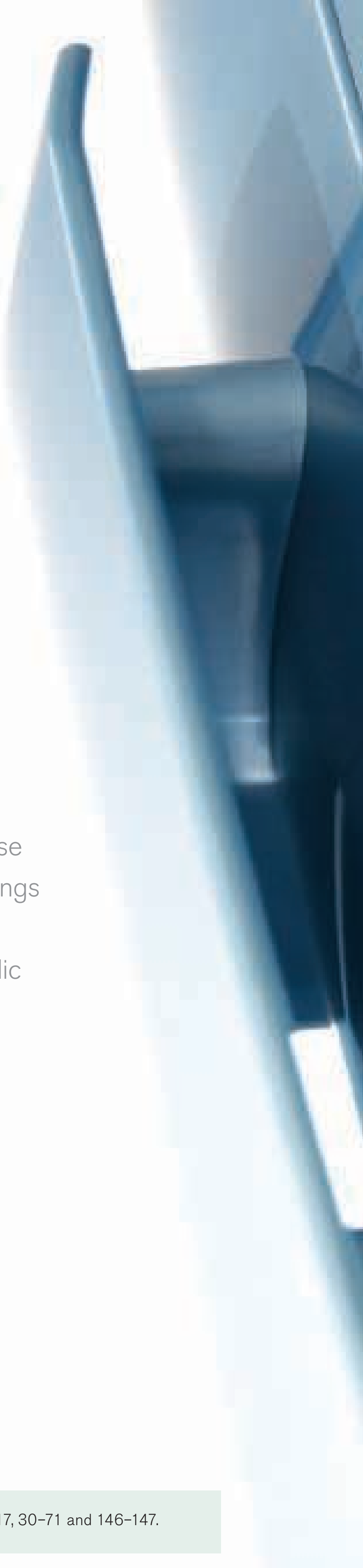
The Volvo Group 2007

VOLVO

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

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

During 2007, Volvo Group sales rose 10% to SEK 285.4 billion, with earnings per share amounting to SEK 7.37. The share is listed on the OMX Nordic Exchange Stockholm.



The Board of Directors' Report comprises pages 16–17, 30–71 and 146–147.

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

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

The Volvo Group's formal financial reports are presented on pages 16–17, 30–71 and 82–147 in the printed version and has been audited by the company's auditors.

The Volvo Group's products ...
Volvo Penta is best known for its marine engines. But Volvo Penta's industrial engines are also used worldwide, for example in forklift and warehouse trucks.

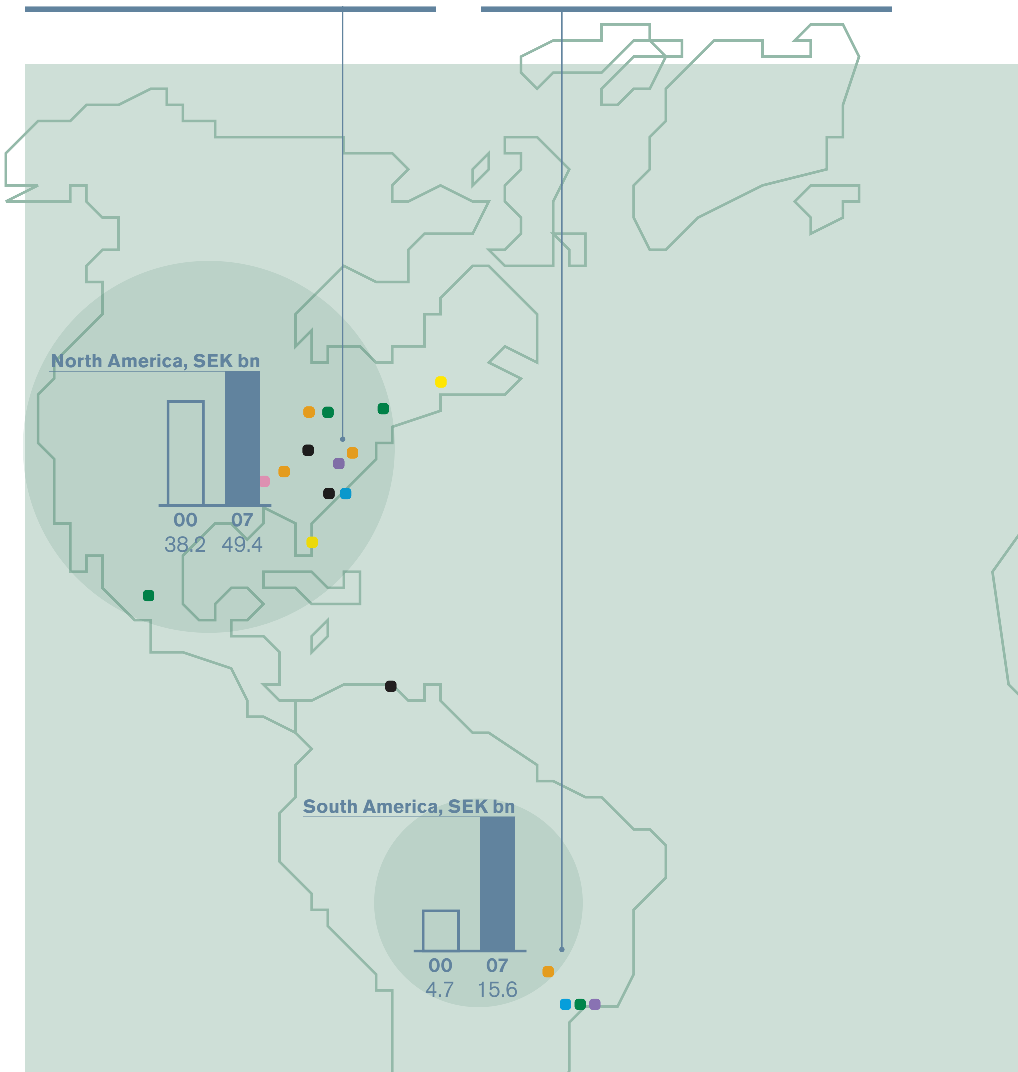
... transport ...
Volvo Trucks is an important part of the distribution network in Brazil and other parts of South America.

A global group

Volvo Group customers are active in more than 180 countries worldwide, mainly in Europe, Asia and North America. Group sales of products and services are conducted through wholly owned and independent dealers. The global service network handles customer demand for spare parts and other services.

During 2007, the Group's workforce rose to about 100,000 employees. The majority of employees are based in Sweden, France, Japan, the US, China, Brazil and South Korea.

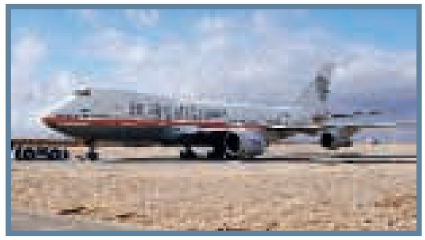
A key feature of the Volvo Group's growth strategy is to increase its presence in emerging markets, primarily in Asia and Eastern Europe. During 2007, the Group increased its sales in Eastern Europe by 69%. In 2007, Volvo implemented investments in Japan, China and India. These investments provide a platform for increased sales.



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

... goods and people ...
In Europe, the Group's trucks and buses are an every-day sight.

... and build infrastructure ...
Volvo Construction Equipment's yellow machines are common on construction sites in Asia.



... all over the world.
Rapid air transport is becoming more important. Around 90 percent of all new larger civil aircraft have engine components from Volvo Aero.

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

* Ownership ≥ 50%

The Volvo Group 2007

- Strong sales growth. Net sales up 10% to SEK 285,405 M (258,835).
- Continued good profit level. Earnings for the year amounted to SEK 15,028 M (16,318) and the return on shareholders' equity was 18.1% (19.6).
- Major investments in R&D programs for products to ensure future competitiveness.
- Strengthened presence in important growth markets and in key product segments through the acquisitions of the Japanese truck manufacturer Nissan Diesel, the Chinese manufacturer of wheel loaders Lingong, Ingersoll Rand's road development operations and through a proposed joint-venture with Eicher Motors in India.
- Continued strong operating cash flow in the Industrial operations, SEK 15.2 bn (12.6).
- Earnings per share amounted to SEK 7.37 (8.03).
- Proposed dividend of SEK 5.50 per share (5.00).

Key ratios	2006[1]	**2007**
Net sales Volvo Group, SEK M	258,835	285,405
Operating income Volvo Group, SEK M	20,399	22,231
Operating income Industrial operations, SEK M	18,713	20,583
Operating income Customer Finance, SEK M	1,686	1,649
Operating margin Volvo Group, %	7.9	7.8
Income after financial items, SEK M	20,299	21,557
Income for the period, SEK M	16,318	15,028
Diluted earnings per share, SEK	8.03	7.37
Dividend per share, SEK	5.00	5.50[2]
Extraordinary payment per share, SEK	5.00	–
Return on shareholders' equity, %	19.6	18.1

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

2 According to the Board's proposal.

Vision, mission and values

Our vision

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

Our mission

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

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

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

Our values

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

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

Quality

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

Safety

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

Environmental care

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

Group overview

BUSINESS AREAS / SIGNIFICANT EVENTS

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

- Strong order intake in Europe, +53%, dealer network expansion
- Challenges in the industrial system
- Decisions on investments for improved capacity and productivity in 2008 and 2009

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

- Continued strong order intake
- Agreement in place with Karsan for production of Renault trucks in Turkey
- Good industrial productivity

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

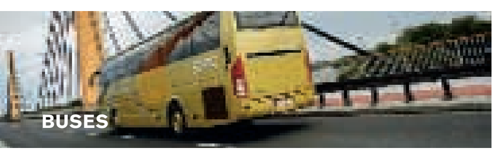
- Deliveries down by 27%
- New emission regulation as of September 1, 2007 - market shares normalized
- Integration work

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

- Deliveries down 49%
- New product program in place
- Positive customer reception of US'07 engine family

Construction Equipment manufactures equipment for construction applications and related industries.

- Deliveries of machines up 70%
- Net sales rose by 27%
- Acquisition of Ingersoll Rand's road development division
- Breakthrough in China through acquisition of Lingong

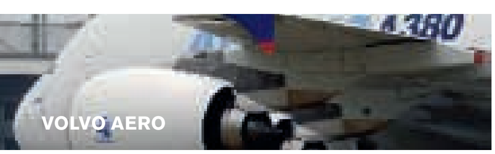


Buses has a product range comprising city and intercity buses, coaches and chassis.

- Deliveries were down by 4%
- Volvo 9700 voted Bus of the Year 2008 in Europe

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

- Total market for marine engines slightly down
- Strong development for Industrial Engines
- Net sales rose by 9%
- Continued success for the innovative IPS drive system



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

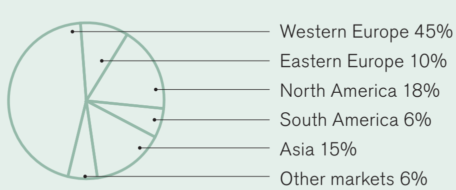
- Improved profitability in the aftermarket
- Breakthrough for Volvo Aero's light-weight technology
- The orderbook rose by 19% in value for the components operations

Financial Services Conducts operations in customer and dealer financing.

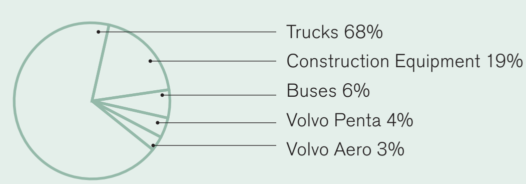
- Stable development of the credit portfolio
- Good profitability continues
- Volvo road machinery retail financing started

VOLVO GROUP

Net sales per market, %



The Industrial operations' net sales per business area, %



POSITION ON WORLD MARKET	NET SALES	OPERATING INCOME	NUMBER OF EMPLOYEES
In total, the Volvo Group is Europe's largest and the world's second largest manufacturer of heavy trucks.	03 04 05 06 07 SEK bn 117.0 136.9 155.4 171.3 187.9	03 04 05 06 07 SEK bn 4.0 9.0 11.7 14.8 15.2	31,892 15,864 10,053 5,399
Volvo CE is the world's largest manufacturer of articulated haulers and wheel loaders, and one of the world's largest manufacturers of excavation equipment, road development machines and compact construction equipment.	03 04 05 06 07 SEK bn 23.2 29.4 34.8 42.1 53.6	03 04 05 06 07 SEK bn 0.9 1.9 2.8 4.1 4.2	19,714
The business area is one of the world's largest producers of buses.	03 04 05 06 07 SEK bn 12.0 12.7 16.6 17.3 16.6	03 04 05 06 07 SEK M (361) 253 470 745 231	9,290
Volvo Penta is the world's largest producer of diesel engines for leisure boats.	03 04 05 06 07 SEK bn 7.6 9.1 9.8 10.8 11.7	03 04 05 06 07 SEK M 695 940 943 1,006 1,173	3,000
Volvo Aero holds a leading position as an independent producer, with engine components in about 90% of all large commercial aircraft delivered in 2007.	03 04 05 06 07 SEK bn 8.0 6.9 7.5 8.2 7.6	03 04 05 06 07 SEK M (44) 403 836 359 529	3,550
Financial Services cooperates closely with the other business areas to strengthen the Group's competitiveness.		03 04 05 06 07 SEK M 926 1,365 2,033 1,686 1,649	1,149
The Volvo Group is one of the leading suppliers of commercial transport solutions providing products such as trucks, buses, construction equipment, drive systems for marine and industrial applications as well as aircraft engine components.	03 04 05 06 07 SEK bn 183 211 241 259 285	03 04 05 06 07 SEk bn 2.5 14.7 18.2 20.4 22.2	03 04 05 06 07 Thousands 75.7 81.1 81.9 83.2 101.7

Organized to drive synergies

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

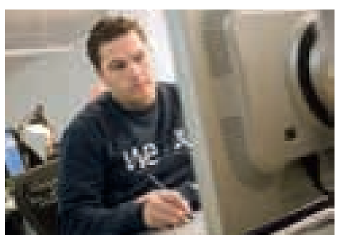
The business units are organized globally and created to combine expertise in key areas. They have the overall responsibility for product planning and purchasing, and for developing and delivering components, subsystems, services, and service and support to the Group's business areas. The structure of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

More units with distinct missions

The business unit Volvo Technology Transfer focuses on strengthening the Volvo Group's relationship to new technology or new services by investing in companies with projects of technical and commercial interest. The unit also supports the development of business transactions that are based on Volvo technology and have potential outside the Group. This enables operations to develop in new environments, and development costs can be shared with new, external customers. Part of the mission of Volvo Technology Transfer is to promote the development of entrepreneurship and innovation in the Volvo Group.

Volvo Business Services provides cost-effective and high-quality administrative services to Volvo Group companies. Its operations include accounts payable, accounts receivable, accounting and HR administration.

Volvo Treasury, the in-house bank of the Volvo Group, coordinates the Group's global



Volvo 3P

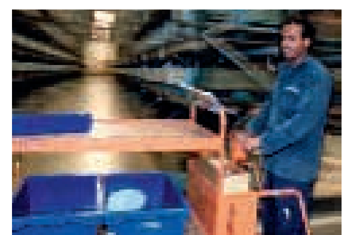
Volvo 3P is responsible for product planning, product development and purchasing for the Group's truck companies. Product planning involves having the right products over the longer term. Product development focuses on chassis, cabins and electrical systems. In purchasing, Volvo 3P offers significant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

The number of employees is 2,881.

Volvo Powertrain

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

The number of employees is 8,271.



Volvo Parts

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

The number of employees is 3,806.

Volvo Trucks
Renault Trucks
Nissan Diesel
Mack Trucks
Construction Equipment
Buses
Volvo Penta
Volvo Aero
Financial Services

financing and its financial infrastructure. Volvo Treasury is also responsible for managing all interest-bearing assets and liabilities and implementing transactions in foreign currencies.

Volvo Group Real Estate's overall assignment is to provide commercial properties and optimize synergistic effects in the real-estate within the Volvo Group. The unit conducts property management, the purchase and sale of real estate, property rental, development of the property portfolio and implementation of investment projects.

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

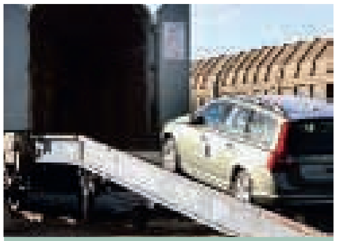
Group Issue Boards

The global organization of the Volvo Group, with business areas that work closely with the customer and business units that benefit from the synergies resulting from resource concentration, involves a number of strategically significant areas that are dealt with by special Group-wide functions called Group Issue Boards (GIB). GIB Technology coordinates all research and development issues of a strategic nature and of interest to the Group as a whole. Analogous in their operation are GIB IT and Process Management, GIB Finance and Business Control, GIB Human Resources, and GIB Communication.

Volvo Technology

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

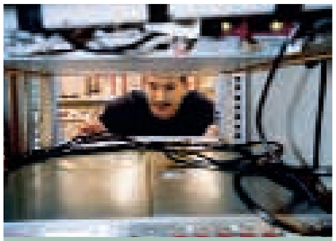
The number of employees is 433.



Volvo Logistics

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

The number of employees is 1,069.



Volvo Information Technology

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

The number of employees is 5,017.

Real Estate

Business Services

Treasury

NAP

CEO comment

The Volvo Group had an intense 2007. During the year we carried out several major acquisitions, established a strong presence in Asia, advanced our positions in important product segments and launched many new products. We also managed widely shifting demand trends in our main markets – with continued growth in Europe, Asia and South America and a sharp decline in North America.

Strong growth

Following the acquisitions of Nissan Diesel, Lingong and Ingersoll Rand's road development division, we now have a significant industrial structure in Asia, with a presence in Japan, China and, when the expected cooperation with Eicher is in operation, also in India. These are rapidly growing markets and we want to be part of that growth. Our operations are now anchored on a strong global base, in which growth in Eastern Europe and Asia currently offsets the weak development in North America. During the year, more than 40% of sales were from markets outside our traditional home markets in Western Europe and North America.

The Group's sales rose 10% to slightly more than SEK 285 billion, while operating income was up 9% to more than SEK 22 billion. The operating margin of 7.8% was at the 2006 level. The margin was negatively affected by the weak development in North America and substantial integration costs, which initially result in lower profitability in acquired companies. Our Industrial operations continue to generate a strong cash flow, SEK 15.2 billion during 2007, which creates opportunities to both provide our shareholders with a good yield and for the Group to invest for the future.

Strong Europe and weak North America

The shifting market conditions are most apparent in our truck operations. We have good stability and high profitability in Europe, where we increased deliveries despite already strained production. We are now investing to expand capacity and improve productivity. In Kaluga, south of Moscow, we are constructing a new assembly plant for both Volvo Trucks and Renault Trucks, which also signed a cooperation agreement with Turkish Karsan covering production of Renault trucks to the growing markets in Turkey and neighboring countries. Combined with previously decided investments in engine manufacturing among other areas, this means that the capacity of the truck operations is being increased to capitalize on the growth possibilities that exist in many markets around the world.

Following the acquisition of Nissan Diesel, Asia is our second largest truck market. Nissan Diesel has a strong market position in many countries in the region, with a distinct leadership in the environmental area. There are many important growth markets in Asia – China is already the world's largest truck market. The potential is also great in India and in December we signed a letter of intent with Indian Eicher Motors Limited covering cooperation within trucks and buses.

In North America, we introduced a new generation of engines that comply with the world's most stringent emission legislation, which marked the final step in the transition to one global engine platform for our truck operations. At the same time we carried out significant changeovers in the industrial system. Combined with the weak demand, these measures adversely affected profitability. We had expected that the market would improve during the year, but the weak development of the US economy thwarted a recovery.

We estimate that the truck market in Europe will grow by 5–10% compared with 2007, with the industry's delivery capacity as the limiting factor. The North American truck market is difficult to assess, but we estimate that it will achieve about the same level as in 2007, when it amounted to slightly more than 205,000 trucks. Further on, I am optimistic that the market will return to its long-term trend curve, with a total market of about 250,000 trucks per year.

Important acquisitions for Construction Equipment

Construction Equipment's net sales rose 27% – a growth that was both organic and driven by acquisitions. The business area made major advances in Asia following the acquisition of Lingong and Ingersoll Rand's road development division, while at the same time product renewal was substantial. In most areas of the world, the demand for construction equipment was strong and Volvo's CE's manufacturing was heavily strained after having hit capacity limits. This led to increased production costs which in combination with integration costs and unfavourable currencies decreased profitability.

Buses had a struggling year and strong measures are required for profitability to reach satisfactory levels. During the year, Buses introduced the new Euro 4 engines based on the new engine platforms and they are far ahead in the environment area, including hybrid buses in the commercial phase. Buses is now being integrated closer to the truck companies and their purchasing organization, with a focus on joint solutions, reduced costs and increased profitability.

Penta captures market shares

Volvo Penta's marine engines continue to capture market shares, due particularly to the revolutionary IPS propulsion system, which was launched for larger boats. Markets were strong in the industrial engine segment and Volvo Penta has advanced its positions with a renewed product program based on the Group's new engine platforms.

Volvo Aero ended the year with a rising operating margin during the second half due to continued favorable profitability in the component operations and an improved aftermarket business. Volvo Aero has major successes in it participation in the GEnx aircraft engine program and has scored a breakthrough with its lightweight technology for aircraft engine components.

Combined with our broadened range of services, accessories and spare parts, the customer financing activities in Financial Services are an important component in our striving toward an in-depth cooperation with the customers. Financial Services continued to develop well, with stable profitability and favorable return.

"Following the acquisitions of Nissan Diesel, Lingong and Ingersoll Rand's road development division, we now have a significant industrial structure in Asia, with a presence in Japan, China and, when the expected cooperation with Eicher is in operation, also in India. These are rapidly growing markets and we want to be part of that growth.

Responsibility for sustainable development

The threat to the climate is the greatest problem of our time. As one of the world's largest vehicle manufacturers, we have a responsibility to reduce the environmental impact from our own production and from our products. If we succeed in this respect, we strengthen our own and our customers' competitiveness, while simultaneously contributing to a positive social development.

Already in our business concept, it is stated that we apply our combined knowledge to provide transport-related products and services with superior quality, safety and environmental care. We have a long tradition of responsible business and we have the financial and technical prerequisites demanded to develop the vehicles that future customers will want. During the year we displayed seven trucks, all of which could be driven carbon-dioxide neutral. The trucks are equipped with diesel engines modified to operate on seven different renewable fuels. We are also far advanced within hybrid technology development. Environmental care are one of our most prioritized areas, and backed by our resources and know-how we can and will be part of the solution.

