shows the adjusted closing balance December 31, 2004, according to IFRS. This balance has been opening balance for the 2005 reporting.

Consolidated balance sheets December 31, 2004	Volvo Group excl Financial Services[1]			Financial Services			Volvo Group total		
SEK M	Dec 31 2004	IFRS adjustments	Dec 31 2004	Dec 31 2004	IFRS adjustments	Dec 31 2004	Dec 31 2004	IFRS adjustments	Dec 31 2004
Assets									
Intangible assets	16,564	1,006	17,570	42		42	16,606	1,006	17,612
Property, plant and equipment	27,260		27,260	3,891		3,891	31,151		31,151
Assets under operating leases	8,477		8,477	12,817	(12,044)	773	19,534		19,534
Shares and participations	10,116		10,116	193		193	2,003		2,003
Long-term customer finance receivables	147		147	25,200	8,687	33,887	25,187		25,187
Long-term interest-bearing receivables	1,797		1,797	5		5	1,741		1,741
Other long-term receivables	6,426	66	6,492	212		212	6,034	66	6,100
Inventories	28,291		28,291	307		307	28,598		28,598
Short-term customer finance receivables	83		83	26,207	3,324	29,531	26,006		26,006
Short-term interest bearing receivables	10,330		10,330	0		0	1,643		1,643
Other short-term receivables	30,043		30,043	1,628		1,628	29,647		29,647
Marketable securities	25,839		25,839	116		116	25,955		25,955
Cash and cash equivalent	8,789		8,789	914		914	8,791		8,791
Total assets	**174,162**	**1,072**	**175,234**	**71,532**	**(33)**	**71,499**	**222,896**	**1,072**	**223,968**
Shareholders' equity and liabilities									
Shareholders' equity	69,409	746	70,155	8,306		8,306	69,409	746	70,155
Minority interests	229	(229)	–	0		–	229	(229)	
Provisions for post-employment benefits	14,129	548	14,677	26		26	14,155	548	14,703
Other provisions	14,020	95	14,115	878	(33)	845	14,898	95	14,993
Loans	13,968		13,968	57,860		57,860	61,807		61,807
Other liabilities	62,407	(88)	62,319	4,462		4,462	62,398	(88)	62,310
Shareholders' equity and liabilities	**174,162**	**1,072**	**175,234**	**71,532**	**(33)**	**71,499**	**222,896**	**1,072**	**223,968**

1 Financial Services reported in accordance with the equity method.

Financial position January 1, 2005

Updated taking into account all differences between Swedish GAAP and IFRS including IAS 39 and IFRS 5. Impact of adopting IAS 39 is charged to Equity according to IFRS 1 as of January 1, 2005. The IFRS balance including IAS 39 effects has been used as opening balance for cash flow calculation during 2005.

Consolidated balance sheets January 1, 2005	**Volvo Group excl Financial Services** [1]			**Financial Services**			**Volvo Group total**		
SEK M	Dec 31 2004	IAS 39 adjustments	Jan 1 2005	Dec 31 2004	IAS 39 adjustments	Jan 1 2005	Dec 31 2004	IAS 39 adjustments	Jan 1 2005
Assets									
Intangible assets	17,570		17,570	42		42	17,612		17,612
Property, plant and equipment	27,260		27,260	3,891		3,891	31,151		31,151
Assets under operating leases	8,477		8,477	773		773	19,534		19,534
Shares and participations	10,116	(494)	9,622	193		193	2,003	(494)	1,509
Long-term customer finance receivables	147	424	571	33,887	611	34,498	25,187	1,035	26,222
Long-term interest-bearing receivables	1,797		1,797	5		5	1,741		1,741
Other long-term receivables	6,492	985	7,477	212		212	6,100	988	7,088
Inventories	28,291		28,291	307		307	28,598		28,598
Short-term customer finance receivables	83	430	513	29,531	298	29,829	26,006	727	26,733
Short-term interest bearing receivables	10,330		10,330	0		0	1,643		1,643
Other short-term receivables	30,043	4,040	34,083	1,628		1,628	29,647	1,690	31,337
Marketable securities	25,839		25,839	116		116	25,955		25,955
Cash and cash equivalent	8,789		8,789	914		914	8,791		8,791
Total assets	**175,234**	**5,385**	**180,619**	**71,499**	**909**	**72,408**	**223,968**	**3,946**	**227,914**
Shareholders' equity and liabilities									
Shareholders' equity	70,155	348	70,503	8,306		8,306	70,155	348	70,503
Minority interests	–		–	–		–	–		–
Provisions for post-employment benefits	14,677		14,677	26		26	14,703		14,703
Other provisions	14,115	439	14,554	845	(6)	839	14,993	432	15,425
Loans	13,968	3,340	17,308	57,860	915	58,775	61,807	1,908	63,715
Other liabilities	62,319	1,258	63,577	4,462		4,462	62,310	1,258	63,568
Shareholders' equity and liabilities	**175,234**	**5,385**	**180,619**	**71,499**	**909**	**72,408**	**223,968**	**3,946**	**227,914**

1 Financial Services reported in accordance with the equity method.

Notes to consolidated financial statements

Consolidated income statements IFRS comparison 2004
VFS reported according to the equity method

SEK M unless otherwise specified	IFRS	Sw GAAP
Net sales	**202,171**	**201,496**
Cost of sales	(158,453)	(158,231)
Gross income	**43,718**	**43,265**
Research and development expenses	(7,614)	(7,233)
Selling expenses	(18,317)	(18,048)
Administrative expenses	(5,310)	(5,321)
Other operating income and expenses	7	(658)
Income from Financial Services	1,365	1,365
Income from investments in associated companies	2	2
Income from other investments	828	828
Operating income	**14,679**	**14,200**
Interest income and similar credits	993	993
Interest expenses and similar charges	(1,426)	(1,404)
Other financial income and expenses	(1,210)	(1,210)
Income after financial items	**13,036**	**12,579**
Minority interest	–	(40)
Income taxes	(3,129)	(3,184)
Income for the period	**9,907**	**9,355**
* Attributable to:		
Equity holders of the parent company	9,867	–
Minority interest	40	–
	9,907	**-**
Depreciation and amortization included above		
Depreciation		
Industrial and Commercial	(5,540)	(5,540)
Financial Services	(3,066)	(3,066)
Total Depreciation	**(8,606)**	**(8,606)**
Amortization		
Industrial and Commercial	(1,333)	(1,635)
Financial Services	(63)	(63)
Total Amortization	**(1,396)**	**(1,698)**
Basic earnings per share, SEK	23.58	22.35
Diluted earnings per share, SEK	23.55	22.33
Average number of shares, million	418.5	418.5

Key operating ratios

% of sales	IFRS	Sw GAAP
Gross margin	21.6	21.5
Research and development expenses	3.8	3.6
Selling expenses	9.1	9.0
Administrative expenses	2.6	2.6
Operating margin	7.3	7.0

Net sales

SEK M	IFRS	Sw GAAP
Trucks	136,879	136,879
Buses	12,722	12,722
Construction Equipment[1]	29,360	28,685
Volvo Penta	9,057	9,057
Volvo Aero	6,925	6,925
Other	7,228	7,228
Net sales	**202,171**	**201,496**

1 Consolidation of temporary investments, LB Smith, January–November.

Operating income

SEK M	IFRS	Sw GAAP
Trucks	8,992	8,989
Buses	253	185
Construction Equipment	1,898	1,572
Volvo Penta	940	937
Volvo Aero	403	377
Volvo Financial Services	1,365	1,365
Other units	8	(45)
Operating income[1]	**13,859**	**13,380**
Revaluation of shares	820	820
Operating income (loss)	**14,679**	**14,200**

1 Excluding revaluation of shares in Scania AB and Henlys Group Plc.

Operating margins

%	IFRS	Sw GAAP
Trucks	6.6	6.6
Buses	2.0	1.5
Construction Equipment	6.5	5.5
Volvo Penta	10.4	10.3
Volvo Aero	5.8	5.4
Operating margin[1]	**6.9**	**6.6**
Operating margin	**7.3**	**7.0**

1 Excluding revaluation of shares in Scania AB and Henlys Group Plc.

Significant differences between Swedish GAAP and IFRS

The most significant differences between Swedish GAAP and IFRS for Volvo are further explained below in the Equity- and net income reconciliation:

Summarized reconciliation of shareholders' equity SEK M	040101	041231	050101
Equity under Swedish GAAP	**72,420**	**69,409**	**69,409**
IFRS adjustments:			
Capitalization and amortization of intangible assets	722	340	340
Minority interest	217	229	229
Non-amortization of goodwill	0	665	665
Post employee benefits	(580)	(473)	(473)
Investments in listed companies			(494)
Fair value gains and losses on derivatives for hedge of:			
– Commercial cash flow			1,195
– Electricity contracts			(25)
Consolidation of temporary investments	(152)	–	–
Share based payments	0	14	14
Deferred taxes on IFRS adjustments	(96)	(29)	(358)
Total adjustments to IFRS	**112**	**746**	**1,094**
Equity under IFRS	**72,532**	**70,155**	**70,503**

Summarized reconciliation of net income SEK M	2004
Net income under Swedish GAAP	**9,355**
IFRS adjustments:	
Capitalization and amortization of intangible assets	(382)
Minority interest	40
Non-amortization of goodwill	684
Post-employment benefits	13
Consolidation of temporary investments	142
Deferred taxes on IFRS adjustments	55
Total adjustments to IFRS	**552**
Income for the period under IFRS	**9,907**

Summarized reconciliation of net financial position SEK bn	
Volvo Group excl VFS	
Net financial position at December 31, 2004 under Swedish GAAP	**18.7**
IFRS adjustments:	
Post-employment benefits	(0.5)
Derecognition of financial assets	(3.4)
Total adjustments to IFRS	**(3.9)**
Net financial position at January 1, 2005 under IFRS	**14.8**

Notes to consolidated financial statements

Note 4 Acquisition and divestments of shares in subsidiaries

AB Volvo's holding of shares in subsidiaries as of December 31, 2004 is shown in the table **AB Volvo's holding of shares** (pages 141–143). Significant acquisitions, formations and divestments within the Group are listed below.

Celero Support AB

In November 2005 Volvo sold Celero Support AB to Coor Service Management for 680 before deduction for the company's net debt. The sale resulted in a gain of about 430. Celero Support AB is a service company with operations that include various office and workplace sevices as well as maintenance of industrial plants and properties. Celero Support has 1,100 employees, with sales totaling about SEK 1.4 billion.

Properties

In February 2005, Volvo Financial Services, via the Volvo Group's real estate company, Danafjord AB, entered an agreement on the sale of two wholly owned companies, which own properties in Torslanda and Kalmar valued at about 515. The sale yielded a capital gain of 188.

L.B. Smith (SABA Holding Inc.)

On May 2, 2003 Volvo Construction Equipment purchased the assets amounting to USD 189 M associated with the Volvo distribution business of L.B. Smith Inc. in the US. No goodwill or real estate was included in the deal. The major part of the dealerships was divested during 2004.

Renault V.I. and Mack

During the fourth quarter 2004 AB Volvo and Renault signed a settlement agreement regarding the disagreement the companies have had since 2001 pertaining to Volvo's acquisition of Renault V.I./Mack and the value of certain of the acquired assets and certain warranty claims. The settlement, EUR 108 M has reduced the goodwill amount pertaining to the acquisition of Renault V.I.

Prévost Car Inc.

During the third quarter 2004 the North American bus manufacturer Prévost Car Inc. became a wholly owned subsidiary of Volvo Bus Corporation. As part of the restructuring of the bus manufacturer Henlys Group Plc, Volvo Group reached an agreement to acquire the remaining 50% of the shares. Prévost Car Inc. was a former 50/50 joint venture between Volvo and Henlys, reported in the Volvo Group accounts in accordance with the proportionate consolidation method. The purchase price was USD 83 M including two loans made available to Prévost Car Inc. by Henlys. Prévost Car Inc. contain the Prévost and Nova brands. Prévost manufactures coaches and bus shells for luxury mobile homes. Nova Bus manufactures city buses mainly for the Canadian market.

Axle manufacturing

During the third quarter 2004 Volvo and ArvinMeritor signed a Strategic Alliance Agreement for the supply of axels. As a consequence of the strategic alliance ArvinMeritor acquired the Volvo's axle plant and foundry in Lyon, France.

The effects during 2005 and 2004 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:

	2004	2005
Intangible assets	(599)	20
Property, plant and equipment	300	124
Assets under operating lease	115	0
Shares and participations	(260)	(80)
Inventories	630	129
Current receivables	958	257
Cash and cash equivalents	180	42
Other assets	62	3
Minority interests	(20)	(45)
Provisions	(63)	(4)
Loans	(347)	(115)
Liabilities	(448)	(203)
Acquired net assets	**508**	**128**
Cash and cash equivalents paid	(508)	(60)
Cash and cash equivalents according to acquisition analysis	180	42
Effect on Group cash and cash equivalents	**(328)**	**(18)**

The effects during 2005 and 2004 includes wholly owned subsidiaries that previously were accounted for according to the equity method.

The effects during 2005 and 2004 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:

	2004	2005
Property, plant and equipment	(440)	(519)
Inventories	(4)	(41)
Other receivables	181	(334)
Cash and cash equivalents	–	(114)
Provisions	94	(12)
Other liabilities	50	888
Divested net assets	**(119)**	**(132)**
Cash and cash equivalents received	187	782
Cash and cash equivalents, divested companies	–	(114)
Effect on Group cash and cash equivalents	**187**	**668**

Note 5 Joint ventures

Joint ventures are companies over which Volvo has joint control together with one or more external parties. Joint ventures are reported by applying the proportionate consolidation method, in accordance with IAS 31 Joint ventures. Group holdings of shares in joint ventures are listed below.

	Dec 31, 2005	
Shares in Joint ventures	Holding percentage	Holding no of shares
Shanghai Sunwin Bus Corp., China	50	–
Xian Silver Bus Corp., China	50	–

Volvo's share of joint ventures' income statements	2004	2005
Net sales	492	345
Operating income	(27)	(62)
Income after financial items	(32)	(71)
Income of the period	**(34)**	**(71)**

Volvo's share of joint ventures' balance sheets	2004	2005
Non-current assets	100	117
Current assets	394	386
Total assets	**494**	**503**
Shareholders' equity	228	207
Provisions	6	1
Long-term liabilities	0	0
Current liabilities	260	295
Total shareholders' equity and liabilities	**494**	**503**

At the end of 2005 no guarantees were issued for the benefit of joint ventures, neither by Volvo alone or jointly with other venturers. At the same date Volvo's share of contingent liabilities issued by its joint ventures amounted to 0 (6).

	2004		2005	
Average number of employees	Number of employees	of which women, %	Number of employees	of which women, %
Shanghai Sunwin Bus Corp.	604	21	567	17
Xian Silver Bus Corp.	252	12	243	14
Total number of employees	**856**	**18**	**810**	**16**

Note 6 Associated companies

The following table presents summarized financial information for the associated companies partly owned by Volvo. Volvo consolidate the associated companies according to the equity method. For more information about Volvo's shareholding, see notes 9 and 15.

Income statement data	2004	2005
Net sales	5,620	5,779
Cost of operations	(5,449)	(5,588)
Financial income and expense	(9)	(10)
Income before taxes	**162**	**181**
Income taxes	(7)	(11)
Income of the period	**155**	**170**

Balance sheet data	Dec 31 2004	Dec 31 2005
Property, plant and equipment, net	2,058	740
Other non-current assets	75	10
Current assets	9,408	8,979
Total Assets	**11,541**	**9,729**
Shareholders' equity	922	608
Provisions	56	38
Long-term liabilities	1,073	160
Current liabilities	9,490	8,923
Total Shareholders' equity and liabilities	**11,541**	**9,729**

Notes to consolidated financial statements

Note 7 Segment reporting

Reporting by business segment

The Volvo Group's operations are organized in eight business areas: Volvo Trucks, Renault Trucks, Mack Trucks, Buses, Construction Equipment, Volvo Penta, Volvo Aero and Financial Services. In addition to the eight business areas, there are other operations consisting mainly of business units that are designed to support the business areas' operations. The business units include Powertrain, 3P, Volvo IT, Logistics and Parts. Each business area, except for Financial Services, has total responsibility for its operating income, operating capital and operating cash flow. The Financial Services business area 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. In Volvo's external financial reporting, the financial results within the business units Powertrain and Parts are distributed to the respective business segments. As the three truck brands share product development, production and other activities in business units such as 3P and Powertrain and also share certain infrastructure in distribution such as dealers, the truck brands are reported as one business segment.

Net sales	2004	2005
Trucks	136,879	155,396
Buses	12,722	16,589
Construction Equipment	29,360	34,816
Volvo Penta	9,057	9,776
Volvo Aero	6,925	7,538
Other and eliminations	7,228	7,076
Volvo Group excl Financial Services	**202,171**	**231,191**
Financial Services	9,598	7,549
Eliminations	(693)	1,819
Volvo Group total	**211,076**	**240,559**

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

Net sales to Group companies	2004	2005
Trucks	690	752
Buses	377	102
Construction Equipment	162	127
Volvo Penta	27	42
Volvo Aero	43	82
Other	9,440	10,589
Eliminations	(10,739)	(11,694)
Total excl Financial Services	**0**	**0**
Financial Services	693	755
Eliminations	(693)	(755)
Total net sales to Group companies	**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	2004	2005
Trucks	8,992	11,717
Buses	158	470
Construction Equipment	1,898	2,752
Volvo Penta	940	943
Volvo Aero	403	836
Financial Services	1,365	2,033
Other	923	(600)
Volvo Group total	**14,679**	**18,151**

Operating income in 2004 included reversal of write-down of shares in Scania AB of 915, which was reported in Other and write-down of shares in Henlys Group Plc of 95, which was reported in Buses.

Depreciation and amortization	2004	2005
Trucks	5,306	5,307
Buses	219	249
Construction Equipment	627	658
Volvo Penta	122	224
Volvo Aero	391	366
Other	220	88
Total excl Financial Services	**6,885**	**6,892**
Financial Services	3,117	429
Reclassification Group versus segment Financial Services	–	2,573
Volvo Group total	**10,002**	**9,894**

Research and development expenses	2004	2005
Trucks	5,491	5,200
Buses	484	569
Construction Equipment	1,033	1,083
Volvo Penta	311	413
Volvo Aero	209	225
Other	86	67
Volvo Group total	**7,614**	**7,557**

Income from investments in associated companies	2004	2005
Trucks	13	(6)
Buses	1	7
Construction Equipment	–	0
Volvo Penta	–	0
Volvo Aero	(1)	68
Other	(11)	(637)
Volvo Group excl Financial Services	**2**	**(568)**
Financial Services	25	11
Volvo Group total	**27**	**(557)**

Total assets	2004	2005
Operating assets, excluding Financial Services: [1]		
Trucks	71,439	83,908
Buses	8,017	10,499
Construction Equipment	16,858	21,435
Volvo Penta	3,242	3,700
Volvo Aero	8,695	10,118
Other	3,881	2,938
Total operating assets excluding Financial Services	**112,132**	**132,598**
Interest-bearing financial assets	46,312	43,939
Tax receivables	6,259	5,982
Total assets in Financial Services	71,499	85,849
Other and eliminations	(12,234)	(11,233)
Volvo Group total	**223,968**	**257,135**

1 Defined as Total assets less Interest-bearing financial assets and Tax receivables.

Total shareholders' equity and liabilities	2004	2005
Operating liabilities, excluding Financial Services: [1]		
Trucks	55,105	62,675
Buses	3,324	4,728
Construction Equipment	6,602	9,348
Volvo Penta	1,620	1,820
Volvo Aero	3,695	4,622
Other	2,788	2,783
Total operating liabilities excluding Financial Services	**73,134**	**85,976**
Financial liabilities	28,402	24,670
Tax liabilities	1,608	2,578
Total liabilities in Financial Services	63,193	76,214
Other and eliminations	(12,524)	(11,071)
Total liabilities	**153,813**	**178,367**
Shareholders' equity	70,155	78,768
Volvo Group total	**223,968**	**257,135**

1 Defined as Total liabilities less financial liabilities and tax liabilities.

Investments in associated companies	2004	2005
Trucks	37	47
Buses	20	35
Construction Equipment	–	–
Volvo Penta	–	–
Volvo Aero	37	3
Financial Services	172	23
Other	647	87
Volvo Group total	**913**	**195**

Capital expenditures	2004	2005
Trucks	5,030	7,190
Buses	176	250
Construction Equipment	1,158	906
Volvo Penta	297	243
Volvo Aero	801	904
Other	237	762
Volvo Group excl Financial Services	**7,699**	**10,255**
Financial Services	4,784	386
Reclassification Group versus segment Financial Services	–	4,210
Volvo Group total	**12,483**	**14,851**

Reporting by geographical segment

Net sales	2004	2005
Europe	119,077	124,023
North America	54,769	69,743
South America	7,338	12,479
Asia	20,789	22,699
Other markets	9,103	11,615
Volvo Group total*	**211,076**	**240,559**
* of which:		
Sweden	14,606	15,334
United States	45,926	59,254
France	26,900	27,610

Total assets	2004	2005
Sweden	79,578	86,793
Europe excluding Sweden	77,909	86,530
North America	48,165	60,846
South America	6,526	10,131
Asia	7,757	9,460
Other markets	4,033	3,375
Volvo Group total	**223,968**	**257,135**

Capital expenditures	2004	2005
Sweden	3,690	5,935
Europe excluding Sweden	6,305	5,770
North America	1,835	2,451
South America	247	296
Asia	362	259
Other markets	44	140
Volvo Group total	**12,483**	**14,851**

Notes to consolidated financial statements

Note 8 Other operating income and expenses

	2004	2005
Gains/losses on currency related forward and options contracts	828	(566)
Exchange rate differences on trade receivables and payables	(86)	481
Gains/losses on divestment of group companies	69	697
Change in allowances and write offs for doubtful receivables, customer financing	(545)	(460)
Change in allowances, and write offs for doubtful receivables, other	37	(133)
Expenses for industrial relocation of Renault Trucks Villaverde plant in Spain	(470)	–
Expenses for closing Volvo Buses Heilbronn plant in Germany	–	(95)
Volvo profit sharing program	(200)	(419)
Other income and expenses	(250)	(95)
Total	**(618)**	**(590)**

Note 9 Income from investments in associated companies

Income from investments in associated companies are specified below:

	2004	2005
Income/loss		
JV Fonderie Venissieux	5	9
Aviation Lease Finance	27	6
Thomas Hardie Commercials Ltd	8	5
Merkavim Metal Works Ltd	1	4
Peach County Holdings	–	(103)
Other companies	(12)	(1)
Subtotal	**29**	**(80)**
Revaluation and write-down of shares		
Peach County Holding	–	(550)
Other companies	(2)	(2)
Subtotal	**(2)**	**(552)**
Gains (losses) on sale of shares in associated companies		
Aviation Lease Finance	–	71
Other companies	–	4
Subtotal	**0**	**75**
Total income (loss) from investments in associated companies	**27**	**(557)**

Note 10 Income from other investments

	2004	2005
Dividends received		
Holdings of Volvo Technology Transfer[1]	–	11
Other	11	2
Subtotal	**11**	**13**
Revaluation and write downs of shares		
Scania AB	915	–
Henlys Group Plc	(95)	–
Holdings of Volvo Technology Transfer[1]	(13)	–
Smith Land & Improvement (SABA Holding)	(22)	–
Other	(8)	(2)
Subtotal	**777**	**(2)**
Gain (loss) on divestment of shares		
Holdings of Volvo Technology Transfer[1]	1	40
Bilia AB	24	–
Other	17	(14)
Subtotal	**42**	**26**
Total	**830**	**37**

1 A Volvo venture-capital company.

Note 11 Other financial income and expenses

Other financial income and expenses in 2004 include a write-down of 1,196, pertaining to the restructuring of Henlys Group Plc, note 15. The net amount of exchange losses were 20 (1). As from 2005 revaluation of derivatives related to Volvo's funding portfolio is accounted for as other financial income and expenses, 251 (–).