Long-term profitability generates shareholder value

As a result of the development in recent years, Volvo has strengthened its profitability and its ability to generate good cash flows, and in 2007 slightly more than SEK 20 billion was transferred to the shareholders through dividends and share redemptions. Prior to the 2008 Annual General Meeting, the Board of Directors proposes a dividend of SEK 5.50 per share for the 2007 fiscal year, corresponding to 74% of the year's profit. If the Annual General Meeting approves the dividend proposal, it would mean that the ordinary dividend will have increased for 15 consecutive years, with an average of 21% annually. Profitability for the Volvo Group during 2007 will also benefit employees. They have made excellent efforts during an intense year, work hard for the continued successful development of the Group and will receive a distribution of SEK 450 M in our profit-sharing system.

We have entered 2008 with good order books, a very strong product program and with an overall favorable demand in our main markets outside North America. The focus is now on ensuring our delivery capacity with a competitive cost base, on increasing productivity in the entire operations and on making sure that the economies of scale that come from increased volumes also result in increased profitability. My mission together with my colleagues around the world is to ensure that the Volvo Group can continue its positive development.

Leif Johansson
President and CEO

Continued growth in the world economy

In the past few years, annual global GDP growth has been on the highest level since the 1970s.

Growth economies are the engines

Admittedly, world growth slowed somewhat in 2007, but nevertheless the rate of increase of the world's GDP was slightly more than 5%. A slowdown in the American economy was offset by more stable growth in Europe and the contribution of rapidly growing emerging economies.

The growth economies in Asia, Eastern Europe and South America contribute significantly to the world's strong economic trend. The BRIC countries – Brazil, Russia, India and China – account for one-quarter of the world's GDP, a substantial increase from 17% in 1990, according to the OECD. North America and the EU, however, remain indisputably the largest economies, accounting collectively for approximately 60% of the world's GDP.

In the past 30 years, world trade has increased dramatically. Total trade in relation to the world's total GDP has more than doubled since 1970 – from 12% to 27%. The percentage of export of the growth countries has doubled – from 20% to approximately 40%.

Most analysts agree that global growth will decline somewhat in the next few years, owing primarily to tighter monetary policy in many countries and the cyclical weakening of corporate investment. Nevertheless, the global GDP is expected to increase by around 5% in both 2008 and 2009.

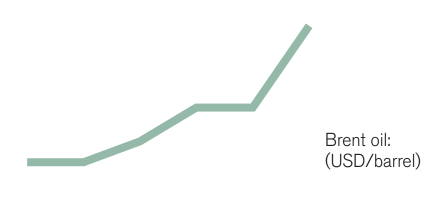
Transport needs and infrastructural investment

Growth in trade creates higher requirements for the transport of goods between and within various parts of the world, countries and regions. At the same time, social trends, such as urbanization in many countries imply that ever-increasing numbers of people require transportation in their daily lives.

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

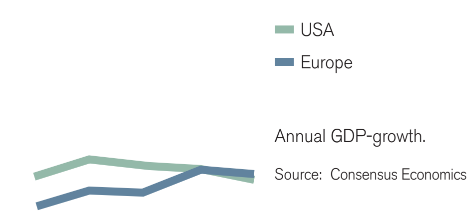
Growth in the economy and in transport also clearly underscores the need for a reliably functioning infrastructure. In the next few years, major investments in the road network will be carried out in the key growth markets of China, India and Eastern Europe. But it is not only roads that are being built – the activity is intense in other sectors as well. Construction projects include airports, roads, railways, factories and shopping centers, as well as housing and recreational facilities. Collectively, it implies a healthy demand for construction equipment.

Brent Oil



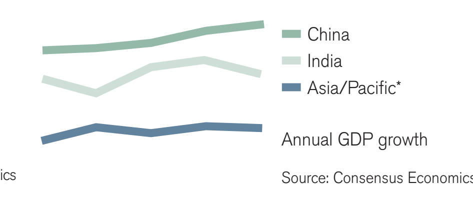
02	03	04	05	06	07
30.1	30.3	40.6	58.7	57.3	97.7

GDP-growth in the US and in Europe, %



	03	04	05	06	07
USA	2.5	3.6	3.1	2.9	2.2
Europe	0.8	1.8	1.6	2.9	2.6

Growth in Asia, %



	03	04	05	06	07
China	10.0	10.1	10.4	11.1	11.4
India	8.5	7.5	9.0	9.4	8.6
Asia/Pacific*	4.7	5.6	5.2	5.6	5.6

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

Rising oil prices a challenge

Increased production and more transport have created upward pressure on the prices of raw materials. In particular, the price of oil has risen sharply. Various supply disturbances and political unrest, as well as inadequate refinery capacity, have fueled the oil price trend. In 2007, the price of oil rose steadily. At the beginning of the year, North Sea oil – that is, Brent – cost slightly more than USD 50 a barrel. By year-end, it cost more than USD 100. The prices of other key raw materials, such as metals and rubber, have also risen in the past few years.

There is a great deal of uncertainty surrounding the oil price trend. A large part of the extraction of crude oil occurs in politically unstable countries, causing sensitivity to a variety of disturbances.

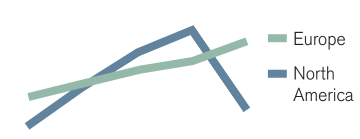
Fuel represents a large portion of the operating costs of many Volvo Group customers. While they may have been diligent in finding ways to offset rising costs, fuel efficiency is a key factor when they choose new vehicles or equipment. This imposes a requirement on manufactures to develop new, more fuel-efficient engines. Combined with the increasingly stringent environmental requirements, this means that considerable investment must be undertaken in research and development relating to new technologies that reduce emissions and to supplementary fuels and alternative drivelines with better environmental performance characteristics.

Strengthened position in growth markets

The Volvo Group has an established, strong position in Western Europe and North America. Since the fastest growth is occurring outside these regions (in markets in which as recently as 10 years ago the Group had limited operations), it is the Volvo Group's intention to focus on these 'new' markets. The Volvo Group has advanced is positions in Asia, through its acquisitions of Japanese truck manufacturer Nissan Diesel, Chinese wheel-loader manufacturer Lingong and the Ingersoll Rand division for road construction equipment, and through its planned formation of a joint-venture company for the production of trucks and buses with the India-based Eicher Motors. At the same time, by strengthening its dealer and service network, the Volvo Group has positioned itself to take advantage of the strong growth in Eastern Europe.

To meet the challenges and distribute development costs over large volumes, consolidation is occurring among manufacturers. Mergers and acquisitions have been common in both North America and Europe, and in the past few years attention has increasingly focused on Asia, where the Volvo Group has been especially active, completing several significant acquisitions.

Heavy trucks registrations, >16 tons



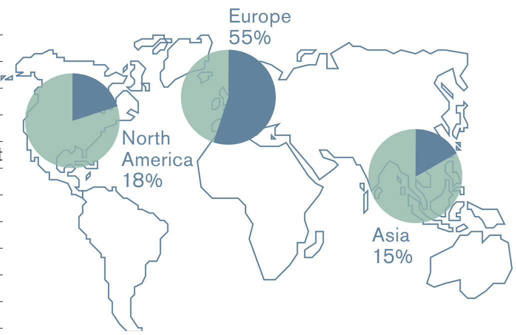
Vehicles, thousands

03	04	05	06	07	
229	255	277	295	329	Europe
178	249	308	349	208	North America

Volvo Group - Acqusitions and Divestments

2007	Letter of intent on joint venture with the truck and bus operations of Eicher
2007	Acquisition of Ingersoll Rand's road construction operations
2007	Acquisition of Lingong
2006	Acquisition of Nissan Diesel, completed in 2007.
2005	Sale of the service company Celero Support
2004	Acquisition of remaining 50% of the Canadian bus manufacturer Prévost
2004	Sale of axle-manufacturing operations to ArvinMeritor
2003	Acquisition of the truck and construction equipment operations of Bilia
2001	Sale of the insurance operations in Volvia to If
2001	Acquisition of the truck manufacturers Mack and Renault VI
1999	Sale of Volvo Cars to Ford
1998	Acquisition of the excavator operations of Samsung Heavy Industries

Volvo Group net sales by market, 2007



Strategy focusing on creating value

The Volvo Group's strategy is based on customers' requirements and focused on profitable growth, product renewal and internal efficiency. Profitable growth and product renewal represent the Volvo Group's approach to developing its markets, products and services in order to strengthen the Group's development. Internal efficiency involves increasing competitiveness and profitability in current operations. To be successful, this strategy must be implemented rapidly.

Customer requirements

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

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

The products and services are developed in close cooperation with customers, with the goal of contributing to improving the customers' productivity and profitability, and thus creating value. Intensive cooperation with customers is crucial to enabling the Group to better understand customers' requirements and to match their expectations with the right offering. The level of quality of the offering is also determined by how customers are treated and how the services are performed. Product characteristics and quality are highly significant, but equally important are knowledge, values, attitudes and behavior of the Volvo Group employees.

In the past few years, the Volvo Group has intensified its relationships with key customers. The advantages are many. The Group can support customers' growth in an even better manner than previously, and intensified relationships result in increased penetration of both the product and the service range. The extended offering creates advantages for both the Volvo Group and its customers.

Strategy

1

Profitable growth

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

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

2

Product renewal

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

The development of new, innovative technology is key to the success of future product generations, and to maintaining market-leading positions. Efforts are constantly under way within the Group to improve the performance of products – this strengthens current competitiveness. At the same time, research looking further into the future is conducted to achieve new technical breakthroughs that will contribute to reduced environmental impact and meet future requirements. Product development represents an assurance of value creation in the future.

3

Internal efficiency

The Volvo Group has a clear focus on efficiency, particularly in relation to profitability and customer satisfaction. The Group strives to optimize cost-efficiency and productivity in all sectors of its operations. This promotes higher profitability and places the Group in a better position to handle economic fluctuations.

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

Implemented in 2007

Profitable growth

- The average annual growth rate for the Volvo Group has been 9.2% over the last five-year period.
- During the same period, the average operating margin has been 6.7% per year.
- The Group acquired Nissan Diesel, Lingong and Ingersoll Rand's division for road development equipment, and signed a letter of intent with Eicher Motors to form a joint-venture for production of trucks and buses in India.
- The Group has established a strong position in Asia.

Product renewal

- Invested about SEK 11 billion in research and development during the year.
- New generation of engines.
- CO_2-neutral trucks for seven types of renewable fuels.
- New generations of construction equipment.
- Light-weight designs by Volvo Aero.
- Volvo Penta introduced the IPS drive system for larger boats.

Internal efficiency

- Group-wide program for improvements in productivity initiated.
- Integration processes for acquired operations commenced.
- Identification of future competencies.
- Decisions on capacity-increasing investments in heavy diesel engines, trucks and construction equipment.

Aims for 2008

Profitable growth

- To regularly evaluate potential acquisitions that could strengthen the Group's position in strategic markets and in strategic product segments, as well as investments that could increase capacity.
- The expansion of the dealer and service networks, with a particular focus on rapidly growing markets.
- Focus on actions during a business cycle.
- Increased growth rate in areas involving supplemental services.

Product renewal

- Ongoing focus on research and development to create new products with increased customer value.
- To handle both production of existing products and launch new products during a boom in the business cycle.
- To further develop the service range, to help balance sales of vehicles and equipment, which are more cyclical in nature.

Internal efficiency

- To further increase the focus on productivity improvements.
- To undertake measures to promote a competitve product cost.
- To establish rolling three-year plans for employees' skills development.
- Realization of aquisition synergies.
- Execute decided investments for increased production capacity and improved productivity.

Products and services that create added value

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

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

It is not enough to produce and sell high-quality products in order to realize the Volvo Group's vision of being the world-leader in commercial transport solutions. Many customers want long-term cooperation on complete solutions, so the Volvo Group provides various services – such as financing and insurance, different types of service contracts, and accessories and spare parts – that support the core products.

Products

World-class products

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

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

Reduced climate impact

The diesel engine is highly efficient and can be operated with various types of fuel. The Volvo Group has made significant progress in the development of engines that are adapted for alternative fuel types. During the year, the Group exhibited trucks that can be operated using seven types of renewable fuels. The diesel engine is also the basis of various types of hybrids using electrical engines, batteries and fuel cells.

Financing services
Financial services are important for the Volvo Group. The customer offering includes traditional financing services such as installment plans, operational and financial leasing and dealer financing.

Service
The Volvo Group consistently strives to improve its products and reduce customers' operating costs. The machines from Volvo CE increase productivity for work involving the most challenging types of terrain, and at any conceivable construction work site. To ensure that the machinery is optimally utilized, an increasing number of customers are purchasing service contracts tailored to suit their particular requirements.

Accessories
Volvo Group customers are offered a large number of accessories that help to simplify product use and enhance productivity. The Joystick, an accessory for the revolutionary Volvo Penta IPS drive system, gives the boat operator full control, allowing the boat to be maneuvered in all directions – to the side, diagonally, forward or in rotation – using only one hand.

Accessories, spare parts and services

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

The Volvo Group has an extremely strong position worldwide. Its products have a reputation of being reliable, sustainable, safe and cost-efficient, throughout their lifecycle. The Group's aim is to exceed customers' expectations while generating higher profitability than its competitors.

Aftermarket business increasingly significant

The Volvo Group's vision is to be world-leading in commercial transport solutions. Most of the products the Group sells also require, in addition to the actual vehicle or machine, a number of accessories and services to ensure that the work they perform is as efficient as possible and leads to maximum profitability and operating time. It is here that the Volvo Group's increasingly wide offering of accessories, attachments, spare parts and services has become an increasingly significant competitive advantage.

It includes various types of financing solutions, insurance, rental services, used vehicles, preventive maintenance, service contracts, assistance services and IT services. The breadth and flexibility of the offering implies that the solutions can be tailored to the needs of each customer.

Since a large proportion of the accessories, spare parts and aftermarket services are required as long as the products are in use, they help to balance economic fluctuations. Strengthening the aftermarket offering can enhance the Group's profitability throughout the business cycle.

The strategy of increasing sales of accessories, spare parts and services is a key component of the Volvo Group's efforts to achieve its profitability and growth targets, particularly in mature markets. At present, aftermarket products and services account for a significant proportion of the Group's total sales, and that proportion is expected to increase further over the next few years.

Financial strategy

A competitive offering of products and services and a good geographical balance provide the Volvo Group with a structurally higher profitability, stronger cash flow and lower risk. The three financial targets of the Volvo Group are: Growth, Operating Margin and Capital Structure.

Focus on commercial transport solutions

The streamlining of the Volvo Group, which commenced with the sale of passenger car operations in 1999 and continued in the form of a number of successful acquisitions, has created a strong group with a renewed focus on commercial vehicles and equipment. The Volvo Group's new composition has led to structurally higher margins and stronger cashflow. The higher earnings have been invested in product development, acquisitions and efforts for geographic expansion into new markets. In turn, this has resulted in geographic and product diversification that has also reduced risk in the company. Moreover, the Volvo Group's stronger focus on aftermarket operations, which are less sensitive to economic trends, has contributed to reducing risk. Profitability, and also the return to Volvo's shareholders in the form of dividend, have increased sharply in recent years.

The organization features business units with Group-wide responsibility for engines and product development, purchasing and product planning. This has fuelled in-house efficiency programs and ensured the realization of considerable potential synergies. These targeted efforts have created business areas that individually have strong positions in their particular markets, while simultaneously capitalizing fully on the potential offered for coordination and cooperation deriving from the dramatically higher volumes of engines and other products.

Financial strategy

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

However, a prerequisite for the long-term competitive development of the company is the availability of sufficient financial resources to secure investments and active participation in industry consolidation worldwide, thereby maintaining a strategically competitive position in all business areas. The Volvo Group's financial resources will be used for value-enhancing investments in organic growth and acquisitions, and a competitive return to the shareholders in the form of a stable dividend with a long-term development.

Financial targets

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

The growth target of 10% annually will be achieved through organic growth and through acquisitions at approximately equal proportions.

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

The Volvo Group's capital is intended primarily for organic growth and for the financing of acquisitions, and secondly for maintaining a high level of financial flexibility. Any surplus capital will then be transferred to Volvo's shareholders. The limiting level of net debt to a maximum of 40% should mainly be regarded as a reserve that can be used in the event of a major acquisition.

Financial Services

The target for Financial Services is a return on shareholders' equity of 12–15% and an equity ratio of 8-10%. At the end of 2007 total assets in Financial Services amounted to approximately SEK 95 billion and the equity ratio was 8.1%.

Long-term credit rating

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

Volvo has received an A3 credit rating from Moody's Investor Services. 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 automotive industry and one of the highest among Nordic industrial companies.

Growth

Volvo Group's growth target is that net sales should increase by a minimum of 10% annually. This objective will be achieved through organic growth and acquisitions. Net sales rose 10% in 2007. During the period 2003–2007, the average growth rate was 9.2% annually.

Operating margin

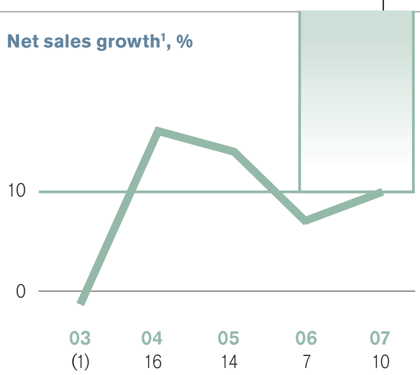
The Volvo Group's profitability target is that operating margin for the industrial operations is to exceed an average of 7% annually over a business cycle.

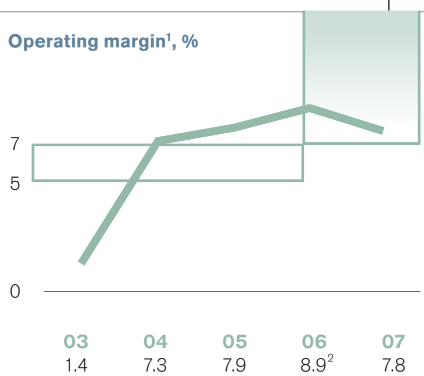
The operating margin for 2007 was 7.8%. The average annual operating margin for the Volvo Group was 6.7% from 2003 to 2007.

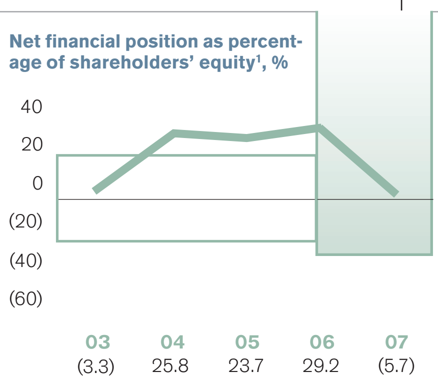
Capital structure

The capital structure target is set to a net debt for the industrial operations of a maximum of 40% of shareholders' equity.

As of December 31, 2007, the Volvo Group had a net financial debt position corresponding to 5.7% of shareholders' equity.







1 Years 2004–2007 reported in accordance with IFRS and 2003 in accordance with prevailing Swedish GAAP. See Note 1 and 3.

2 Excluding adjustment of goodwill in 2006.

7 alternatives

- with varying conditions

"We know that in the foreseeable future there will not be enough biomass or renewable fuels to fully replace fossil fuels", says Jan-Eric Sundgren. "Therefore, it is important that decisions on production of the fuels of the future are preceded by such a qualified and collective assessment – if not, there is a risk that investments are made in too many and possibly even unsuitable alternatives, which would delay the introduction of carbon-dioxide-neutral transport."

Jan-Eric Sundgren | Member of the Group Executive Committee, responsible for Environmental and Public Affairs

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Taking the lead to reduce climate impact

The Volvo Group is the first heavy duty vehicle manufacturer to develop seven different demonstration trucks that can all be driven without any emissions of climate-impacting carbon dioxide. The trucks, which were showcased at a large, much-noted event in Stockholm, Brussels and Washington D.C., have diesel engines that were modified to operate on seven different renewable fuels, in both liquid and gaseous form.

- **Biodiesel**
- **Synthetic diesel**
- **DME-**Dimethylether
- **Methanol/Ethanol**
- **Biogas**
- **Biogas + Biodiesel**
- **Hydrogen + Biogas**

"We are a part of the climate problem, but we have shown that carbon-dioxide-neutral transport is a possibility and that we as a vehicle manufacturer want to be a part of the solution," says Volvo CEO Leif Johansson.

The seven Volvo FM trucks have been equipped with Volvo's own 9-liter engines, which have been specially modified by the Group's engineers to show the possibilities of carbon-dioxide-neutral transport.

According to the much-noted Stern report, about 14% of the total worldwide carbon-dioxide emissions come from transport – road transport account for a total of 10%. No data is available as to how much of these emissions in turn come from cargo transport. An estimate based on European conditions and statistics, in which cars account for 60% of the carbon-dioxide emissions and cargo transport for the remaining 40%, indicates that cargo transport accounts for about 4–5% of total carbon-dioxide emissions worldwide.

> "We are a part of a climate problem, but we have shown that carbon-dioxide-neutral transports is a possibility and that we as a vehicle manufacturer want to be a part of the solution, says Volvo CEO Leif Johansson.

A part of the solution

Environmental care is one of the Volvo Group's corporate values together with quality and safety. The Volvo Group's mission states that its products should have superior quality, safety and environmental care.

The seven trucks that were exhibited can be driven on several different renewable fuels or combinations of fuels: biodiesel, biogas, biogas combined with biodiesel, ethanol/methanol, DME, synthetic diesel and hydrogen combined with biogas. Because all of these fuels are manufactured from renewable raw materials, they do not add carbon dioxide to the ecocycle through combustion in the vehicle's engine and, consequently, do not impact the climate.

"The diesel engine is a remarkably effective energy converter that is excellently suited to several different renewable fuels, regardless of whether they are in a liquid or gaseous form. With our expertise in engine technology and our large volumes, we can develop engines for several different renewable fuels as well as create possibilities of carbon-dioxide-neutral transports in other product areas such as buses, construction equipment and boats," says Jan-Eric Sundgren, Group Executive Committee member responsible for Environmental and Public affairs.

The Volvo Group is ready

Today, the supply of various renewable fuels is limited and there is a lack of both large-scale production and distribution of most of the alternatives that could be used for carbon-dioxide-neutral transport. This requires long-term political decisions on the international level and stable regulatory codes, which lead to large-scale production of selected fuels. The fuels must be available long term and in many countries.

7 varying conditions

"With these vehicles, we have shown that the Volvo Group is ready, that we have the technology and the resources for carbon-dioxide-neutral transport, but that we cannot do it alone," says Leif Johansson. "We also need large-scale production of renewable fuels and, for it to get underway, comprehensive efforts in research and development are necessary as well as clear and common guidelines from authorities in as many countries as possible."