Note 12 Income taxes

Income taxes were distributed as follows:

	2004	2005
Current taxes relating to the period	(1,854)	(2,568)
Adjustment of current taxes for prior periods	288	147
Deferred taxes originated or reversed during the period	(1,662)	(2,933)
Recognition and derecognition of deferred tax assets	99	446
Total income taxes	**(3,129)**	**(4,908)**

Provisions have been made for estimated tax charges that may arise as a result of prior tax audits in the Volvo Group. Tax claims for which no provision has been deemed necessary of approximately 695 (1,433) 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, 2005, the valuation allowance attributable to deductible temporary differences, unused tax loss carryforwards and unused tax credit carryforwards for which no deferred tax asset was recognized amounted to 2,972 (2,592).

At year-end 2005, the Group had unused tax loss carryforwards of about 6,100 (10,100), of which approximately 1,400 (1,900) will expire within 5 years.

The Swedish corporate income tax rate is 28%. The table below shows the principal reasons for the difference between this rate and the Group's tax rate, based on income after financial items.

	2004, %	2005, %
Swedish corporate income tax rates	28	28
Difference in tax rate in various countries	3	3
Capital gains	(3)	(1)
Other non-taxable income	(3)	(1)
Other non-deductible expenses	2	1
Adjustment of current taxes for prior years	(2)	(1)
Recognition and derecognition of deferred tax assets	(1)	(2)
Other, net	0	0
Income tax rate for the Group	**24**	**27**

Specification of deferred tax assets and tax liabilities	2004	2005
Deferred tax assets:		
Unused tax loss carryforwards	3,223	2,125
Other unused tax credits	259	295
Intercompany profit in inventories	294	544
Valuation allowance for doubtful receivables	587	644
Provisions for warranties	966	1,449
Provision for residual value risks	544	576
Provisions for post-employment benefits	4,366	4,541
Provisions for restructuring measures	220	120
Fair value of derivative instruments: Change of hedge reserves	–	224
Other deductible temporary differences	2,347	2,670
	12,806	**13,188**
Valuation allowance	(2,592)	(2,972)
Deferred tax assets after deduction for valuation allowance	**10,214**	**10,216**
Deferred tax liabilities:		
Accelerated depreciation on property, plant and equipment	2,047	2,347
Accelerated depreciation on leasing assets	815	1,297
LIFO valuation of inventories	160	217
Capitalized product and software development	1,445	1,970
Untaxed reserves	126	112
Fair value of derivative instruments: Change of hedge reserves	–	95
Other taxable temporary differences	1,058	1,111
	5,651	**7,149**
Deferred tax assets, net[1]	**4,563**	**3,067**

1 Deferred taxes are partially recognized in the balance sheet on a net basis after taking into account offsetting possibilities.

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 16,810 (12,211) at year end. There are different taxation rules depending on country, some which have no tax effect and some countries with withholding taxes. See note 36 how Volvo handles equity currency risk.

Notes to consolidated financial statements

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 AS (22%), in Wuxi da Hao Power Co, Ltd (30%) and in Berliet Maroc S.A (30%).

Note 14 Intangible and tangible assets

Acquisition costs	Value in balance sheet 2004	Capital expenditures	Sales/ scrapping	Acquired and divested operations [5]	Translation differences	Reclassi- fications and other	Value in balance sheet 2005
Goodwill[1]	10,321	–	–	20	721	10	11,072
Entrance fees, aircraft engine programs	2,758	374	(34)	–	15	(142)	2,971
Product and software development	8,585	3,004	(28)	–	189	67	11,817
Other intangible assets	1,734	95	(13)	–	55	(87)	1,784
Total intangible assets	**23,398**	**3,473**	**(75)**	**20**	**980**	**(152)**	**27,644**
Buildings	16,928	742	(113)	(181)	1,114	57	18,547
Land and land improvements	3,988	290	(91)	(7)	402	42	4,624
Machinery and equipment[2]	39,530	4,685	(1,750)	(457)	2,606	567	45,181
Construction in progress including advance payments	2,435	1,112	(6)	–	185	(659)	3,067
Total property, plant and equipment	62,881	6,829	(1,960)	(645)	4,307	7	71,419
Assets under operating leases	30,999	4,549	(3,770)	–	2,988	(2,767)	31,999
Total tangible assets	**93,880**	**11,378**	**(5,730)**	**(645)**	**7,295**	**(2,760)**	**103,418**

Accumulated depreciation and amortization	Value in balance sheet 2004	Deprecia- tion and amortiza- tion [3]	Sales/ scrapping	Acquired and divested operations [5]	Trans- lation differ- ences	Reclassi- fications and other	Value in balance sheet 2005	Net carrying value in bal- ance sheet [4] 2005
Goodwill	–	–	–	–	–	–	–	11,072
Entrance fees, aircraft engine programs	1,386	104	–	–	2	(55)	1,437	1,534
Product and software development	3,413	1,160	–	–	60	57	4,690	7,127
Other intangible assets	987	145	(13)	–	42	(65)	1,096	688
Total intangible assets	**5,786**	**1,409**	**(13)**	**-**	**104**	**(63)**	**7,223**	**20,421**
Buildings	6,732	734	(37)	8	414	(37)	7,814	10,733
Land and land improvements	441	54	(2)	1	44	(17)	521	4,103
Machinery and equipment[2]	24,557	3,582	(1,459)	(259)	1,569	93	28,083	17,098
Construction in progress, including advance payments	–	–	–	–	–	–	–	3,067
Total property, plant and equipment	31,730	4,370	(1,498)	(250)	2,027	39	36,418	35,001
Assets under operating leases	11,465	4,115	(1,788)	–	1,118	(3,750)	11,160	20,839
Total tangible assets	**43,195**	**8,485**	**(3,286)**	**(250)**	**3,145**	**(3,711)**	**47,578**	**55,840**

1 Includes on the date of IFRS adoption, acquisition costs of 14,184 and accumulated amortization of 3,863.
2 Machinery and equipment pertains mainly to production equipment.
3 Includes write-downs, 72.
4 Acquisition costs less accumulated depreciation, amortization and write-downs.
5 Includes subsidiaries and joint ventures that previously were accounted for according to the equity method.

Depreciation and amortization by type of asset	2004	2005
Intangible assets	1,396	1,409
Property, plant and equipment	4,182	4,370
Assets under operating leases	4,425	4,115
Total	**10,003**	**9,894**

Capital expenditures by type of asset	2004	2005
Intangible assets	2,287	3,473
Property, plant and equipment	5,790	6,829
Assets under operating leases	4,406	4,549
Total	**12,483**	**14,851**

Capital expenditures for property, plant and equipment approved but not yet implemented at December 31, 2005, amounted to SEK 7.8 billion (8.2).

Goodwill

Annually, in connection with the annual closing, or more frequently if required, Volvo's operations are evaluated and compared with its carrying value in order to identify any impairment of goodwill assets. Volvo's evaluation model is based on a discounted cash-flow model. Evaluation is made on cash-generating units with reciprocal synergies, identified as Volvo's operational areas or business areas. Goodwill assets are allocated to these operational areas on the basis of anticipated future utility. The evaluation is based on management's best judgment of the operations' development. The basis for this judgment is long-term forecasts of the market's growth 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 value and the general rate of inflation, in line with the European target, is used. Volvo uses a discounting factor calculated to 12% before tax for 2005.

During 2005, the value of Volvo's operations has exceeded the carrying value of goodwill for all operational areas, and accordingly, no impairment was recognized. For the specified cash generating units Volvo has evaluated the value of goodwill with reasonable changed assumptions, negatively adjusted with one percentage point, where of no adjustment, each by each, would have such a big effect that there would be an impairment.

Goodwill per Business Area	2005
Volvo Trucks	4,096
Renault Trucks	2,007
Mack Trucks	982
Buses	1,134
Construction Equipment	2,480
Other	373
Total goodwill value	**11,072**

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 1,534 (1.859) at year-end. Capital expenditures during 2005 amounted to 15 (20). Accumulated depreciation was 463 (472) at year-end, whereof 53 (68) during 2005. The estimated fair value of investment property was SEK 1.9 billion (2,2) at year-end, based on the yield. The required return is based on current property market conditions for comparable properties in comparable locations. All investment properties were leased out during the year. Net income for the year was affected by 272 (332) in rental income from investment properties and 45 (66) in direct costs.

Note 15 Shares and participations

The market values of Volvo's holdings of shares and participations in listed companies as of December 31, 2005 are shown in the table below. As from 2005 shares in listed companies would be revaluated to current market value. The revaluation is booked to Equity and amounts to 83 (–).

	Carrying value	Market value
Deutz AG	253	253
Total holdings in listed companies	**253**	**253**
Holdings in non-listed companies[1]	303	–
Total shares and participations in other companies	**556**	**-**

1 reported at cost

Peach County Holdings Inc

In 2004, as a part of the restructuring of Henlys Group Plc, see note 11, the convertible debenture loan issued to Henlys was partly converted into shares in Peach County Holdings (owner of school bus manufacturer Blue Bird). Volvo's holding in Peach County Holdings Inc is 42,5%. During the fourth quarter of 2005 Volvo wrote down its shareholding in Peach County Holdings, Inc. by about SEK 550 M. At December 31, 2005 Volvo held 42.5% of the US-based company, which in turn owns the American school bus manufacturer Blue Bird. Since its reconstruction in the preceding year, Blue Bird has not developed well. The write-down was made as a consequence of Volvo's decision not to participate in continued financing efforts. After the write-down, the value is zero. In January 2006, Peach County Holdings entered into reconstruction proceedings (Chapter 11) and as a consequence of Volvo choosing not to participate in the continued reconstruction, Volvo's shares in the company were cancelled.

Småföretagarinvest AB (previously Arbustum Invest AB)

In 2005, Volvo's holding in Småföretagarinvest AB decreased to 17% and the company is no longer considered as an associated company.

Notes to consolidated financial statements

Group holdings of shares and participations in non-Group companies	Registration number	Percentage holding	Dec 31, 2004 Carrying value SEK M	Dec 31, 2005 Carrying value SEK M
Shares in associated companies, equity method of accounting				
Blue Chip Jet HB, Sweden	969639-1011	40	90	85
Merakvim Metal Works Ltd, Israel	–	27	20	26
Diamond Finance Ltd, Great Britain	–	40	–	23
Thomas Hardie Commercials Ltd, Great Britain	–	24	10	14
Fonderie Venissieus, France	–	49	15	21
Quingdao Sunwin Bus Corp, China		21	–	9
Arabian Vehicle & Truck Industry Ltd, Saudi Arabia	–	25	9	9
Peach County Holdings Inc, USA	–	43	556	0
Aviation Lease Finance, USA	–	49	172	–
Småföretagarinvest AB (previously Arbustum Invest AB), Sweden	–	–	35	–
Other holdings	–	–	6	8
Total shares and participations in associated companies[1]			**913**	**195**
Shares and participations in other companies				
Deutz AG, Germany[2]	–	7	670	253
Småföretagarinvest AB (previously Arbustum Invest AB), Sweden	556543-4247	17	–	32
Other holdings			420	271
Total shares and participations in other companies			**1,090**	**556**
Carrying value in accordance with Group balance sheet			**2,003**	**751**

1 Volvo's share of shareholders' equity in associated companies (incl. equity in untaxed reserves) amounted to 195; (913). Excess values amounted to 0 (0).

2 Deutz AG is valued to market value as from January 1, 2005 according to IAS 39, more information note 1 Accounting principles and note 3 Effects of IFRS. The transition effect has been charged to equity.

Changes in the Volvo Group's holdings of shares and participations:	2004	2005
Balance sheet, December 31, preceding year	22,206	2,003
IFRS transition effect	–	(494)
Acquisitions and divestments, net	(20,740)	(268)
Net of write-downs/revaluations	772	(552)
New issue of shares and shareholders' contributions	45	28
Share of income in associated companies	29	(80)
Change in Group structure	(280)	(90)
Fair value of shares	–	83
Translation differences	(29)	159
Dividends	0	(2)
Other	0	(36)
Balance sheet, December 31	**2,003**	**751**

Note 16 Long-term customer-financing receivables

	2004	2005
Installment credits	14,726	17,865
Financial leasing	10,334	12,737
Other receivables	127	582
Total	**25,187**	**31,184**

Note 17 Other long-term receivables

	2004	2005
Other loans to external parties	1,377	909
Prepaid pensions	364	524
Other receivables	1,022	1,689
Total	**2,763**	**3,122**

Note 18 Inventories

	2004	2005
Finished products	17,861	21,617
Production materials, etc.	10,737	12,320
Total	**28,598**	**33,937**

Inventories recognised as cost of sale during the period, 172,567 (150,800).

Increase (decrease) in allowance for inventory obsolescence	2004	2005
Balance sheet, December 31, preceding year	2,246	2,124
Increase in allowance for inventory obsolescence charged to income	244	333
Scrapping	(226)	(276)
Translation differences	(85)	177
Reclassifications, etc.	(55)	43
Balance sheet, December 31	**2,124**	**2,401**

Notes to consolidated financial statements

Note 19 Short-term customer-financing receivables

	2004	2005
Installment credits	10,382	13,174
Financial leasing	5,488	7,132
Dealer financing	8,850	12,067
Other receivables	1,286	909
Total	**26,006**	**33,282**

Note 20 Other short-term receivables

	2004	2005
Accounts receivable	20,137	24,784
Prepaid expenses and accrued income	3,203	3,509
VAT receivables	1,561	1,933
Loans to external parties	1,642	458
Other receivables	3,321	4,780
Total, after deduction of valuation allowances for doubtful accounts receivable	**29,864**	**35,464**

Change of valuation allowances for doubtful accounts receivable	2004	2005
Balance sheet, December 31, preceding year	932	837
Change of valuation allowance charged to income	(30)	2
Utilization of valuation allowance related to actual losses	(174)	(90)
Acquired and divested operations	1	9
Translation differences	17	95
Reclassifications, etc.	91	53
Balance sheet, December 31	**837**	**906**

Note 21 Marketable securities

Marketable securities consist mainly of interest-bearing securities, distributed as shown below:

	2004	2005
Government securities	6,354	4,226
Banks and financial institutions	371	464
Real estate financial institutions	19,220	24,020
Other	10	124
Total	**25,955**	**28,834**

Note 22 Cash and cash equivalents

	2004	2005
Cash in banks	5,787	5,652
Time deposits in banks	3,004	2,461
Total	**8,791**	**8,113**

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 6.00.

Total share capital by year end 2004 amounted to 2,649 and was based on 441,520,885 registered shares. During 2005 share capital was reduced by 95 through cancellation without repayment of 3,084,619 Series A shares and 12,752,222 Series B shares. After reduction share capital amounts to 2,554 and is based on 425,684,044 registered shares.

The total number of registered shares by year end 2005 amounted to 425,684,044. Volvo held 5% of the registered shares at year end 2005, 21,220,535 shares whereof Series A shares 4,145,627 and Series B shares 17,074,908. At year end 2004, Volvo held 7% of the registered shares, 31,391,043 shares whereof Series A shares 7,075,246 and Series B shares 24,315,797. The total number of outstanding Volvo shares by year end 2005 amounted to 404,463,509 whereof Series A shares 131,374,699 and Series B shares 273,088,810. The average number of outstanding shares was 405,242,037 in 2005.

Cash dividend decided by the Annual General Meeting 2005 was 12:50 (8:00) per share or total 5,055 (3,356).

Unrestricted equity in the Parent Company at December 31, 2005 amounted to 41,220.

Changes in outstanding Volvo shares

Balance December 31, 2004	410,129,842
Buy-back of shares in 2005	(5,730,000)
Share-based incentive program	63,667
	404,463,509

Note 24 Provisions for post-employment benefits

Post-employment benefits, such as pensions, healthcare and other benefits are mainly settled by means of regular payments to independent authorities or bodies that assume pension obligations and administer pensions through defined contribution plans. The remaining post-employment benefits are defined benefit plans; that is, the obligations remain within the Volvo Group or are secured by own pension foundations. Costs and the obligations at the end of period for defined benefit plans are calculated based on actuarial assumptions and measured on a discounted basis. The Volvo Group defined benefits plans relate mainly to subsidiaries in the US and comprise both pensions and other benefits, such as healthcare. Other large-scale defined benefit plans apply for salaried employees in Sweden (mainly through the Swedish ITP pension plan) and employees in France and Great Britain. See note 1 for further information about the accounting principles.

Notes to consolidated financial statements

The following tables disclose information about defined benefit plans in the Volvo Group. Volvo report the difference between the obligations and the plan assets adjusted for 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.

Assumptions applied for actuarial calculations	2004 December 31	2005 December 31
Sweden		
Discount rate	5.0	4.0
Expected return on plan assets[1]	6.0	6.0
Expected salary increases	3.2	3.2

Assumptions applied for actuarial calculations	2004 December 31	2005 December 31
United States		
Discount rate	5.75	5.75
Expected return on plan assets[1]	7.65	7.65
Expected salary increases	3.5	3.5
France		
Discount rate	4.75	4.0
Expected salary increases	3.0	3.0
Great Britain		
Discount rate	5.25	4.8
Expected return on plan assets[1]	6.25	5.2–6.5
Expected salary increases	3.5	3.8–4.0

1 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.

Pension costs	2004	2005
Current service costs	616	788
Interest costs	1,306	1,315
Expected return on plan assets	(931)	(1,133)
Actuarial gains and losses[1]	(17)	(107)
Past service costs		
– Unvested	7	(4)
– Vested	38	(20)
Curtailments and settlements	(28)	(362)
Termination benefits	729	124
Pension costs for defined benefit plans	**1,720**	**601**
Pension costs for defined contribution plans	2,681	3,165
Total pension costs	**4,401**	**3,736**

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 post-employment benefits other than pensions	2004	2005
Current service costs	196	188
Interest costs	349	323
Expected return on plan assets	(12)	(15)
Actuarial gains and losses[1]	6	1
Past service costs		
– Unvested	(1)	(1)
– Vested	5	4
Curtailments and settlements	–	0
Termination benefits	47	24
Total costs for post-employment benefits other than pensions	**590**	**524**

1 Actuarial gains and losses are for each plan 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, 2005 by approximately 208, and the post-employment benefit expense by approximately 19. A decrease of 1% would decrease the accumulated value of obligations by about 198 and reduce costs by approximately 16.

Calculations made as of December 31, 2005 show an annual increase of 10.0% in the weighted average per capita costs of covered healthcare benefits; it is assumed that the percentage will decline gradually to 5% and then remain at that level.

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, 2004	**5,332**	**10,707**	**2,333**	**2,986**	**6,278**	**1,595**	**29,231**
Acquisitions, divestments and other changes	140	–	(85)	138	–	–	**193**
Service costs	176	206	19	82	193	136	**812**
Interest costs	280	668	115	172	348	72	**1,655**
Unvested past service costs	–	3	(66)	–	–	–	**(63)**
Vested past service costs	(46)	66	–	–	–	22	**42**
Termination benefits	88	–	205	–	–	483	**776**
Curtailments and settlements	(35)	(5)	–	–	–	35	**(5)**
Employee contributions	–	–	–	30	–	1	**31**
Actuarial gains (–) and losses (+)	573	683	74	215	364	39	**1,948**
Exchange rate translation	–	(1,103)	(19)	(76)	(576)	29	**(1,745)**
Benefits paid	(271)	(704)	(497)	(101)	(532)	(124)	**(2,229)**
Obligations at December 31, 2004	**6,237**	**10,521**	**2,079**	**3,446**	**6,075**	**2,288**	**30,646**
Acquisitions, divestments and other changes	(125)	81	–	–	6	(1)	**(39)**
Service costs	203	304	37	80	184	169	**977**
Interest costs	303	637	97	195	321	83	**1,636**
Unvested past service costs	–	3	–	(12)	–	–	**(9)**
Vested past service costs	(72)	44	–	–	1	11	**(16)**
Termination benefits	104	–	–	–	–	44	**148**
Curtailments and settlements	(371)	–	–	–	–	–	**(371)**
Employee contributions	–	–	–	34	–	(2)	**32**
Actuarial gains (–) and losses (+)	810	281	(12)	714	(66)	151	**1,878**
Exchange rate translation	–	2,171	92	287	1,222	238	**4,010**
Benefits paid	(248)	(763)	(435)	(109)	(592)	(224)	**(2,371)**
Obligations at December 31, 2005	**6,841**	**13,279**	**1,858**	**4,635**	**7,151**	**2,757**	**36,521**
of which							
Funded defined benefit plans	6,342	12,962	–	4,135	3,772	1,744	**28,955**

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, 2004	**3,592**	**6,727**	**-**	**2,254**	**111**	**1,062**	**13,746**
Acquisitions, divestments and other changes	129	15	–	114	–	18	**276**
Actual return on plan assets	358	691	–	224	2	51	**1,326**
Employer contributions	–	1,153	–	83	106	105	**1,447**
Employee contributions	–	–	–	30	–	1	**31**
Exchange rate translation	–	(730)	–	(55)	(20)	1	**(804)**
Benefits paid	–	(693)	–	(98)	–	(92)	**(883)**
Plan assets at December 31, 2004	**4,079**	**7,163**	**-**	**2,552**	**199**	**1,146**	**15,139**
Acquisitions, divestments and other changes	(97)	(35)	–	(13)	–	4	**(141)**
Actual return on plan assets	755	539	–	437	6	84	**1,821**
Employer contributions	1,188	2,225	–	906	18	103	**4,440**
Employee contributions	–	–	–	78	–	8	**86**
Exchange rate translation	–	1,577	–	220	37	147	**1,981**
Benefits paid	–	(741)	–	(108)	(70)	(128)	**(1,047)**
Plan assets at December 31, 2005	**5,925**	**10,728**	**-**	**4,072**	**190**	**1,364**	**22,279**

Notes to consolidated financial statements

Net provisions 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, 2004	**(2,158)**	**(3,358)**	**(2,079)**	**(894)**	**(5,876)**	**(1,142)**	**(15,507)**
Unrecognized actuarial (gains) and losses	456	277	69	162	240	54	**1,258**
Unrecognized past service costs	–	2	(66)	(3)	(9)	(7)	**(83)**
Net provisions for post-employment benefits at December 31, 2004	**(1,702)**	**(3,079)**	**(2,076)**	**(735)**	**(5,645)**	**(1,095)**	**(14,332)**
whereof reported as							
Prepaid pensions and other assets	2	166	0	0	133	70	**371**
Provisions for post-employment benefits	(1,704)	(3,245)	(2,076)	(735)	(5,778)	(1,165)	**(14,703)**

Net provisions for post-employment benefits							
Funded status at December 31, 2005	**(916)**	**(2,551)**	**(1,858)**	**(563)**	**(6,961)**	**(1,394)**	**(14,243)**
Unrecognized actuarial (gains) and losses	755	770	223	592	326	201	**2,867**
Unrecognized past service costs	–	3	(67)	(12)	(12)	2	**(86)**
Net provisions for post-employment benefits at December 31, 2005	**(161)**	**(1,778)**	**(1,702)**	**17**	**(6,647)**	**(1,191)**	**(11,462)**
whereof reported as							
Prepaid pensions and other assets	0	145	0	35	253	90	**523**
Provisions for post-employment benefits	(161)	(1,923)	(1,702)	(18)	(6,900)	(1,282)	**(11,986)**

Volvo's pension foundation in Sweden was formed in 1996 to secure obligations relating to retirement pensions for salaried employees in Sweden in accordance with the ITP plan (a Swedish individual pension plan). Plan assets amounting to 2,456 was contributed to the foundation at its formation, corresponding to the value of the pension obligations at that time. Since its formation, net contributions of 1,420, whereof 1,188 during 2005, have been made to the foundation. The plan assets in Volvo's Swedish pension foundation are invested in Swedish and foreign shares 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, 2005, the fair value of the foundation's plan assets amounted to 5,925 (4,079), of which 58% (55) was invested in shares or mutual funds. At the same date, retirement pension obligations attributable to the ITP plan amounted to 6,342 (5,366). Swedish companies can secure new pension obligations through balance sheet provisions or pension fund contributions. Furthermore, a credit insurance must be taken out 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 Accounting Standards Council's interpretations committee, this is a multi-employer defined benefit plan. For fiscal year 2005, 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 128.5% (128.0).