The Volvo Group's premise is that this is urgent, but at the same time, we realize that major issues are involved that require political decisions on many different levels and large industrial investment. The build-up of large-scale production and distribution of alternative fuels will take time. Another factor that must be taken into account include the oil price trend. In all likelihood, it will take 15–20 years to properly change the usage of fossil fuels.

Volvo's own fuel analyses

With regard to carbon-dioxide-neutral transport, the Volvo Group has conducted its own analyses of which renewable fuels are the most suitable. In the analyses, important aspects were taken into account such as climate impact, energy efficiency, how effectively land is used in cultivating crops for the respective fuels, how much of the different fuels could potentially be made, how many technical adjustments must be made on the vehicle, the cost of the fuel and how easily the fuel could be distributed.

"We know that in the foreseeable future there will not be enough biomass or renewable fuels to fully replace fossil fuels", says Jan-Eric Sundgren. "Therefore, it is important that decisions on production of the fuels of the future are preceded by such a qualified and collective assessment – if not, there is a risk that investments are made in too many and possibly even unsuitable alternatives, which would delay the introduction of carbon-dioxide-neutral transport."

Gasification promising

Although there is a lack of both finished fuel and biomass for the manufacture of renewable fuels, the Volvo Group does not view carbon-dioxide-neutral transport as a utopian dream. One reason is the second generation of renewable fuels made through gasification, which provides larger volumes and more fuels from which to choose.

"Gasification is promising and can provide significantly greater yields than today's technology. Our own history has also taught us that much of what we once considered impossible could be solved just a few years later. This is true in important areas such as energy efficiency and exhaust emission control. I am an optimist and believe in a similar development in carbon-dioxide-neutral transport," says Leif Johansson.

Current fuels

All renewable fuels have their own advantages and disadvantages and, as a heavy duty vehicle manufacturer, the Volvo Group wants to encourage a collective assessment in the selection of the fuels of the future. The Volvo Group studies and evaluates all of the conceivable fuels for the Group's products.

The fuels have been assessed based on seven criteria, which the Volvo Group considers to be the most relevant:

1. **Climate impact** – the emissions of carbon dioxide for the entire "well-to-wheel"[1] chain.
2. **Energy efficiency** – the total "well-to-wheel" energy consumption.
3. **Efficiency of land use** – effective utilization is becoming increasingly important to be able to satisfy increased demands on both food and fuel production.
4. **Fuel potential** – the amount of fuel that can be produced.
5. **Vehicle adaptation** – how technically complicated it is to adapt the vehicle.
6. **Fuel cost** – the production cost from "well to tank".
7. **Fuel infrastructure** – the handling and distribution of the fuel.

1 Well-to-wheel means that all relevant stages have been included in the assessment: the entire process from cultivation of the raw material including fertilizer, harvesting of the raw material, transports to the facility where the fuel is produced, production of the fuel, distribution to the pumping station and finally consumption in the vehicle.

Considerable progress in hybrids

The Volvo Group has also made considerable progress in hybrid solutions that combine diesel and electrical power for heavy vehicles. The vehicle can accelerate with the help of the electric engine, which reduces fuel consumption, emissions and noise levels.

Although the concept is still under development, the results thus far appear highly promising. Calculations indicate that fuel consumption can be reduced by as much as 35% – with an equivalent reduction in environmental impact.

Characteristics and performance of hybrids:

- Major potential to reduce fuel consumption.
- Stores braking energy for later use (charges batteries).
- No emissions when the vehicle is electrically powered.
- Low noise level when electrically powered.
- Less wear on the brakes, resulting in lower maintenance costs.

Strategic position in Asia

In the past year, the Volvo Group has advanced its position in Asia – a prioritized region with a high rate of growth. This is in line with the strategy of establishing a strong third market in addition to Europe and North America.

> Nissan Diesel's products and expertise form a valuable complement to the Group's truck business. Nissan Diesel, the foundation of the Group's Business Area Asia, is well positioned in Japan and the rest of Asia, where the Volvo Group sees significant growth potential.

Strong economic growth in Asia and contributions from acquired companies have meant that the region's importance for the Volvo Group has grown considerably – during 2007, over 15% of the industrial operation's revenue was generated there, in comparison to slightly below 8% in the previous year.

With an established presence in the world's three most economically significant regions, the advantages of being global become increasingly clear. Weak growth on one market can be offset by strong growth in another part of the world.

Nissan Diesel integrated

The largest acquisition is the Japanese truck manufacturer Nissan Diesel. Volvo bought 13% of the company in March 2006, increased its holdings in the autumn of 2006. In the spring of 2007 Volvo made an offer for the outstanding shares in the company, which was listed on the Tokyo Stock Exchange at the time.

Nissan Diesel was founded in 1935 and for more than 70 years, Nissan Diesel has developed and marketed a broad range of light, medium-heavy and heavy trucks, as well as buses, bus chassis, engines, vehicle components and specialized vehicles. Nissan Diesel has dealers in nearly 70 countries worldwide.

Nissan Diesel was consolidated into the Volvo Group on April 1, 2007. During the nine months that the company belonged to the Volvo Group in 2007, Nissan Diesel delivered 38,184 trucks and buses compared with 52,637 the preceding year. During April to December 2007, Nissan Diesel contributed with sales of SEK 20,308 M to the Volvo Group.

"Nissan Diesel will benefit from the Volvo Group's collective resources and expertise. Nissan Diesel contributes its experience of medium-heavy trucks and comprehensive expertise in hybrid technology," says Pär Östberg, who has assumed responsibility for the Volvo Group's truck operations in Asia.

Nissan Diesel's products and expertise form a valuable complement to the Group's truck business. Nissan Diesel, the foundation of the Group's Business Area Asia, is well positioned in Japan and the rest of Asia, where the Volvo Group sees significant growth potential. A merger offers both parties even better opportunities to learn and benefit from each other's knowledge and resources.

Now, intensive efforts are under way to tie Nissan Diesel into the truck development of Volvo 3P, engine development and manufacturing in Volvo Powertrain and purchases through the Volvo Group. These are some of the integration gains that in a few years will amount to slightly more than SEK 1.8 billion annually. A major portion of these advantages is a result of increased volumes that will offer better purchasing terms, but integration gains can also be found in product development, engines and drivelines. Other benefits will arise through both companies acquiring access to each other's dealer and service networks, primarily in Asia, but also in other parts of the world.

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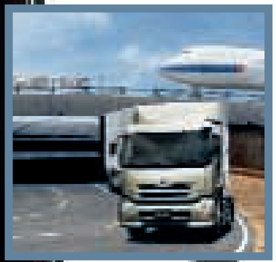

Pär Österberg new head of Asian truck operations

Volvo CFO Pär Östberg has assumed responsibility for the Group's Asian truck operations, because Jorma Halonen will retire on April 1, 2008. Pär Östberg has worked in Asia for many years, including in the role as the manager of Volvo Treasury Asia. He has also been a member of the Board of Nissan Diesel and was deeply involved in efforts to integrate Renault Trucks into the Volvo Group as the former CFO of Renault Trucks.

"Pär's experience both of Asia and the integration of new acquisitions makes him particularly well-suited to assume responsibility for the Asian truck business", says Volvo CEO Leif Johansson in a comment. "Pär brings experience and expertise that guarantee continuity in the vital work of growing the Group in Asia."

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Lingong strengthens position in China

The Chinese wheel loader manufacturer Lingong, of which the Volvo Group owns 70% as of 2007, has been given a clear place in the Construction Equipment business area and is its own business line in much the same way as excavators and haulers/wheel loaders.

Lingong, with an annual turnover of SEK 2 billion, has manufacturing in Linyi in the Shandong province of China and a comprehensive network of dealers nationwide. The Chinese market for wheel loaders is the world's largest. Last year, slightly more than 100,000 wheel loaders were sold – most of domestic manufacture. Lingong is third in the market with sales exceeding 18,000 wheel loaders.

Lingong is the first major acquisition carried out by Volvo Construction Equipment since 1998, when the South Korean excavator manufacturer Samsung Heavy Industries was acquired.

"We learned a great deal from the work conducted to bring Samsung into the Volvo Group. The key is ensuring that we work together as quickly as possible. We believe that it is important to keep a good deal of local management. We also make sure to offer the employees the possibility of working in other parts of Volvo CE. We view cultural diversity as a strength," says Tony Helsham, President of Volvo Construction Equipment.

To teach employees, suppliers, dealers, politicians and other stakeholders in Linyi about Volvo and what the Group stands for, an exhibition about Volvo was built at Lingong's factory and has received some 10,000 visitors.

Efforts are now under way to review what Volvo Construction Equipment should contribute to further strengthen Lingong and to study the opportunities of selling Lingong's equipment in other emerging markets in Asia, among others.

"Lingong is a long-term, strategic investment that will strengthen Volvo CE's position in the Chinese market for construction equipment. We are here to stay and the cooperation with Lingong is an important step towards realizing our vision for China and implementing our global strategy", says Tony Helsham.

In addition to 16 different models of wheel loaders, Lingong has a smaller range of backhoe loaders, road rollers and excavators. The cooperation makes it possible for Volvo CE to offer its customers products that lie beyond the current premium segment. At the same time, Volvo CE will continue to develop and manufacture wheel loaders for the premium segment in the plants in Eskilstuna and Arvika in Sweden, Asheville in the US and Pederneiras in Brazil. Volvo CE already has a wholly-owned subsidiary for the production of excavators outside Shanghai, China.

> "India is already one of the world's largest truck markets and forecasts indicate that the very strong growth will continue. Major investments in improved infrastructure as well as more stringent regulations on load weights will strongly drive demand for heavy trucks, making the market particularly attractive to the Volvo Group, says Leif Johansson.

Ingersoll Rand Road Devlopment

In 2007, the Volvo Group also acquired American Ingersoll Rand's division for road development equipment. The business includes heavy compactors, pavers and asphalt millers.

The division has manufacturing in the US, Germany, India and China and approximately 2,000 employees. Its headquarters are located in Shippensburg, Pennsylvania in the US. During May to December 2007, the busi-

Company	Acquired	Operations	Net sales, SEK bn[1]
Samsung Heavy Industries	1998	Excavators	2.0
Nissan Diesel	2007	Trucks and buses	27.3
Lingong	2007	Wheel loaders	2.0
Ingersoll Rand Road Development	2007	Road development equipment	6.4
Eicher Motors Ltd	2007[2]	Trucks and buses	3.0

1 Approximate net sales at the time of the acquisition.

2 Letter of intent regarding a joint venture signed in the fourth quarter of 2007.

ness had SEK 3,317 M in sales. In China, manufacturing was moved from Wuxi to Linyi and is now coordinated with Lingong.

Thanks to this addition, the Volvo Group is in a position to benefit from considerably increased investments in infrastructure, including a major expansion of the road network that is underway in both China and India.

Cooperation with Eicher Motors

In December 2007, the Volvo Group signed a letter of intent with the Indian vehicle manufacturer Eicher Motors Limited regarding the formation of a new Indian joint-venture company, which will include all of Eicher's truck and bus operations and the Volvo Group's Indian truck sales operations.

The intention is to immediately merge and establish a joint service and dealer network for trucks in India, at the same time that joint projects in product development and purchasing are initiated.

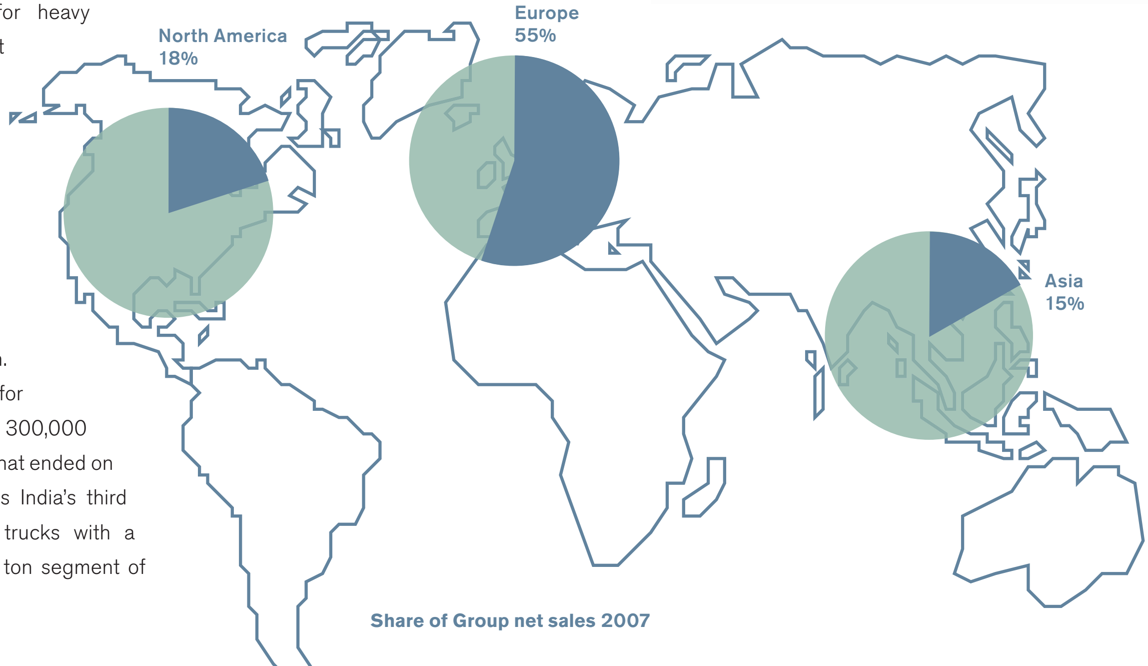
"The Indian market for heavy trucks is the fourth largest in the world and strategically critical for the Volvo Group to be able to take part and offer Indian customers products specially adapted to their market and needs," says Volvo CEO Leif Johansson.

The Indian market for trucks over 5 tons totaled 300,000 vehicles in the fiscal year that ended on March 31, 2007. Eicher is India's third largest manufacturer of trucks with a market share in the 5-12 ton segment of 27%. The company recently entered the growing heavy segment over 16 tons in India and is already the country's third largest manufacturer there as well.

"India is already one of the world's largest truck markets and forecasts indicate that the very strong growth will continue. Major investments in improved infrastructure as well as more stringent regulations on load weights will strongly drive demand for heavy trucks, making the market particularly attractive to the Volvo Group," says Leif Johansson.

As a result of the deal, Volvo will acquire direct ownership in the joint-venture company of 45.6%. Because Volvo also intends to buy 8.1% of Eicher Motors Limited from its majority shareholder, Volvo will have a combined, direct and indirect interest of 50% in the joint-venture company.

The joint-venture company will primarily concentrate production to Eicher's present factory in Pithampur in northern India. It will have approximately 2,300 employees and operations in the joint-venture company which come from Eicher had sales of approximately SEK 3 billion and an operating profit of SEK 128 M in 2006.



Share of Group net sales 2007

Increased transport in fast-growing economies.

Clo

Major opportunities in Eastern Europe

In recent years, the markets of Eastern Europe have shown strong economic growth, which has entailed increased investments in infrastructure with an ensuring increase in demand for heavy trucks and construction equipment. In 2007, the Volvo Group increased its sales in the region by 69%.

Rapid growth

The countries of Eastern Europe still have a good way to go to achieve the levels of prosperity of Western Europe, but with growth figures measured in GDP of 5–10% in most of the countries, their economies are growing at a significantly higher rate than the economies of the west.

This rapid economic development is noticeable in many areas. Construction cranes mark the cityscape wherever you go, say Roger Alm and Tom Jörning, heads of the East Europe Region and Central East Europe, respectively, at Volvo Trucks.

Private consumption is also on the rise, which leads to a growing need to transport goods – thereby in-creasing demand for transport capacity.

> “Thanks to strong economic growth in the region, the need for modern truck transport is growing, says Roger Alm, head of region East Europe at Volvo Trucks.

Efficient transport of goods and people is vital for this positive economic development to continue. Demands are increasing for improved infrastructure, with roads, bridges, railways, airports and ports being top priorities.

The infrastructure has been, and in many areas still is, weak, with a lack of a functioning road network with modern highways and major roads. But major investments are now being made in expanding the road network with transport routes that link east and west, north and south.

“In several of the countries, the investments have accelerated after the entry into the EU. The 2012 Soccer World Cup will be played in Poland and the Ukraine, which will further stimulate the expansion of infrastructure,” says Tom Jörning.

The Volvo Group's products and services play an important role when roads, bridges, tunnels and buildings are to be built. This applies to everything from wheel loaders, excavators and trucks for construction transport to generator units that supply power. A functioning infrastructure contributes to building prosperity and increased prosperity means that more resources are created to invest in infrastructure.

Not only roads are being built. Many countries have a considerable lack of housing, but with the assurance that comes from improving finances for a growing number of people, new homes are now being planned and built at a rapid rate.

ser

Russia – the largest market in Eastern Europe

Russia is the largest country in Europe, both in terms of size and population. The country is experiencing rapid economic growth driven primarily by rising global market prices on oil, natural gas and other commodities of which Russia has a rich supply.

Russia is the Volvo Group's largest market in Eastern Europe. The increasing strength of the economy is being felt in several of the business areas, and at the current growth rate, Russia will soon be the Volvo Group's largest market in all of Europe.

Volvo is one of the strongest brands in the truck market in Russia and the rest of Eastern Europe. In 1973, Volvo Trucks was the first western truck manufacturer to supply vehicles to the former Soviet Union. At the end of 2007, there were approximately 38,000 Volvo trucks in Russia. This is equivalent to about 23% of the total foreign truck fleet, making Volvo the clear brand leader in the market.

"The Volvo Group's sales in the Russian market have largely doubled every year for the past three years," explains Lars Corneliusson, President of Volvo Trucks Russia.

Volvo Trucks' deliveries in Russia have gone from 460 new trucks in 2003 to 2,500 in 2006. During 2007, demand was further strengthened and Volvo's deliveries nearly doubled to 4,700 trucks.

Moreover, demand for used trucks from the west has been considerable in Russia. In 2007, approximately 5,000 used Volvo trucks were imported. However, Russian customers are now increasingly choosing to buy new vehicles, and in the next few years continued increased demand is expected for western trucks.

> "The Volvo Group's sales in the Russian market have largely doubled every year for the past three years, explains Lars Corneliusson, President of Volvo Trucks Russia.

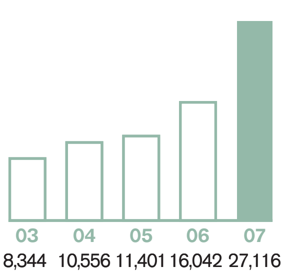
Volvo Trucks has two wholly owned and 40 independent authorized service centers along important transport routes throughout Russia. At the end of 2007, the latest Volvo Truck Center was opened next to one of the beltways in northern Moscow.

Renault Trucks, which first entered the Russian market in 2004, has also increased its sales and sold 1,200 new trucks in Russia in 2007, an increase of 114% compared with the 560 trucks sold in 2006. Renault Trucks has built a strong position in the Russian market, primarily through the sale of used trucks. At the end of 2007, approximately 16,000 Renault trucks were in use in Russia. Since its establishment in Russia in 2004, Renault Trucks has rapidly built a service network and has 20 wholly owned and independent service centers.

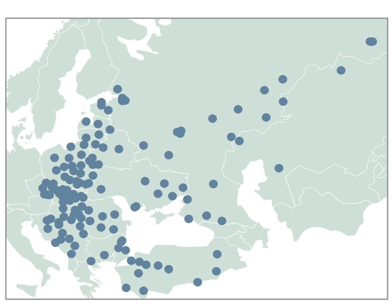
Growing aftermarket business

Trucks from Volvo are a common sight on the roads throughout Eastern Europe and the fleet is constantly growing. In 2007, the Group's deliveries of heavy trucks grew by 72% to 19,102 trucks and at year-end there were slightly more than 120,000 Volvo trucks on the roads. The large fleet means that the aftermarket business is constantly grow-

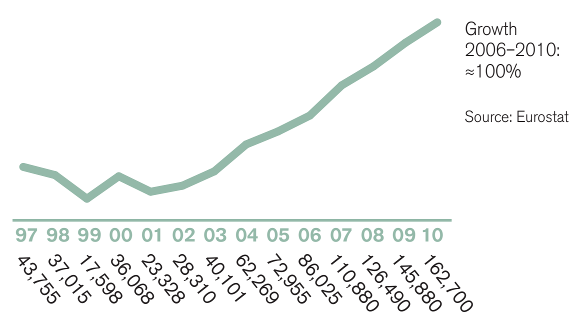
Volvo Group's sales in Eastern Europe, SEK M



Planned expansion of the service network



Total heavy truck market in Eastern Europe



ing in significance, driving profitability in the region. The customer structure is varied and consists of multinational corporations and Western European transport companies as well as a growing proportion of Eastern European transport and logistics companies.

The customers emphasize the completeness of the offering when they are asked to explain why they chose the Volvo Group. Many point to the support of financing through Volvo Financial Services as a major strength. In many of the countries, as much as 60% of the trucks are financed through Volvo Financial Services.

Broad-based expansion of the service network

To ensure that the customers' vehicles are constantly kept rolling, the Volvo Group is expanding its network of service centers along the major transport routes. It is important to offer service close to the customers, and there is great potential to expand the spare parts and service business.

The expansion of service capacity under Volvo direction, Volvo Truck Centers, is currently being pursued throughout Europe. In 2006, there were 185 Volvo Truck Centers in Western Europe and in 2010 that figure will be 198. In the next few years, major investments will be made in the service network throughout Eastern Europe, and the number of Volvo Truck Centers will increase from today's 37 to 55 by 2010.

With the aim of further strengthening its market position and meeting increased need for efficient transport, the Volvo Group opened a new Volvo Center in the Polish city of Mlochów, about 30 kilometers outside Warsaw. It consists of service centers, a training center and various representation offices for the use of Volvo Trucks, Volvo Construction Equipment, Volvo Buses and Volvo Financial Services.

Poland is an important market for international transport companies with its population of nearly 40 million and its location between Germany in the west and the Baltic States, Belarus, the Ukraine and Russia in the east. There are many indications that Poland will be one of the Volvo Group's five largest markets in Europe in the near future.

Building new plant outside Moscow

In order to take advantage of rapid growth and meet demand, the Volvo Group decided during the year to also invest slightly more than SEK 900 M in a new assembly plant for trucks in Russia.

The new facility, located about 200 kilometers southwest of Moscow in Kaluga, is expected to be completed at the beginning of 2009. The plant will have enough capacity for 10,000 Volvo trucks and 5,000 Renault trucks per year operating at full capacity.

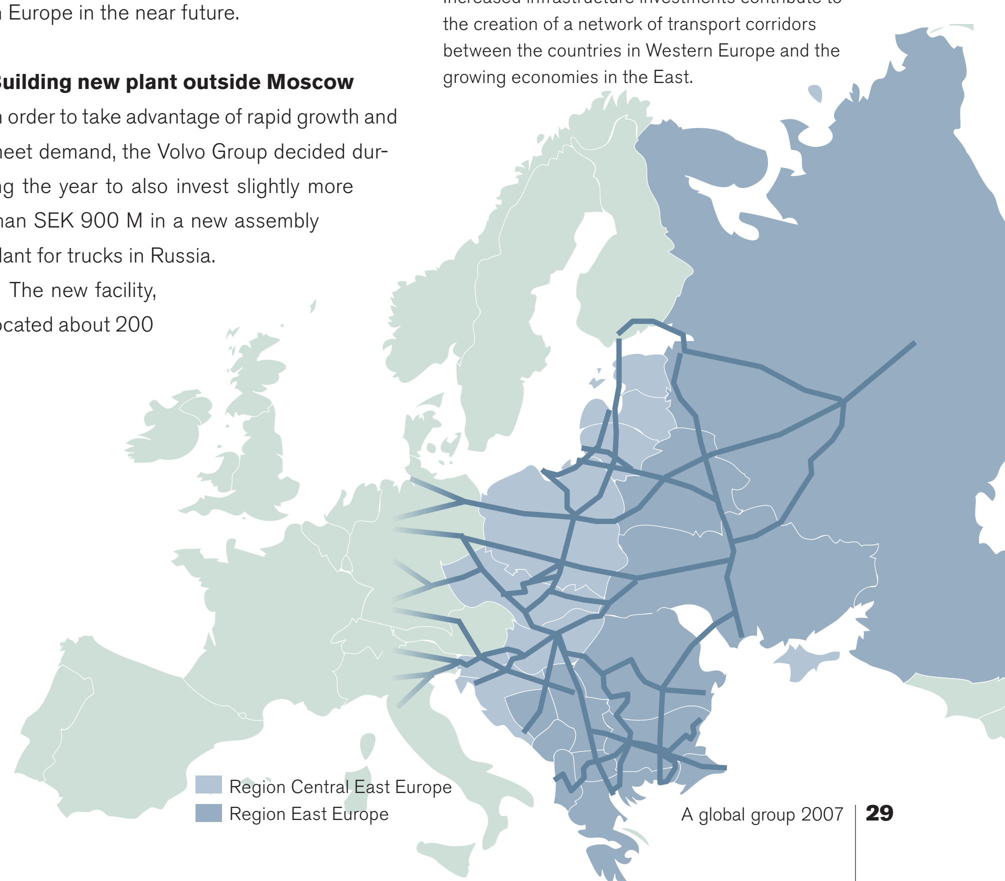
Since 2003, Volvo Trucks has had a smaller assembly plant for trucks in Zelenograd, just outside Moscow. The plant has a capacity of approximately 500 vehicles per year and is already operating at full capacity.

Additionally, Volvo Construction Equipment acquired land in connection with the truck operations' plant in Kaluga in June. The intent is to begin manufacturing construction equipment there in a few years.

"Our strategy is based on being close to the customers and knowing their business. We offer modern trucks, a broad range of services including financing, access to competent service and a comprehensive service network. Our employees are also crucial to success. They are very committed and prepared to go the extra mile to satisfy the customers," says Roger Alm.

Transports between east and west

Increased infrastructure investments contribute to the creation of a network of transport corridors between the countries in Western Europe and the growing economies in the East.



Board of Directors' Report

The share

In 2007, a total of slightly more than SEK 20 billion was transferred to Volvo's shareholders in the form of a dividend and share redemption. As of 2008, all trading in the Volvo share will take place on the OMX Nordic Exchange Stockholm. The Annual General Meeting will be held in Göteborg on April 9, 2008.

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

In December 2007, Volvo's American Depositary Receipt (ADR) was delisted from the NASDAQ exchange in the US. Volvo's ADR, which corresponds to its B share, has been listed on the NASDAQ since 1985. Following the delisting, all trading in Volvo shares is concentrated to the OMX Nordic Exchange Stockholm.

The Volvo share is included in a large number of indexes that are compiled by Dow Jones, FTSE, S/P, the OMX Nordic Exchange and the Affärsvärlden business magazine.

Dow Jones Sustainability Indexes
Member 2007/08

A volatile year

The overall trend of the world's leading stock exchanges was favorable in the beginning of 2007. The latter half of the year, however, was characterized by significant uncertainty in the world's financial markets. On the OMX Nordic Exchange Stockholm, the OMXSPI index dropped 7% in 2007.

Trading in Volvo A shares in Stockholm declined by 41%, adjusted for the share split, compared with 2006. The share price rose by 15.5% and was SEK 108.00 per share at year-end. The highest price paid was SEK 153.00 on July 16, 2007, which is the highest price paid for Volvo A shares up until the end of 2007.

Trading in Volvo B shares in Stockholm declined by 15%, adjusted for the share split, compared with 2006. The share price rose by 19% and was SEK 108.50 per share at year-end. The highest price paid was SEK 152.00 on July 16, 2007, and this too is the highest price paid for Volvo B share up until the end of 2007.

When the Volvo ADR was delisted from the NASDAQ exchange on December 13, 2007, the price was USD 17.86, corresponding to an increase of 35% during the year.

In 2007, a total of 2,885 million (673) Volvo shares were traded in Stockholm, corresponding to a daily average of 11.5 million (2.7). The large increase in the turnover of shares is a consequence of the share split at the end of April 2007. At year-end 2007, Volvo's market capitalization totaled SEK 231 billion (193).

NASDAQ and the SEC

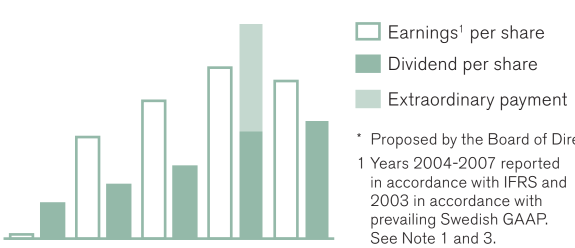
In December 2007, AB Volvo applied to have the Volvo share delisted from the NASDAQ exchange and the B share delisted from the US Securities and Exchange Commission (SEC). Volvo's ADR, which corresponds to the B share, has been listed on the NASDAQ since 1985. Volvo intends to maintain its ADR program. After the delisting in December 2007, all trading in Volvo shares is concentrated to the OMX Nordic Exchange Stockholm.

Dividend

The objective of Volvo's dividend policy is that the long-term total return to shareholders should exceed the average for the industry.

Historically, dividends on Volvo shares have risen steadily. The Volvo share's total return, that

Earnings[1] and dividend per share



	03	04	05	06	07
Earnings[1] per share	0.14	4.72	6.44	8.03	7.37
Dividend per share	1.60	2.50	3.35	5.00	5.50*
Extraordinary payment				5.00	

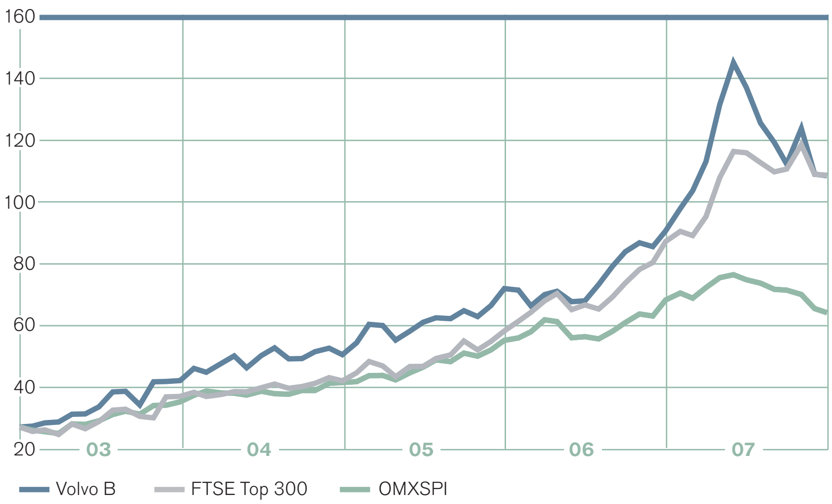
* Proposed by the Board of Directors

1 Years 2004-2007 reported in accordance with IFRS and 2003 in accordance with prevailing Swedish GAAP. See Note 1 and 3.

Total return, Volvo B

Source: Findata Direkt

Price trend, Volvo Series B shares, SEK



Source: OMX/FTSE

The largest shareholders in AB Volvo, December 31, 2007[1]

	Voting rights, %
Renault SA	20.5
Industrivärden	5.3
SHB	5.1
Violet Partners LP	4.8
SEB Funds/Trygg Insurance	4.2

1 Following the repurchase of its own shares, AB Volvo held 20,728,135 class A shares and 82,054,652 class B shares comprising in total 4.8% of the number of registered shares on December 31, 2007.

Share capital, December 31, 2007

Registered number of shares[1]	2,128,420,220
of which, Series A shares[2]	677,601,630
of which, Series B shares[3]	1,450,818,590
Quota value, SEK	1.20
Share capital, SEK M	2,554
Number of shareholders	197,519
Private persons	186,921
Legal entities	10,598

More details on the Volvo share, see note 23.

1 Following the repurchase of the Group's own shares, the number of outstanding shares was 2,025,637,433.

2 Series A shares carry one vote each.

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

Credit rating at December 31, 2007

	Short term	Long term
Moody's	P-2 stable	A3 stable
Standard & Poor	A2 stable	N/A
DBRS	R-1 (low) stable	N/A
R&I (Japan)	a-1+	AA-

is, the share's value growth plus reinvested dividends, has amounted to an average of 39.6% per year since 2003. This can be compared with the average total return for the OMX Nordic Exchange Stockholm in its entirety, which during the same period was 23.2%, according to SIX.

For fiscal year 2007, the Board of Directors proposes that the shareholders at the Annual General Meeting approve an ordinary cash dividend of SEK 5.50 per share.

Split and share redemption

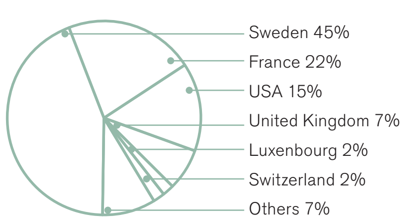
At the Annual General Meeting of AB Volvo on April 4, 2007, it was decided to carry out a 6:1 share split, with an automatic redemption of every sixth share held for SEK 25 per share. The share split was carried out on April 26, and as a result, the number of common shares increased five-fold. Payment for the redemption shares took place on May 28, 2007.

Communication with the shareholders

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

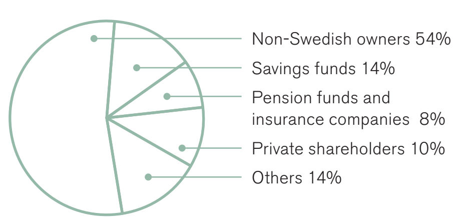
Through the website www.volvogroup.com it is possible to access financial reports for the past 10 years and search for information concerning the share, insider trading in Volvo, earnings estimates and statistics for truck deliveries. It is also possible to access information concerning the Group's governance, including information about the Annual General Meeting, the Board of Directors, Group Management and other areas that are regulated in the "Swedish Code of Corporate Governance." This website also invites shareholders to personally determine the information to be received from Volvo.

Ownership by country[1], %



1 Share of capital, registered shares.

Ownership categories[1], %



1 Share of capital, registered shares.

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

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

Sustainable development

Sustainable development is an integral component of the daily operations of the Volvo Group. Incorporated in the Group's mission statement is the requirement that its products are to be of superior quality, safety and environmental care.

Volvo views sustainable development, both in environmental and social terms, as a vital condition for long-term profitability and increased customer and shareholder value.

An active approach to sustainability

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

Environmental care, quality and safety represent the Group's corporate values. If the Volvo Group succeeds in reducing environmental impact, it strengthens its own and its customer's competitiveness while promoting a desirable social goal.

In environmental issues, the Group applies the prudence principle, prioritizing resource efficiency. Environmental efforts are followed up regularly to ensure their progress toward established goals.

The Volvo Group's social responsability

The involvement in social issues is broad-based. This is significant, since the Group is a large employer in many communities and operates in areas of considerable general interest.

The Code of Conduct, which is based on the UN declarations, prescribes the Group's position on human rights. The Volvo Group accepts no forms of child labor or forced labor, endeavors to promote equal rights, justice and diversity. The Group's cooperation partners must also comply with these important principles.

Sustainability organization

The Volvo Group's efforts to ensure sustainability are coordinated by a special Group council for each corporate value. The members of the councils are those in charge of the various areas for each business area and business unit. The Volvo Group applies environmental management systems in accordance with ISO 14001. The issues are integrated in the operations and aligned with regular operational responsibility. Most employees are based in operations that have certified quality management systems as prescribed by ISO 9001:2000 in place. All units have action plans in place for improvement work. The Volvo Group requires that its contractors endeavor to deliver fault-free products and services, establish quality and environmental management systems, focus on continuous improvement and adopt a comprehensive view of the product lifecycle. Social issues are integrated part of the supplier evaluations since 2006.

Active dialog with stakeholders

The Volvo Group strives to ensure honest and forthright communication with the surrounding world and maintains an active exchange of information with stakeholders on many levels and in many contexts.

High demands on production and products

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

Environmental management system in place

The Volvo Group's first system was certified in 1995. At year-end 2007, 96% of the employees in the Group's production units were working according to certified environmental man-

Dow Jones Sustainability Indexes

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

The Global Compact

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

agement systems, primarily ISO 14001:2004. There are also environmental management systems for other parts of the value chain, such as product development and marketing.

The environmental program includes cooperation partners. Environmental demands have been used as an integrated part of the evaluation of suppliers and for follow-up of various purchasing organizations since 1996.

Requirements on facilities

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

All the Volvo Group's production facilities have the requisite environmental permits. In Sweden, there are 16 facilities that require permits. These permits encompass waste, noise and emissions to air, ground and water. Four Swedish environmental permits were renewed in 2007 and three permits are due for renewal in 2008.

The existence of polluted land on the Group's properties is cataloged every year. This pollution generally has historic origins. In 2007, cleaning-up activities were conducted on six properties.

No major environmental incidents occurred in 2007 and no environmental disputes took place.

The Volvo Group's operations generate transport to and from the plants. These flows are continuously reviewed to identify potential improvement measures to reduce environmental impact. Volvo Logistics has developed a system for calculating environmental load.

Carbon-dioxide-neutral plants

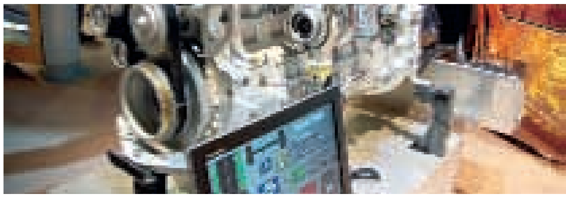
In September, the Group presented the world's first carbon-dioxide-neutral vehicle plant – the Volvo Truck plant in Ghent, Belgium. Investments in wind power and biofuel will generate electricity and heat that does not contribute any carbon dioxide to the atmosphere. The project is fully in line with the EU's objective of reducing carbon-dioxide emissions in Europe by 20% by 2020. The aim is to make all Group plants carbon-dioxide-neutral. In 2005, it was decided to make the Volvo Trucks plant in Tuve carbon-dioxide-neutral, and efforts are under way to achieve this goal. The Volvo Truck plant in Umeå is also on route to becoming carbon-dioxide-neutral.

Greater environmental impact during use

The greatest environmental impact caused by the Volvo Group's products occurs during use. Lifecycle analyses show that up to 90% of the total environmental impact arises during use.

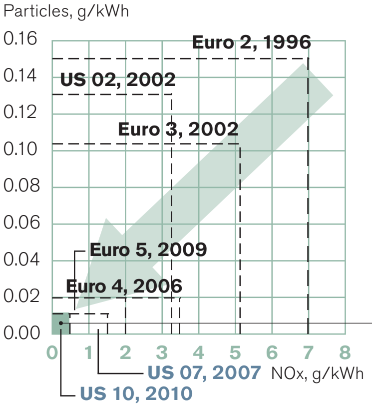
One of the most important environmental issues is climate change. Increased levels of carbon dioxide in the atmosphere depend primarily on combustion of fossil fuels from oil, coal and natural gas. According to the Stern report, approximately 14% of total emissions of carbon dioxide in the world come from transport. Total road transport accounts for 10%.

Climate change and access to energy sources may strongly affect the Volvo Group. It is therefore vital to prepare for use of fuels other than crude oil. These efforts focus



The Volvo Group has a Group-wide environmental policy. The policy forms the basis of the Group's environmental management systems, strategies and goals, audits and measures. The environmental policy states that the Volvo Group's environmental program shall be characterized by an overall view, continuous improvement, technical development and efficient use of resources. The policy is broken down into strategies and goals.

Emissions regulations for trucks and buses



The currently applicable emissions standards are Euro 4, in Europe, and US 07, in North America. The difference between Euro 3 and Euro 4 is considerable. Emissions of particles have been reduced by 80%, and of NOx, by 30%. Euro 5 will entail a 50% reduction in NOx emissions compared with Euro 4.

Volvo Group's environmental performance

For information on the Volvo Group's environmental performance see the Eleven-year summary on page 157.

Volvo Group Sustainability Report

Volvo Group's sustainability report will be available on www.volvogroup.com in mid-April.

largely on the development of new drivelines, energy efficiency and alternative fuels.

More efficient engines lead to reduced emissions

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

requirements of reduced emissions, particularly of nitrous oxides and particle matters. In order to comply with these requirements, the Group is developing new engine technology that reduces consumption and emissions. Reduced fuel consumption benefits both the environment and customers' profitability, since fuel accounts for a large proportion of their costs. Since 1980, the fuel consumption of Volvo's trucks has declined by 30% at the same time as the emissions of NOx and PM have been reduced. Over the past 30 years, diesel engines have seen a hundredfold reduction of regulated emissions of NOx and PM.

The Volvo Group has the world's most state-of-the-art program for heavy diesel engines. The new, heavy engine family will meet all known emissions requirements that come into effect from now until 2014. The development work, which has taken place within the Group, was recognized with the Volvo Technology Prize for 2007.

Volvo Group – Global Environmental targets

In production

- Reducing energy consumption by 50% per produced unit by 2008 compared with 2003
- Doubling the use of carbon-dioxide-neutral energy by 2008 compared with 2003
- Terminating all use of oil and coal for the heating of facilities

When the products are used

- Achieving high fuel efficiency and low emissions throughout product lifecycles
- Measuring against the best
- Consistently carrying out activities to become the industry leader
- Producing environmental data for follow-up and communication for each new product developed
- Implementing a strategy for tomorrow's fuels
- Including alternative fuels and alternative drivelines in product plans.

Carbon-dioxide-neutral trucks

As part of its work with alternative fuels, the Volvo Group was the first vehicle manufacturer to develop seven heavy duty demonstration trucks, all of which can be driven without net emissions of climate-impacting carbon dioxide. The trucks can operate on biodiesel, biogas, biogas combined with biodiesel, ethanol/methanol, DME, synthetic diesel and hydrogen gas combined with biogas. These fuels are made from renewable raw materials and when burned add no additional carbon dioxide to the ecosystem. The Volvo Group has thus shown that it is prepared for the fuels of the future, regardless on which of them the government decides to focus.

At the same time, the Volvo Group continues to work on developing hybrid technology. The Group's hybrid solution can generate fuel savings of up to 35% in heavy duty vehicles. The largest savings relate to driving that involves a great deal of braking and accelerating – for example, urban bus traffic, urban distribution operations and refuse collection duties. Field testing of hybrid vehicles will commence in 2008 in for instance London.

Lifecycle analyses

The Volvo Group manufactures a large number of products. Environmental care is present already in the product development stage. Lifecycle analyses provide a complete picture of the product's environmental impact throughout its lifecycle, from raw material to waste product.

To describe the environmental impact of the most important products, environmental declarations are prepared. These declarations consist of three parts: manufacturing, use and scrapping. The basic principle is that every new product must have less environmental impact that the product it replaces.

Social responsibility

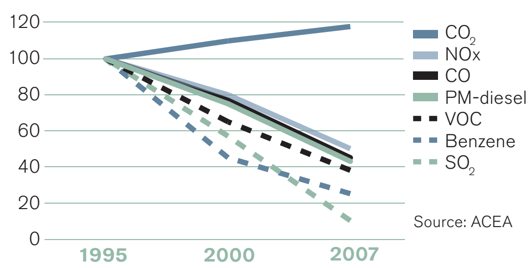
A key factor in realizing the Group's vision is the contribution of the employees and their knowledge and expertise.

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

Supply of strategic competence

In their business plans, the companies in the Volvo Group specify the skills that must be assured and developed to enable the com-

Sharply reduced emisssions



Source: ACEA

Emissions from highway transports in the EU.

Key figures

	2006	**2007**
Number of employees at year-end	83,187	101,698
Share of women, %	17	17
Share of woman, Board Member, %	11	11
Share of women, Presidents and other senior executives, %	15	15
Absence due to illness of regular working hours, %		
Total absence due to illness of regular working hours, %	4.7	5.1
of which continous sick leave for 60 days or more, %	49.6	46.2
Absence due to illness (as percentage of regular working hours) by gender		
Men, %	4.4	4.8
Women, %	5.7	6.3
Absence due to illness (as percentage of regular working hours) by age		
29 years or younger, %	4.1	4.6
30–49 years, %	4.7	5.1
50 years and older, %	5.1	5.5

panies, and consequently the Group, to reach their long-term goals.

In the business plans, the companies also describe how they intend to meet their future competence requirements. This allows the companies to guide their investments in succession planning to the areas that are deemed to be the most strategically significant.

An internal training organization exists to support the company's and the employees' development. It offers employees a wide range of courses and training programs that help them develop their expertise so they can better contribute to the achievement of the business goals.

To assure access to future leaders, the companies employ a systematic approach designed to identify, develop and retain employees with leadership potential.

Increased diversity – a strategic goal

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

Training on the Code of Conduct

The Volvo Group has well-established, strong and valuable brands. It is vitally important that all employees are familiar with, and follow, the Group's Code of Conduct. Of the Group's employees, 81% states that they have received information on the Code of Conduct.

In November 2006, an online training program on corruption was launched. At year-end 2007, 21,000 employees had received the training.

Cooperation with universities and colleges

Sharing knowledge with others is one of the principal objectives of the Group's projects and partnerships, as exemplified by the Future Urban Transport Foundation, in which the company exchanges knowledge with universities and research institutions regarding future transport in urban areas. The Volvo Group also collaborates extensively with universities and colleges in many countries. The Volvo Group participates in many projects at the local, the national and the global level, some of which are described on the Volvo Group's website, www.volvogroup.com.