Volvo's subsidiaries in the United States mainly secure their pension obligations through transfer of funds to pension plans. At the end of 2005, the total value of pension obligations secured by pension plans of this type amounted to 12,962 (10,287). At the same point in time, the total value of the plan assets in these plans amounted to 10,728 (7,163), of which 60% (64) was invested in shares or mutual funds. The regulations for securing pension obligations stipulate certain minimum levels concerning the ratio between the value of the plan assets and the value of the obligations. During 2005, Volvo contributed 2,225 (1,153) to the pension plans in order to comply with these regulations.

During 2005 Volvo has made extra contributions to the pensionplans in Great Britain in the amount of 906.

Volvo's pensionfoundations had no investments in Volvo shares or other investments related to Volvo as per December 31, 2005.

Note 25 Other provisions

	Value in balance sheet 2004	Provisions and reversals	Utilization	Acquired and divested companies	Trans-lation differences	Reclassi-fications	Value in balance sheet 2005	Whereof due within 12 months	Whereof due after 12 months
Warranties	6,742	7,332	(6,610)	4	639	56	8,163	4,441	3,722
Provisions in insurance operations	312	76	–	–	–	–	388	–	388
Restructuring measures	571	(27)	(215)	7	30	6	372	273	99
Provisions for residual value risks	987	95	(186)	7	123	(95)	931	472	459
Provisions for service contracts	1,512	379	(327)	(39)	97	1	1,623	914	710
Other provisions	4,354	2,436	(2,368)	24	481	(113)	4,814	3,179	1,634
Total	**14,478**	**10,291**	**(9,706)**	**3**	**1,370**	**(145)**	**16,291**	**9,279**	**7,012**

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, 2005. Volvo hedges foreign-exchange and interest-rate risks using derivative instruments. See Note 36.

Bond loans	2004	2005
GBP 2004/2006, 5.18%	1,905	–
SEK 1998–2005/2007–2009, 1.78–5.2%	4,798	4,931
JPY 2001–2005/2007–2011, 0.42–2.3%	542	475
HKD 1999/2006, 7.99%	85	–
CZK 2001–2005/2007–2010, 2.27–6.5%	380	400
USD 1998–2005/2007–2008, 4.29–5.0%	2,150	1,788
EUR 1997–2005/2007–2011, 2.33–6.12	17,546	19,928
Other bond loans	206	48
Total	**27,612**	**27,570**

Other loans	2004	2005
USD 1989–2005/2007–2015, 4.07–13.0%	5,360	6,193
EUR 1996–2005/2007–2013, 0.5–9.59%	2,596	2,735
GBP 1995–2004/2007–2010, 4.87–7.58%	1,269	1,859
SEK 1992–2004/2007–2013, 2.19–4.85%	519	647
BRL 2000–2005/2008–2011, 5.0–18.35%	944	1,230
CAD 2002–2004/2008–2010, 3.78–3.88%	1,557	1,950
AUD 2004/2008, 5.89%	49	–
MXN 2003/2007, 9.19–9.34%	–	835
Other loans	505	536
Total other long-term loans	**12,799**	**15,985**
Deferred leasing income	1,377	1,689
Residual value liability	3,122	2,931
Other long-term liabilities	154	639
Total	**45,064**	**48,814**

Of the above long-term loans, 1,501 (1,422) was secured.

Notes to consolidated financial statements

Long-term loans mature as follows:

2007	17,892
2008	13,395
2009	3,647
2010	5,192
2011 or later	3,429
Total	**43,555**

Of other long-term liabilities the majority will mature within five years.

At year-end 2005, credit facilities granted but not utilized and which can be used without restrictions amounted to approximately SEK 21 billion (19). Approximately SEK 20 billion of these facilities consisted of stand-by facilities for loans with varying maturities through the year 2010. A fee normally not exceeding 0.25% of the unused portion is charged for credit facilities.

Note 27 Current liabilities

Balance sheet amounts for loans were as follows:

	2004	2005
Bank loans	4,267	5,204
Other loans	17,129	26,126
Total	**21,396**	**31,330**

Bank loans include current maturities, 2,243 (2,259), of long-term loans. Other loans include current maturities of long-term loans, 18,983 (13,324), and commercial paper, 5,413 (2,667).

Non-interest-bearing liabilities accounted for 67,681 (57,657), or 68% (73) of the Group's total current liabilities.

Balance sheet amounts for Other current liabilities were as follows:

	2004	2005
Advances from customers	2,298	2,460
Wages, salaries and withholding taxes	4,987	5,680
VAT liabilities	1,193	1,351
Accrued expenses and prepaid income	9,736	11,850
Deferred leasing income	1,141	1,406
Residual value liability	1,873	1,840
Other liabilities	3,863	5,675
Total	**25,091**	**30,262**

Secured bank loans at year-end 2005 amounted to 186 (194). The corresponding amount for other current liabilities was 1,685 (1,578).

Note 28 Assets pledged

	2004	2005
Property, plant and equipment – mortgages	205	593
Assets under operating leases	1,665	1,700
Chattel mortgages	374	350
Receivables	319	360
Inventories	13	16
Cash, marketable securities	470	230
Other assets pledged	–	6
Total	**3,046**	**3,255**

The liabilities for which the above assets were pledged amounted at year-end to 3,372 (3,194).

Note 29 Contingent liabilities

	2004	2005
Credit guarantees		
– issued for associated companies	110	13
– issued for customers and others	2,471	1,267
Tax claims	1,433	695
Other contingent liabilities	5,175	5,875
Total	**9,189**	**7,850**

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, 2005, the estimated value of counter guarantees received and other collaterals, for example the estimated net selling price of used products, amounted to 4,479 (5,135). Tax claims pertain to charges against the Volvo Group for which provisions are not considered necessary. Other contingent liabilities pertain mainly to residual value guarantees.

Legal proceedings

In March 1999, an FH 12 Volvo truck was involved in a fire in the Mont Blanc tunnel. The tunnel suffered considerable damage from the fire, which continued for 50 hours. 39 people lost their lives in the fire, and 34 vehicles were trapped in the tunnel. The Mont Blanc tunnel was re-opened for traffic in 2002. An expert group was appointed by the Commercial Court in Nanterre, France, to investigate the cause of the fire and the losses it caused. At present, it is not possible to anticipate the result of this on-going investigation or the result of other French legal actions in progress regarding the fire. Following the closure in October 2003 of an investigation for potential criminal liability for the fire, the trial for unintentional manslaughter started in Bonneville (France) on 31st January, 2005 and lasted until late April 2005. The judgment was given on 27th July, 2005. Volvo Truck Corporation was one of 16 parties tried for unintentional manslaughter. Volvo Truck Corporation was acquitted and not required to pay any civil damages to the plaintiffs. Volvo Truck Corporation's acquittal with regards to criminal charges is final. Some of the plaintiffs have appealed the award of civil damages and those proceedings, hence, are ongoing. A claim was filed with the Commercial Court in Nanterre by the insurance company employed by the French tunnel operating company against certain Volvo Group companies and the trailer manufacturer in which compensation for the losses claimed to have been incurred by the tunnel operating company was demanded. The claimant requested that the Court postpone its decision until the expert group has submitted its report. The Court of Nanterre has since then declined jurisdiction in favor of the civil Court of Bonneville before which several other claims had been filed in connection with this matter. As a result, the Court of Bonneville is likely ultimately to rule on all civil liability claims filed in France against Volvo Group companies in connection with the Mont-Blanc tunnel fire. Volvo Group companies are also involved in proceedings regarding this matter before courts in Aosta and Turin (Italy) and Brussels (Belgium). Although the aggregate amount claimed is substantial, Volvo is unable presently to determine the ultimate outcome of the legal proceedings mentioned above, the only exception being the criminal charges mentioned above from which Volvo Truck Corporation has now been acquitted.

Between 1985 and 1995, Volvo Aero Norway A/S ("VAN") and Snecma entered into several agreements relating to the supply by VAN of components for the Snecma CFM56 engine. These aircraft engine programs are long term agreements, with an expected term of not less than thirty years. In 2005, Snecma filed a request for arbitration against VAN, requesting a declaratory award stating that Snecma is entitled to calculate VAN's compensation under the agreements in other ways than the common and undisputed interpretation of the agreements during nearly twenty years of performance. An award in Snecma's favour would mean that the compensation would be significantly reduced. It is difficult to assess the magnitude of such a reduction of the concession levels since, instead of fixed levels of payment, the levels of payment to VAN would be affected by the actual payments received by Snecma from its customers. VAN has no access to the commercial information needed to calculate the payment levels in such case. VAN has rejected Snecma's claims. Arbitral hearings are expected to be finalized at the beginning of the autumn 2006.

Volvo is involved in a number of other legal proceedings incidental to the normal conduct of its businesses. Volvo does not believe that any liabilities related to such proceedings are likely to be, in the aggregate, material to the financial condition of the Volvo Group.

Note 30 Cash flow

Other items not affecting cash pertain to risk provisions and losses related to doubtful receivables and customer-financing receivables, 602 (551), capital gains on the sale of subsidiaries and other business units 717 (95), write-down of shares in Peach County Holdings Inc in 2005 and in 2004 revaluation of shares in Scania AB and Henlys Group Plc amounting to 550 (negative 820), provision for industrial relocation and contractual pension – (530), IFRS transition effect – (negative 177) and other negative 20 (negative 19).

Net investments in customer-financing receivables resulted in 2005 in a negative cash flow of SEK 7.8 billion (7.4). In this respect, liquid funds were reduced by SEK 23.4 billion (19.4) pertaining to new investments in financial leasing contracts and installment contracts.

Divestments of shares and participations, net in 2005 amounted to SEK 0.3 billion and in 2004 to SEK 15.1 billion, mainly related to the divestment of the Scania B-shares.

Acquired and divested subsidiaries and other business units, net in 2005 amounted to SEK 0.6 billion and negative SEK 0.1 billion in 2004.

During 2005 and 2004 interest-bearing receivables including marketable securities, net reduced liquid funds by SEK 1.3 billion and SEK 6.4 billion, respectively.

The change during the year in bonds and other loans increased liquid funds by SEK 3.6 billion (decrease 8.8). New borrowing during the year, mainly the issue of bond loans, provided SEK 41.6 billion (19.1). Amortization during the year amounted to SEK 33.4 billion (28.9).

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Not 31 Leasing

At December 31, 2005, future rental income from noncancellable financial and operating leases (minimum leasing fees) amounted to 34,406 (25,181). Future rental income is distributed as follows:

	Financial leases	Operating leases
2006	7,446	4,808
2007–2010	14,060	8,197
2011 or later	107	1,532
Total	**21,613**	**14,537**
Allowance for uncollectible future rental income	(241)	
Unearned rental income	(1,503)	
Present value of future rental income related to noncancellable leases	19,869	

At December 31, 2005, future rental payments (minimum leasing fees) related to noncancellable leases amounted to 4,396 (4,142).

Future rental payments are distributed as follows:

	Financial leases	Operating leases
2006	307	1,018
2007–2010	476	1,630
2011 or later	252	713
Total	**1,035**	**3,361**

Rental expenses amounted to:

	2004	2005
Financial leases:		
– Contingent rents	(30)	0
Operating leases:		
– Contingent rents	(27)	(34)
– Rental payments	(910)	(1,000)
– Sublease payments	28	23
Total	**(939)**	**(1,011)**

Book value of assets subject to finance lease:

	2004	2005
Acquisition costs:		
Buildings	526	459
Land and land improvements	66	75
Machinery and equipment	236	198
Assets under operating lease	1,065	875
Total	**1,893**	**1,607**
Accumulated depreciation:		
Buildings	(56)	(79)
Land and land improvements	–	–
Machinery and equipment	(46)	(39)
Assets under operating lease	(518)	(470)
Total	**(620)**	**(588)**
Book value:		
Buildings	470	380
Land and land improvements	66	75
Machinery and equipment	190	159
Assets under operating lease	547	405
Total	**1,273**	**1,019**

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.

	2004	2005
Sales to associated companies	279	381
Purchase from associated companies	73	296
Receivables from associated companies, Dec 31	174	206
Liabilities to associated companies, Dec 31	70	65

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

The Volvo Group also has transactions with Renault SA and its subsidiaries. Sales to and purchases from Renault SA amounted to 182 (277) and 3,493 (3,242). Amounts due from and due to Renault SA amounted to 57 (81) and 762 (554) respectively, at December 31, 2005. The sales were mainly from Renault Trucks to Renault SA and consisted of components and spare parts. The purchases were mainly made by Renault Trucks from Renault SA and consisted mainly of light trucks. Renault Trucks has a license from Renault SA for the use of the trademark ”Renault”. During the year, Renault Trucks received EUR 500,000 from Renault SA as compensation for a common development project.

During the year, AB Volvo sold properties to market price to members in group management for an amount of 17.

Note 33 Government grants

During 2005, government grants amounting to 173 (165) have been received, of which 143 (137) has been accounted for in the income statement. The grants were mainly received from the European Commission and the Swedish government.

Note 34 Personnel

In accordance with a resolution adopted at the Annual General Meeting 2005, the fee paid to the Board of Directors is a fixed amount of SEK 4,775,000, to be distributed as decided by the Board. The Chairman of the Board, Finn Johnsson, received a fee of SEK 1,350,000 as Board Chairman and SEK 75,000 as Chairman of the Remuneration Committee.

Remuneration to senior executives, SEK	Fixed salary	Variable salary	Other benefits	Pension
Board Chairman	1,425,000	–	–	–
CEO[1]	10,950,000	5,292,500	1,777,781	20,835,641[4]
Other memebrs of GEC[1, 2]	53,609,500	21,849,000	17,484,000	56,745,000
Total remuneration and benefits	**65,984,500**	**27,141,500**	**19,261,781**	**77,580,641**
Total costs[3]	**85,211,000**	**34,875,000**	**28,761,000**	**92,782,000**

1 Other benefits for the President and CEO includes SEK 1,204,000 related to allotted shares during 2005 and for other members of the GEC SEK 6,245,750 related to allotted shares and SEK 3,104,448 pertaining cash payments linked to the share-based incentive program.

2 In addition to the CEO, the Group Executive Committee (GEC) comprises 16 members at the end of the year.

3 Total costs for senior executives include social fees on salaries and benefits, special pension tax and additional costs for other benefits.

4 In the beginning of 2005 a previuosly announced one-time payment of SEK 34 was made when Leif Johansson shifted over to a defined contribution based pension. SEK 20.8 M of this amount are reported as a cost in 2005. The remaining part will be charged during 2006.

Terms of employment of the CEO

The President and Chief Executive Officer, Leif Johansson, is entitled to a fixed annual salary. In addition, he may receive a variable salary based on operating income and cash flow up to a maximum of 50% of his fixed annual salary. In 2005, the variable salary corresponded to 48.3% of the fixed annual salary. Leif Johansson also participates in the Volvo Group long-term incentive program. In 2005, Leif Johansson received 4,000 shares, since the financial goals for 2004 were achieved.

Leif Johansson's pension benefits are a defined-contribution pension, meaning that Leif Johansson's pension will equal the sum of all premiums paid with the addition of possible return. A defined time for retirement does not exist. The pensionable salary consists of the current monthly salary times 12, Volvo's internal value for company car, together with the average of the outcome of the variable salary, maximized to 50% of the salary, for the previous five years. See point 4 above for premiums paid in 2005.

Leif Johansson has a six-month notice of termination on his own initiative and 12 months notice of termination from AB Volvo. Leif Johansson is not entitled to severance payments.

Variable salaries

Leif Johansson, the members of the Group Executive Committee and a number of senior executives receive variable salaries in addition to fixed salaries. Variable salaries are in most cases based on the fulfilment of certain improvement targets. The targets are decided by the Board of Directors in AB Volvo and may relate to operating income and cash flow. A variable salary may amount to a maximum of 50% of the fixed annual salary.

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 month, 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, in an amount equal to 75% of the income from 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 an employee is, with few exceptions, entitled to severance pay for a period of 12 months.

Pensions

Previous pension agreements for certain senior executives stipulated that early retirement could be obtained from the age of 60. The defined pension benefits are vested and earned gradually over the years up to the employee's retirement age and are fully earned at age 60. During the period between ages of 60 and 65 the employee receives a pension equal to 70% of the pensionable salary.

Agreements for retirement at age 60 are no longer signed, and are instead replaced by a defined-contribution plan without a definite time for retirement. The premium constitutes 10% of the pensionable salary.

Earlier defined-benefit pension plans, which entitled the employee to 50% of the pensionable salary after normal retirement age, have also been replaced by a defined-contribution plan. The premium constitutes of SEK 30,000 plus 20% of the pensionable salary over 30 income base amounts.

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Re-negotiation of earlier defined-benefits pension plans for senior executives to defined-contribution plans is now closed. The majority of the senior executives that earlier were entitled to defined-benefits pension plans have chosen to exchange those to defined-contribution plans.

Incentive programs

Volvo currently has two different types of incentive programs for certain senior executives outstanding, one program for employee stock options (expires 2006/2008) and a share-based incentive program (allotment in 2006).

Employee stock options program

The employee stock options may only be exercised if the holder is employed by Volvo at the end of the vesting period. However, if the holder's employment with Volvo is terminated for any reason other than dismissal or the holder's resignation, the options may be exercised in part, in relation to how large part of the vesting period the holder has been employed. If the holder retires during the vesting period, he or she may exercise the full number of options.

Share-based incentive program

In 2004 the Annual General Meeting approved a share-based incentive program for certain senior executives within the Volvo Group. Allotment of 63,667 shares in the program was executed in April 2005 and was based on the fulfillment of certain non-market based financial goals for fiscal year 2004. The allotment was made from Volvo's treasury stock. Part of the allotment was carried out as a cash payment. The total costs for the share-based incentive program 2004/2005 amounted to SEK 36 M and pertains to the costs for payments in shares and in cash. The Annual General Meeting in 2005 decided on a similar program for allotment in 2006. Allotment will be made in 2006 and will be based on the fulfillment of certain non-market based financial goals for fiscal year 2005. Assuming that the financial goals are met in full, Volvo's cost for the incentive program including social fees will be approximately SEK 70 M, since the price of the Volvo B shares at the grant date, excluding dividend of SEK 12.50, was SEK 299.50. The Annual General Meeting decided that Volvo's own shares may be used for allotment in this program.

The Board has proposed to the Annual General Meeting to decide on a renewed share-based incentive program. The program means that a maximum of 518,000 (185,000) Volvo B shares could be allotted to approximately 240 (165) senior executives. It is proposed that the number of shares to be allotted depend on the fulfillment of certain non-market based financial goals for fiscal year 2006. Assuming that the financial goals are met in full, the dividend is decided to be SEK 16.75 and the price of the Volvo B share at the grant date is SEK 370, Volvo's cost for the incentive program, including social costs, will be approximately SEK 230 M. The Board has furthermore proposed to the Annual General Meeting that Volvo's own shares may be used for allotment in the share-based incentive program.

Financial instruments and shares	2003/2008 employee stock options number	Shares[1]
Board Chairman	–	–
CEO	50,000	4,000
Other members of GEC	340,000	31,000
Other senior executives	548,750	139,000
Total	**938,750**	**174,000**

1 The table shows payments in cash and the corresponding value in shares. Of the total 174,000 shares, 105,000 shares have been alloted and a cash-settlement corresponding to 69,000 shares have been granted.

Summary of option programs	Allotment date	Total number of outstanding options: Dec 31, 2004	Dec 31 2005	Excercise price	Term of the options	Value/ options	Vesting, years
1998, call options[1]	April 28, 2000	101,830	–	302.12	Apr 28, 2000–Apr 27, 2005	55.75	n/a
2002, employee stock options[2]	May 2, 2003	945,000	938,750	163.00	May 2, 2006–May 1, 2008	32.00	3

1 The options gives the holder the right to acquire one Series B Volvo share for each option held from a third party. The price of the options is based on market valuation by UBS Warburg. The options were financed 50% by the company and 50% from the option holder's variable salary.

2 In January 2000, a decision was made to implement a new incentive program for senior executives within the Volvo Group in the form of so-called employee stock options. The decision covers allotment of options for 2000, 2001 and 2002. The executives have not made any payment for the options. The employee stock options gives the holders the right to exercise their options or alternatively receive the difference between the actual price at that time and the exercise price determined at allotment. The theoretical value of the options at allotment was set using the Black & Scholes pricing model for options. For the options allotted in 2003, the Annual General Meeting has decided that Volvo's own shares may be used for the program.