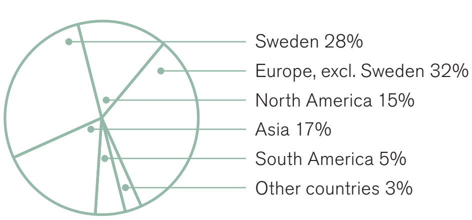
Product quality and safety

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

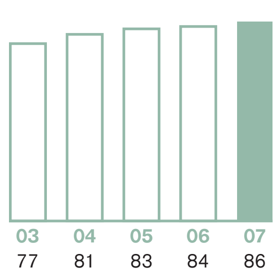
The Group is also a leader in designing vehicles that protect the driver and passengers in the event of a collision. Safety solutions include rollover-tested cabs and bodies, frontal collision protection, deformation zones, seat belts, deformable fittings and airbags.

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

Geographic distribution of employees, %



Share of satisfied employees, %



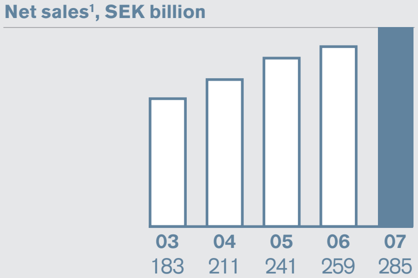
Volvo Group Attitude Survey

The Volvo Group Attitude Survey is an annual Group-wide survey documenting employee attitudes toward their work and what improvements are required. In the survey, employees express their views on their work and areas that need improvement. The results of the survey are used to identity key improvement areas. The proportion of satisfied employees has steadily improved in recent years. In 2007, the proportion of satisfied employees was 86%, compared with 84% in the preceding year, 83% in 2005 and 81% in 2004. Other key indicators monitor how well each manager involves and communicates with his or her team members, provides feedback on performance and contributes to resolving conflicts.

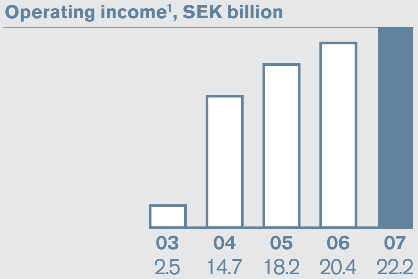
The Volvo Group 2007

2007 was an intense year for the Volvo Group. A strong presence was established in Asia through several large acquisitions. The Group advanced its positions in several significant product segments and a large number of new products were launched. Demand varied greatly in different markets where markets in Europe and in Asia showed continued strong growth while markets in North America posted a significant decline. In 2007 both sales and earnings were best so far in the history of the Volvo Group.

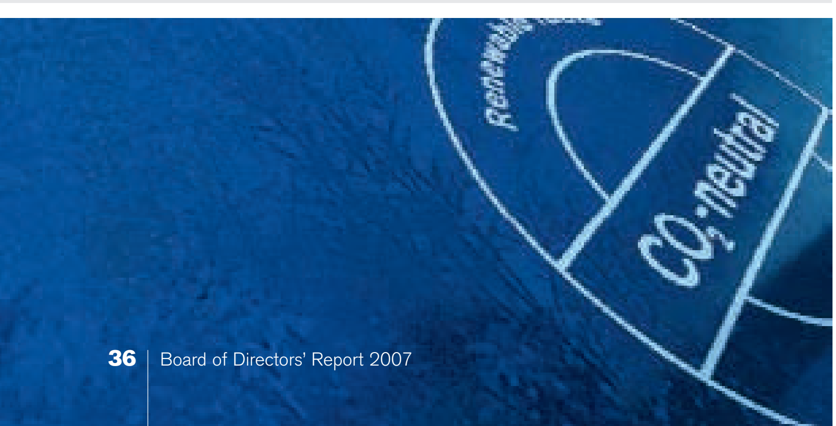
Net sales[1], SEK billion



Operating income[1], SEK billion



1 As from 2004 figures are reported in accordance with IFRS. Previous years are reported in accordance with the then prevailing Swedish GAAP. See note 1 and 3.



Significant events

"For the Volvo Group it is strategically very important to have a strong presence in the Indian market.

Leif Johansson

Cooperations, acquisitions and divestments

Purchase of Nissan Diesel completed

When the acceptance period for Volvo's offer for Nissan Diesel expired on March 23, Volvo had received a total of slightly more than 96% of the shares outstanding. Volvo paid a total of SEK 7.4 billion for the slightly more than 77% of the shares outstanding that were purchased through the offer. After this, Volvo initiated a process to redeem the remaining shares outstanding. In conjunction with this, Volvo applied for delisting Nissan Diesel from the Tokyo Stock Exchange. At year-end, the Volvo Group owned all outstanding shares in the company. Nissan Diesel was consolidated in the balance sheet of the Volvo Group as of the close of the first quarter of 2007. Sales and earnings are reported from the beginning of the second quarter. Operations within Nissan Diesel are reported within the Trucks segment.

Acquisition of Ingersoll Rand's road development equipment division

On April 30, 2007, Volvo concluded the acquisition of US based Ingersoll Rand's road development equipment division, other than operations in India which followed on May 4. The division was consolidated in the Volvo Group as of May 1, 2007. Ingersoll Rand's operations in road development equipment comprise soil and asphalt compactors, asphalt pavers and milling machines. The purchase consideration for the assets amounted to about USD 1.3 billion, about SEK 8.8 billion. Ingersoll Rand's road development division – with production facilities in the US, Germany, India and China – has about 2,000 employees and headquarters in Shippensburg in Pennsylvania, USA. Operations posted sales in 2006 of USD 864 M, about SEK 6.4 billion, with operating profit of about SEK 745 M.

Volvo divested interest in Petro Stopping Centers

Volvo Trucks North America divested its entire 28.68% ownership in US truck stop chain Petro Stopping Centers Holding L P to Travel-Centers of America and Hospitality Properties Trust. The purchase consideration amounted to SEK 316 M (USD 46.3 M). The transaction resulted in a capital gain of SEK 316 M affecting second quarter operating income in Volvo Group's truck segment. Volvo Trucks North America purchased its holding in Petro in 1999 to strengthen its network of parts and service points in North America. Since then, major investments have been made in the Volvo distribution network in North America and, accordingly, ownership in Petro now has less strategic importance.

Renault Trucks concluded truck-production agreement with Turkish company Karsan

In July, Renault Trucks concluded a cooperation agreement with the Turkish independent auto manufacturer Karsan concerning production of trucks for the growing markets in Turkey and neighboring countries. Karsan will produce the trucks on behalf of Renault Trucks at Karsan's plant in Bursa, Turkey, as of 2009. The models to be produced by Karsan will be Renault Premium Route, Renault Premium Lander and Renault Kerax. The vehicles will be distributed via Renault Trucks' dealer network in Turkey and neighboring countries. Karsan's plant will have the capacity to produce approximately 5,000 vehicles annually. Karsan has 817 employees and manufactured a total of 12,500 vehicles in 2006. In 2006, the Turkish market for vehicles with a weight exceeding six tons amounted to more than 40,000 units.

Volvo invested in environmentally sound forestry machinery

Volvo Technology Transfer AB is a new part-owner in El-forest AB, based in Örnsköldsvik, Sweden, and is thereby investing in the development of energy efficient and environmentally sound forestry machinery.

Volvo signed letter of intent with Indian vehicle manufacturer Eicher

The Volvo Group has signed a letter of intent with the Indian vehicle manufacturer Eicher Motors Limited regarding the establishment of a new Indian joint-venture company. According to the letter of intent, the joint-venture company will hold Eicher's entire truck and bus operations and the Volvo Group's Indian sales operations within trucks. The joint-venture company will have its production mainly concentrated to Eicher's current plant in Pithampur in India. The joint-venture company will have about 2,300 employees and the operations within the joint-venture company that come from Eicher Motors had sales in 2006 of about SEK 3.0 billion and operating income of SEK 128 M. The operating margin for the period was 4.2%. Implementation of the transaction requires the approval of the affected government authorities and the shareholders in Eicher Motors Limited. The transaction is expected to be completed before mid-year 2008.

Acquisition of composite company ACAB

In December Volvo Aero acquired the composite company Applied Composites AB (ACAB) in Linköping, Sweden, which currently has approximately 70 employees. As a consequence of the acquisition, Volvo Aero will invest approximately SEK 50 M in research and development within the area of composites during the next 18 months. Volvo Aero intends to immediately establish a new operation that will develop and manufacture certain selected aircraft engine components in composite materials. These components will be significantly lighter than comparable components in metal and will then significantly influence the fuel consumption and, thereby its carbon dioxide emissions. ACAB was founded in 1988 and is a prominent company within development and construction of advanced composite products.

Investments

Volvo invests in truck assembly facilities in Russia

The Volvo Group invested a total of SEK 935 M in an assembly facility for trucks in Russia. The new facility will have a capacity of 10,000 Volvo trucks and 5,000 Renault trucks per year. The facility will be located in the city of Kaluga, approximately 200 kilometers southwest of Moscow, and is scheduled to be completed in 2009.

Volvo invested in production of engines and gearboxes

As a result of increased demand for the Volvo Group's products in emerging markets such as Eastern Europe and Asia, production requirements for heavy diesel engines and heavy gearboxes are also rising. To meet this demand, AB Volvo in June decided to invest a total of SEK 1.7 billion in the Group's manufacturing of diesel engines and heavy gearboxes in the period through 2009. The foundry and production plant in Skövde, where production capacity for heavy diesel engines will be increased by 20%, will account for a large part of the investment, slightly more than SEK 1.1 billion. The investment there will comprise machinery, premises and environment-enhancing measures. In Köping, where production of gearboxes is conducted, the investment will amount to SEK 400 M, which will increase production capacity for gearboxes by 50%. In addition, minor investments will be made in a number of Volvo Powertrain's plants in other parts of the world, to ensure that industrial systems are adjusted to the higher production capacity.

Investment for increased capacity in France

Volvo invests SEK 530 M in Renault Trucks' cab plant in Blainville, France. The investment is made to increase capacity and comprises both assembly and painting. Renault Trucks' cab plant in Blainville produces cabs for all of Renault Truck's truck models.

Volvo CE decided to invest nearly 1.1 billion in the Component Division

Over the next three years, Volvo Construction Equipment will invest nearly SEK 1.1 billion in its Component Division in Eskilstuna, Sweden. The Component Division develops and manufactures axles and transmissions for Volvo construction equipment. In addition, investments for increased capacity are being made for the production of cabs in Hallsberg, Sweden and for the production of excavators in Konz, Germany and in Asheville, USA.

Volvo Trucks invested in its Umeå cab plant

Volvo Trucks is investing almost SEK 1.1 billion in its cab factory in Umeå. The investment covers new production equipment as well as measures designed to increase capacity and flexibility in the production plant. The current two assembly lines will be replaced by a flexible new system where different cab models can be built on the same line. The degree of automation and flexibility will thus increase. The change has a positive impact on capacity as well as on the effectiveness and will be implemented successively throughout the factory without necessitating any production standstills.

Company information

Annual General Meeting in AB Volvo

At the Annual General Meeting of AB Volvo, held on April 4, 2007, the Board's proposal was approved to pay an ordinary dividend to the shareholders of SEK 25 per share and to carry out a 6:1 share split with automatic redemption of the sixth share for SEK 25 per share. The share split was carried out on April 26, which meant that the number of ordinary shares was fivefold. Payment for the redeemed shares took place on May 28. Peter Bijur, Per-Olof Eriksson, Tom Hedelius, Leif Johansson, Finn Johnsson, Philippe Klein, Louis Schweitzer and Ying Yeh were reelected members of the Board of AB Volvo and Lars Westerberg newly elected. Finn Johnsson was elected Board Chairman. PricewaterhouseCoopers AB was elected as auditors for an additional three-year period.

Volvo filed for delisting from NASDAQ

In December, AB Volvo applied for delisting of the Volvo share from the NASDAQ stock exchange in the US and for deregistration of the Class B share from the US Securities and Exchange Commission, SEC. Volvo's American Depositary Receipts (ADRs), which correspond to B shares, have been listed on NASDAQ since 1985. Volvo intends to maintain the program for ADRs. The delisting became effective on December 13. Following the delisting, all trading in Volvo shares is concentrated to OMX Nordic Exchange Stockholm.

Volvo raised new financing

During the second quarter, the Volvo Group raised new funding of EUR 1 billion and SEK 5.1 billion in the European capital markets. The bond issues were well received in the market and the Euro bond issue was oversubscribed four times. The bond loan of EUR 1 billion will mature in 2017. The loan in SEK consists of two bond loans, each maturing in 2014. One loan totals SEK 3.0 billion while the other totals SEK 2.1 billion. These loans were raised to finance the acquisitions during 2007 of Nissan Diesel, Ingersoll Rand's division for road development equipment and Lingong, as well as for the share repurchase and dividend approved by the Annual General Meeting.

Products and development

Volvo delivered the first US10-compliant trucks to customer for field testing

Volvo Trucks North America has delivered five Volvo trucks that meet the stringent US10 truck emission standards to customer for field testing. The US10 standard becomes effective in 2010 and the trucks now delivered are equipped with the EGR (Exhaust Gas Recirculation) and SCR (Selective Catalytic Reduction) emission-control systems. The VN model trucks have been delivered to a customer, which will now field test the SCR technology that is common in Europe. To date, the emission requirements in North America were met by applying EGR technology and particulate filters. The trucks now being delivered are also equipped with SCR.

Volvo displayed carbon-dioxide-neutral trucks

The Volvo Group is the first vehicle manufacturer to have produced seven demonstration trucks that can all be driven without emitting any environmentally harmful carbon dioxide. These trucks were exhibited for the first time in August and are equipped with diesel engines that have been modified to operate on seven different types of renewable liquid and gaseous fuels. The seven Volvo FM trucks are equipped with Volvo's own 9-liter engines that have been specially modified to illustrate the possibilities of carbon-dioxide-neutral transport. The seven trucks can be operated on the same number of different renewable fuels and/or combinations of fuels: biodiesel, biogas combined with biodiesel, ethanol/methanol, DME, synthetic diesel and hydrogen gas combined with biogas. Since all of these fuels are produced from renewable raw materials, they provide no carbon-dioxide contributions to the ecosystem when combusted and, accordingly, do not impact the environment.

Volvo's plant in Ghent first in the world with carbon-dioxide-neutral vehicle production

In September, the Volvo Group, presented Volvo Trucks' plant in Ghent, Belgium as the first vehicle plant in the world completely carbon dioxide (CO_2) neutral. The Volvo Group's efforts pertaining to CO_2-neutral plants are fully in line with EU's goal for reducing carbon-dioxide emissions by 20% in Europe by 2020. The Volvo Group's ambition is to make all its plants CO_2-neutral. Already in 2005, the Volvo Group decided to transform the Volvo Trucks plant in Tuve, Sweden into a CO_2-neutral vehicle plant and work is currently in progress on the completion of the local planning and an application for environmental permits has been prepared. The plant in Umeå, Sweden is also set to become CO_2-neutral. For Ghent, investments in wind power and biofuel will provide the plant with electricity and heat that does not add any carbon dioxide to the atmosphere.

Volvo Aero's light-weight technology chosen for the Airbus A380 GP7000 engine

Pratt & Whitney has selected Volvo Aero to re-design a component for the GP7000 engine for Airbus' new A380 jumbo jet. The agreement also anticipates that Volvo Aero will assume responsibility for manufacturing and product support for the component, the turbine exhaust case, during the engine's lifetime. The turbine exhaust case is a highly critical part of the aircraft engine because, among other reasons, as it is one of the two support systems that carry the weight of the entire engine. The new construction presented by Volvo Aero reduces the components weight by over 10%, with consequential effects on fuel consumption and therefore also the engines environmental influence. Series production of the new TEC for the GP7000 engine is projected to start as early as 2010. At the end of the same year, Volvo Aero will take over full manufacturing responsibility.

Events in 2008

Negotiations with the US union UAW

In North America the former agreement between Mack Trucks and UAW, the American union for vehicle workers, was due 30 September 2007. The agreement has been prolonged on a day-to-day basis. During January 2008 the agreement between Volvo Trucks North America Operations and UAW was due, without the parties agreeing on a prolongation. Since the parties at that time had not succeeded in reaching an agreement, the UAW chose to engage in a strike. Negotiations are ongoing. At present, it is not possible to estimate neither the duration of the strike nor the outcome of the negotiations, which have not been terminated, but there is a risk that the outcome may have a significant negative impact on the consolidated operating income in 2008.

Financial performance
– sales and earnings growth

Net sales increased by 10% to SEK 285.4 billion, and operating income rose by 9% to SEK 22.2 billion. Income for the year amounted to SEK 15.0 billion, down 8%. Diluted earnings per share was SEK 7.37 (8.03).

Net sales by business area

SEK M	2006	**2007**	%
Trucks	171,265	187,892	10
Construction Equipment	42,131	53,633	27
Buses	17,271	16,608	(4)
Volvo Penta	10,774	11,719	9
Volvo Aero	8,233	7,646	(7)
Eliminations and other	(654)	(703)	(7)
Industrial-operations[1]	**249,020**	**276,795**	**11**
Customer Finance	7,648	7,705	1
Reclassifications and eliminations	2,167	905	–
Volvo Group	**258,835**	**285,405**	**10**

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

Net sales by market area

SEK M	2006	**2007**	%
Western Europe	114,689	124,239	8
Eastern Europe	16,042	27,116	69
North America	73,433	49,435	(33)
South America	12,533	15,638	25
Asia	19,610	42,429	116
Other markets	12,713	17,938	41
Total Industrial operations	**249,020**	**276,795**	**11**

Operating income (loss) by business area

SEK M	2006	**2007**
Trucks	14,828	15,193
Construction Equipment	4,072	4,218
Buses	745	231
Volvo Penta	1,106	1,173
Volvo Aero	359	529
Eliminations and other	(685)	(761)
Industrial operations[1]	**20,425**	**20,583**
Goodwill adjustment	(1,712)	–
Industrial operations	**18,713**	**20,583**
Customer Finance	1,686	1,649
Volvo Group	**20,399**	**22,231**

1 Excluding goodwill adjustment in 2006.

The Volvo Group

Net sales

Net sales for the Volvo Group increased by 10% to SEK 285,405 M in 2007, compared with SEK 258,835 M in 2006.

Operating income

Volvo Group operating income rose by 9% in 2007 to SEK 22,231 M compared with SEK 20,399 M in the year-earlier period.

Operating income for the Industrial operations rose by 10% to SEK 20,583 M compared with SEK 18,713 M in the preceding year. The Customer Finance operations achieved an operating income of SEK 1,649 M (1,686) a decline of 2%. As a result of the successful development of the Group in 2007, a provision of SEK 450 M was made for the Group's global profit-sharing system.

Net financial items

Net interest expense was SEK 170 M, compared with SEK 81 M in 2006. The increased interest expense is primarily attributable to increased debt as a result of acquisitions and lower interest income due to share dividend and the share redemption program in 2007. Higher short-term interest rates in Sweden, where the Group's liquid funds are invested, and lower costs for post-employment benefits, owing to the transfers to pension foundations carried out in the preceding year, had a positive effect on net interest expense.

During the year, market valuation of derivatives used for the customer financing portfolio had a negative effect on Other financial income and expenses in an amount of SEK 384 M. The negative impact is mainly due to lower US long-term interest rates. In the preceding year the effect was negative SEK 61 M.

Income Taxes

The income tax expense for the year amounted to SEK 6,529 M corresponding to a tax rate of 30%. During 2006 the income tax expense amounted to SEK 3,981 M and a tax rate of 20%. During the third quarter of 2006 AB Volvo reported a tax income of SEK 2,048 M due to the reversal of a valuation allowance for tax receivables in Mack Trucks Inc.

Income for the period and earnings per share

Income for the period amounted to SEK 15,028 M (16,318), corresponding to a basic earnings per share of SEK 7.37 (8.04). Diluted earnings per share was SEK 7.37 (8.03). The return of shareholders' equity was 18.1% (19.6).

Industrial Operations

In 2007, net sales for the Volvo Group's Industrial Operations increased by 11% to SEK 276,795 M (249,020). Adjusted for changes in currency exchange rates and acquired and divested operations, net sales increased by 4%.

In Europe the positive development continued with sales increasing most notably in the eastern parts of the region. Sales in Asia posted a sharp increase, a result of both organic growth and the acquisitions of Nissan Diesel, Lingong and Ingersoll Rand's division for road development equipment. Sales in North America were significantly down in 2007, primarily due to sharply lower sales of trucks.

Nissan Diesel contributed to net sales with SEK 20,308 M during the period from April 1 – December 31, 2007. Ingersoll Rand's road development equipment contributed SEK 3,317 M during the period May 1 – December 31, 2007.

Operating income increased

In 2007, operating income for the Volvo Group's Industrial Operations amounted to SEK 20,583 M, which was 10% higher than in 2006. The operating margin for the Industrial Operations amounted to 7.4% (7.5). Operating income in 2006 was negatively affected by an adjustment of goodwill in Mack Trucks of SEK 1,712 M.

Demand for the Group's products continued to be very good in Europe, South America and large parts of Asia, which in combination with very competitive products resulted in continued favorable price realization. An advantageous product and market mix, with increased sales in Europe, made a positive contribution to the Group's earnings, and at the same time the Volvo Group's dealer operations and the products and services in the aftermarket business continue to show increased profitability. The strong demand in these markets has led to very high capacity utilization in the European industrial system. The ability to deliver rose during the year, partly at the expense of higher production costs through overtime work, extra shifts and increased outsourcing activities.

In North America the operating income was affected by continued low demand and low deliveries of trucks as well as production disturbances related to the introduction of a new generation of engines and changes to the industrial production system. Also during the fourth quarter of 2007, there was an increase in warranty provisions of SEK 370 M for some

Income Statement Volvo Group

SEK M	2006	**2007**	Change in %
Net sales Volvo Group	**258,835**	**285,405**	10
Operating Income Volvo Group	**20,399**	**22,231**	9
Operating income Industrial operations	*18,713*	*20,583*	*10*
Operating income Customer Finance	*1,686*	*1,649*	*(2)*
Interest income and similar credits	666	952	43
Interest expense and similar credits	(585)	(1,122)	92
Other financial income and costs	(181)	(504)	178
Income after financial items	**20,299**	**21,557**	**6**
Income taxes	(3,981)	(6,529)	64
Income for the period	**16,318**	**15,028**	**(8)**

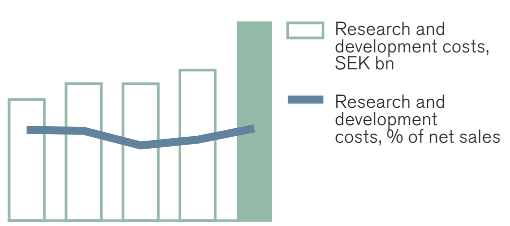
Income Statement Industrial operations

SEK M	2006	**2007**	Change in %
Net sales	249,020	276,795	11
Cost of sales	(192,400)	(214,160)	11
Gross income	**56,620**	**62,635**	**11**
Gross margin, %	22.7	22.6	
Research and development expenses	(8,354)	(11,059)	32
Selling expenses	(19,999)	(24,671)	23
Administrative expenses	(6,481)	(7,092)	9
Other operating income and expenses	(3,275)	249	
Income from investments in associated companies	61	428	613
Income from other investments	141	93	(34)
Operating income Industrial operations	**18,713**	**20,583**	**10**
Operating margin, %	7.5	7.4	

Income Statement Customer Finance

SEK M	2006	**2007**	Change in %
Finance and lease income	7,648	7,705	1
Finance and lease expenses	(4,487)	(4,535)	1
Gross income	**3,161**	**3,170**	**0**
Selling and administrative expenses	(1,284)	(1,437)	12
Credit provision expenses	(190)	(125)	(34)
Other operating income and expenses	(1)	41	
Operating income	**1,686**	**1,649**	**(2)**
Income taxes	(589)	(502)	(15)
Income for the period	**1,097**	**1,147**	**5**
Return on Equity, 12 month moving values, %	13.2	15.9	

Research and development costs[1]



	03	04	05	06	07
Research and development costs, SEK bn	6.8	7.6	7.6	8.4	11.1
Research and development costs, % of net sales	3.9	3.8	3.3	3.4	3.9

1 Years 2004–2007are reported in accordance with IFRS and 2003 in accordance with prevailing Swedish GAAP. See Note 1 and 3.

Operating margin

%	2006	**2007**
Trucks	8.7	8.1
Construction Equipment	9.7	7.9
Buses	4.3	1.4
Volvo Penta	10.3	10.0
Volvo Aero	4.4	6.9
Industrial operations[1]	**8.2**	**7.4**
Industrial operations	**7.5**	**7.4**
Volvo Group	**7.9**	**7.8**

1 Excluding goodwill adjustment in 2006.

Change in operating income

SEK bn	
Operating income 2006	**20.4**
Higher volumes and improvement of gross margins	4.0
Income from acquired and divested operations	0.7
Gain on sale of Petro Stopping Centers and Sörred Energi	0.5
Changes in currency exchange rates	(1.9)
Lower capitalization of development costs	(1.1)
Higher research and development expenditures	(0.5)
Higher selling and administrative expenses	(1.0)
Adjustment of Goodwill in subsidiary Mack Trucks, 2006	1.7
Restructuring costs Volvo Aero, Bromma, 2006	0.3
Outcome of dispute regarding export credits in Brasil, 2006	(0.4)
Other	(0.5)
Operating income 2007	**22.2**

Impact of exchange rates on operating income

Compared with preceding year, SEK bn	
Net sales[1]	(7.9)
Cost of sales	4.9
Research and development expenses	0.0
Selling and administrative expenses	0.3
Other operating income and expenses	0.8
Income from investments in shares	0.0
Total effect of changes in exchange rates on operating income	**(1.9)**

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	2006	**2007**
USD	17,700	19,000
EUR	14,100	17,800
GBP	5,700	8,700
CAD	2,700	2,000
Other currencies	10,800	15,800
Total	**51,000**	**63,300**

phased-out legacy engines and for truck engines produced for the North American market during 2007.

Nissan Diesel's operations generated a contribution to operating income amounting to SEK 981 M, excluding negative effects from purchase price allocation (PPA) adjustments amounting to SEK 495 M.

Ingersoll Rand's road development equipment operations posted an operating income amounting to SEK 184 M, excluding negative effects from PPA adjustments amounting to SEK 124 M.

In 2007, research and development expenses amounted to SEK 11,059 M (8,354). The net of research and development expense capitalization and amortization had a negative impact of SEK 1,446 M compared with 2006 due to lower capitalization and increased amortization.

The increase in selling and administrative expenses is primarily an effect of the acquired companies.

In 2006, Other Operating Income and Expense included a negative adjustment of goodwill amounting to SEK 1,712 M.

Impact of exchange rates on operating income

The combined effect of changed exchange rates, particularly for the USD, had an adverse effect on operating income of approximately SEK 1,900 M in 2007, compared with 2006.

Customer Finance Operations

Total new financing volume in 2007 amounted to SEK 41.4 billion (35.3). In total, 46,686 new Volvo vehicles and machines (41,732) were financed during the year. In the markets where financing is offered, the average penetration rate was 24% (20).

At December 31, 2007 total assets in Customer Finance amounted to SEK 95 billion (80). Excluding receivables from acquired operations, the credit portfolio grew by 12.6% (5.3), adjusted for exchange-rate movements.

Operating income amounted to SEK 1,649 M (1,686). Return on shareholders' equity was 15.9% in 2007 (13.2). The equity ratio at the end of the year was 8.1% (10.2).

The write-off ratio was 0.29% (0.33). On December 31, 2007, the total credit reserves were 1.59% of the credit portfolio (2.01).

Strong growth and financial performance

In 2007, Volvo Financial Services (VFS) maintained the operating income level and improved the return on equity. VFS achieved good penetration levels and record new business volume.

VFS' strategy for profitable growth focuses on three main objectives: organic growth, geographical expansion and growth through the acquisitions of the Volvo Group. The acquisitions of the Volvo Group provide Volvo Financial Services growth opportunities in several markets. During 2007, VFS began offering financing to road development customers in the newly acquired operations from Ingersoll Rand. Towards the end of the year, customers and dealers of Lingong in China were also offered financing solutions.

At the end of 2007, write-offs and delinquencies remained at low levels within the credit portfolio. Some softening is being experienced in North America, although delinquencies, repossessions and write-offs were at comparatively normal levels.

Financial position
– continued strong position

The Board of Directors proposes an ordinary dividend of SEK 5.50 per share, corresponding to a yield of 5.1%, based on the share price at year-end.

Balance sheet

Total assets in the Volvo Group amounted to SEK 321.6 billion at December 31, 2007, an increase of SEK 63.2 billion compared to year-end 2006. The increase is mainly a result of the acquisitions made during the year of Nissan Diesel, Ingersoll Rand's Road Development division and Lingong. In total, the acquisitions increased the Volvo Group's total assets by SEK 50.9 billion during 2007. The Group's total goodwill, reported under intangible assets, amounted to SEK 20.0 billion at December 31, 2007, an increase by SEK 11.1 billion since year-end 2006.

Investments in development costs amounted to SEK 2.1 billion in 2007. The acquisition of Nissan Diesel in March 2007 contributed with SEK 3.1 billion, resulting in a net value of development costs of SEK 11.2 billion December 31, 2007.

Other intangible assets amounted to SEK 3.8 billion at the same time, an increase of SEK 2.9 billion compared to December 31, 2006, as a result of acquired trademarks and distribution networks during 2007.

The Volvo Group's tangible assets increased during 2007 by SEK 14.8 billion. Property, plant and equipment increased by SEK 12.8 billion, mainly as a result of the acquisition of Nissan Diesel.

Assets under operational leasing increased by SEK 2.0 billion. Sales with buyback agreements are reported as assets under operating

Net financial position

	Industrial operations		Volvo Group	
SEK M	2006	**2007**	2006	**2007**
Long-term customer-finance receivables	–	–	32,089	40,486
Long-term interest-bearing receivables	3,514	3,928	3,150	3,150
Short-term customer-finance receivables	–	–	32,653	38,361
Short-term interest-bearing receivables	9,751	9,773	966	1,380
Non-current assets held for sale, interest-bearing	5	0	5	0
Marketable securities	20,324	16,488	20,342	16,490
Cash and bank	9,618	13,538	10,757	14,544
Total financial assets	**43,212**	**43,727**	**99,962**	**114,411**
Provision for post employment benefits	8,664	9,746	8,692	9,774
Interest-bearing liabilities	11,465	38,286	66,957	108,318
Liabilities associated with assets held for sale, interest-bearing	7	0	7	0
Total financial debt	**20,136**	**48,032**	**75,656**	**118,092**
Net financial position	**23,076**	**(4,305)**	**24,306**	**(3,681)**

Change in net financial position, Industrial operations

SEK bn	2006	**2007**
Beginning of period	**18.7**	**23.1**
Cash flow from operating activities	21.9	24.4
Investments in fixed assets	(10.2)	(10.3)
Disposals	0.9	1.1
Operating cash-flow	**12.6**	**15.2**
Investments and divestments of shares, net	(5.8)	0.4
Acquired and divested operations, net	0.6	(25.9)
Change in provision for postemployment benefits	3.3	–
Capital injections to/from Customer Finance operations	0.9	2.1
Currency effect	1.0	1.0
Payment to AB Volvo shareholders	(6.8)	(20.3)
Other	0.2	0.1
Total change	**6.0**	**(27.4)**
Net financial position at end of period	**24.7**	**(4.3)**

2006 is restated according to new reporting structure for the Volvo Group. Net financial position for Industrial operations as at December 31, 2006 changed from SEK 24.7 billion to SEK 23.1 billion.

lease in the balance sheet, resulting in revenues from a sale being allocated during the length of a contract as if they were leasing agreements.

Shares and participations amounted to SEK 2.2 billion at December 31, 2007, a decrease from year-end 2006 by SEK 4.7 billion, mainly as a result of the reclassification of Nissan Diesel from associated company to group company after AB Volvo's acquisition of the remaining shares in Nissan Diesel.

The net value of assets and liabilities related to pensions and similar obligations amounted to SEK 7.6 billion at December 31, 2007, an increase of SEK 1.0 billion compared to year-end 2006. The increase is due to a higher level of post-employment benefits as a result of the acquisition of Nissan Diesel. Prepaid pensions amounted to SEK 2.1 billion, which were on same level as in the preceding year-end. Post-employment benefits valued at SEK 2.6 billion were reported outside of AB Volvo's balance sheet, a decrease of SEK 0.3 billion compared to year-end 2006.

The value of the Volvo Group's inventory increased during 2007 by SEK 9.4 billion. The increase is mainly related to the truck business and to construction equipment, including acquisitions. During the year, the value of finished products rose by SEK 7.7 billion, while production and other material rose by SEK 1.7 billion.

The customer financing receivables amounted to SEK 78.8 billion at December 31, 2007. In total, customer financing receivables increased by SEK 14.1 billion since year-end 2006, mainly as a result of higher levels of financial leasing and installment credits.

Marketable securities decreased by SEK 3.9 billion during 2007, a decrease which is mainly related to holdings in government securities and real estate financial institutions. Cash and cash equivalents increased by SEK 3.8 billion during the same period of time. Exchange-rate differences increased assets further by SEK 1.3 billion, which primarily affected Customer financing receivables, inventories and assets under operating leases.

Shareholder's equity amounted to SEK 82.8 billion, corresponding to an equity ratio of 25.7%. As a consequence of the acquisitions and transfer of capital to the shareholders during 2007, the Industrial Operations had a net financial debt amounting to SEK 4.3 billion at the end of December 2007.

Balance Sheets Volvo Group

SEK M	Industrial operations Dec 31 2006	Industrial operations **Dec 31 2007**	Customer Finance Dec 31 2006	Customer Finance **Dec 31 2007**	Elim. and reclassifications Dec 31 2006	Elim. and reclassifications **Dec 31 2007**	Total Dec 31 2006	Total **Dec 31 2007**
Assets								
Non-current assets								
Intangible assets	19,054	36,441	62	67	0	0	19,117	36,508
Tangible assets								
Property, plant and equipment	34,291	47,132	88	78	0	0	34,379	47,210
Assets under operating leases	11,822	13,850	279	288	8,400	8,364	20,501	22,502
Financial assets								
Shares and participation	6,862	2,189	29	30	0	0	6,890	2,219
Long-term customer-financing receivables	582	444	39,276	47,870	(7,769)	(7,828)	32,089	40,486
Deferred tax assets	6,300	8,434	354	346	9	3	6,663	8,783
Other long-term receivables	4,958	5,601	27	39	(585)	(861)	4,400	4,779
Total non-current assets	**83,869**	**114,091**	**40,115**	**48,718**	**55**	**(322)**	**124,039**	**162,487**
Current assets								
Inventories	33,894	43,264	317	381	0	0	34,211	43,645
Short-term receivables								
Customer-financing receivables	611	789	36,979	42,695	(4,937)	(5,123)	32,653	38,361
Current tax assets	1,196	1,660	25	43	0	0	1,221	1,703
Other receivables	44,561	53,976	1,145	1,713	(11,307)	(11,272)	34,399	44,417
Non-current assets held for sale	805	–	–	–	–	–	805	–
Marketable securities	20,324	16,488	18	2	0	0	20,342	16,490
Cash and cash equivalents	9,618	13,538	1,203	1,053	(64)	(47)	10,757	14,544
Total current assets	**111,009**	**129,715**	**39,687**	**45,887**	**(16,308)**	**(16,442)**	**134,388**	**159,160**
Total assets	**194,878**	**243,806**	**79,802**	**94,605**	**(16,253)**	**(16,764)**	**258,427**	**321,647**
Shareholders' equity and liabilities								
Equity attributable to the equity holders of the parent company	78,763	74,550	8,141	7,652	0	0	86,904	82,202
Minority interests	284	579	0	0	0	0	284	579
Total shareholders' equity	**79,047**	**75,129**	**8,141**	**7,652**	**0**	**0**	**87,188**	**82,781**
Non-current provisions								
Provisions for post-employment benefits	8,664	9,746	28	28	0	0	8,692	9,774
Provisions for deferred taxes	3,315	7,868	1,107	1,259	0	0	4,422	9,127
Other non-current provisions	6,507	7,067	87	95	156	139	6,750	7,301
Non-current liabilities	24,458	41,339	32,654	42,285	(11,654)	(11,895)	45,457	71,729
Current provisions	9,643	10,437	48	129	109	90	9,799	10,656
Current liabilities								
Loans	25,615	40,539	2,675	4,382	(44)	(49)	28,247	44,872
Liabilities associated with assets held for sale	280	–	–	–	–	–	280	–
Trade payables	37,831	52,376	252	287	0	0	38,080	52,663
Current tax liabilities	1,164	0	637	451	0	0	1,801	451
Other current liabilities	(1,646)	(695)	34,173	38,037	(4,820)	(5,049)	27,711	32,293
Total shareholders' equity and liabilities	**194,878**	**243,806**	**79,802**	**94,605**	**(16,253)**	**(16,764)**	**258,427**	**321,647**

2006 is restated according to the new reporting structure for the Volvo Group. Shareholders' equity in Customer Finance operations have been adjusted by SEK 650 M compared to the press release April 17, 2007.

Contingent liabilities	7,726	**8,153**

Cash-flow statement
– strong cash flow in operating activities

Operating cash flow in the Industrial Operations increased to SEK 15.2 billion in 2007 compared with SEK 12.6 billion in 2006. The improvement was mainly due to lower operating capital and a positive earnings trend.

Cash flow

The Industrial operations' operating cash flow amounted to SEK 15.2 billion. The positive development during 2007 was mainly related to a decrease of SEK 3.0 billion in operating capital compared with 2006 and a positive earnings trend of SEK 1.9 billion in 2007. Financial items and paid income taxes had a SEK 6.0 billion negative effect on cash flow, mainly through income tax payments.

Operating cash flow within Financial Services was a negative SEK 8.6 billion in 2007 (negative 1.8) as a result of continued growth in the credit portfolio.

Investments

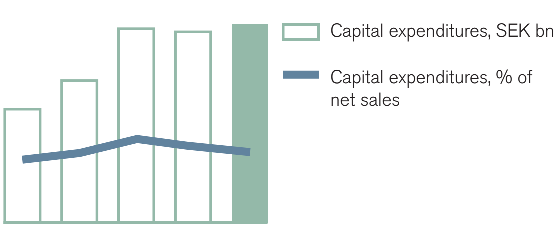
The Industrial operations' in fixed assets during 2007 amounted to SEK 10.1 billion (9.7). Capital expenditures in Trucks amounted to SEK 5.3 billion (6.0). The capital expenditures within Trucks included to a large extent expansion of the dealer network and workshops, mainly in Europe, investments to improve productivity and increase capacity, as example in the cab factory in Umeå, Sweden, as well as investments related to the US07 emission standards. Trucks' investments also included continued renewal of the Renault Trucks sites, a new crankshaft plant in Spain and investments related to renewals and improvements in the product program. Capital investments for Construction Equipment increased to SEK 2.6 billion from SEK 1.7 billion previous year. The main part of the investments refers to capacity increases within the axle and transmission production as well as to accommodate a rapidly expanding excavator business. The investments made within Volvo Aero remained at the level of SEK 1.0 billion. The main part of the investments refers to the new GEnx engine in cooperation with General Electrics and capacity and efficiency increasing investments in the production facilities. The investments in Buses remained at the level of SEK 0.3 billion and were mainly related to the investment in the body plant in India, quality improving investments in the Polish factory and part of the new product program. The level of investments in Volvo Penta rose to SEK 0.4 billion (0.2) and consisted mainly of capacity increasing investments in the Vara plant in Sweden and test equipment. Approved future capital expenditures in property, plant and equipment amounted to SEK 10.4 billion (6.8) for the Volvo Group. Investments in leasing assets in the Industrial Operations amounted to SEK 0.2 billion (0.5).

Acquisitions and divestments

In 2007 Petro Stopping Centers and Sörred Energi as well as a few dealers were divested. Investments and divestments in shares and participation had a positive impact on cash flow of SEK 0.4 billion (negative 5.8).

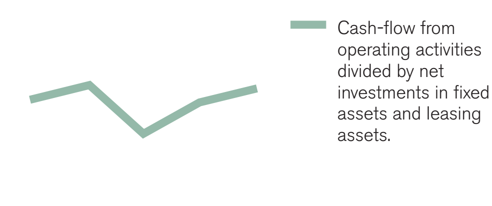
Acquired and divested companies 2007 had a negative impact on cash flow of SEK 15.0 billion (positive 0.5). The acquisition of Nissan Diesel had a negative impact of SEK 6.5 billion and the acquisition of Ingersoll Rand's road development operations had a negative impact of SEK 8.8 billion. Other investments and divestments had a net positive impact of SEK 0.3 billion.

Capital expenditures[1], Industrial operations



	03	04	05	06	07
Capital expenditures, SEK bn	5.8	7.2	9.9	9.7	10.1
Capital expenditures, % of net sales	3.3	3.6	4.3	3.9	3.6

Self-financing ratio[1], Industrial operations, %



03	04	05	06	07
243	268	173	235	265

1 Years 2004–2007 are reported in accordance with IFRS and 2003 in accordance with Swedish GAAP. See Note 1 and 3.

Consolidated cash-flow statements

SEK bn	Industrial operations 2006	Industrial operations 2007	Customer Finance 2006	Customer Finance 2007	Elim. and reclassifications 2006	Elim. and reclassifications 2007	Volvo Group Total 2006	Volvo Group Total 2007
Operating activities								
Operating income	18.7	20.6	1.7	1.7	0.0	(0.1)	20.4	22.2
Depreciation and amortization	9.8	10.3	0.4	0.1	2.2	2.1	12.4	12.5
Other non-cash items	0.2	(0.4)	0.7	0.1	(0.2)	(0.2)	0.7	(0.5)
Change in working capital	(3.1)	(0.1)	(3.6)	(10.2)	(1.0)	0.4	(7.7)	(9.9)
Financial items and income taxes paid	(3.7)	(6.0)	(0.6)	(0.4)	0.0	0.5	(4.3)	(5.9)
Cash flow from operating activities	**21.9**	**24.4**	**(1.4)**	**(8.7)**	**1.0**	**2.7**	**21.5**	**18.4**
Investing activities								
Investments in fixed assets and R&D	(9.7)	(10.1)	(0.3)	0.0	0.0	0.0	(10.0)	(10.1)
Investment in leasing assets	(0.5)	(0.2)	(0.6)	(0.3)	(3.5)	(4.3)	(4.6)	(4.8)
Disposals of fixed assets and leasing vehicles	0.9	1.1	0.5	0.4	1.8	1.4	3.2	2.9
Operating cash flow	**12.6**	**15.2**	**(1.8)**	**(8.6)**	**(0.7)**	**(0.2)**	**10.1**	**6.4**
Investments and divestments of shares, net							(5.8)	0.4
Acquired and divested operations, net							0.5	(15.0)
Interest-bearing receivables including marketable securites							7.7	3.6
Cash-flow after net investments							**12.5**	**(4.6)**
Financing activities								
Change in loans, net							(2.6)	28.7
Payment to AB Volvo shareholders							(6.8)	(20.3)
Other							0.0	0.0
Change in cash and cash equivalents excluding translation differences							**3.1**	**3.8**
Translation difference on cash and cash equivalents							(0.5)	0.0
Change in cash and cash equivalents							**2.6**	**3.8**

Financing and dividend

Net borrowings increased cash and cash equivalents by SEK 28.7 billion during 2007. The new borrowing during the year, mainly through the issue of bonds, contributed SEK 146.9 billion. Amortization for the year amounted to SEK 118.1 billion.

In 2007, SEK 20.3 billion, corresponding to SEK 10.00 per share (adjusted for the share split), was paid to AB Volvo's shareholders.

Change in cash and cash equivalents

The Group's cash and cash equivalents increased by SEK 3.8 billion during the year amounting to SEK 14.5 billion at December 31, 2007.

Future capital expenditures, approved[1]

SEK bn	
Trucks	8.4
Buses	0.1
Construction Equipment	1.0
Volvo Penta	0.1
Volvo Aero	0.5
Other	0.3
Total	**10.4**

1 In property, plant and equipment.

Risk management
– a continuous process

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

Risk may be due to events in the world and can affect a given industry or market. Risk can be specific to a single company. At Volvo we work daily to identify, measure and manage risk – in some cases we can influence the likelihood that a risk-related event will occur. In cases in which such events are beyond our control, we strive to minimize the consequences. In 2007, the work on a new Group-wide risk management model based on the Enterprise Risk Management concept began. The ambition is to have a uniform, forward-oriented, group-wide system where the Group's risk management is improved even further.

External-related risk

The 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, mining and housing construction all impact the Group's operations, since its products are central to these sectors. The cyclical demand for the Group's products 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.

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

Intense competition

Continued consolidation in the industry is expected to create fewer but stronger competitors. Our major competitors are Daimler, Paccar, Navistar, MAN, Scania, Caterpillar, Komatsu, CNH, Cummins and Brunswick. In recent years, new competitors have emerged in Asia, particularly in China. These new competitors are mainly active in their domestic markets, but are expected to increase their presence in other parts of the world.

Our brands are well-known and strong in many parts of the world. Strong brands combined with an attractive product portfolio make it possible for Volvo to be competitive.