Cost for incentive programs

Change in obligations related to the employee stock option programs is recorded in the income statement. The cost for the employee stock option program amounted to SEK 130 M. The cost for the share-based incentive program 2004/2005 was SEK 13 M and for the share-based incentive program 2005/2006 SEK 49 M. Total cost for the three programs was SEK 192 M for 2005 (66). The cost for the incentive program includes both cash payments and costs for remuneration in shares, including social costs. At December 31, 2005, provision related to the employee stock option program and share-based incentive program amounted to SEK 277 M (128).

Change in number of options per program

Number of options	Program 2000	Program 2002
Dec 31, 2003	96,245	1,050,000
Alloted	–	–
Cancelled	–	(105,000)
Exercised	(96,245)	–
Dec 31, 2004	–	945,000
Alloted		–
Cancelled		(6,250)
Exercised		–
Dec 31, 2005		938,750

	2004		2005	
Average number of employees	Number of employees	of which women, %	Number of employees	of which women, %
AB Volvo				
Sweden	136	54	144	50
Subsidiaries				
Sweden	27,034	18	27,843	19
Western Europe	26,325	14	25,894	14
Eastern Europe	2,731	16	3,481	15
North America	13,057	19	13,778	20
South America	3,040	12	3,656	14
Asia	4,114	16	4,273	15
Other countries	1,759	11	2,259	12
Group total	**78,196**	**16**	**81,184**	**17**

	2004		2005	
Board members and chief officers	Number at year-end	of which women, %	Number at year-end	of which women, %
AB Volvo				
Board members	11	9	11	9
CEO and GEC	17	6	17	6
Volvo Group				
Board members	1,017	15	1,010	10
Presidents and other senior executives	1,276	16	1,305	16

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Wages, salaries and other remunerations, SEK M	2004			2005		
	Board and Presidents [1]	of which variable salaries	Other employees	Board and Presidents [1]	of which variable salaries	Other employees
AB Volvo						
Sweden	33.4	11.6	106.3	42.8	9.8	97.9
Subsidaries						
Sweden	79.3	15.5	9,041.7	84.6	15.6	9,475.6
Western Europe	442.3	10.9	8,905.3	436.0	6.3	9,267.6
Eastern Europe	14.5	0.2	367.0	25.2	2.0	472.9
North America	209.1	10.2	5,292.7	199.4	17.9	5,965.5
South America	7.2	0.0	363.9	9.3	0.0	529.4
Asia	49.9	0.7	724.9	58.9	1.0	957.2
Other countries	12.7	0	394.5	26.7	0	467.5
Group total	**848.4**	**49.1**	**25,196.3**	**882.9**	**52.6**	**27,233.6**

Wages, salaries, other remunerations and social costs, SEK M	2004			2005		
	Wages, salaries, remunerations	Social costs	of which pens. costs	Wages, salaries, remunerations	Social costs	of which pens. costs
AB Volvo [2]	139.7	80.7	48.7	140.7	78.6	46.7
Subsidiaries	25,905.0	10,964.8	4,365.2	27,975.9	10,392.1	3,688.9
Group total [3]	**26,044.7**	**11,045.5**	**4,413.9**	**28,116.5**	**10,470.7**	**3,735.6**

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 22 in the Parent Company.
3 Of the **Group's** pension costs, 125.5 (157.8) pertain to Board members and Presidents. The Group's outstanding pension obligations to these individuals amount to 573.8 (838.3).

The cost for non-monetary benefits in the **Group** amounted to 1,055.9, of which 47.6 to Board members and presidents. The cost for non-monetary benefits in the **Parent company** amount to 14.6, of which 3.7 to Board members and presidents.

Note 35 Fees to the auditors

Audit fees	2004	2005
Audit fees to PricewaterhouseCoopers	78	78
Audit fees to other audit firms	2	1
Total	**80**	**79**
Other fees to PricewaterhouseCoopers		
Fees for audit related services	20	28
Fees for tax services	16	17
Total	**36**	**45**
Fees and other remuneration to external auditors total	**116**	**124**

Auditing assignments involve examination of the annual report and financial accounting and the administration by the Board and the President, other tasks related to the duties of a company auditor and consultation or other services that may result from observations noted during such examination or implementation of such other tasks. All other tasks are defined as other assignments.

Other fees in 2003 to PricewaterhouseCoopers amounted to 64.

Note 36 Financial risks and instruments

In its operations, the Volvo Group is exposed to various types of financial risks. Groupwide 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 within the Group's finance and treasury activities. Monitoring and control that established policies are adhered to is conducted continuously centrally and at each Group company. Most of the Volvo Group's financial transactions are carried out through Volvo's inhouse bank, Volvo Treasury, which conducts its operations within established risk mandates and limits. Credit risks are mainly managed by the different business areas.

The nature of the various financial risks and objectives and policies for the management of these risks is described in the sections below. Volvo's accounting policies for financial instruments are described in Note 1. As presented in Note 1, as of 2005, Volvo applies IAS 39, Financial Instruments: Recognition and Measurement. In accordance with this standard all derivatives shall be reported at fair value in the balance sheet. In calculating the fair values of financial instruments, Volvo has primarily used official rates or prices quoted on the capital markets. In their absence, the valuation has been made by discounting future cash flows at the market interest rate for each maturity for instruments with maturities shorter than three months, the carrying value has been assumed to closely approximate the fair value. All reported fair values are calculated values that will not necessarily be realized. The effects of the transition to IAS 39 are presented in Note 3.

Fair value of derivative instruments

In accordance with IAS 39, derivative financial instruments used for hedging of forecasted commercial cash-flows and electricity consumption have been reported at fair value, which is debited or credited to a separate component of equity to the extent the requirements for cash-flow hedge accounting are fulfilled. To the extent that the requirements are not met, the unrealized gain or loss is charged to the income statement. Gains and losses related to hedges are reported at the same time as the gains and losses on the items that are hedged effect the Group's consolidated shareholders' equity.

Change in hedge reserve in equity[1, 2]	2005
Balance at January 1, 2005	1,007
Change due to commercial derivatives	(1,495)
Change due to commodity forward contracts	53
Translation difference	24
Balance at December 31, 2005	(411)

1 After tax amounts.

2 Income has beed charged by 405 before tax concerning exchange rate gains/losses on forward contracts and options, reversed from the hedge reserve in equity.

Considering the more complex rules under IAS 39 regarding derivative financial instruments used for hedging of interest-rate risks and currency-rate risks on loans, Volvo has decided not to apply hedge accounting for interest-rate contracts. The unrealized gains and losses through to the settlement/expiration date of the financial instrument were charged to the financial net in the income statement.

Currency risks

Currency risks in Volvo's operations are related to changes in the value of contracted and projected future flows of payments (commercial currency risks), to changes in the value of loans and financial investments (financial currency risks) and to changes in the value of assets and liabilities in foreign subsidiaries (equity currency risks). The objective of Volvo's management of currency risks is to minimize short-term negative impact on Volvo's income and financial position as a consequence of changes in currency exchange rates.

Commercial currency risks

Volvo uses forward contracts and currency options to hedge the value of future payments in foreign currencies. According to the Group's currency policy, between 50% to 80% of the projected net flow in each currency is hedged for the coming 6 months, 30% to 60% for months 7 through 12 and firm flows beyond 12 months should normally be fully hedged. The nominal amount of all forward and option contracts outstanding as of December 31, 2005 was SEK 39.5 billion. The fair value of these contracts amounted on the same date to a loss of 732. If assuming an instantaneous 10% appreciation of the SEK against all other currencies, the fair value of contracts outstanding would amount to a gain of 2,621. If assuming an instantaneous 10% weakening of the SEK against all other currencies the fair value of contracts outstanding would be a loss of 4,101. Actual foreign currency rates rarely move instantaneously in the same direction and the actual impact of exchange rate changes may thus differ from the above sensitivity analyses. Further specifications of outstanding contracts are included in the tables below.

Financial currency risks

Loans and deposits in the Group companies are mainly made through Volvo Treasury in local currencies and financial currency exposure in the individual entities are thereby being minimized. Volvo Treasury uses various derivative instruments in order to provide deposits and lending in different currencies without increasing the company's own risk. The Volvo Group's net financial position is being affected by changes in currency rates because financial assets and liabilities are allocated between Group companies operating in different currencies.

Equity currency risks

The Group value of assets and liabilities in foreign subsidiaries is affected by currency exchange rates in connection with the translation to SEK. Equity currency risks are being minimized by ongoing optimization of the amount of equity in foreign subsidiaries with consideration of commercial and legal prerequisites. Equity hedging could be made if the equity level of a foreign subsidiary is considered as too high. At year-end 2005, net assets in subsidiaries and in associated companies outside Sweden amounted to SEK 33.7 billion. Of this amount, SEK 0.8 billion was hedged by loans in foreign currencies. Hedging of investments in associated companies and other companies will be executed on a case-by-case basis.

Interest rate risks

Interest rate risks include the risks that changes in interest rates affects the Group's income and cash-flow (cash-flow risks) or the fair value of financial assets and liabilities (price risks). By matching fixed interest periods of financial assets and liabilities the exposure for

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Outstanding forward contracts and option contracts as of December 31, 2005 for hedging of commercial currency risks

Million		Currencies Net flow USD	Net flow GBP	Net flow EUR	Other currencies Net SEK	Fair value[2]
Due date 2006	amount	1,783	219	832	6,635	
	rate[1]	7.46	13.44	9.32		
Due date 2007	amount	906	–	–		
	rate[1]	7.46	–	–		
Due date 2008 and onwards	amount	106	–	–		
	rate[1]	7.46	–	–		
Total		**2,795**	**219**	**832**	**6,635**	
of which, option contracts		488	0	55	862	
Fair value of forward and option contracts, SEK M[2]		**(498)**	**(28)**	**(77)**	**(129)**	**(732)**

1 Average forward contract rate.
2 Outstanding forward contracts valued at market rates.

Net flows per currency 2005

Million		Currencies USD	GBP	EUR	Other currencies Net SEK	Total
Net flows 2005	amount	2,447	383	1,001		
	rate[3]	7.4791	13.5849	9.2943		
Net flows SEK M[3]		**18,300**	**5,200**	**9,300**	**14,400**	**47,200**
Hedged portion, %[4]		**73**	**57**	**83**		

3 Average exchange rate during the financial year.
4 Outstanding currency contracts, regarding commercial exposure due in 2006, percentage of net flows 2005.

Outstanding forward contracts and option contracts for hedging of commercial currency risks

	December 31, 2004 Notional amount[1]	December 31, 2004 Carrying value	December 31, 2004 Fair value	December 31, 2005 Notional amount[1]	December 31, 2005 Carrying value	December 31, 2005 Fair value
Foreign exchange forward contracts						
– receivable position	26,203	264	1,775	37,754	536	536
– payable position	9,982	(88)	(511)	36,980	(1,272)	(1,272)
Options – purchased						
– receivable position	2,831	–	112	4,769	51	51
– payable position	–	–	–	3	(3)	(3)
Options – written						
– receivable position	233	–	0	–	–	–
– payable position	2,729	–	(5)	4,142	(44)	(44)
Subtotal		176	1,371		(732)	(732)
Commodity forward contracts						
– receivable position	(10)	–	7	394	54	54
– payable position	243	–	(32)	71	(11)	(11)
Total		176	1,346		(689)	(689)

1 The notional amount of the derivative contracts represents the gross contract amount outstanding. To determine the estimated fair value, the major part of the outstanding contracts have been marked to market. Discounted cash flows have been used in some cases.

interest rate risks is reduced. Interest rate swaps are used to change the fixed interest rate periods of the Group's financial assets and liabilities. Exchange rate swaps make it possible to borrow in foreign currencies in different markets without incurring currency risks. Volvo also holds standardized futures and forward rate agreements. The majority of these contracts are used to secure interest levels for short-term borrowing or deposits. Carrying amounts, fair values and additional specifications of derivative instruments used to manage currency and interest rate risks related to financial assets and liabilities are shown in the adjoining table.

Cash-flow risks

The exposure for cash-flow risks related to changes in interest rates pertains mainly to the Group's customer financing operations and interest net. According to the Group policy, matching of interest rate terms between lending and funding should exceed 80% in the customer financing operations. At the end of 2005, this matching was 99%. Volvo's interest-bearing assets, apart from the customer financing portfolio, consisted at the end of 2005 mainly of liquid funds that were invested in interest bearing securities with short-term maturities. By use of derivative instruments, the target is to achieve a fixed interest period of six months for the Group's liquid

Outstanding derivate instruments for hedging of currency risks and interest rate risks related to financial assets and liabilities

	December 31, 2004			December 31, 2005		
	Notional amount	Carrying value	Fair value	Notional amount	Carrying value	Fair value
Interest-rate swaps						
– receivable position	76,667	1,659	2,919	101,483	2,348	2,348
– payable position	68,018	(1,585)	(2,144)	116,824	(2,222)	(2,222)
Forwards and futures						
– receivable position	497,951	168	168	395,144	120	120
– payable position	499,512	(182)	(182)	343,309	(112)	(112)
Foreign exchange derivative contracts						
– receivable position	17,120	286	286	18,619	355	355
– payable position	8,273	(82)	(107)	14,474	(331)	(331)
Options purchased, caps and floors						
– receivable position	–	–	–	–	0	0
– payable position	200	–	(4)	502	(5)	(5)
Options written, caps and floors						
– receivable position	133	0	0	0	0	0
– payable position	1,946	(12)	(12)	822	(5)	(5)
Total		252	924		148	148

funds. At December 31, 2005, the average interest rate on liquid funds was 2.3%. Volvo's interest bearing liabilities, apart from loans designated to funding of the customer financing portfolio, consisted on the same date mainly of provisions for post-employment benefits and loans. For the outstanding loans, the interest rate terms with consideration of derivative instruments were corresponding to a fixed interest period of six months. The average interest rate at year-end was 4.7%.

If assuming an instantaneous one percentage (100 basis points) increase in interest rates of all currencies from their levels at December 31, 2005, with all other variables held constant, Volvo's income after financial items over a 12-month period would increase by 225. If assuming a corresponding one percentage (100 basis points) decrease in interest rates, Volvo's income after financial items would decrease by the same amount. It should be noted that the assumptions on which this sensitivity analysis is based upon rarely occur in reality. Actual interest rates rarely move instantaneously. Also, the sensitivity analysis assumes a parallel shift of the yield curve and that both assets and liabilities react correspondingly to changes in market interest rates. The impact from actual interest rate movements may thus differ from the above analysis.

Price risks

The exposure for price risks as a result of changes in interest rates is attributable to financial assets and liabilities with extended fixed interest rate terms. A comparison between carrying values and fair values of Volvo's all financial assets, liabilities and derivative instruments is presented in the table Fair value at page 124.

Market risks attributable to investments in shares or other equity instruments

The Volvo Group is exposed to market risks attributable to investments in shares or other equity instruments because funds that have been transferred to Volvo's pension plans partially are invested in instruments of this nature. Additional information regarding plan assets and obligations of Volvo's pension plans is presented in Note 24. Apart from Volvo's pension plans, investments in shares are only made if motivated by operational purposes. A comparison between carrying values and market values of Volvo's holdings in listed companies is included in Note 15.

Credit risks

Volvo's granting of credits is governed by common policies and rules for classification of customers. The credit portfolio should include a proper distribution among different categories of customers and industries. Credit risks are managed through active monitoring, follow-up routines and in appropriate cases repossession of products. Furthermore, it is continuously monitored that appropriate allowances are made for doubtful receivables.

On December 31, 2005, the credit portfolio within Volvo's customer financing operations amounted to approximately SEK 79 billion. The credit risks within this portfolio are distributed among a large number of individual customers and dealers. Collaterals exist in the form of the products being financed. When granting credits, an effort is made to balance risk exposure and expected yield.

The Volvo Group's financial assets are primarily managed by Volvo Treasury and invested in the money and capital markets. All investments must meet criteria for low credit risk and high liquidity. In accordance with Volvo's credit policy, counterparties for both investments and transactions in derivatives must in general have received a rating of "A" or better from one of the well established credit-rating agencies.

When using derivative instruments a counterparty risk will arise, i.e. the risk that a counterparty will not fulfill its part of a contract and that a potential gain will not be realized. Where appropriate, master netting agreements are signed with the respective counterparties to reduce exposure. The credit risk in futures contracts is limited through daily or monthly cash settlements of the net change in value of open contracts. The estimated gross exposure for counterparty risks related to forward exchange contracts, interest rate swaps and futures, options and commodity forward contracts amounted to 891; 2,468; 51 and 54 as of December 31, 2005.

Liquidity risks

Volvo maintains a strong financial position by continuously keeping a certain percentage of sales in liquid assets. A proper balance between short-term and long-term borrowing, as well as the ability to borrow in the form of credit facilities, are designed to ensure long-term financing.

Notes to consolidated financial statements

Fair value of Volvo's financial instruments [1]

	December 31, 2004		December 31, 2005	
	Carrying value	Fair value	Carrying value	Fair value
Assets				
Investments in shares and participations				
fair value determinable [2]	670	169	253	253
fair value not reliably determinable [3]	420	–	303	–
Customer-financing receivables	51,193	51,948	64,466	65,365
Other loans to external parties and other interest-bearing receivables	3,047	3,075	1,355	1,318
Marketable securities	25,955	25,955	28,834	28,834
Total	**81,285**	**81,147**	**95,211**	**95,770**
Liabilities				
Long-term bond loans and other loans [5]	40,411	41,684	43,761	44,338
Short-term bank loans and other loans [5]	21,396	21,584	31,589	31,472
Total	**61,807**	**63,268**	**75,350**	**75,810**
Derivative instruments [4]				
Outstanding derivative contracts for hedging of commercial currency risks	176	1,371	–	–
Outstanding commodity contracts	–	(25)	–	–
Outstanding derivative contracts for hedging of financial currency risks and interest rate risks	252	924	–	–

1 This table only includes a comparison between carrying values and fair values for interest bearing balance sheet items and derivative instruments. For non interest bearing financial instruments, such as accounts receivable and trade payables, the carrying values are considered to be equal to the fair values.

2 Pertains mainly to Volvo's investment in Deutz AG. For the purpose of these disclosures, fair values of listed shares are based upon quoted market prices at the end of the period.

3 No single investment represents any significant amount.

4 All derivative instruments has been booked to fair value in the balance sheet in accordance with IAS 39.

5 Including basis adjustment booked at the IFRS transition.

Note 37 Net income and shareholders' equity in accordance with US GAAP

A summary of the Volvo Group's net income and shareholders' equity determined in accordance with US GAAP, is presented in the accompanying tables.

In conjunction with the transition to IFRS, certain adjustment entries have changed as a result of Volvo's own accounting having changed and become, in many instances, closer to US GAAP, see note 3 Impact from IFRS.

Application of US GAAP would have the following effect on consolidated net income and shareholders' equity:

Net income	2004	2005
Income for the period in accordance with IFRS	9,907	13,106
Items increasing (decreasing) reported net income		
Derivative instruments and hedging activities (A)	228	9
Business combinations (B)	–	–
Investments in debt and equity securities (C)	5,157	–
Restructuring costs (D)	311	(153)
Post-employment benefits (E)	(286)	(307)
Product development (F)	(565)	(1,601)
Entrance fees, aircraft engine programs (G)	(392)	(156)
Other (H)	(60)	98
Income taxes on above US GAAP adjustments (I)	156	438
Net increase (decrease) in net income	4,549	(1,672)
Minority interest (J)	(40)	(38)
Net income (loss) in accordance with US GAAP	**14,416**	**11,396**
Net income (loss) per share, SEK in accordance with US GAAP	**34.44**	**28.12**
Weighted average number of shares outstanding (in thousands)	418,529	405,242

Shareholders' equity	2004	2005
Shareholders' equity in accordance with IFRS	70,155	78,768
Items increasing (decreasing) reported shareholders' equity		
Derivative instruments and hedging activities (A)	1,300	140
Business combinations (B)	5,932	5,932
Investments in debt and equity securities (C)	(494)	–
Restructuring costs (D)	311	158
Post-employment benefits (E)	1,326	990
Product development (F)	(4,708)	(6,450)
Entrance fees, aircraft engine programs (G)	(1,320)	(1,482)
Other (H)	(56)	70
Income taxes on above US GAAP adjustments (I)	862	1,620
Net increase (decrease) in shareholders' equity	3,153	978
Minority interest (J)	(229)	(260)
Shareholders' equity in accordance with US GAAP	**73,079**	**79,486**

Significant differences between IFRS and US GAAP for Volvo

A. Derivative instruments and hedging activities. Volvo uses forward exchange contracts and currency options to hedge the value of future commercial flows of payments in foreign currency and commodity purchases. As of 2005, Volvo applies IAS 39, Financial Instruments: Recognition and Measurement. The 2004 numbers have not been restated according to IAS 39. The accounting for derivative instruments and hedging activities under IFRS corresponds in substance with US GAAP.

Volvo applied hedge accounting under US GAAP for certain commercial cash flow hedges for hedging of interest risk until 2003. At January 1, 2004 this hedge accounting was ended. The basis adjustment on previously hedged items booked in Other Comprehensive Income will be amortized over the remaining time to maturity for the contracts.

At January 1, 2005, Volvo ceased to apply hedge accounting for hedging of interest rate risks in fair value hedges. The basis adjustment on previously hedged items will be amortized over the remaining time to maturity for the contracts. The difference in net income and equity for the terminated hedges is assignable to different adjustment amounts for the hegdes items and different periods of transition.

Notes to consolidated financial statements

Accounting for derivative instruments and hedging activities	Net income 2004	Net income 2005	Shareholders' equity 2004	Shareholders' equity 2005
Derivatives Commercial exposure	(117)	–	1,170	–
Derivatives Financial exposure	23	(4)	672	(3)
Basis adjustment on derecognised fair value hedges	322	13	(542)	143
Derivative instruments and hedging activities in accordance with US GAAP	**228**	**9**	**1,300**	**140**

B. Business combinations. Effective January 1, 2004, acquisitions of certain subsidiaries in Volvo are reported in accordance with IFRS 3, Business Combinations. Effective in 2002, Volvo adopted SFAS 141 "Business Combinations" and SFAS 142 "Goodwill and Other Intangible Assets" in its determination of Net income and Shareholders' equity in accordance with US GAAP. Substantially, the accounting principles in IFRS 3 and US GAAP correspond. The main difference being that they have different periods of transition.

In accordance with the transition rules of SFAS 142, Volvo has identified its "Reporting units" and determined the carrying value and fair value of each reporting unit as of January 1, 2002. No impairment loss was recognized as a result of the transitional goodwill evaluation. Furthermore, impairment tests have been performed, yearly in the year end close process, for existing goodwill. No impairment loss has been recognized as a result of these tests, see Note 14.