Prices may change

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

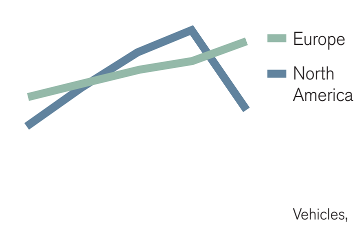
The financial result of the business depends on our ability to quickly react to changes in demand and particularly to adapt production levels, reduce production and operating expenses, and deliver competitive new products and services.

Extensive government regulation

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

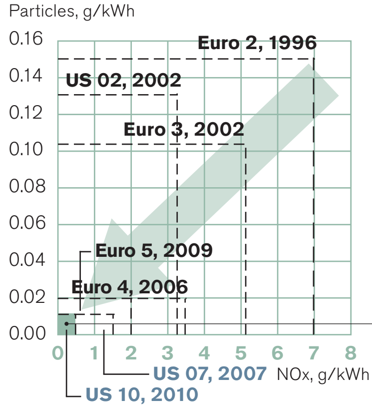
Most of the regulatory challenges regarding products relate to reduced engine emissions. The Volvo Group is a significant player in the commercial vehicle industry and the world's largest producer of heavy-duty diesel engines. The product development capacity within the Volvo Group is well consolidated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

Heavy truck registrations, >16 tons



	03	04	05	06	07
Europe	229	255	277	295	329
North America	178	249	308	349	208

Emissions regulations for trucks and buses



The currently applicable emissions standards are Euro 4, in Europe, and US 07, in North America. The difference between Euro 3 and Euro 4 is considerable. Emissions of particles have been reduced by 80%, and of NOx, by 30%. Euro 5 will entail a 50% reduction in NOx emissions compared with Euro 4.

Volvo Group is engaged in active dialogues covering future regulation with relevant authorities and industry organizations.

Financial risk

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

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

Currency-related risk

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

Interest-related risk

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

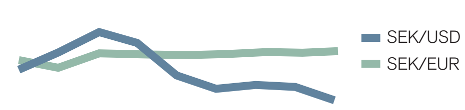
Market risk from investments in shares or similar instruments

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

Credit-related risk

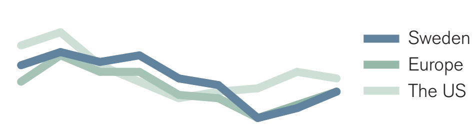
Volvo's extension of credit is governed by Group-wide policies and rules for classifying customers. Efforts are made to ensure that the credit portfolio is reasonably diversified among different customer categories and industries. Credit-associated risk is managed by actively monitoring credit, routines for follow up and in

Currencies



	99	00	01	02	03	04	05	06	07
SEK/USD	8.3	9.2	10.3	9.7	8.0	7.3	7.5	7.4	6.8
SEK/EUR	8.8	8.4	9.2	9.1	9.1	9.1	9.2	9.3	9.3

Interest rates in Sweden, Europe and the US, %



Government bonds, 10 year benchmarks

	99	00	01	02	03	04	05	06	07
Sweden	5.0	5.4	5.1	5.3	4.6	4.4	3.4	3.7	4.2
Europe	4.5	5.3	4.8	4.8	4.1	4.0	3.4	3.8	4.2
The US	5.6	6.0	5.0	4.5	4.0	4.2	4.3	4.8	4.6

certain cases repossession of products. Additionally, continuous and necessary reserves are monitored in cases involving uncertain receivables. An important part of the Group's credit risk is related to how the financial assets of the Group have been placed. The majority are placed in Swedish Government bonds and interest-bearing bonds issued by Swedish real estate financing institutions.

Liquidity risk

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

Operational risk

The profitability depends on successful new products

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

Reliance on suppliers

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

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

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

Reliance on the proper protection and maintenance of its intangible assets

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

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

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

Complaints and legal actions

The Volvo Group could be the target of complaints and legal actions initiated by customers, employees and other third parties alleging health, environmental, safety or business related issues, or failure to comply with applicable legislation and regulations. Even if such disputes were to be resolved successfully, without having adverse financial consequences, they could negatively impact the Group's reputation and take up finance 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 also has insurance coverage in certain areas, for example product liability, business interruption and property.

Risk related to human capital

A decisive factor for the realization of the Volvo Group's vision is our employees and their knowledge and competence. Future development depends on the company's ability to maintain its position as an attractive employer. To this end, we strive for a work environment in which energy, passion and respect for the individual are guiding principles. Every year a Group-wide survey is conducted, and according to the survey the number of satisfied employees is continually increasing.

Contractual conditions related to take over bids

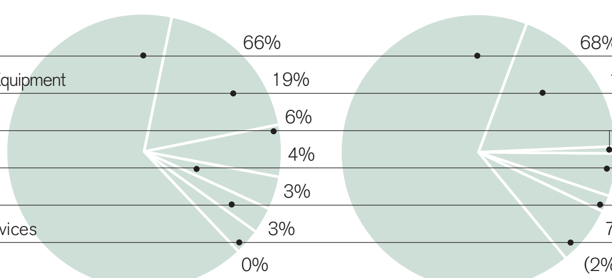
Some of AB Volvo's long term loan agreements contain conditions stipulating a right for the bondholder to request repayment in advance under certain conditions following a change of the control of the company. In Volvo's opinion it has been necessary to accept those conditions in order to receive financing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

Further information

Further risk information is provided in Note 29 and Note 36.

Business Areas

> We are now seeing increasingly distinct advantages of the Group being well structured, with effectively coordinated units in which we gain from the combined volumes within purchasing, manufacturing and business support functions.
>
> Leif Johansson



	Percentage of Group's net sales	Percentage of Group's operating income
Trucks	66%	68%
Construction Equipment	19%	19%
Buses	6%	1%
Volvo Penta	4%	5%
Volvo Aero	3%	2%
Financial Services	3%	7%
Other	0%	(2%)

The Volvo Group's four truck brands have broadened and strengthened their product ranges in recent years and entered 2008 with the strongest line-ups thus far.

Trucks
– the strong market in Europe and Asia continued

The world market for heavy trucks in 2007 was somewhat lower compared with 2006, due to the downturn in the North American market. Demand was strong in most markets throughout the rest of the world.

Total market

Europe's strong economy moved at high speed, with growth figures being revised upwards, during 2007. High consumption and construction rates generated strong demand for various types of truck transports, which in turn positively impacted sales of heavy trucks.

Demand for heavy trucks rose in practically all European markets. The industry as a whole has been limited by insufficient manufacturing capacity. Very strong demand was reported in Eastern Europe as well as in Russia and the Ukraine.

During 2007, the total market for heavy trucks in Europe (EU-countries plus Norway and Switzerland) amounted to approximately 329,000 vehicles, an increase of 9%. Within Western Europe, the increase was 2%, while there was a 57% increase in the new EU countries.

The total European market is currently limited by the production capacity of the industry, where order backlogs are substantial and delivery times are long. The strained production in Europe affects the supply of trucks also on markets in Asia, the Middle East and South America. Order backlogs for 2008 indicate a continued growth in the European heavy truck market by some 5–10% compared with 2007. In the medium-heavy segment, 10 to 15.9 tons, the market in Western Europe remained unchanged compared with 2006.

During 2007, the total market for heavy trucks (Class 8) in North America declined by 40% to 208,000 trucks, compared with 349,000 trucks in 2006. The decrease is a consequence of large pre-buy volumes during 2006 and the softer US economy. Forecasting the market is difficult, but current expectations are a demand for trucks in 2008 on the same level as in 2007.

In Brazil, the overall market increased by 45% to 58,000 heavy trucks. Among the larger Asian markets, China posted a 58% increase to a new record level of 490,000 trucks over 14 tons (310,000). The market for heavy trucks in India continued on a high level of 193,000 vehicles during 2007 (197,000). In Japan, the overall market for heavy trucks fell 13% to 43,000 trucks (49,000).

Market shares

In 2007, Volvo Trucks' market share for heavy trucks in Europe 29 increased to 14.6% (14.3). Renault Trucks' market share in Europe decreased to 9.7% for heavy trucks (10.6). In the medium-duty truck segment, Renault Trucks' market share was 12.5% (14.3) and Volvo Trucks' market share was 5.7% (3.7).

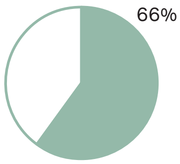
In Eastern Europe, Volvo's market share increased to 18.2% (17.5) and Renault's share was 7.9% (10.2).

During 2007, Volvo Trucks' and Mack Trucks' market shares in North America declined to 9.3% (10.2) and 7.3% (9.2) respectively.

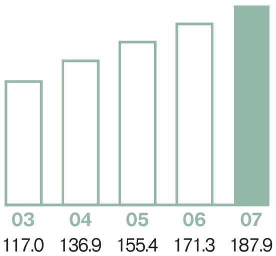
In Japan, Nissan Diesel's market share amounted to 21.6% (20.7).

In the Brazilian market, Volvo's share declined by 1.7% to 13.6%.

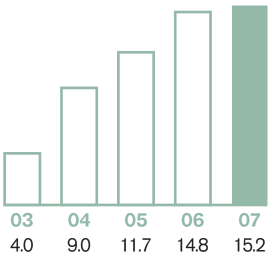
Net sales as percentage of Volvo Group's sales



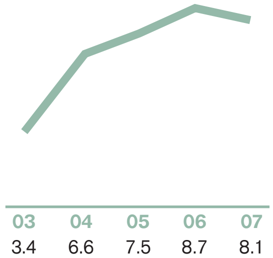
Net sales[1,3], SEK bn



Operating income[1,2,3], SEK bn



Operating margin[1,2,3], %



1 Years 2004–2007 are reported in accordance with IFRS and 2003 in accordance with prevailing Swedish GAAP. See Note 1 and 3.
2 Excluding adjustment of goodwill in 2006.
3 Years 2006–2007 are reported according to a new reporting structure. See Note 7.

Production

The number of trucks manufactured within the Volvo Group was 209,615 (211,286). Production at Volvo Trucks declined to 100,092 vehicles (106,884). Production of Mack Trucks declined to 19,363 vehicles (36,768). Renault production declined to 62,222 vehicles (67,634). Nissan Diesel produced a total of 37,234 trucks during 2007 (41,037). During April 1–December 31, 2007, when Nissan Diesel was part of the Volvo Group, 27,938 trucks were produced (30,090). During the period, Nissan Diesel also produced 7,580 light-duty trucks for Nissan Motor (23,891).

Earnings

In 2007, the truck operation's net sales posted an increse of 10% to SEK 187,892 M (171,265). Operating income was SEK 15,193 M (14,828 in 2006, excluding adjustment of goodwill in Mack Trucks) and operating margin reached 8.1% (8.7). Nissan Diesel contributed with SEK 20.308 M to net sales. Adjusted for exchange rate differences and Nissan Diesel, net sales were unchanged.

Strong demand, combined with competitive products, contributed to favorable price development in Europe, South America and large parts of Asia. Increased volumes in Europe and an advantageous product and market mix contributed to increased earnings as did improved profitability in the dealer system and aftermarket business. On the other hand, operating income was negatively affected by increased research and development expenses, which is a consequence of higher amortization of previously capitalized R&D expenses and lower capitalization of current R&D expenses.

The production increase in Europe resulted in higher production costs through overtime, extra shifts and increased outsourcing activities. In North America the operating income was affected by continued low deliveries of trucks and an increase in warranty reserves for phased-out legacy engines and quality issues on truck engines produced for the North American market during 2007.

Net sales by market

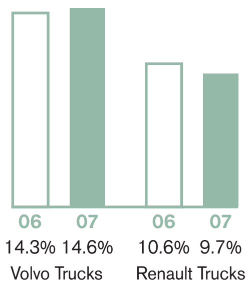
SEK M	2006	**2007**
Europe	93,282	108,651
North America	50,605	27,255
South America	9,213	11,483
Asia	8,975	26,593
Other markets	9,190	13,910
Total	**171,265**	**187,892**

Deliveries by market

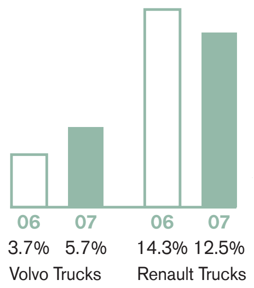
Trucks	2006	**2007**
Western Europe	97,074	100,106
Eastern Europe	17,343	27,964
North America	70,499	33,280
South America	11,646	15,264
Asia	12,817	39,916
Other markets	10,552	19,826
Total	**219,931**	**236,356**

Nissan Diesel's operations generated a contribution to operating income of SEK 486 M, including a negative effect from acquisition adjustments totaling SEK 495 M.

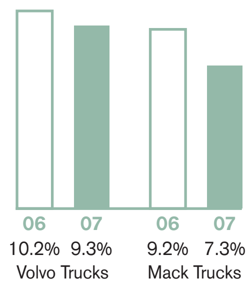
Market shares in Europe, heavy trucks



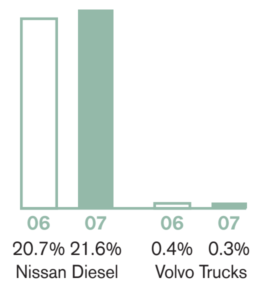
Market shares in Europe, medium-duty trucks



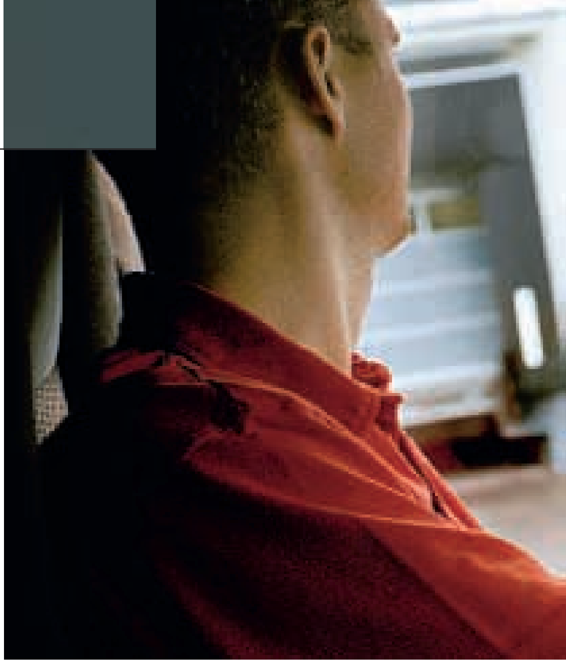
Market shares in North America, heavy trucks



Market shares in Japan, heavy trucks



Volvo Trucks is the second largest heavy-duty truck brand in the world.



Volvo Trucks
– in the heavy weight league

In Beijing, preparations are in full swing for the next Olympic Games. The effort has been called the country's largest construction project since the Great Wall of China. Work is going on around the clock in order to be completed by the start of the Games in August 2008. Volvo Trucks is helping to ensure that construction moves forward at record speed.

Ma Gui Chun is head of a company with 40 employees and has been working on the Olympic project since September 2005. The company owns and leases trucks to companies that deliver cement to construction projects in and around Beijing. When it comes to the Olympic project, Ma Gui Chun has no complaints. Everything has so far gone entirely according to plan. "We're very satisfied with our Volvo trucks. They are expensive compared with the Chinese competitors, but for us they have been a profitable investment. And their quality far exceeds that of our domestic trucks. Recently, we have had access to 24-hour service. This has ensured that we have not fallen behind, since our trucks have been continuously available."

A successful year

The year was also characterized by several records in markets outside North America for Volvo Trucks, in order bookings, production, deliveries and profitability. Demand has been very high during the year and the order situation indicates a continued strong 2008. By far the greatest increase in demand was noted in Eastern Europe, including Russia. Many other regions, for example South America, also posted positive development.

As anticipated, a slowdown in demand was experienced in North America due to significant pre-buys of trucks equipped with US'04 engines during 2006. During the second half of the year, the US economy also slowed, resulting in reduced transportation needs.

Industrial investments

The very high level of demand in the rest of the world resulted in significant challenges for Volvo's production system. Despite taking advantage of the benefits of a global production system by, for example, producing truck cabs in Brazil for the European market, capacity limitations were unavoidable.

Excluding production in North America, Volvo Trucks increased deliveries in 2007 by 20% compared with a year earlier. Despite this, capacity could not meet demand, with long delivery times to customers as a result.

To meet the growing demand, Volvo Trucks is investing SEK 2.5 billion in measures to increase capacity. This includes, among others, a cab plant in Umeå, Sweden and establishment of an assembly plant in Kaluga, Russia.

Close to the customer

Despite the heavily strained production system, it can be noted that the quality level of Volvo's trucks is higher than ever. Customers have never been so satisfied. A contributing factor is also the continued effort to develop the dealer network, which yielded results during the year, with strong development in service, maintenance and spare parts – performance that also contributed to the positive profitability trend.

Continued focus on the aftermarket and aggressive investment in the dealer network are important elements in Volvo Trucks' strategy. On the European market, there is an ambition, for example, to increase the number of Volvo owned service workshops by 15% up to 2010.

At the same time, it is important to note that it is not the trucks inherently that create profits. It is the driver. Therefore, offering a good driver environment based on an understanding of drivers and their work situation is an important competitive factor – for the customers and for Volvo.

Driving progress

In recent years, the spotlight has turned to the negative aspects related to transports. Volvo Trucks is focusing more intensely than ever on increasing traffic safety and to reduce environmental impact.

Volvo Trucks is a driving force in the truck industry in the development of ever-increasingly fuel-efficient diesel vehicles. The ambitions with regard to minimizing the emission of greenhouse gases are high.

During the year, Volvo Trucks presented seven different demonstration trucks to highlight the possibilities of CO_2-neutral transports. The trucks can be operated on seven different renewable fuels/fuel combinations without any emission of fossil-based carbon dioxide. Concurrently, intensive efforts are being made in further development of hybrid engines presented in 2006. Production of trucks with hybrid technology is planned to start in 2009.

CO_2-neutral production

Great attention is also focused on environmental actions in plants. It took two years, EUR 10 M and a large portion of persistency, but now Volvo Trucks in Ghent, Belgium, is the

world's first CO_2-neutral vehicle plant. In 2005, it was decided that the European plants should be free from carbon-dioxide emissions as of 2008.

"Two years ago you could say that an unofficial race began between the plants to see who would be first," says Marc Seghers, Project Leader at Volvo Trucks in Ghent.

Today, 70% of the heat requirement in Ghent is covered by an entirely new biomass facility operated on pellets. The balance is provided by a heat plant powered by biofuel. Three wind-power plants are also installed in the area. These cover 50% of the electricity requirement and hydropower provides the rest. The environmental effort is continuing during 2008. Volvo Trucks' plants in Tuve and Umeå, Sweden, are also moving toward becoming CO_2-neutral.

Innovative safety technology

Parallel with the environment, safety is continuously in focus. The Volvo Integrated Safety Truck has been the platform for many years for Volvo's development of active safety systems. It has served as a base for PReVENT, the largest traffic safety project in Europe.

During the year, in conjunction with Volvo Trucks' 80th anniversary, a jubilee truck was presented with many examples of safety innovations inspired by this development work. These include a second-generation automatic cruise control (ACC) and the Lane Keeping Support system.

ACC is an adaptive cruise control that helps maintain the distance to other vehicles. Lane Keeping Support monitors the truck's position on the road and alerts if the vehicle comes too close to the edge or the center line of the road.

Deliveries by model

Volvo Trucks	2006	2007
Volvo FH	40,650	48,362
Volvo VN, VT and VHD	36,578	16,319
Volvo FM9, FM10, and FM12	20,381	23,525
Volvo FL	3,496	6,791
Volvo NH	667	24
Volvo VM	2,311	3,584
Other	1,436	1,504
Total	**105,519**	**100,109**

Deliveries by market

Volvo Trucks	2006	2007
Western Europe	39,011	41,009
Eastern Europe	10,217	18,456
North America	37,145	16,692
South America	7,940	10,166
Asia	7,501	9,002
Other markets	3,705	4,784
Total	**105,519**	**100,109**

Ambitions 2007

- Ensure production capacity for the European market.
- Continue developing and expanding the dealer network and strengthen customer relations and profitability.
- Manage the expected sharp decrease in demand in North America.
- Stronger focus on communicating the company's core values.

Outcome 2007

- Ongoing increases in capacity by enhancing efficiency. Decisions to invest in increasing production capacity in Europe. Decision on a new assembly plant in Kaluga, outside Moscow.
- Continued very strong development. Satisfied customers, favorable growth in sales of trucks and soft products.
- Demand for US'07 engines in North America has not recovered. Disruptions were greater than expected.
- Very positive response to the CO_2-neutral plants and the seven trucks for alternative fuels.

Ambitions 2008

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

Renault Trucks offers trucks suited for all types of applications - from city distribution to long-haulage and, as in this case, special vehicles for emergency services.

Renault Trucks
– striving for improved customer productivity

The efficient transport solutions of Renault Trucks is advantageous for both customers and the environment.

During 2007, Renault Trucks was able to start harvesting the fruits of a renewed product line. Both the Euro 4 and Euro 5 models, with class-leading product quality, were warmly received by customers following their launch in 2006.

Customers have been more than satisfied with the trucks, which offer significantly lower fuel consumption and increased performance. This is especially true for Magnum and Premium model owners. The new generation of vehicles and engines has lived up to the 5% lower fuel consumption that was promised at launch.

Renault Trucks is now giving the operators who use their trucks an opportunity for even greater savings through Optifuel solutions – an upgradeable line of complementary products and services. These consist of Optifuel technology that includes the new Optidriver+ automatic gearbox, Optifuel Infomax – a measuring and analysis tool for vehicle data that enables exact monitoring of a vehicles usage and diesel consumption, and Optifuel Training – a training program for driving more economically.

Clean Tech

Fuel savings are, in addition to being an obvious part of sound transport operations, also an efficient way to reduce carbon-dioxide emissions, thereby helping to mitigate global warming. Renault Trucks has a key role to play with regard to creating alternative solutions. Environmental care, rising oil prices and dwindling resources have resulted in Renault Trucks taking far-reaching efforts to expand its product portfolio with vehicles that have even lower consumption and which operate on new types of energy sources.

Renault Trucks has developed products for natural gas operation (CNG) and a diesel-electric hybrid for delivery and distribution trucks (Midlum, Premium and Puncher). Since 2002, Renault Trucks has also offered a two-year guarantee for all vehicles in its range (7.5 ton and up) with Euro 3, Euro 4 and Euro 5 engines that use up to a 30% mixture of the bio fuel FAME (Fatty Acid Methyl Esther) in the diesel fuel.