In 2001, AB Volvo acquired 100% of the shares in Renault V.I. and Mack Trucks Inc. from Renault SA in exchange for 15% of the shares in AB Volvo. The goodwill attributable to this acquisition was set at SEK 8.4 billion. Under US GAAP the corresponding goodwill amounted to SEK 11.5 billion. The difference was mainly attributable to determination of the purchase consideration. In accordance with Swedish GAAP applicable in 2001, when a subsidiary is acquired through the issue of own shares, the purchase consideration is determined to be based on the market price of the issued shares at the time the transaction is completed. In accordance with US GAAP, such a purchase consideration is determined based on the market price of the underlying shares for a reasonable period before and after the terms of the transaction are agreed and publicly announced. The goodwill value has been reduced by 974 in accordance with an agreement reached between AB Volvo and Renault SA about the final value of the acquired assets and liabilities in Renault V.I. and Mack Trucks. Volvo has chosen not to account for aquisitions prior to 2004 according to IFRS 3.

In 1995, AB Volvo acquired the outstanding 50% of the shares in Volvo Construction Equipment Corporation (formerly VME) from Clark Equipment Company in the US. Surplus value (goodwill) of SEK 2.8 billion was reported in conjunction with the acquisition. In the Volvo Group's consolidated financial statements, the shareholding was written down by SEK 1.8 billion, which was estimated to correspond to that portion of the goodwill that was attributable to the Volvo trademark at the time of the acquisition. Under US GAAP, the goodwill of SEK 2.8 billion was amortized over its estimated useful life (20 years) up to and including 2001. As of January 1, 2002, and in accordance with SFAS 142 (see above), no planned amortization of goodwill is made.

Under IFRS no yearly amortization of goodwill is made. This corresponds with US GAAP and no adjustment of net income is made in 2005.

Goodwill	Shareholders' equity 2004	Shareholders' equity 2005
Goodwill in accordance with IFRS	10,321	11,072
Items affecting reporting of goodwill:		
Acquisition of Renault V.I. and Mack Trucks Inc.	3,744	3,744
Acquisition of Volvo Construction Equipment Corporation	1,328	1,328
Other acquisitions	860	860
Net change in accordance with US GAAP	5,932	5,932
Goodwill in accordance with US GAAP	**16,252**	**17,004**

C. Investments in debt and equity securities. In accordance with In accordance with US GAAP, Volvo applies SFAS 115: "Accounting for Certain Investments in Debt and Equity Securities." SFAS 115 addresses the accounting and reporting for investments in equity securities that have readily determinable fair market values, and for all debt securities. As of 2005, Volvo applies IAS 39, Financial Instruments: Recognition and Measurement. IAS 39 corresponds in substance with SFAS 115 regarding the accounting for investments in debt and equity securities, which means that adjustments to net income and shareholders' equity in this regard are no longer made.

For 2004 Volvo has chosen not to account for investments in debt and equity securities according to IAS 39, see Note 3 Impact from IFRS. The 2004 difference in net income is mainly due to the divestment of the investment in Scania.

Adjustment from carrying amount 2004 to fair value according to IFRS	SFAS 115 gross adjustment 2004-12-31	IFRS adjustment	SFAS 115 gross adjustment 2005-01-01
Available for sale	(494)	494	0
	(494)	**494**	**0**

The carrying values and fair values for the securities were distributed as follows:

	December 31, 2004	
	Carrying value	Fair value
Available for sale		
Marketable securities	387	387
Shares and convertible debenture loan	677	183

D. Restructuring costs. Volvo reports restructuring costs in accordance with IAS 37 Provisions, contingent liabilities and contingent assets. Restructuring costs are reported in the year restructuring plans have been approved by the Boards of each company and communicated to all affected parties. The accounting standards for recoginizing restructuring costs under US GAAP, SFAS 146 "Accounting for costs Associated with Exit or Disposal Activities," are more strict. Restructuring costs are, in some cases, accounted for on an accrual basis under US GAAP while under IFRS a provision is booked.

During 2004, Renault Trucks industrial relocation was treated differently under US GAAP, compared with IFRS. The restructuring costs will be distributed under US GAAP during 2004–2006 while they under IFRS was expensed in its entirety in 2004.

E. Provisions for post-employment benefits. Effective 2004, provisions for post-employment benefits in Volvo's consolidated financial statements are accounted for in accordance with IAS 19, Employeee benefits. See Notes 1 and 24. In accordance with US GAAP, post-employment benefits should be accounted for in accordance with SFAS 87, "Employers Accounting for Pensions" and SFAS 106, "Employers' Accounting for Post-retirement Benefits Other than Pensions". The differences between Volvo's accounting principles according to IFRS and US GAAP pertain to different transition dates, recognition of past service costs and minimum liability adjustments.

F. Product development. Volvo applies IAS 38 Intangible Assets. In accordance with IAS 38, expenditures for development of new products, production and information systems should be recognized as intangible assets if such expenditures with a high degree of certainty will result in future financial benefits for the company. The acquisition value of such intangible assets should be amortized over the useful lives of the assets. Under US GAAP, all expenditures for development of new and existing products should be expensed as incurred.

Net periodical costs for post-employment benefits	2004	2005
Net periodical costs in accordance with IFRS	4,401	3,736
Net periodical costs in accordance with US GAAP	4,687	4,043
Adjustment of this year's income in accordance with US GAAP, before income taxes	**(286)**	**(307)**

Net provisions for post-employment benefits	Dec 31, 2004	Dec 31, 2005
Net provisions for post-employment benefits in accordance with IFRS	(14,332)	(11,462)
Difference in unrecognized actuarial (gains) and losses	5,266	5,762
Difference in unrecognized past service costs	602	686
Minimum liability adjustments	(4,542)	(5,458)
Net provisions for post-employment benefits in accordance with US GAAP	**(13,006)**	**(10,472)**

Notes to consolidated financial statements

G. Entrance fees, aircraft engine programs. In connection with its participation in aircraft engine programs, Volvo Aero in certain cases pays an entrance fee. In Volvo's accounting these entrance fees are capitalized and amortized over 5 to 10 years. In accordance with US GAAP, these entrance fees are expensed as incurred.

H. Other includes accounting differences regarding interest costs, leasing, share-based payments, guarantees, revenue recognition, consolidation of Variable Interest Entities and social costs on employee benefits.

Interest expenses: In accordance with US GAAP, interest expense incurred in connection with the financing of the construction of property and other qualifying assets is capitalized and amortized over the useful life of the related assets. In Volvo's consolidated accounts, interest expenses are reported in the year in which they arise.

Leasing: The differences regarding leasing transactions pertain to sale-leaseback transactions before 1997.

Share-based payments: Volvo applies IFRS 2 Share-based payments: At grant date, the fair value of share payments is determined and the cost is recognized during the vesting period against shareholders' equity. Adjustment in 2005 pertains to settlement of old options programs.

Guarantees: In accordance with FIN 45 "Guarantor's Accounting and Disclosure Requirement for Guarantees, Including indirect Guarantees of indebtedness for Others", a liability should be recognized at the time a company issues a guarantee for the fair value of the obligations assumed under certain guarantee agreements. In accordance with IFRS, a liability should be recognized to the extent a company expects that a loss will be incurred as result of the guarantee commitment. At December 31, 2005, the gross value of credit guarantees issued for external parties amounted to 1,351 (2,869). The fair value of these guarantees recognized under US GAAP amounted to 62 (92). Counter guarantees received in respect of these commitments amounted to 58 (56).

Revenue recognition: When determining timing for recognition of revenue, US GAAP focuses more on the formal contract terms while IFRS focuses more on actual risk that the residual value guarantee will be exercised. This means in certain cases that sales recognized under IFRS cannot be recognized under US GAAP.

Under IFRS all sales not qualifying for revenue recognition are treated in the same way as deferred income. Under US GAAP sales that are made to companies who in turn lease out the equipment under operating leases are accounted for as financing transactions rather than as deferred income. The total impact of revenue recognition is an additional 322 (433) as assets under operating leases, 343 (270) reduced residual value liability and 886 (783) as interest-bearing liabilities. The net income effect is positive 4 (negative 53).

Variable Interest Entities: In accordance with US GAAP FIN 46 certain entities should be consolidated where the Group is the Primary Beneficiary of the Variable Interest Entity. Volvo adopted FIN 46 as per January 1, 2004. In Volvo this has had a limited impact and a minor number of entities have been consolidated. The majority of the consolidated entities are so called Franchisees to Volvo Rents. The balance sheet impact is 25 (42) and the addition in sales is 109 (112).

Contracts with character of a leasing agreement: Certain contracts do not have the legal form of a leasing agreement, but contain clauses based on which the contract can be considered a leasing agreement. In Volvo's reporting, under IFRS, this type of asset is not recognized in the balance sheet. In accordance with US GAAP, an assessment is made about whether the contract is considered a financial or an operational lease and reporting shall be in accordance with the accounting principles applied. The total effect on Volvo in an adjustment of the 2005 figures is 67 in financial leasing assets, net, and 4 in increased depreciation. As of 2006, Volvo will report in accordance with IFRIC 4, Determining whether an agreement contains a lease or not, which in all significant respects coincides with US GAAP.

Cash flow: In accordance with IFRS, receivables within Volvo's customer financing operations are classified as cash flow from operating activities. Under US GAAP the classification depends on how the actual cash flow occurs. In cases when customer financing is to an external customer and thereby results in an actual cash flow, according to US GAAP this should be classified as cash flow from financing activities. Approximately 15% of Volvo's customer finance receivables relates to this kind of contracts and should hence be classified as cash flow from investing activities under US GAAP.

Payroll Tax: An adjustment of positive 104 has been booked for social expenses on employee benefits.

I. Income taxes on US GAAP adjustments. Deferred taxes are reported for temporary differences arising from differences between US GAAP and IFRS.

J. Minority interest: In accordance with IFRS, minority interest is recognized a part of shareholders' equity and are included in net income for the year in the income statement. Under US GAAP, minority interest is reported as a separate item in both the income statement and balance sheet.

Comprehensive income (loss)	2004	2005
Net income (loss) in accordance with US GAAP	14,416	11,396
Other comprehensive income (loss), net of income taxes		
Translation differences	(172)	3,458
Unrealized gains and (losses) on securities (SFAS 115):		
Unrealized gains (losses) arising during the year	(14)	83
Less: Reclassification adjustment for (gains) and losses included in net income	(3,285)	–
Additional minimum liability for pension obligations (SFAS 87)	(471)	(284)
Fair value of cash-flow hedges (SFAS 133)	13	(1,442)
Other	(1)	98
Other comprehensive income (loss), subtotal	(3,930)	1,913
Comprehensive income (loss) in accordance with US GAAP	**10,486**	**13,309**

Parent Company AB Volvo

Corporate registration number 556012-5790.

Board of Directors' report

The program for repurchase of own shares that the Annual General Meeting on April 16, 2004 mandated the Board to decide on was completed on March 1, 2005. Among other aims, the purpose of the repurchase was to optimize AB Volvo's capital structure. In total 300,000 A shares and 14,475,000 B shares were repurchased corresponding to SEK 4,295 M. After the completed repurchase program, AB Volvo held a total of 7,230,246 A shares and 29,890,797 B shares in the company, corresponding to about 8.4% of the total number of shares in the company.

The Annual General Meeting in AB Volvo on April 12, 2005 resolved that the company's share capital should be reduced by SEK 95,021,046 through the cancellation without repayment of 3,084,619 A shares and 12,752,222 B shares that the company repurchased. The cancellation was accomplished during the second quarter of 2005. After the cancellation, AB Volvo owns 5% of its own shares.

Income from investments in Group companies includes dividends amounting to 9,161 (101), write-downs of shareholdings of 8,420 (1,364) and Group contributions and transfer price adjustments, net, of 5,360 (5,673). All shares in Volvo Lastvagnar AB, 8,678, were received as dividend from Volvo Global Trucks, after which shares in Volvo Global Trucks AB were written down by 8,420. The divestment of Celero Support AB resulted in a capital gain of 518 in the parent company.

The carrying value of shares and participations in Group companies amounted to 40,812 (40,393), of which 40,298 (39,878) 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 67,804 (55,831).

Shares and participations in non-Group companies included 0 (0) 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 85 (90). Shares and participations in non-Group companies included listed shares in Deutz AG with a carrying value of 253, corresponding to the quoted market price at year-end. The holding in Deutz AG is reported at market value as of January 1, 2005 in accordance with application of the new accounting principle, IAS 39 Financial Instruments, from the same date. See also Note 1 Accounting principles.

Financial net assets amounted to 6,052 (5,541).

AB Volvo's risk capital (shareholders' equity plus untaxed reserves) amounted to 51,115 corresponding to 92% of total assets. The comparable figure at year-end 2004 was 94%.

Income statements

SEK M		2004	**2005**
Net sales		531	**663**
Cost of sales		(531)	**(663)**
Gross income		0	**0**
Selling expenses		–	**(56)**
Administrative expenses	Note 2	(471)	**(955)**
Other operating income and expenses	Note 3	5	**7**
Income from investments in Group companies	Note 4	4,409	**6,620**
Income from investments in associated companies	Note 5	(1)	**0**
Income from other investments	Note 6	851	**(1)**
Operating income		4,793	**5,615**
Interest income and similar credits	Note 7	294	**114**
Interest expenses and similar charges	Note 7	(238)	**(31)**
Other financial income and expenses	Note 8	111	**(108)**
Income after financial items		4,960	**5,590**
Allocations	Note 9	1,524	**0**
Income taxes	Note 10	(1,338)	**(1,230)**
Income for the period		5,146	**4,360**

Balance sheets

SEK M			December 31, 2004		December 31, 2005
Assets					
Non-current assets					
Rights	Note 11		0		**0**
Property, plant and equipment	Note 11		21		**16**
Financial assets					
Shares and participations in Group companies	Note 12	40,393		**40,812**	
Other shares and participations	Note 12	691		**271**	
Deferred tax assets	Note 10	987		**198**	
Other long-term receivables		12	42,083	**11**	**41,292**
Total non-current assets			42,104		**41,308**
Current assets					
Short-term receivables from Group companies			7,274		**7,186**
Other short-term receivables	Note 13		1,143		**114**
Short-term investments in Group companies	Note 14		6,558		**7,047**
Cash and bank accounts			50		**0**
Total current assets			15,025		**14,347**
Total assets			57,129		**55,655**
Shareholders' equity and liabilities					
Shareholders' equity					
Restricted equity					
Share capital (425,684,044 shares, quota value SEK 6)		2,649		**2,554**	
Statutory reserve		7,241	9,890	**7,337**	**9,891**
Unrestricted equity					
Retained earnings		38,929		**36,860**	
Income for the period		5,146	44,075	**4,360**	**41,220**
Total shareholders' equity			53,965		**51,111**
Untaxed reserves	Note 15		4		**4**
Provisions					
Provisions for pensions	Note 16	419		**200**	
Other provisions		2	421	**71**	**271**
Non-current liabilities	Note 17				
Liabilities to Group companies			6		**6**
Current liabilities					
Loans from Group companies		1,627		**795**	
Trade payables		58		**64**	
Other liabilities to Group companies		749		**2,505**	
Current tax liabilities	Note 18	–		**441**	
Other current liabilities		299	2,733	**458**	**4,263**
Total shareholders' equity and liabilities			57,129		**55,655**
Assets pledged			–		
Contingent liabilities	Note 19		120,738		**133,595**

Changes in Shareholders' equity

SEK M	Restricted equity		Unrestricted	Total share-
	Share capital	Legal reserve	equity	holders' equity
Balance at December 31, 2003	**2,649**	**7,241**	**50,878**	**60,768**
Effect due to change of accounting principle	–	–	235	235
Balance at January 1, 2004	**2,649**	**7,241**	**51,113**	**61,003**
Cash dividend	–	–	(3,356)	(3,356)
Distribution of shares in Ainax AB to shareholders	–	–	(6,310)	(6,310)
Repurchase of own shares	–	–	(2,532)	(2,532)
Share based payments	–	–	14	14
Income for the period	–	–	5,146	5,146
Balance at December 31, 2004	**2,649**	**7,241**	**44,075**	**53,965**
Effect due to change of accounting principle	–	–	(501)	(501)
Balance at January 1, 2005	**2,649**	**7,241**	**43,574**	**53,464**
Decrease of share capital	(95)	–	–	(95)
Transfer to statutory reserve	–	95	–	95
Cash dividend	–	–	(5,055)	(5,055)
Repurchase of own shares	–	–	(1,764)	(1,764)
Share based payments	–	1	22	23
Revaluation of shares in listed companies	–	–	83	83
Income for the period	–	–	4,360	4,360
Balance at December 31, 2005	**2,554**	**7,337**	**41,220**	**51,111**

The distribution of share capital by class of shares is shown in Note 23 to the consolidated financial statements. As of January 1, 2005, the Parent Company applies the Swedish Financial Accounting Standards Council's RR 32 Accounting for legal entities, with retroactive restatement from January 1, 2004. See Note 1 Accounting principles and note 3 Impact of IFRS for more information regarding the effects.

Cash-flow statements

SEK M			2004		2005
Operating activities					
Operating income			4,793		**5,615**
Depreciation and amortization			1		**1**
Other items not affecting cash	Note 20		(4,726)		**1,222**
Changes in working capital:					
(Increase)/decrease in receivables			111		**13**
Increase/(decrease) in liabilities and provisions			(20)		**(40)**
Interest and similar items received			282		**272**
Interest and similar items paid			(210)		**(220)**
Other financial items			32		**26**
Income taxes paid/received			75		**-**
Cash flow from operating activities			338		**6,889**
Investing activities					
Investments in fixed assets		(2)		**0**	
Disposals of fixed assets		4		**7**	
Shares and participations in Group companies, net	Note 20	(670)		**348**	
Shares and participations in non-Group companies, net	Note 20	15,082		**1**	
Interest-bearing receivables including marketable securities, net	Note 20	0	14.414	**988**	**1.344**
Cash flow after net investments			14,752		**8,233**
Financing activities					
Increase/(decrease) in loans	Note 20	(3,180)		**(975)**	
Cash dividend to AB Volvo shareholders		(3,356)		**(5,055)**	
Repurchase of own shares		(2,532)	(9,068)	**(1,764)**	**(7,794)**
Change in liquid funds			5,684		**439**
Liquid funds, January 1			924		**6,608**
Liquid funds, December 31			6,608		**7,047**

Liquid funds

Liquid funds include cash and bank balances and deposits at Volvo Treasury.

Notes and comments

General information

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

Intra-Group transactions
Of the Parent Company's sales, 567 (426) were to Group companies and purchases from Group companies amounted to 356 (126).

Fees to auditors
Fees and other remunerations paid to external auditors for the fiscal year 2005 totaled 31 (26), of which 10 (13) for auditing, distributed between PricewaterhouseCoopers, 10 (13) and others, 0 (0), and 21 (13) related to non-audit services from PricewaterhouseCoopers.

Note 1 Accounting principles

The accounting principles applied by Volvo are described in Note 1 to the consolidated financial statements.

As of January 1, 2005, the Parent Company applies the Swedish Financial Accounting Standards Council's RR 32 Accounting for legal entities, with retroactive restatement from January 1, 2004. The Standard means that legal entities whose securities on the closing date are listed on a Swedish stock exchange or other authorized marketplace as main rule shall apply the IFRS/IAS as applied in the consolidated accounting. Comparison figures for 2004, in tables and the notes, have been restated where applicable. An exception is however IAS 39 Financial Instruments which is applied as of January 1, 2005.

The Volvo Group has adopted IAS 19 Employee Benefits in its financial reporting. The parent company is still applying the principles of FAR's Recommendation No. 4 "Accounting of pensions 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 depreciation allowable for tax purposes 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 capital.

Reporting of Group contributions is in accordance with a statement issued by a special committee of the Swedish Financial Accounting Standards Council. Group contributions are reported among Income from investments in Group companies.

For the Parent Company the most important impact of RR 32 has been in the following three areas:

Hedge accounting
Hedge accounting in a legal entity of net investments in foreign operations is not permitted according to RR 32. The Parent Company has in previous years used a loan to hedge shares in a foreign subsidiary in the corresponding currency. This loan has been reported at historical rate and not been revaluated. According to IAS 21 loans in foreign currencies shall be reported at closing rate. The transition effect on January 1, 2004, is reported in the shareholders' equity whereas revaluation as of 2004 is recognized in the income statement.

Share-based Payments
The new share-based incentive program adopted at the 2004 Annual General Meeting is covered by IFRS 2 Share-based payments.

Investments in other companies
In accordance with IAS 39, all investments in companies, except if these investments are classified as associated companies, should be reported in the balance sheet at fair value. The transition effect on January 1, 2005, attributable to this accounting change is related to Volvo's investment in Deutz AG

A further description of the most important changes for the Parent Company by the application of RR 32 is found below in the tables of reconciliation of shareholders' equity and net income.

Summarized reconciliation of shareholders' equity

SEK M	040101	041231	050101
Shareholders' equity according to previous Annual report	**60,768**	**53,668**	**53,668**
Revaluation of loans	235	283	283
Share-based payments	–	14	14
Investments in listed companies	–	–	(501)
Shareholders' equity after change of accounting principle	**61,003**	**53,965**	**53,464**

Summarized reconciliation of net income

SEK M	2004
Income for the period according to previous Annual report	**5,098**
Revaluation of loans	66
Deferred tax	(18)
Income for the period after change of accounting principle	**5,146**

Note 2 Administrative expenses

Administrative expenses include depreciation of 1 (1) of which 1 (1) pertain to machinery and equipment and 0 (0) to buildings.

Note 3 Other operating income and expenses

Other operating income and expenses include profit sharing payments to employees in the amount of 1 (0).

Note 4 Income from investments in Group companies

Of the income reported, 9,161 (101) pertained to dividends from Group companies. Of the dividend, 394 pertained to anticipated dividend from Volvo Financial Services AB. All shares in Volvo Lastvagnar AB, 8,678, were received as dividend from Volvo Global Trucks AB, after which shares in Volvo Global Trucks AB were written down by 8,420. In 2004 write-downs of shareholdings amounted to 1,364.

Transfer price adjustments and Group contributions total a net of 5,360 (5,673). Divestment of total shares in Celero Support AB resulted in a capital gain of 518.

Note 5 Income from investments in associated companies

Income from associated companies that are reported in the Group accounts in accordance with the equity method pertains to participation in Blue Chip Jet HB 0 (–1).

Note 6 Income from other investments

In 2004 revaluation of shareholdings amounted to 820, whereof reversal of previous year's write-down of Scania AB, 915 and write-down of Henlys Group Plc, 95. Divestment of total shares in Bilia AB resulted in a capital gain of 28.

Note 7 Interest income and expenses

Interest income and similar credits amounting to 114 (294), included interest in the amount of 112 (289) from subsidiaries and interest expenses and similar charges totaling 31 (238), included interest of 31 (213) to subsidiaries.

In 2004 interest-rate swaps were included in interest income with 53 and in interest expenses with 112. As from 2005 these are disclosed net and are included in interest expenses with 3.

Note 8 Other financial income and expenses

Other financial income and expenses include exchange rate differences on loans, guarantee commissions from subsidiaries, costs for confirmed credit facilities as well as costs of having Volvo shares registered on various stock exchanges. In 2004 repayment of interest and residual taxes regarding a judgement in the Administrative court of appeal and expenses for distribution of the shares in Ainax AB to Volvo's shareholders are included. Exchange differences on loans have been recounted for year 2004 due to new accounting principles. See Note 1 Accounting principles for more information.

Note 9 Allocations

	2004	2005
Allocation to additional depreciation	(1)	0
Utilization of tax allocation reserves	1,525	–
Total	**1,524**	**0**

Notes to financial statements

Note 10 Income taxes

	2004	2005
Current taxes	92	(331)
Deferred taxes	(1,430)	(899)
Total income taxes	**(1,338)**	**(1,230)**

Current taxes were distributed as follows:

Current taxes	2004	2005
Current taxes for the period	–	(331)
Adjustment of current taxes for prior periods	92	–
Total income taxes	**92**	**(331)**

Claims as a consequence of tax audit carried out previously for which provisions are not deemed necessary amount to – (135). 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 –942 (–1,427) and to changes in other temporary differences to 43 (–3). Income taxes of 110 regarding prior periods have been debited directly to equity in connection with change of accounting principle.

The table below shows the principal reasons for the difference between the corporate income tax (28%) and the tax for the period.

	2004	2005
Income before taxes	6,484	5,590
Income tax according to applicable tax rate (28%)	**(1,815)**	**(1,565)**
Capital gains	184	149
Non-taxable dividends	46	2,565
Non-taxable revaluations of shareholdings	(153)	(2,358)
Other non-deductible expenses	26	(24)
Other non-taxable income	282	3
Adjustment of current taxes for prior periods	92	–
Total income taxes	**(1,338)**	**(1,230)**

Specification of deferred tax assets	2004	2005
Tax-loss carryforwards	942	–
Valuation allowance for doubtful receivables	1	1
Provision for post-employment benefits	154	177
Other deductible temporary differences	0	20
Other taxable temporary differences	(110)	–
Deferred tax assets	**987**	**198**

Note 11 Intangible and tangible assets

Acquisition cost	Value in balance sheet 2004	Capital expenditures	Sales/ scrapping	Value in balance sheet 2005
Rights	52	–	–	52
Total intangible assets	**52**	**-**	**-**	**52**
Buildings	9	–	(3)	6
Land and land improvements	4	–	(1)	3
Machinery and equipment	49	0	(1)	48
Total tangible assets	**62**	**0**	**(5)**	**57**

Accumulated depreciation	Value in balance sheet 2004 [2]	Depreciation [1]	Sales/ scrapping	Value in balance sheet 2005 [2]	Net carryng value in balance sheet 2005 [3]
Rights	52	–	–	52	0
Total intangible assets	**52**	**-**	**-**	**52**	**0**
Buildings	1	0	0	1	5
Land and land improvements	–	0	–	0	3
Machinery and equipment	40	1	(1)	40	8
Total tangible assets	**41**	**1**	**(1)**	**41**	**16**

1 Including write-downs.
2 Including accumulated write-downs.
3 Acquisition value, less accumulated depreciation, amortization and write-downs.

The assessed value of buildings was 3 (5) and of land 1 (2). Capital expenditures in tangible assets amounted to 0 (2). Capital expenditures approved but not yet implemented at year-end 2005 amounted to 0 (0).

Note 12 Investments in shares and participations

Holdings of shares and participations are specified in AB Volvo's holding of shares (pages 141–143). Changes in holdings of shares and participations are shown below.

	Group companies		Non-Group companies	
	2004	2005	2004	2005
Balance December 31, previous year	41,329	40,393	813	691
Transition effect on shares in listed companies	–	–	–	(501)
Acquisitions/New issue of shares/Dividends	133	8,682	–	–
Divestments	(81)	(26)	(25)	(2)
Shareholder contributions	376	183	–	–
Write-downs	(1,364)	(8,420)	(97)	0
Revaluation of shares in listed companies	–	–	–	83
Balance, December 31	**40,393**	**40,812**	**691**	**271**

Shares and participations in Group companies

In 2005 all shares in Volvo Lastvagnar AB, 8,678, were received as dividend from Volvo Global Trucks AB, after which shares in Volvo Global Trucks AB were written down by 8,420 and sold inter-company for book value.

The holding in the service company Celero Support AB with a book value of 25 was sold.

Shareholder contribution was made with 183 to Volvo Financial Services AB.

2004: The remaining 2% of the shares in Kommersiella Fordon Europa AB has been acquired for 28 by compulsory acquisition. The acquisition costs of the stockholding increased with 4 and at year-end the holding was written-down with 643.

25% of the shares in VFS Servizi Financiari Spa has been acquired inter-company for 101.

The holdings in seven dormant Group companies with a total book value of 82 have been transferred Group internal.

Shareholder contributions were made to Alviva AB, 2 and to Celero Support AB, 10, whereupon the shareholdings were written down by the corresponding amounts.

Shareholder contributions were also made to Volvo Bussar AB, 18, Volvo Global Trucks AB, 1 and Volvo Financial Services AB, 345.

Write-downs were carried out at year-end on holdings in Sotrof AB, 600, Volvo China Investment Co Ltd, 99 and Volvo Penta UK, 10.

Shares and participations in non-Group companies

As of January 1, 2005, the Parent Company applies IAS 39 Financial Instruments: Recognition and Measurement, and accordingly all investments in listed companies, except if these investments are classified as associated companies, should be reported in the balance sheet at fair value. AB Volvo's ownership in the listed company Deutz AG has been valuated to market value during 2005. The effect of this transition at January 1, 2005, amounted to –501, after which the value has increased by 83 during the year. Also see Note 1 Accounting principles.

2004: Volvo's holding of Scania B shares was sold to Deutsche Bank for an amount of 14,905. As a consequence of the divestment, the Scania holding was written down in the fourth quarter of 2003. The transaction was carried out as part of Volvo's commitment to the European Commission to divest the Scania shares not later than April 23, 2004. After the sale Volvo owned 27.3 million A shares in Scania AB. The holding was revaluated to market value on April 15, resulting in an income of 915 in 2004. At the Annual General Meeting on April 16, 2004, the Board's proposal to transfer all A shares in Scania to Ainax and thereafter to distribute the shares in Ainax to Volvo's shareholders was approved. The value of the distribution of Ainax was 6,310. The shares in Ainax were distributed to Volvo's shareholders on June 8, 2004.

During 2004 Volvo's holding in Henlys Group Plc has been fully written down and a write-down of 95 was thereby charged to the income statement.

The holding in Bilia AB with a book value of 25 was sold.

The participations in Blue Chip Jet HB were written down by 1.

Notes to financial statements

Note 13 Other short-term receivables

	2004	2005
Accounts receivable	14	14
Prepaid expenses and accrued income	135	72
Other receivables	994	28
Total	**1,143**	**114**

The valuation allowance for doubtful receivables amounted to 5 (5) at the end of the year.

Of other receivables in 2004, 979 pertained to a receivable from Renault SA. AB Volvo and Renault SA signed a settlement agreement regarding the disagreement the companies have had since 2001 pertaining to Volvo's acqusition of Renault V.I. According to this settlement Renault SA transferred EUR 108 M to AB Volvo on January 26, 2005.

Note 14 Short-term investments in Group companies

Short-term investments in Group companies comprise deposits of 7,047 (6,558) in Volvo Treasury.

Note 15 Untaxed reserves

The composition of, and changes in, untaxed reserves:	Value in balance sheet 2004	Allocations 2005	Value in balance sheet 2005
Accumulated additional depreciation			
Land	3	–	3
Machinery and equipment	1	0	1
Total	**4**	**0**	**4**

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 (26) pertains to contractual obligations within the framework of the PRI (Pension Registration Institute) system. The exchange in 2005 of defined-benefit pension plans by defined-contribution plans for certain senior executives has resulted in a decrease of provisions for pensions. For further information see Note 34 to the consolidated financial statements.

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 93 (79).

The accumulated benefit obligation of all AB Volvo's pension obligations at year-end 2005 amounted to 637, which has been secured in part through provisions for pensions and in part through funds in pension foundations. Net asset value in the Pension Foundation, marked to market, accruing to AB Volvo was 53 higher than corresponding pension obligations.

Note 17 Non-current liabilities

Long-term debt matures as follows:	
2009 or later	6
Total	**6**

Note 18 Other current liabilities

	2004	2005
Wages, salaries and withholding taxes	53	59
Other liabilities	156	279
Accrued expenses and prepaid income	90	120
Total	**299**	**458**

No collateral is provided for current liabilities. Other liabilities have been recalculated for year 2004 due to new accounting principles. See Note 1 Accounting principles for more information.

Note 19 Contingent liabilities

Of the contingent liabilities amounting to 133,595 (120,738), 133,462 (120,591) pertained to Group companies.

Guarantees for various credit programs are included in amounts corresponding to the credit limits. These guarantees amount to 127,987 (115,266), of which guarantees on behalf of Group companies totaled 127,982 (115,261).

At the end of each year, the utilized portion amounted to 67,908 (53,142) including 67,776 (53,130) pertaining to Group companies.

Note 20 Cash flow

Other items not affecting cash	2004	2005
Revaluation of shareholdings	545	8,421
Dividends, transfer price adjustments and Group contributions	(5,273)	(6,940)
Gain on sale of shares	(27)	(519)
Other	29	260
Total	**(4,726)**	**1,222**

Further information is provided in Notes 4, 5 and 6.

Shares and participations in Group companies, net		
Investments	(703)	(197)
Disposals	33	545
Net investments in shares and participations in Group companies	**(670)**	**348**

Investments and sales of shares in Group companies are shown in Note 12.

Shares and participations in non-Group companies, net	2004	2005
Investments	–	–
Disposals	15,082	1
Net investments in shares and participations in non-Group companies	**15,082**	**1**

Sales of shares in Scania AB resulted 2004 in a positive cash flow of 15,029.

Other investments and sales of shares in non-Group companies are presented in Note 12.

Interest-bearing receivables including marketable securities, net		
New loans granted	0	–
Amortization received	–	988
Change in interest-bearing receivables, net	**0**	**988**

Increase/decrease in loans		
New loans	–	–
Amortization	(3,180)	(975)
Change in loans, net	**(3,180)**	**(975)**

Notes to financial statements

Note 21 Financial risks and instruments

Volvo's accounting policies for financial instruments are described in Note 1 and Note 36 to the consolidated financial statements. Hedging transactions in AB Volvo are carried out through Volvo Treasury AB. The Parent Company has used interest-rate swaps to hedge financial liabilities of Group companies. Maturities of these swaps are between 2006 and 2009. During 2004 AB Volvo has used forward exchange contracts for hedging of short-term receivable and liability regarding the amount of the settlement agreement between AB Volvo and Renault SA (See Note 13). Maturities of theses contracts were on January 26, 2005.

Outstanding derivative instruments for hedging of financial currency risks and interest rate risks related to financial assets and liabilities

	December 31, 2004			December 31, 2005		
	Notional amount	Carrying value	Fair value	Notional amount	Carrying value	Fair value
Interest-rate swaps						
– payable position	4,563	(17)	(17)	–	–	–
– receivable position	–	–	–	6,284	13	13
Foreign exchange contracts						
– receivable position	1,942	13	13	–	–	–

Note 22 Personnel

Wages, salaries and other remunerations amounted to 141 (140). Social costs amounted to 125 (111) of which pension costs, 93 (79). Of these 4 (53) pertained to Board members and Presidents. The Company's outstanding pension obligations to these individuals amounted to 211 (400).

The number of employees at year-end was 144 (144). 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	2004	2005
Total absence due to illness in percentage of regular working hours	2.2	2.1
of which, continuous sick leave for 60 days or more, %	70.9	64.6
Absence due to illness in percentage of regular working hours		
Men, %	0.8	1.2
Women, %	3.6	3.0
29 years or younger, %	0.9	0.4
30–49 years, %	1.2	2.3
50 years or older, %	3.6	2.2

AB Volvo's holding of shares

AB Volvo's holding of shares and participations in non-Group companies	Registration number	Percentage holding[1]	Dec 31, 2004 Carrying value, SEK M	Dec 31, 2005 Carrying value, SEK M
Deutz AG, Germany	–	7	670	253
Henlys Group Plc, Great Britain	–	10	0	0
Blue Chip Jet HB, Sweden	969639-1011	40	1	0
Other investments			20	18
Total carrying value, non-Group companies			**691**	**271**

1 Percentage figures refer to share capital as well as voting rights.

AB Volvo's holding of shares and participations in Group companies	Registration number	Percentage holding	Dec 31, 2004 Carrying value, SEK M	Dec 31, 2005 Carrying value, SEK M
Volvo Global Trucks AB, Sweden	556605-6759	100	8,420	–
Volvo Lastvagnar AB, Sweden	556013-9700	100	–	8,678
Volvo Truck Center Sweden AB, Sweden	556072-7777	100	–	–
Volvo Finland AB, Finland	–	100	–	–
Volvo Trucks (Deutschland) GmbH, Germany	–	100	–	–
Volvo Europa Truck NV, Belgium	–	100	–	–
Volvo Trucks (Schweiz) AG, Switzerland	–	100	–	–
Volvo Truck Espana, SA, Spain	–	100	–	–
Volvo Truck and Bus Limited, Great Britain[1]	–	100	–	–
Volvo Truck Latvia Sia, Latvia	–	100	–	–
Volvo Truck Czech S R O, Czech Republic	–	100	–	–
Volvo Truck Slovak, Slovakia	–	100	–	–
Volvo do o Beograd, Yugoslavia	–	100	–	–
Volvo Macedonia, Ltd, Macedonia	–	100	–	–
Volvo Romania SRL, Romania	–	100	–	–
Volvo Otomotiv Turk Ltd STI, Turkey	–	100	–	–
Volvo Trucks Canada Inc, Canada	–	100	–	–
Volvo Trucks de Mexico, Mexico	–	100	–	–
Volvo Peru Sociedad Anonima, Peru	–	100	–	–
Volvo Truck Australia Pty Ltd, Australia	–	100	–	–
Volvo India Ltd, India	–	100	–	–
Volvo Holding Sverige AB, Sweden	556539-9853	100	7,634	7,634
Mack Canada, Canada	–	100	–	–
Volvo do Brasil, Veiculos Ltda, Brasil	–	100	–	–
Volvo Polska Sp. O.O., Poland	–	100	–	–
Volvo Southern Africa Pty Ltd, South Africa	–	100	–	–
Banco Volvo (Brasil) SA, Brasil	–	100	–	–
Volvo Holding France SA, France	–	100	–	–
Volvo Compact Equipment SAS, France	–	100	–	–
Volvo CE Europe SAS, France	–	100	–	–
VFS Finance France, SA, France	–	100	–	–
VFS Location France SAS, France	–	100	–	–

AB Volvo's holding of shares and participations in Group companies (cont.)	Registration number	Percentage holding	Dec 31, 2004 Carrying value, SEK M	Dec 31, 2005 Carrying value, SEK M
Renault Trucks, France	–	100	–	–
Renault Trucks Commercial SA, France	–	100	–	–
Renault Trucks UK Ltd, Great Britain	–	100	–	–
Renault Trucks Deutschland GmbH, Germany	–	100	–	–
Renault Trucks Portugal Ltda, Portugal	–	100	–	–
Renault V I España SA, Spain	–	100	–	–
Renault Trucks, España, Spain	–	100	–	–
Renault Trucks Italia Spa, Italy	–	100	–	–
Renault Trucks Polska SP Z.OO, Poland	–	100	–	–
Renault Trucks CR, SRO, Czech Republic	–	100	–	–
SARL Renault Trucks Algerie, Algeria	–	100	–	–
Renault Trucks Ticaret AS, Turkey	–	100	–	–
Mack Trucks Inc, USA	–	100	3,225	3,225
North America Truck Leasing Group, Inc, USA	–	100	–	–
Mack de Venezuela, C.A., Venezuela	–	100	–	–
Mack Trucks Australia Pty Ltd, Australia	–	100	–	–
Volvo Bussar AB, Sweden	556197-3826	100	1,877	1,877
Volvo Bussar Säffle AB, Sweden	556058-3485	100	–	–
Acrivia AB, Sweden	556540-1691	100	–	–
Volvo Bus Finland Oy, Finland	–	100	–	–
Volvo Austria, GmbH, Austria	–	100	–	–
Prévost Holding BV, Canada	–	100	–	–
Shanghai Sunwin Bus Co, China[2]	–	50	–	–
XIAN Silver Bus Co, China[2]	–	50	–	–
Volvo Construction Equipment NV, The Netherlands	–	100	2,582	2,582
Volvo Wheel Loaders AB, Sweden	556310-1319	100	–	–
Volvo Construction Equipment Components AB, Sweden	556527-6820	100	–	–
Volvo Articulated Haulers AB, Sweden	556360-1615	100	–	–
Volvo Construction Equipment Customer Support AB, Sweden	556310-1301	100	–	–
Volvo Construction Equipment International AB, Sweden	556310-1293	100	–	–
Volvo Construction Equipment Cabs AB, Sweden	556527-6838	100	–	–
Volvo Construction Equipment Europe Ltd, Great Britain	–	100	–	–
Volvo Construction Equipment Europe GmbH, Germany	–	100	–	–
Volvo Motor Graders, Ltd, Canada	–	100	–	–
AB Volvo Penta, Sweden	556034-1330	100	421	421
Wuxi da Hao Power, Co Ltd, China	–	70	–	–
Volvo Aero AB, Sweden	556029-0347	100	2,885	2,885
Volvo Aero Engine Services AB, Sweden	556328-9171	100	–	–
Volvo Aero Norge AS, Norway	–	78	–	–

AB Volvo's holding of shares and participations in Group companies (cont.)	Registration number	Percentage holding	Dec 31, 2004 Carrying value, SEK M	Dec 31, 2005 Carrying value, SEK M
VNA Holding Inc, USA	–	100	3,510	3,510
Volvo Trucks North America, Inc, USA	–	100	–	–
Arrow Truck Sales, Inc, USA	–	100	–	–
Volvo Construction Equipment North America Inc., USA	–	100	–	–
Volvo Penta of The Americas, Inc, USA	–	100	–	–
Volvo Aero North America Inc, USA	–	100	–	–
Volvo Aero Services LP, USA	–	100	–	–
Volvo Treasury North America Inc, USA	–	100	–	–
Volvo Commercial Finance LLC The Americas, USA	–	100	–	–
Volvo Information Technology, North America, USA	–	100	–	–
Volvo Treasury Canada, Inc. Canada	–	100	–	–
Volvo Treasury AB, Sweden	556135-4449	100	3,044	3,044
Sotrof AB, Sweden	556519-4494	100	1,388	1,388
Danafjord AB, Sweden	556006-8313	100	–	–
Volvo Group Finance Europe BV, The Netherlands	–	100	1,003	1,003
Volvo Construction Equipment Korea Co Ltd, South Korea	–	100	–	–
Volvo Financial Services AB, Sweden	556000-5406	100	1,231	1,413
Volvo Truck Finance Holding BV, Netherlands	–	100	–	–
VFS Financial Services (UK) Ltd, Great Britain	–	100	–	–
VFS Deutschland GmbH, Germany	–	100	–	–
VFS Financial Services Spain EFC, SA, Spain	–	100	–	–
VFS Nordic AB, Sweden	556579-1778	100	–	–
Kommersiella Fordon Europa AB, Sweden	556049-3388	100	245	249
Volvo China Investment Co Ltd, China	–	100	523	523
Volvo Truck & Bus Ltd, Great Britain [1]	–	100	413	413
Volvo Holding Mexico, Mexico	–	100	388	388
Volvo Technology Transfer AB, Sweden	556542-4370	100	361	361
Volvo Powertrain AB, Sweden	556000-0753	100	348	348
Volvo Parts AB, Sweden	556365-9746	100	200	200
Volvo Group Insurance Försäkrings AB, Sweden	516401-8037	100	182	182
Volvo Business Services, Sweden	556029-5197	100	107	107
Volvo Danmark Holding AS, Denmark	–	100	104	104
Volvo Italia Spa, Italy	–	100	0	0
VFS Servizi Financiari Spa, Italy [3]	–	100	101	101
Volvo Norge AS, Norway	–	100	56	56
Volvo Malaysia Sdn, Malaysia	–	100	48	48
Rossareds Fastighets AB, Sweden	556009-1190	100	26	26
Volvo Penta UK Ltd, Great Britain	–	100	16	16
ZAO Volvo Vostok, Russia [4]	–	100	0	0
Volvo East Asia (Pte) Ltd, Singapore	–	100	9	9
Volvo Information Technology AB, Sweden	556103-2698	100	8	8
Other holdings			38	13
Total carrying value Group companies [5]			**40,393**	**40,812**

1 Total holding by VTC Holding and AB Volvo is 100%.
2 Joint ventures, reported in accordance with the proportionate consolidation method in Volvo's consolidated accounts.
3 Total holding by Volvo Italia and AB Volvo is 100%.
4 Total holding by Volvo Trucks Deutschland and AB Volvo is 100%.
5 AB Volvo's share of shareholders' equity in subsidiaries (including equity in untaxed reserves) was 67,804 (55,831).

Proposed disposition of unappropriated earnings

AB Volvo	SEK M
Retained earnings	36,860
Net income 2005	4,360
Total	**41,220**

The Board is of the opinion that the dividend proposed below is justifiable on both the company and the Group level with regard to the demands on company and Group equity imposed by the type, scope and risks of the business and with regard to the company's and the Group's financial stregth, liquidity and overall position. The company's equity would have been 86, or 0.2%, less if the assets and liabilities had not been valued at fair value in accordance with chapter 4 section 14 a of the Annual Reports Act.

The Board of Directors and the President propose that the above sum be disposed of as follows:

	SEK M
To the shareholders, a dividend of SEK 16.75 per share	6,775
To be carried forward	34,445
Total	**41,220**

We hereby certify, to the best of our knowledge, that

– the annual accounts have been prepared in accordance with good accounting practices for a stock market company;

– the information is, in all material respects, consistent with the actual conditions; and

– nothing of material importance has been omitted that could affect the financial position of the company as presented in the annual report.[1]

1 This certification, which has been provided in accordance with Section 3.6.2 of the Swedish Code of Corporate Governance, does not mean that the board of directors and the President of the Company assumes any further responsibility than what follows from the Swedish Companies Act (2005:551).

Göteborg, February 2, 2006

Finn Johnsson

Per-Olof Eriksson Patrick Faure

Haruko Fukuda Tom Hedelius Leif Johansson

Louis Schweitzer Ken Whipple

Martin Linder Olle Ludvigsson Johnny Rönnkvist

Our audit report was issued on February 2, 2006
PricewaterhouseCoopers AB

Olof Herolf
Authorized Public Accountant
Lead Partner

Olov Karlsson
Authorized Public Accountant
Partner

Audit report for AB Volvo

We have audited the annual accounts, the consolidated accounts, the accounting records and the administration of the Board of Directors and the President of AB Volvo for the year 2005. The annual accounts and the consolidated accounts of the Company is included on pages 44–71 and 80–144 of this document. The Board of Directors and the President are responsible for these accounts and the administration of the Company as well as for the application of the Annual Accounts Act when preparing the annual accounts and the application of international financial reporting standards IFRSs as adopted by the EU and the Annual Accounts Act when preparing the consolidated accounts. Our responsibility is to express an opinion on the annual accounts, the consolidated accounts and the administration, based on our audit.

We conducted our audit in accordance with generally accepted auditing standards in Sweden. Those standards require that we plan and perform the audit to obtain reasonable assurance that the annual accounts and the consolidated accounts are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the accounts. An audit also includes assessing the accounting principles used and their application by the Board of Directors and the President, and significant estimates made by the Board of Directors and the President when preparing the annual accounts and consolidated accounts, as well as evaluating the overall presentation of information in the annual accounts and consolidated accounts. As a basis for our opinion 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 Company's Articles of Association. We believe that our audit provides a reasonable basis for our opinion set out below.

The annual accounts and consolidated 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 general meeting of shareholders that the income statements and balance sheets of the Parent Company and the Group be adopted, that the profit of the Parent Company be dealt with in accordance with the proposal in the Board of Directors' Report, and that the members of the Board of Directors and the President be discharged from liability for the financial year.

Göteborg, February 2, 2006

PricewaterhouseCoopers AB

Olof Herolf
Authorized Public Accountant
Lead Partner

Olov Karlsson
Authorized Public Accountant
Partner

Examination of the Corporate Governance Report

As requested by the Board of Directors and as an extension of the scope of our audit assignment, we have examined the Corporate Governance Report (pages72–79) for AB Volvo for 2005. Our examination has not included the Board of Directors' reporting regarding the design and operating effectiveness of internal control over financial reporting during the most recent financial year. The Corporate Governance Report has been prepared in accordance with the guidelines set out in the Swedish Code for Corporate Governance.

Göteborg, February 22, 2006

PricewaterhouseCoopers AB

Olof Herolf
Authorized Public Accountant
Lead Partner

Olov Karlsson
Authorized Public Accountant
Partner

Eleven-year summary

The eleven-year summary presents each year in accordance with General Accepted Accounting Practice for that year. Earlier years are not restated when new accounting standards are applied. The years 1995-2003 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 desribed in note 3.

Consolidated income statements

SEK M	1995	1996	1997	1998	1999	2000	2001	2002	2003	2004	2005
Net sales	**171,511**	**156,060**	**183,625**	**212,936**	**125,019**	**130,070**	**189,280**	**186,198**	**183,291**	**211,076**	**240,559**
Cost of sales	(128,529)	(121,249)	(138,990)	(163,876)	(99,501)	(104,548)	(155,592)	(151,569)	(146,879)	(164,170)	(186,662)
Gross income	**42,982**	**34,811**	**44,635**	**49,060**	**25,518**	**25,522**	**33,688**	**34,629**	**36,412**	**46,906**	**53,897**
Research and development expenses	(7,343)	(8,271)	(8,659)	(10,104)	(4,525)	(4,876)	(5,391)	(5,869)	(6,829)	(7,614)	(7,557)
Selling expenses	(17,418)	(14,895)	(17,160)	(19,042)	(8,865)	(10,140)	(15,766)	(16,604)	(16,866)	(19,369)	(20,778)
Administrative expenses	(7,399)	(6,685)	(7,018)	(8,091)	(4,791)	(4,974)	(6,709)	(5,658)	(5,467)	(5,483)	(6,301)
Other operating income and expenses	(1,657)	(1,087)	(3,141)	(2,634)	(611)	622	(4,096)	(4,152)	(1,367)	(618)	(590)
Income (loss) from investments in associated companies	2,119	314	2,929	444	567	444	50	182	200	27	(557)
Income from other investments	788	9,007	1,168	4,526	170	70	1,410	309	(3,579)	830	37
Income from divestment of subsidiaries	3,032	–	–	–	26,695	–	–	–	–	–	–
Restructuring costs	(1,817)	–	–	(2,331)	–	–	(3,862)	–	–		–
Operating income (loss)	**13,287**	**13,194**	**12,754**	**11,828**	**34,158**	**6,668**	**(676)**	**2,837**	**2,504**	**14,679**	**18,151**
Interest income and similar credits	3,801	4,530	3,197	1,268	1,812	1,588	1,275	1,217	1,096	821	654
Interest expenses and similar charges	(3,686)	(3,114)	(2,699)	(1,315)	(1,505)	(1,845)	(2,274)	(1,840)	(1,888)	(1,254)	(972)
Other financial income and expenses	(354)	(407)	(76)	(162)	131	(165)	(191)	(201)	(55)	(1,210)	181
Income (loss) after financial items	**13,048**	**14,203**	**13,176**	**11,619**	**34,596**	**6,246**	**(1,866)**	**2,013**	**1,657**	**13,036**	**18,014**
Income taxes	(3,741)	(1,825)	(2,583)	(3,140)	(2,270)	(1,510)	326	(590)	(1,334)	(3,129)	(4,908)
Income for the period (loss)	**9,307**	**12,378**	**10,593**	**8,479**	**32,326**	**4,736**	**(1,540)**	**1,423**	**323**	**9,907**	**13,106**
Attributable to											
Equity holders of the parent company	9,262	12,477	10,481	8,437	32,222	4,709	(1,467)	1,393	298	9,867	13,052
Minority interest	45	(99)	112	42	104	27	(73)	30	25	40	54
	9,307	**12,378**	**10,593**	**8,479**	**32,326**	**4,736**	**(1,540)**	**1,423**	**323**	**9,907**	**13,106**

Consolidated income statements with Financial Services reported in accordance with the equity method

SEK M	1995	1996	1997	1998	1999	2000	2001	2002	2003	2004	2005
Net sales	**166,541**	**150,425**	**178,531**	**205,712**	**116,382**	**120,392**	**180,615**	**177,080**	**174,768**	**202,171**	**231,191**
Cost of sales			(135,027)	(158,077)	(92,772)	(97,131)	(149,477)	(145,453)	(141,256)	(158,453)	(180,823)
Gross income			**43,504**	**47,635**	**23,610**	**23,261**	**31,138**	**31,627**	**33,512**	**43,718**	**50,368**
Research and development expenses			(8,659)	(10,104)	(4,525)	(4,876)	(5,391)	(5,869)	(6,829)	(7,614)	(7,557)
Selling expenses			(16,763)	(18,468)	(8,117)	(9,285)	(14,663)	(15,393)	(15,891)	(18,317)	(19,616)
Administrative expenses			(6,889)	(7,950)	(4,632)	(4,651)	(6,474)	(5,464)	(5,259)	(5,310)	(6,147)
Other operating income and expenses			(3,015)	(2,515)	(587)	309	(3,071)	(2,989)	(540)	7	(399)
Income from Financial Services			375	681	1,066	1,499	325	490	926	1,365	2,033
Income (loss) from investments in associated companies			3,033	354	478	341	(86)	126	166	2	(568)
Income from other investments			1,168	4,526	170	70	1,408	309	(3,581)	828	37
Income from divestment of subsidiaries			–	–	26,695	–	–	–	–	–	–
Restructuring costs			–	(2,331)	–	–	(3,862)	–	–	–	–
Operating income (loss)	**13,287**	**13,194**	**12,754**	**11,828**	**34,158**	**6,668**	**(676)**	**2,837**	**2,504**	**14,679**	**18,151**

Consolidated balance sheets											
SEK M	1995	1996	1997	1998	1999	2000	2001	2002	2003	2004	2005
Intangible assets	5,626	2,277	3,284	5,778	6,618	6,925	17,525	17,045	16,756	17,612	20,421
Property, plant and equipment	25,094	26,458	30,793	36,207	19,788	22,231	33,234	30,799	30,640	31,151	35,001
Assets under operating leases	2,847	4,968	13,501	22,285	12,337	14,216	27,101	23,525	21,201	19,534	20,839
Shares and participations	18,087	12,412	4,583	3,393	29,213	30,481	27,798	27,492	22,206	2,003	751
Inventories	23,929	23,148	27,993	32,128	21,438	23,551	31,075	28,305	26,459	28,598	33,937
Customer financing receivables	10,336	15,552	32,304	46,798	34,313	41,791	48,784	46,998	46,002	51,193	64,466
Interest-bearing receivables	2,766	4,080	4,667	4,735	18,617	19,228	8,079	5,490	6,632	3,384	1,897
Other receivables	26,708	25,603	27,087	34,197	24,019	26,352	39,946	33,990	32,621	35,747	42,876
Liquid funds	23,306	26,661	20,603	20,224	29,269	15,968	27,383	25,578	28,735	34,746	36,947
Assets	**138,699**	**141,159**	**164,815**	**205,745**	**195,612**	**200,743**	**260,925**	**239,222**	**231,252**	**223,968**	**257,135**
Shareholders' equity [1]	51,805	58,380	62,850	70,235	98,236	88,931	85,576	78,525	72,636	70,155	78,768
Provision for post employment benefits	6,890	3,150	3,296	2,936	2,130	2,632	14,647	16,236	15,288	14,703	11,986
Other provisions	14,602	14,988	19,657	25,187	14,832	14,941	18,427	16,721	15,048	14,993	18,556
Loans	28,166	31,886	41,217	64,230	53,345	66,233	81,568	72,437	74,092	61,807	74,885
Other liabilities	37,236	32,755	37,795	43,157	27,069	28,006	60,707	55,303	54,188	62,310	72,940
Shareholders' equity and liabilities	**138,699**	**141,159**	**164,815**	**205,745**	**195,612**	**200,743**	**260,925**	**239,222**	**231,252**	**223,968**	**257,135**
[1] of which minority interests	605	504	899	860	544	593	391	247	216	229	260
Assets pledged	5,434	6,503	6,743	5,388	3,930	2,990	3,737	3,610	3,809	3,046	3,255
Contingent liabilities	7,450	6,188	5,406	6,737	6,666	6,789	10,441	9,334	9,611	9,189	7,850

Consolidated balance sheets with Financial Services reported in accordance with the equity method											
SEK M	1995	1996	1997	1998	1999	2000	2001	2002	2003	2004	2005
Intangible assets	5,623	2,258	3,262	5,692	6,518	6,781	17,366	16,919	16,662	17,570	20,348
Property, plant and equipment	23,430	24,720	28,755	33,944	17,318	19,652	30,370	27,789	27,248	27,260	31,263
Assets under operating leases	0	49	1,366	1,817	1,611	4,245	15,020	11,155	8,976	8,477	10,260
Shares and participations	20,699	16,359	9,894	11,744	35,296	37,366	35,145	34,750	30,022	10,116	10,357
Inventories	23,813	23,042	27,756	31,883	21,053	22,998	30,557	27,564	25,848	28,291	33,583
Customer financing receivables	0	0	227	384	9	15	114	99	118	230	1,377
Interest bearing receivables	2,720	4,060	4,664	4,715	18,617	19,286	12,426	8,495	9,413	12,127	7,691
Other receivables	26,110	24,312	25,802	31,398	21,075	24,882	38,815	34,256	33,079	36,535	43,987
Liquid funds	20,637	23,170	16,605	15,439	24,465	10,958	24,874	24,154	28,102	34,628	36,047
Assets	**123,032**	**117,970**	**118,331**	**137,016**	**145,962**	**146,183**	**204,687**	**185,181**	**179,468**	**175,234**	**194,913**
Shareholders' equity	51,551	58,324	62,810	70,179	98,236	88,931	85,576	78,525	72,636	70,155	78,768
Provision for post-employment benefits	6,855	3,126	3,266	2,904	2,118	2,619	14,632	16,218	15,264	14,677	11,966
Other provisions	12,525	12,618	15,962	19,435	9,861	8,277	14,085	13,893	12,792	14,115	17,164
Loans	16,301	13,432	1,047	5,018	12,206	18,233	29,710	22,494	24,677	13,968	13,097
Other liabilities	35,800	30,470	35,246	39,480	23,541	28,123	60,684	54,051	54,099	62,319	73,918
Shareholders' equity and liabilities	**123,032**	**117,970**	**118,331**	**137,016**	**145,962**	**146,183**	**204,687**	**185,181**	**179,468**	**175,234**	**194,913**

Eleven-year summary

Consolidated cash-flow statements SEK bn	1995	1996	1997	1998	1999	2000	2001	2002	2003	2004	2005
Operating income[1]	13.3	13.2	12.8	11.8	7.5	6.7	(0.7)	2.8	2.5	14.7	18.2
Depreciation and amortization	5.6	5.4	6.8	9.6	5.2	6.3	10.0	10.8	10.2	10.0	9.9
Other items not affecting cash[2]			(3.5)	(4.9)	(0.3)	(0.4)	0.5	2.0	4.9	(0.1)	0.4
Change in working capital[2]	(7.3)	(11.2)	4.7	1.5	(1.0)	(3.3)	6.4	1.0	0.4	(1.4)	(4.7)
Customer financing receivables, net	(1.6)	(4.8)	(15.5)	(12.8)	(7.1)	(4.5)	(3.7)	(5.7)	(4.3)	(7.4)	(7.8)
Financial items and income tax[2]			(0.4)	(2.0)	(1.7)	(1.3)	(2.1)	(1.3)	(0.9)	(0.5)	(2.0)
Cash flow from operating activities	**10.0**	**2.6**	**4.9**	**3.2**	**2.6**	**3.5**	**10.4**	**9.6**	**12.8**	**15.3**	**14.0**
Investments in fixed assets	(6.5)	(8.2)	(9.9)	(10.5)	(4.9)	(5.4)	(8.1)	(6.7)	(6.0)	(7.4)	(10.3)
Investments in leasing assets	(2.6)	(3.9)	(9.8)	(12.7)	(5.6)	(5.7)	(5.8)	(5.2)	(5.3)	(4.4)	(4.5)
Disposals of fixed assets and leasing assets	1.3	2.0	1.8	2.6	1.6	2.1	2.6	3.2	2.9	2.4	2.6
Shares and participations, net	2.0	14.1	10.7	5.5	(25.9)	(1.6)	3.9	(0.1)	(0.1)	15.1	0.3
Acquired and divested subsidiaries and other business units, net	(4.4)	(0.9)	(1.3)	(5.6)	31.0	0.0	13.0	(0.2)	0.0	(0.1)	0.7
Interest-bearing receivables including marketable securities	(0.9)	(7.7)	10.1	3.5	(16.9)	11.7	(3.7)	(1.5)	(2.0)	(6.4)	(1.3)
Cash flow after net investments	**(1.1)**	**(2.0)**	**6.5**	**(14.0)**	**(18.1)**	**4.6**	**12.3**	**(0.9)**	**2.3**	**14.5**	**1.5**
Increase (decrease) in loans	1.5	6.8	5.6	19.5	16.3	8.1	6.2	(0.1)	1.9	(8.8)	3.6
Repurchase of own shares	–	–	–	–	–	(11.8)	(8.3)	–	–	(2.5)	(1.8)
Cash dividend to AB Volvo's shareholders	(1.5)	(1.9)	(2.0)	(2.2)	(2.6)	(3.1)	(3.4)	(3.4)	(3.4)	(3.4)	(5.1)
Other	0.7	(5.0)	(5.9)	(0.2)	(0.1)	0.0	0.1	0.1	0.1	0.0	0.0
Change in cash and cash equivalents excluding translation differences	**(0.4)**	**(2.1)**	**4.2**	**3.1**	**(4.5)**	**(2.2)**	**6.9**	**(4.3)**	**0.9**	**(0.2)**	**(1.8)**
Translation differences on cash and cash equivalents	(0.7)	(0.3)	0.3	0.3	(0.2)	0.3	0.6	(0.7)	(0.6)	(0.2)	1.1
Change in cash and cash equivalents	**(1.1)**	**(2.4)**	**4.5**	**3.4**	**(4.7)**	**(1.9)**	**7.5**	**(5.0)**	**0.3**	**(0.4)**	**(0.7)**

1 1999, excluding gain on sale of Volvo Cars of SEK 26.7 billion.
2 Reported on a single line in 1995–1996.

Operating cash flow excluding Financial Services SEK bn	1995	1996	1997	1998	1999	2000	2001	2002	2003	2004	2005
Operating income	12.9	12.8	12.4	11.1	6.4	5.2	(1.0)	2.3	1.6	13.3	16.1
Depreciation and amortization	4.8	4.4	5.0	6.4	3.1	3.8	7.0	7.8	7.2	7.1	7.3
Other items not affecting cash			(4.0)	(5.5)	(0.5)	(1.6)	0.0	1.0	4.1	(0.6)	0.2
Change in working capital	(6.3)	(11.1)	3.7	0.4	(1.6)	(3.0)	6.8	0.4	0.7	(1.4)	(5.6)
Financial items and income taxes			(0.5)	(2.3)	(1.7)	(0.8)	(2.3)	(1.1)	(0.7)	(0.2)	(1.9)
Cash flow from operating activities	**11.4**	**6.1**	**16.6**	**10.1**	**5.7**	**3.6**	**10.5**	**10.4**	**12.9**	**18.2**	**16.1**
Investments in fixed assets	(6.4)	(8.0)	(9.5)	(10.2)	(4.7)	(5.1)	(7.7)	(6.3)	(5.8)	(7.2)	(9.9)
Investments in leasing assets	(0.8)	(0.8)	(0.5)	(0.9)	(0.5)	(0.6)	(0.5)	(0.1)	(0.1)	(0.3)	(0.3)
Disposals of fixed assets and leasing assets	1.2	1.8	1.0	1.5	0.8	0.7	1.1	1.1	0.6	0.7	0.9
Operating cash flow	**5.4**	**(0.9)**	**7.6**	**0.5**	**1.3**	**(1.4)**	**3.4**	**5.1**	**7.6**	**11.4**	**6.8**

Exports from Sweden SEK M	1995	1996	1997	1998	1999	2000	2001	2002	2003	2004	2005
Volvo Group, total	56,059	54,589	58,569	64,401	52,719	46,251	50,394	52,730	49,300	62,653	71,133

Key ratios	1995	1996	1997	1998	1999	2000	2001	2002	2003	2004	2005
Gross margin % [1]	25.1	22.3	24.4	23.2	20.3	19.3	17.2	17.9	19.2	21.6	21.8
Research and development expenses as percentage of net sales[1]	4.3	5.3	4.9	4.9	3.9	4.1	3.0	3.3	3.9	3.8	3.3
Selling expenses as percent of net sales[1]	10.2	9.5	9.4	9.0	7.0	7.7	8.1	8.7	9.1	9.1	8.5
Administration expenses as percentage of net sales[1]	4.3	4.3	3.9	3.9	4.0	3.9	3.6	3.1	3.0	2.6	2.7
Return on shareholders' equity, %	19.3	23.7	17.2	13.0	34.9	5.0	neg	1.7	0.4	13.9	17.8
Interest coverage, times	4.6	5.5	5.8	9.6	23.1	4.5	neg	2.2	1.9	11.0	16.7
Self-financing ratio, %	128	26	27	16	29	39	92	110	152	163	116
Self-financing ratio excluding Financial Services, %	190	87	184	105	130	72	148	196	243	268	173
Net financial position, SEK M	201	10,672	16,956	12,232	28,758	9,392	(7,042)	(6,063)	(2,426)	18,110	18,675
Net financial position as percentage of shareholders' equity and minority interests	0.4	18.3	27.0	17.4	29.3	10.6	(8.2)	(7.7)	(3.3)	25.8	23.7
Shareholders' equity as percentage of total assets	37.4	41.4	38.1	34.1	50.2	44.3	32.8	32.8	31.4	31.3	30.6
Shareholders' equity as percentage of total assets, excluding Financial Services	41.9	49.4	53.1	51.2	67.3	60.8	41.8	42.4	40.5	40.0	40.4
Shareholders' equity excluding minority interest as percentage of total assets	36.9	41.0	37.6	33.7	49.9	44.0	32.6	32.7	31.3	31.2	30.5

1 1995–1996 including Financial Services. As from 1997 Financial Services is accounted by the equity method.

Eleven-year summary

Volvo share statistics

Data per share (adjusted for issues and splits)[1]

	1995	1996	1997	1998	1999	2000	2001	2002	2003	2004	2005
Basic earnings, SEK[1]	20.20	26.90	23.20	19.10	73.00	11.20	(3.50)	3.32	0.71	23.58	32.21
Cash dividend, SEK	4.00[8]	4.30	5.00	6.00	7.00	8.00	8.00	8.00	8.00	12.50	16.75[10]
Share price at year-end, SEK (B share)	136	151	213	186	220	156.50	176	142	220	263.50	374.50
Direct return, % (B share)[2]	2.9	2.9	2.3	3.2	3.2	5.1	4.5	5.6	10.5[9]	4.7	4.5
Effective return, % (B share)[3]	0	30	46	(10)	22	(23)	17.6	(14.8)	71.2	25.5	48.5
Price/earnings ratio (B share)[4]	7	6	9	9	3	14	neg	43	310	11.2	11.6
EBIT multiple[5]	7	16	9	11	10	10	25	23	14	9.2	9.3
Payout ratio, %[6]	20	16	22	31	10	71	neg	242	1,143	53	52
Shareholders' equity, SEK[7]	110	125	140	157	221	222	203	187	173	170	194
Return on shareholders' equity	19.3	23.7	17.2	13.0	34.9	5.0	neg	1.7	0.4	13.9	17.8

Other share data

	1995	1996	1997	1998	1999	2000	2001	2002	2003	2004	2005
Number of shareholders at year-end	206,700	176,800	225,500	210,600	238,000	230,000	214,000	211,000	208,500	202,300	195,442
Number of Series A shares outstanding at year-end, millions	142.2	142.2	138.6	138.6	138.6	124.7	131.7	131.7	131.7	131.5	131.4
Number of Series B shares outstanding at year-end, millions	321.4	321.4	302.9	302.9	302.9	272.6	287.8	287.8	287.8	278.6	273.1
Average number of outstanding shares, millions	458.9	463.6	452.5	441.5	441.5	421.7	422.4	419.4	419.4	418.5	405.2
Number of Series A shares traded in Stockholm during the year, millions	23.2	23.7	23.7	34.5	27.0	42.4	40.3	27.3	31.4	42.0	39.3
Number of Series B shares traded in Stockholm during the year, millions	363.3	316.4	362.7	371.3	479.6	391.2	344.4	349.4	404.8	498.0	518.7
Number of shares traded in ADR, NASDAQ during the year, millions	73.5	83.0	51.8	50.5	54.9	16.0	15.0	11.0	10.4	24.0	19.8

1 Effective in 1997, adjustment was made to conform with the Swedish Financial Accounting Standard Council's recommendation, RR9, Income Taxes. Basic earnings per share is calculated as income for the period divided by average number of shares outstanding. Reporting according to IFRS for 2004 and 2005.
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, including redemption in 1997 and distribution of one share of Swedish Match 1996 and proposed distribution of shares in Ainax in 2004.
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 Plus one share of Swedish Match per Volvo share, price of SEK 21.74 (weighted average first ten trading days following listing).
9 Including distribution of shares in Ainax equal to SEK 15.05 per Volvo share in 2004.
10 Proposed by the Board of Directors.

The largest shareholders in AB Volvo, December 31, 2005[1]

	Number of shares	% of total votes[2]	Share capital, %[2]
Renault SA	88,304,177	20.5	20.7
AMF Pension	17,587,800	4.1	4.1
Alecta (pension funds)	12,793,709	2.9	3.0
Robur fonder (savings funds)	11,675,743	4.2	2.7
SEB fonder (savings funds)/ Trygg Försäkring	11,649,314	6.1	2.7
Svenska Handelsbanken/ SPP fonder	9,637,193	1.4	2.3
Second Swedish National Pension Fund (AP2)	8,351,835	4.6	2.0
Svenska Handelsbanken[3]	7,867,109	4.6	1.8
Fourth Swedish National Pension Fund (AP4)	6,504,195	2.3	1.5
Nordea fonder (savings funds)	6,420,290	1.2	1.5
Total	**180,791,365**	**51.9**	**42.3**

Distribution of shares, December 31, 2005

Volvo shareholders[1] holding	Number of shareholders	% of total votes[2]	Share of capital, %[2]
1–1,000 shares	185,090	5.9	6.8
1,001–10,000 shares	9,384	4.2	5.3
10,001–100,000 shares	703	3.4	4.8
100,001–	265	86.5	83.1
Total	**195,442**	**100.0**	**100.0**

1 Following the repurchase of its own shares, AB Volvo held 5.0% of the Company´s shares on Dec. 31, 2005.
2 Based on all registered shares.
3 Svenska Handelsbanken comprises shares held by Svenska Handelsbanken, Svenska Handelsbanken Pension Fund, Svenska Handelsbanken Personnel Foundation and Oktogonen.

Business area statistics

Net sales SEK M		1995	1996	1997	1998	1999	2000	2001	2002	2003	2004	2005
Trucks[1]	Western Europe	22,548	21,244	22,280	27,837	30,006	30,415	60,841	61,406	63,097	68,664	70,567
	Eastern Europe	1,299	1,721	2,274	3,089	2,265	3,158	5,526	6,424	7,004	8,767	9,139
	North America	13,069	8,510	12,206	17,659	22,303	17,048	33,630	33,721	28,151	35,154	46,129
	South America	4,641	2,759	3,832	3,777	2,190	3,111	3,993	3,277	3,464	5,223	7,657
	Asia	2,863	2,577	2,410	2,047	2,010	3,432	4,659	5,919	9,206	12,378	13,551
	Other markets	1,330	1,443	1,503	1,267	1,492	1,911	7,919	8,005	6,047	6,693	8,353
	Total	**45,750**	**38,254**	**44,505**	**55,676**	**60,266**	**59,075**	**116,568**	**118,752**	**116,969**	**136,879**	**155,396**
Buses	Western Europe	4,709	4,660	5,082	5,528	5,735	6,767	6,263	6,695	6,153	6,422	6,564
	Eastern Europe	34	80	190	366	226	182	373	409	381	526	578
	North America	736	1,575	2,314	5,574	6,871	7,723	6,847	3,838	2,984	2,960	4,247
	South America	1,087	853	1,002	910	469	732	757	366	329	521	2,641
	Asia	844	1,112	1,562	1,519	943	1,269	1,839	2,022	1,447	1,632	1,612
	Other markets	285	247	432	389	469	514	596	705	684	661	947
	Total	**7,695**	**8,527**	**10,582**	**14,286**	**14,713**	**17,187**	**16,675**	**14,035**	**11,978**	**12,722**	**16,589**
Construction Equipment[2]	Western Europe	4,199	7,163	7,836	9,557	9,901	10,029	10,326	10,383	11,576	12,443	14,213
	Eastern Europe	112	93	263	336	193	255	341	454	772	1,010	1,311
	North America	1,403	3,385	5,680	6,548	5,725	5,823	6,145	5,667	5,428	8,601	10,337
	South America	556	598	991	957	498	776	847	709	636	922	1,238
	Asia	339	937	1,036	1,092	1,903	2,484	2,773	3,048	3,707	4,961	5,717
	Other markets	307	628	847	882	662	626	703	751	1,035	1,423	2,000
	Total	**6,916**	**12,804**	**16,653**	**19,372**	**18,882**	**19,993**	**21,135**	**21,012**	**23,154**	**29,360**	**34,816**
Volvo Penta	Western Europe	2,065	2,048	2,219	2,725	2,986	3,204	3,789	3,846	4,081	4,723	4,845
	Eastern Europe	1	2	34	23	26	30	38	99	108	184	257
	North America	1,139	1,142	1,332	1,412	1,770	2,257	2,175	2,261	2,109	2,500	2,832
	South America	99	109	136	153	134	160	213	127	146	142	208
	Asia	458	486	643	476	692	794	988	1,141	947	1,324	1,427
	Other markets	116	98	102	142	153	154	177	195	205	184	207
	Total	**3,878**	**3,885**	**4,466**	**4,931**	**5,761**	**6,599**	**7,380**	**7,669**	**7,596**	**9,057**	**9,776**
Volvo Aero	Western Europe	2,590	2,950	3,682	4,231	4,560	4,651	4,788	3,422	3,951	3,130	3,346
	Eastern Europe	27	8	6	47	16	42	87	28	49	49	60
	North America	1,100	1,071	3,066	3,502	4,557	5,040	5,841	4,573	3,301	3,127	3,612
	South America	4	4	257	284	193	134	187	177	152	138	168
	Asia	66	89	264	336	491	701	708	497	428	400	284
	Other markets	3	21	201	184	136	145	173	140	149	81	68
	Total	**3,790**	**4,143**	**7,476**	**8,584**	**9,953**	**10,713**	**11,784**	**8,837**	**8,030**	**6,925**	**7,538**
	Other and eliminations[1]	4,321	2,669	3,436	4,781	6,807	6,825	7,073	6,775	7,041	7,228	7,076
Net sales excl Financial Services		**72,350**	**70,282**	**87,118**	**107,630**	**116,382**	**120,392**	**180,615**	**177,080**	**174,768**	**202,171**	**231,191**
Financial Services	Western Europe	4,758	5,384	4,461	5,465	6,300	6,240	5,314	5,573	5,604	6,114	4,213
	Eastern Europe		0	0	86	185	257	360	424	474	499	584
	North America	6	54	509	1,152	1,620	2,626	3,216	3,344	2,542	2,432	2,036
	South America		153	72	297	455	452	451	403	358	396	570
	Asia		0	0	0	1	0	24	49	65	90	101
	Other markets	206	44	52	224	76	103	130	132	110	67	45
	Total	**4,970**	**5,635**	**5,094**	**7,224**	**8,637**	**9,678**	**9,495**	**9,925**	**9,153**	**9,598**	**7,549**
	Eliminations	–	–	–	–	–	–	(830)	(807)	(630)	(693)	1,819
Volvo Group excluding divested operations		**77,320**	**75,917**	**92,212**	**114,854**	**125,019**	**130,070**	**189,280**	**186,198**	**183,291**	**211,076**	**240,559**
Cars		83,340	83,589	96,453	103,798	–	–	–	–	–	–	–
Other divested operations and eliminations		10,851	(3,446)	(5,040)	(5,716)	–	–	–	–	–	–	–
Volvo Group total		**171,511**	**156,060**	**183,625**	**212,936**	**125,019**	**130,070**	**189,280**	**186,198**	**183,291**	**211,076**	**240,559**

Effective in 1997, the Volvo Group's accounting per market area reflects geographical definitions, based on an ISO standard. The figures for 1995–1996 have been adjusted to conform with the new principle.

1 Net sales 1995–2001 have been restated in accordance with new organization effective from 2002.

2 Subsidiary in the Volvo Group as of July 1995. Net sales for the Construction Equipment business area in 1995, calculated using the average exchange rate for the US dollar in each year, amounted to 13,684.

Eleven-year summary

Operating income SEK M	1995[8]	1996[7]	1997[6]	1998[5]	1999[4]	2000	2001[3]	2002	2003[2]	2004[1]	2005
Trucks[9]	5,020	783	1,707	2,769	3,247	1,414	(2,066)	1,189	3,951	8,992	11,717
Buses	405	331	550	(37)	224	440	(916)	(94)	(790)	158	470
Construction Equipment	717	1,162	1,436	626	1,709	1,594	527	406	908	1,898	2,752
Volvo Penta	212	(27)	181	(63)	314	484	658	647	695	940	943
Volvo Aero	103	153	472	527	584	621	653	5	(44)	403	836
Financial Services	355	244	375	681	1,066	1,499	325	490	926	1,365	2,033
Other	1,422	9,377	3,624	3,950	319	616	143	194	(3,142)	923	(600)
Volvo Group excluding divested operations	**8,234**	**12,023**	**8,345**	**8,453**	**7,463**	**6,668**	**(676)**	**2,837**	**2,504**	**14,679**	**18,151**
Cars	490	1,080	4,409	3,375	26,695	–	–	–	–	–	–
Other divested operations	4,563	91	–	–	–	–	–	–	–	–	–
Operating income (loss) Volvo Group	**13,287**	**13,194**	**12,754**	**11,828**	**34,158**	**6,668**	**(676)**	**2,837**	**2,504**	**14,679**	**18,151**

1 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.
2 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).
3 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.
4 Effective January 1, 1999, Volvo Cars was reported as a divested operation. The capital gain from the divestment was 26,695.
5 Restructuring costs in 1998 amounted to 1,650 of which 46 in Trucks, 422 in Buses, 910 in Construction Equipment and 158 in Volvo Penta. In addition operating income included a capital gain from the sale of shares in Pharmacia UpJohn amounting to 4,452.
6 Operating income in 1997 included a capital gain from the sale of shares in Pripps Ringnes amounting to 3,027.
7 Operating income in 1996 included a capital gain from the sale of shares in Pharmacia UpJohn amounting to 7,766.
8 Operating income in 1995 included write-down of goodwill pertaining to Volvo Construction Equipment, consolidated as from July 1, 1995, amounting to 1,817.
9 Refers to Volvo Trucks for 1995–2000.

Operating margin %	1995	1996	1997	1998	1999	2000	2001	2002	2003	2004	2005
Trucks	11.0	2.0	3.8	5.0	5.4	2.4	(1.8)	1.0	3.4	6.6	7.5
Buses	5.3	3.9	5.2	(0.3)	1.5	2.6	(5.5)	(0.7)	(6.6)	1.2	2.8
Construction Equipment[1]	10.4	9.1	8.6	3.2	9.1	8.0	2.5	1.9	3.9	6.5	7.9
Volvo Penta	5.5	(0.7)	4.1	(1.3)	5.5	7.3	8.9	8.4	9.1	10.4	9.6
Volvo Aero	2.7	3.7	6.3	6.1	5.9	5.8	5.5	0.1	(0.5)	5.8	11.1
Volvo Group excluding divested operations	**11.4**	**17.1**	**9.6**	**7.9**	**6.4**	**5.5**	**(0.4)**	**1.6**	**1.4**	**7.3**	**7.9**
Operating margin, total	**8.0**	**8.8**	**7.1**	**5.7**	**29.3**	**5.5**	**(0.4)**	**1.6**	**1.4**	**7.3**	**7.9**

1 Included in the Volvo Group as of mid-year 1995. Operating margin for Volvo Construction Equipment for 1995 amounted to 12.3.

Number of employees at year-end Number	1995	1996	1997	1998	1999	2000	2001	2002	2003	2004	2005
Trucks	21,450	20,860	22,090	22,560	23,330	24,320	44,180	43,470	46,900	49,450	50,240
Buses	3,620	3,750	4,220	8,690	8,860	9,060	6,230	6,660	6,680	7,700	7,710
Construction Equipment	7,610	7,300	8,550	9,680	8,900	8,830	7,780	8,410	9,280	9,930	10,290
Volvo Penta	1,570	1,420	1,400	1,490	1,400	1,480	1,370	1,410	1,440	1,580	1,560
Volvo Aero	3,890	3,740	4,170	3,990	4,550	4,240	4,040	3,660	3,440	3,350	3,460
Financial Services	450	560	710	860	1,160	1,220	1,080	1,060	1,060	1,100	1,070
Other	2,370	3,090	3,840	5,190	5,270	5,120	6,240	6,490	6,940	7,970	7,530
Volvo Group, excluding divested operations	**40,960**	**40,720**	**44,980**	**52,460**	**53,470**	**54,270**	**70,920**	**71,160**	**75,740**	**81,080**	**81,860**
Cars	31,050	29,600	27,920	27,360	–	–	–	–	–	–	–
Other divested operations	7,040	10	–	–	–	–	–	–	–	–	–
Volvo Group, total	**79,050**	**70,330**	**72,900**	**79,820**	**53,470**	**54,270**	**70,920**	**71,160**	**75,740**	**81,080**	**81,860**

Employees Number	1995	1996	1997	1998	1999	2000	2001	2002	2003	2004	2005
Sweden	47,000	43,330	43,650	43,900	24,840	25,030	24,350	25,420	26,380	28,530	27,070
Europe, excluding Sweden	16,930	15,290	16,100	17,880	11,900	12,320	27,800	27,130	29,120	28,930	29,650
North America	7,860	6,900	8,450	12,100	11,880	11,410	12,670	12,440	12,270	14,620	15,140
South America	3,620	2,130	2,000	1,980	1,930	2,100	2,090	2,020	2,640	3,110	3,690
Asia	2,830	2,260	1,720	3,340	2,480	2,570	2,550	2,590	3,710	4,130	4,210
Other markets	810	420	980	620	440	840	1,460	1,560	1,620	1,760	2,100
Volvo Group total	**79,050**	**70,330**	**72,900**	**79,820**	**53,470**	**54,270**	**70,920**	**71,160**	**75,740**	**81,080**	**81,860**

Delivered units Number	1995	1996	1997	1998	1999	2000	2001	2002	2003	2004	2005
Heavy trucks (>16 tons)	71,360	59,100	63,930	78,690	81,240	76,470	117,180	120,200	120,920	152,300	172,242
Medium-heavy trucks (7–15.9 tons)	5,130	4,580	5,050	4,590	3,850	5,360	17,310	16,220	15,870	18,800	18,643
Light trucks (<7 tons)							20,820	20,710	19,200	22,120	23,494
Total trucks	**76,490**	**63,680**	**68,980**	**83,280**	**85,090**	**81,830**	**155,310**	**157,130**	**155,990**	**193,220**	**214,379**
Buses and bus chassis	**6,830**	**7,410**	**8,730**	**10,200**	**9,500**	**11,015**	**9,953**	**9,059**	**7,817**	**8,232**	**10,675**

Number		1995	1996	1997	1998	1999	2000	2001	2002	2003	2004	2005
Trucks	Total Europe	34,160	34,970	34,470	42,350	42,530	46,140	98,040	96,290	92,080	102,670	103,622
	Western Europe	32,330	32,310	31,040	37,810	39,630	42,050	90,460	87,490	82,670	90,750	91,087
	Eastern Europe	1,830	2,660	3,430	4,540	2,900	4,090	7,580	8,800	9,410	11,920	12,535
	North America	27,090	16,850	20,900	29,310	34,300	23,610	34,650	36,510	34,760	49,270	64,974
	South America	7,800	4,980	6,970	6,020	3,900	4,530	5,790	5,360	5,980	9,190	11,248
	Asia	5,270	4,850	4,710	3,760	2,720	5,560	6,600	9,140	16,290	24,880	25,706
	Other markets	2,170	2,030	1,930	1,840	1,640	1,990	10,230	9,830	6,880	7,210	8,829
	Total	**76,490**	**63,680**	**68,980**	**83,280**	**85,090**	**81,830**	**155,310**	**157,130**	**155,990**	**193,220**	**214,379**
Buses	Total Europe	3,570	3,840	4,190	3,860	3,630	3,994	3,115	3,413	3,087	3,417	3,723
	Western Europe	3,510	3,770	4,030	3,580	3,430	3,870	2,899	3,076	2,782	3,073	3,385
	Eastern Europe	60	70	160	280	200	124	216	337	305	344	338
	North America	340	750	1,110	2,730	3,640	3,869	3,128	1,945	1,553	1,388	1,546
	South America	1,510	1,460	1,350	1,510	710	980	1,009	495	369	624	2,297
	Asia	920	1,060	1,410	1,650	1,000	1,659	2,209	2,639	2,227	2,341	2,554
	Other markets	490	300	670	450	520	513	492	567	581	462	555
	Total	**6,830**	**7,410**	**8,730**	**10,200**	**9,500**	**11,015**	**9,953**	**9,059**	**7,817**	**8,232**	**10,675**

Effective in 1997, The Volvo Group's accounting per market area reflects geographical definitions based on an ISO standard. The accounting for the years 1995–1996 has been adjusted to conform with the new principle.

Environmental performance of Volvo production plants Absolute values related to net sales	2001	2002	2003	2004	2005
Energy consumption (GWh; MWh/SEK M)	2,586;14.3	2,564; 14.5	2,607; 14.9	2,695; 13.3	2,683; 11.6
CO_2 emissions (1,000 tons; tons/SEK M)	316; 1.7	307; 1.7	298; 1.7	293; 1.5	292; 1.3
Water consumption (1,000 m^3; m^3/SEK M)	9,187; 50.9	9,202; 52.0	8,587; 49.1	8,495; 42.0	7,419; 32.1
NOx emissions (tons; kilos/SEK M)	730; 4.0	726; 4.1	570; 3.3	645; 3.2	672; 2.9
Solvent emissions (tons; kilos/SEK M)	1,816; 10.1	1,896; 10.7	1,965; 11.2	2,085; 10.3	1,960; 8.5
Sulphur dioxide emissions (tons; kilos/SEK M)	308; 1.7	173; 1.0	200; 1.1	184; 0.9	209; 0.9
Hazardous waste (tons; kg/SEK M)	20,306; 112	20,531; 116	21,613; 124	24,675; 122.1	23,590; 102
Net sales, SEK bn	180.6	177.1	174.8	202.1	231.2

Customer offering

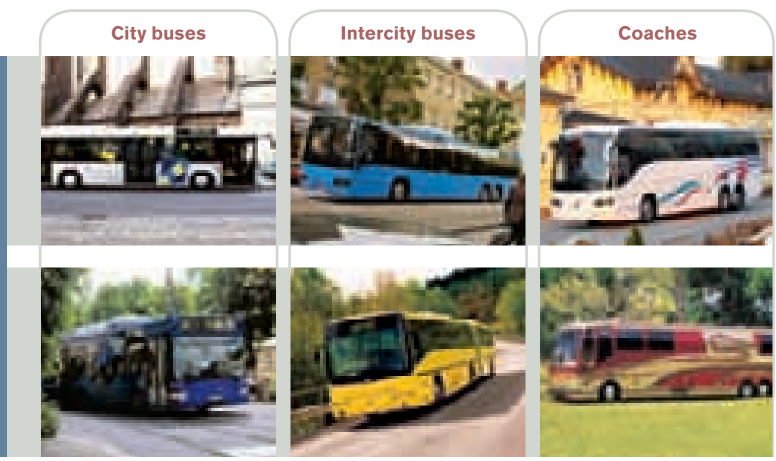
Trucks

All three brands in the Volvo Group's truck operations have a unique and distinct brand-specific character and compete in certain markets.

Mack Trucks, Renault Trucks and Volvo Trucks offer customers a broad range of products and services for efficient and economic transports.

Buses

Volvo Buses' product line includes complete buses, 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.



Marine and industrial

Volvo Penta manufactures engines and drive systems for marine applications, for both leisure and commercial craft, with an engine range of 10 to 2,000 hp. Volvo Penta also supplies industrial engines ranging from 75 kW to 600 kW for irrigation pumps, generator units and other application areas.

Compact construction equipment




Heavy construction equipment



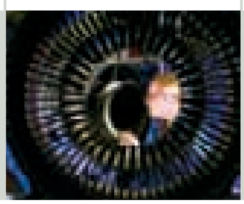


Construction equipment

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, motor graders and a wide range of compact equipment.

Engine components

Engine overhaul



Space

Aerospace industry

Volvo Aero specializes in a number of highly advanced components for aircraft and space rockets. More than 80% of all new large commercial aircraft are equipped with components from Volvo Aero, which is also responsible for the engines of the Swedish Air Force's Gripen fighters. Volvo Aero also has a substantial aftermarket, which includes engine overhaul and spare parts sales.

Customer financing

In-house bank

Property management

Financial services

Financial Services contributes to create shareholder value through its customer and dealer financing activities, plus its treasury and real estate operations. Providing cost effective and attractive financing solutions is essential in retaining existing customers and attracting new ones to the Volvo Group.

Definitions

Definitions of key ratios

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.

Equity ratio

Shareholders' equity divided by total assets.

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.

Interest coverage

Operating income plus interest income and similar credits divided by interest expense and similar charges.

Net financial position

Cash and cash equivalents, marketable marketable securities and interest-bearing short- and long-term receivables reduced by short- and long-term interest-bearing loans and provisions for post-employment benefits. Net debt in Financial Services is not included since the interest expense on these liabilities is charged against operating income and does not affect consolidated interest net.

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 5

The Annual General Meeting of AB Volvo will be held in Göteborg in Lisebergshallen (entrance from Örgrytevägen) Wednesday April 5, 2006, at 3:00 p.m.

Notice

Shareholders who wish to participate must: be recorded in the share register maintained by VPC AB (Swedish Central Securities Depository) not later than March 30, 2006, give notice of intention to attend not later than 12:00, Thursday, March 30, 2006.

- by telephone, +46 31 66 00 00 beginning March 6
- by mail addressed to AB Volvo (publ), Legal Department, SE-405 08 Göteborg, Sweden
- at Volvo's website www.volvo.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 accompaning assistant(s)

Shareholders whose shares are held in the trust department of a bank or by a brokerage firm should request the shares to be temporarily registered in the shareholder's name several banking days prior to March 30, 2006.

April 10, 2006 has been proposed as the record date for dividends, which are expected to be distributed on April 13, 2006.

Volvo's Election Committee

The following persons are members of Volvo's Election Committee:

Lars Idermark	Chairman of the Election Committee, Second Swedish National Pension Fund
Finn Johnsson	Chairman of the Board
Thierry Moulonguet	Renault SA
Curt Källströmer	Svenska Handelsbanken
Marianne Nilsson	Robur

The Election Committee is responsible for submitting to the Annual General Meeting the names of candidates to serve as members of the Board of Directors and as auditors. The Committee also proposes the amount of the fees to be paid to the holders of these positions.

Preliminary publication dates

Form 20-F US GAAP 2005	May, 2006
Three months ended March 31, 2006	April 25, 2006
Six months ended June 30, 2006	July 21, 2006
Nine months ended September 30, 2006	October 24, 2006
Report on 2006 operations	February, 2007
Annual Report 2006	March, 2007

The reports are available on www.volvo.com on date of publication and are also sent directly to all shareholders who have advised Volvo that they wish to receive financial information.

Historical and current time series reflecting the Volvo Group's financial development, market information and share data are published regularly on www.volvo.com.

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