Hybrid technology for urban transports

In October 2007, Renault Trucks unveiled Hybrys, a newly designed hybrid technology for urban transports. With its futuristic design, the Hybrys is an expression of Renault Trucks' vision for future urban transport trucks. It is also an additional step on the path towards including hybrid technology in product portfolios where alternatives to diesel are already offered. Renault Hybrys is a 6x2 vehicle with a 320hp Dxi7 engine, Optidriver+ automatic gearbox and an electric MDS (Motor Drive System) engine. Depending on usage, fuel consumption can be reduced by as much as 35% compared with conventional engine systems. This results in a directly proportional reduction in the emission of contaminant gases and carbon dioxide.

New distribution trucks

During the first half of 2007, Renault Trucks put the final touches on its new product line with the launch of Maxity and the new Mascott. Maxity is a new forward built light truck with a gross weight of 2.8 to 4.5 tons that complements the Master and Mascott models. It is perfectly suited for customers who demand high-quality alternatives for maneuvering, compactness and optimized loads. The new Mascott (3.5 to 6.5 tons) is equipped with a completely new drivetrain, the latest generation electronic braking system, a newly designed interior and several other new features.

New trucks for the construction sector

During 2007, Renault Trucks arranged exhibitions across Europe with its new product line for the construction sector. The product line includes the Renault Kerax and Renault Premium Lander, renowned for their robustness, traction, flexible usage, effective loads and carrying capacity. They have new chassis, higher performance engines, new cab equipment and are complemented by a comprehensive range of services.

The product line includes 25 models of the Premium Lander and 14 models of the Kerax. Renault has designed products to equip the increasingly segmented construction sector with sought-after solutions. Professionals are looking for efficient transport solutions that combine road handling with construction site utility. Renault Premium Lander meets the need for a multipurpose vehicle by combining

robustness with high productivity – making it a perfect complement to the Kerax.

Investments in increased capacity

In an expanding total market, Renault Trucks' new models have been highly successful. Order bookings have been higher than the industry average and the company has broken all production records. Despite this, Renault Trucks needs to increase production capacity and decided to invest SEK 530 M in the cab plant in Blainville, France.

Assembly in Turkey and Russia

In July 2007, Renault Trucks signed a co-operation agreement with Karsan for assembly of 5,000 Renault trucks annually in Turkey. The trucks will be distributed through Renault Trucks' network in Turkey and neighboring countries.

In October 2007, work began on the Volvo Group's new truck assembly plant in Kaluga, Russia. Once the shared facility is completed in 2009, the plant will provide Renault Trucks with a production capacity of 5,000 heavy trucks.

Deliveries by model

Renault Trucks	2006	**2007**
Renault Maxity	–	6,507
Renault Master	11,575	11,033
Renault Mascott	14,572	6,223
Renault Kerax	9,488	8,336
Renault Midlum	12,345	11,819
Renault Premium Distribution	22,543	27,404
Renault Magnum	6,965	8,088
Other	86	32
Total	**77,574**	**79,442**

Deliveries by market

Renault Trucks	2006	**2007**
Western Europe	58,063	59,097
Eastern Europe	7,126	9,488
North America	561	517
South America	1,078	1,107
Asia	5,241	4,216
Other markets	5,505	5,017
Total	**77,574**	**79,442**

Ambitions 2007

- Achieve the Service Quality program.
- Improve brand image based on the new product portfolio and quality achievements.
- Harvest the benefits of the totally renewed range.
- Launch the new Renault Maxity successfully.
- Develop soft products sales.
- Implement cost reduction plan. Secure the product cost-reduction plan.

Outcome 2007

- Breakthrough in product quality in the new product program.
- First step in program for improved service quality is achieved.
- Renault Maxity was well received.
- Special focus on profitability of soft products.
- Production costs have been reduced.

Ambitions 2008

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

Nissan Diesel's heavy duty truck Quon leads the way with engines with low fuel consumption and low emissions

Nissan Diesel
– moving ahead together with customers

Nissan Diesel works together with customers in opening up new avenues to the future by providing innovative technologies, effective solutions and quality products.

By closely monitoring ongoing changes in society and consumption patterns, Nissan Diesel provides innovative technologies and high-quality solutions to support customers in their businesses. Nissan Diesel present proposals to its customers based on what can be done today and strive to develop its capabilities together with them. As Nissan Diesel proceed toward the future, the vision is always focused squarely on the customers – society and the global environment is viewed from the customer's perspective at all times.

Nissan Diesel FLENDS

Nissan Diesel's Final Low Emission Diesel System (FLENDS) combines ultra-high pressure fuel injection with SCR technology. Nissan Diesel was the first manufacturer in the world to implement such a system on production vehicles as a fundamental solution for attaining lower exhaust emissions from diesel engines.

Not only does FLENDS reduce both nitrogen oxides (NOx) and particulate matter (PM) simultaneously, something that was previously thought to be extremely hard to accomplish, it also provides low fuel consumption. Since the initial adoption of this system on the new Quon heavy-duty truck series in November 2004, Nissan Diesel has sold over 20,000 FLENDS-equipped trucks.

In 2007, the first minor model change for the Quon series was executed and the models that comply with Japan's new fuel consumption standards for heavy vehicles were expanded. Exports of Quon truck tractors were also launched in 2007 to Singapore and Hong Kong, where vehicles must comply with the Euro 4 exhaust emission regulations.

Aftermarket service

Customers want a trouble-free transport environment, which means transporting cargo safely to the designated place and delivering it on schedule. Vehicle quality must be maintained in order to prevent accidents, breakdowns or other troubles during transport. Even though Nissan Diesel trucks are built with innovative technologies and superior performance, they still require thoroughgoing inspections and maintenance.

Nissan Diesel provides customers with both active maintenance service for preventing problems in the first place and passive maintenance service for promptly dealing with any unexpected situations that arise. In Japan, over 3,600 customers have concluded a contract with Nissan Diesel for active and passive maintenance service.

Customer service

Nissan Diesel conducts eco-driving workshops in Japan for truck drivers with the aim of assisting customers in operating their vehicles more economically and contributing to global environmental protection. Customers' trucks are used in the workshops and driving sessions are conducted as much as possible using public roads on which the drivers normally operate the vehicles.

This effort is designed to spread economical, fuel-saving driving habits. Eco-driving workshops were held 79 times in 2007 for a total of 1,122 participants.

Dealer network

Nissan Diesel's dealer network in Japan consists of ten directly-managed dealerships and six independently-owned local dealerships, having a combined total of 180 sales outlets. In addition, Nissan Diesel has an international sales network of 55 distributors and seven partially owned sales companies around the world.

In 2007, Nissan Diesel turned the truck distributor in Australia into a wholly owned subsidiary by acquiring all of its shares. That move is designed to strengthen the foundations of our sales activities in the Australian market where truck demand has remained strong in recent years.

Deliveries

Nissan Diesel's largest market is the Asian region, including Japan. Other important markets include Africa and the Middle East.

During April 1 to December 31, 2007, Nissan Diesel delivered 9,689 units for the Japanese market, excluding deliveries to

Nissan Motor, down 24% from the previous year. The decline was due to the fact that Nissan Diesel avoided getting involved in low-priced sales competition mounted by other companies that were aggressively selling off their old truck models at low prices.

During the same period 2007, Nissan Diesel shipped 20,861 units to overseas markets, an increase of 30% over 2006. Exports to other Asian markets rose 20% over the previous year to reach 6,900 units, thanks to increased shipments to Indonesia, China and Thailand.

Exports to Africa increased 40% over the same period the preceding year to total 7,160 units. Shipments were notably strong to South Africa, which continues to enjoy high economic growth. Exports to the Middle East came to 2,240 units, up 10% for the year, owing to the continuation of numerous construction projects due to strong oil exports.

In 2007, Nissan Diesel delivered 7,634 light-duty trucks for Nissan Motor Co., Ltd.

Nissan Diesel became a member of the Volvo Group in 2007 and is working to promote the Group's success in Asia, which will be necessary for the Volvo Group to develop into the world's number one truck manufacturer.

Deliveries by segment

	Second to fourth quarter	
Nissan Diesel	2006[1]	**2007**
Light trucks (under 7 tons)	27,701	12,338
Medium trucks (7-15.9 tons)	13,226	12,342
Heavy trucks (over 16 tons)	11,710	13,504
Total	**52,637**	**38,184**

1 In 2006, Nissan Diesel wasn't consolidated in the Volvo Group.

Deliveries by market

	Second to fourth quarter	
Nissan Diesel	2006[1]	**2007**
Western Europe	–	–
Eastern Europe	20	20
North America	2,243	2,479
South America	491	808
Asia	44,245	26,455
Other markets	5,638	8,422
Total	**52,637**	**38,184**

1 In 2006, Nissan Diesel wasn't consolidated in the Volvo Group.

Ambitions 2007

- To expand sales by increasing the company's product range in the Japanese market and also to concentrate efforts on aftermarket sales.
- To focus efforts on sales activities in South Africa and the Middle East region where truck demand continues to be robust.
- To endeavor to expand sales further in the Asian region by introducing new heavy-duty truck models.
- To promote activities aimed at achieving synergies with the Volvo Group.

Outcome 2007

- Broadened the product range of the Quon heavy-duty truck series and light-duty truck models.
- Achieved greater synergies in after-sales service together with Volvo Trucks Japan.
- Continued strong truck exports to resource-rich countries especially in Africa and the Middle East.
- Launched exports of the Quon heavy-duty truck series that complies with the Euro 4 emission regulations to other Asian markets.
- Invested in the Oceania region to strengthen sales capabilities there.

Ambitions 2008

- Focused efforts on sales activities for the Quon in Japan and on activities for assisting customers in improving their efficiency.
- Conduct more eco-driving workshops so as to contribute to reducing fleet operating costs and to curbing CO_2 emissions.
- Expand sales in Asia as the core company of the Group's strategy in Asia.
- Maintain strong exports to resource-rich countries such as South Africa.
- Drive projects to create synergies with the rest of the Volvo Group.

"Built like a Mack truck" is a frequently-used phrase and an acknowledgment of the trucks' strength and endurance.

Mack Trucks
– an entirely new product line after comprehensive product renewal

Throughout its history, Mack's vehicles haven't just ridden America's highways – they've built them. That tradition continues today.

As a young Army officer in 1919, Dwight Eisenhower took a cross-country trip in a Mack truck to promote the Good Roads movement. The trip from Washington, DC, to San Francisco took three months, and the experience contributed to President Eisenhower's strong support for the 1956 legislation creating the U.S. Interstate Highway System.

Williams Brothers relying on Mack

One year before that legislation became law, the Williams brothers started their Texas construction company with a single Army surplus truck. Today, with a fleet of about 400 Mack vehicles, the Houston-based Williams Brothers Construction Company is one of the largest highway contractors in the United States.

The company was recently awarded contracts worth $1.3 billion to take part in the Katy Freeway/U.S. Interstate 10 reconstruction project in Texas.

"It's the biggest project we've ever done", says company Vice President Robert Lanham. "And we're relying on Mack trucks to help us get it done quickly, and done right."

To consistently land contracts of this size, Williams Brothers has aggressively addressed the issues of safety and the environment. Its safety program produces one of the lowest accident rates of any highway construction company in the country, and the company has secured state grant money as a result of its work with Mack to reduce its environmental footprint.

"Mack provided a lot of expertise when we entered the Texas Emissions Reduction Program," Lanham said. "That's a big deal as these major metropolitan areas struggle with air quality issues."

Positive reactions on new product line

With a fleet that includes Mack Pinnacle Day-Cab tractors and Granite dumps, mixers, and crane trucks, Williams Brothers is among the many customers taking advantage of the most comprehensive product renewal program in Mack history.

Mack now approaches the market with an entirely new product line – including a new range of MP engines that meet the strict US'07 emissions standards – and customer response has been very positive.

Customers were particularly impressed with the new products' improved fuel economy and drivability – engendering confidence that the company is well-positioned for the eventual improvement in North American truck demand. Mack launched a continent-wide effort in June – the "Mack Performance Tour" – to bring demonstration trucks to as many customers as possible to promote the new engine technology.

Mack also introduced two new cabover trucks in 2007, each with industry-leading designs and features. The TerraPro Cabover was introduced in January at the World of Concrete trade show for the construction industry, while the TerraPro Low Entry was unveiled for the refuse industry at Waste Expo in May. Beyond bringing the new MP engine series into the cabover product line, these new products also feature cabs that have been redesigned from the ground up. Each features a rugged exterior built to handle tough jobs, with interiors that are well appointed to increase driver comfort and maximize productivity.

A Focus on the Environment

In January, Mack unveiled a Granite dump truck equipped with the Group's unique I-SAM (Integrated Starter Alternator Motor) hybrid technology. The truck was developed in close cooperation with the U.S. Air Force, which now has two such vehicles in service, as well as an earlier prototype tanker truck with a hybrid drive.

Mack and the U. S. Department of Energy agreed to work together on a project to develop environmentally friendly commercial vehicle technologies, with an initial goal of reducing fuel consumption and primary CO_2 emissions from heavy-duty trucks by more than 10%.

Market and market development

A dramatic downturn occurred as expected in the first half of 2007 in the North American truck market, due to the effects of the large "pre-buy" that took place before stricter emissions regulations went into effect on January 1, 2007. The market's rebound was slower than anticipated in the second half of 2007

as a result of economic realities including weakness in the freight environment and the drop-off in housing construction, which affected many Mack customers. However, this weakness was partially offset by continued strength in commercial construction.

Mack continued to make significant progress in its effort to grow the company's business outside North America. International sales were up about 25% over 2006, and double the 2004 volume. This growth was particularly strong in South America, the Middle East and Australia, and will continue to be in focus in 2008.

Production system

As announced in late 2006, production and employment were significantly reduced at both the Macungie, Pennsylvania, and New River Valley, Virginia, plants in response to reduced demand after the pre-buy.

The Macungie plant experienced minor disruptions associated with the transition to the new 2007 emissions-compliant products early in the year. At the plant in New River Valley – which undertook an industrial optimization program in conjunction with the product changeover – interruptions extended into the fourth quarter, when production began to stabilize.

Deliveries by model

Mack Trucks	2006	**2007**
Mack CH / CHN	3,879	149
Mack CL	572	29
Mack Vision	9,535	1,885
Mack Granite	16,940	8,888
Mack Pinnacle	–	4,210
Mack LE	945	608
Mack MR	3,849	1,689
Other	1,118	1,163
Total	**36,838**	**18,621**

Deliveries by market

Mack Trucks	2006	**2007**
North America	32,793	13,592
South America	2,628	3,183
Asia	75	243
Other markets	1,342	1,603
Total	**36,838**	**18,621**

Ambitions 2007

- Manage the challenges throughout operations arising from the market cycle while maintaining profitability and cost control.
- Continue working with the completion of the product renewal.
- Continue the development of the North American dealer network to strengthen sales, customer support and after market services.
- Continuing growth in the international operations.

Outcome 2007

- A strong focus on controlling operating expenses.
- Significant progress achieved with introduction of US'07 MP engine range, and the new TerraPro model series.
- The financial condition of the dealer network continued to be strong.
- Sales outside North America up about 25%.

Ambitions 2008

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

Volvo CE's launch of the E-Series articulated haulers was just one of a number of important product launches in 2007.

Construction Equipment
– now No.3 in the industry

2007 was another record year for Construction Equipment. Over 40 new machines were launched and the acquired companies Ingersoll Rand's road development division and Lingong added another 80 products to the portfolio.

In parallel with record demand for its products, Volvo CE has continued to adopt a "customer application" rather than "product line" approach – leading to the development of industry sector specific machines – notably forestry, demolition, materials handling and oil and gas. This not only makes it easier for customers to specify the most appropriate products for their needs, it also affords Volvo CE the opportunity to sell systems of products that are designed to efficiently work together in specific applications.

Strategic acquisition opens up access to rapidly growing highway sector

The road machinery segment received the biggest boost in 2007, with the acquisition of a new line of pavers, compactors and milling machines. These products join Volvo CE existing segment offerings of motor graders, excavators, loaders, haulers and compact equipment.

In addition to "hard" machine sales, Volvo CE has significantly increased its "soft" offerings, notably in customer support, finance and rental. With a rapidly growing population of machines in the field, the importance of promoting genuine Volvo parts and services throughout the entire machine lifecycle is set to increase markedly.

Growing total market

The global construction equipment market saw yet another year of strong growth in 2007 – making it six years of non-stop increases in customer demand. And what is more, it stands every chance of continuing. Despite pockets of weakness in some G7 countries, the global economy as a whole remains in solid shape.

Industry trends

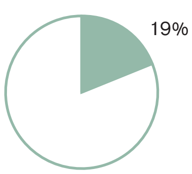
24 consecutive financial quarters of increasing customer demand put the industrial capacity under strain. Inflation in material prices and component availability issues coupled with factories working at full capacity exacerbated the situation. Investments in new capacity was outstripped by demand leading to long lead times in certain product groups.

A combination of rising fuel prices and more demanding engine emissions regulations is continuing to place increased industry focus on the cost of ownership rather than initial purchase price. While the future legislative direction the industry will take remains unclear, there is an openness to the use of new fuel types (biofuels) and power systems (e.g. hybrids).

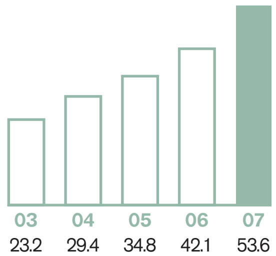
Increased deliveries

During 2007 Volvo CE sold more than 64,000 machines, an increase of 72% compared with 2006. To help meet record customer demand, Volvo CE has earmarked over SEK 1.5 billion in capacity investments, including an investment of nearly SEK 1.1 billion in its Component Division in Eskilstuna, Sweden.

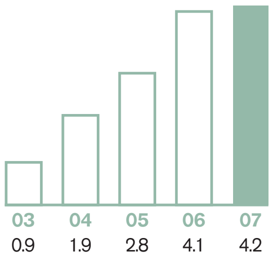
Net sales as percentage of Volvo Group sales



Net sales[1,2], SEK bn



Operating income[1,2], SEK bn



Operating margin[1,2], %

1 Years 2004-2007 are reported in accordance with IFRS and 2003 in accordance with prevailing Swedish GAAP. See Note 1 and 3.

2 Years 2006-2007 are reported according to a new reporting structure. See Note 7.

Strong growth

Net sales in Construction Equipment rose by 27% to SEK 53,633 M (42,131). Adjusted for changes in the exchange rates and the acquisitions of Lingong and Ingersoll Rand's road development division, net sales rose by 19%.

Operating income rose 4% to SEK 4,218 M (4,072) and the operating margin was 7.9% (9.7). The operating income was negatively impacted by increased production costs, introduction of new components, integration costs and exchanges rates.

Acquisitions

The acquisition of Ingersoll Rand's road development business has sharply strengthened Volvo's presence in road construction work. The acquired business includes heavy compactors, asphalt pavers and milling machines. In addition, the acquisition includes 20 dealerships in North America and distribution companies in Europe and Russia.

Volvo CE's newly formed Road Machinery business has manufacturing units in the US, Germany, India and China.

Products

In 2007, more than 40 new machines were introduced, among others new series of products within three of Volvo CE's core product segments. Products launched in 2007 comprised:

- E-Series range of articulated haulers - new suspension system.
- F-Series range of wheel loaders.
- C-Series crawler and wheeled excavators.
- Long reach demolition excavators.
- Short swing excavators.
- CareTrack remote machine monitoring system.
- Tracked forestry carriers.
- Excavator-based range of Pipe-layers.

Furthermore, the acquired companies added another 80 products to the Volvo CE portfolio.

Net sales by market

SEK M	2006	**2007**
Europe	20,326	25,294
North America	11,280	11,170
South America	1,358	2,155
Asia	6,903	12,179
Other markets	2,264	2,835
Total	**42,131**	**53,633**

Ambitions 2007

- Continued development of excavator business.
- Penetration of the domestic market for wheel loaders in China.
- Continued upgrade of the industrial system to satisfy customer demand.
- Focused strategy for India and Russia.
- Continued focus on tools in order to reach new customer segments.

Outcome 2007

- Comprehensive product renewal. New C-Series excavators, production begun in Europe and North America.
- Lingong offers instant strong position in Chinese wheel loader sector.
- Over SEK 1.5 billion earmarked for capacity increases.
- Acquisition of Ingersoll Rand road development division.
- Strong growth for parts penetration, financial services and customer support agreements.
- A coordinated approach for attachment options.

Ambitions 2008

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

Thanks to advanced technology, Volvo Buses can offer products that already today meet the coming Euro 5 emissions regulation.

Buses
– meeting customers' increased environmental needs

Environmental issues are at the top of the agenda at the business area as well as at its customers. Emissions requirements are continually being tightened. It is the ambition of Volvo Buses to not only meet these requirements but to surpass them.

Volvo Buses offers several models with emissions levels that are far below required levels and which meet both Euro 5 and the special EEV requirements. In order to contribute to reduced environmental impact, increasingly more operators and decision-makers are already choosing buses that meet Euro 5, although that requirement does not become effective until 2009.

Environmental technology

To meet the environmental requirements of today and the future, Volvo Buses is using a new generation of advanced diesel engines with SCR (Selective Catalytic Reduction) that significantly reduce emission levels and result in higher performance and lower fuel consumption.

Volvo has also developed a hybrid bus that has generated substantial interest in the marketplace. The bus is a parallel hybrid, where a small diesel engine and an electric engine work in tandem and braking energy is reapplied. At bus stops and red lights, the diesel engine is turned off and the bus starts up using only the electric engine. Hybrid technology provides the greatest fuel savings in city traffic, where there are many stops and starts. Fuel savings under such circumstances can exceed 30%. During 2008, six double-deckers using hybrid technology will be delivered to Transport for London for field-testing.

Volvo Buses' product portfolio also contains buses that can operate on both natural gas and biogas.

Another effective means of reducing carbon-dioxide emissions is to create efficient Bus Rapid Transit systems. Volvo Buses is a world-leading supplier of buses for such systems. During the year, the company received an order for 187 buses for a new system in Cali, Colombia.

Coach of the year 2008

The business area received proof in 2007 that its investments in recent years to develop its tourist coaches have paid off. The Volvo 9700 was named Coach of the Year in Europe, with the jury especially citing its high level of passenger comfort, fantastic driving characteristics and innovative safety solutions.

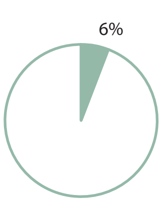
Uneven developments in world markets

The overall global market for buses remained stable at a high level, but was characterized by large regional differences. In Europe, the development was mixed, with increased demand in Southern and Eastern Europe, while there was a slight decline in the Nordic countries and the UK. In Mexico, increased competition from low-cost airlines resulted in a downturn in demand. The coach market in the US was negatively impacted by advanced purchases during 2006 ahead of the new emissions requirements that went into effect in 2007. Demand remained high for buses in Asia.

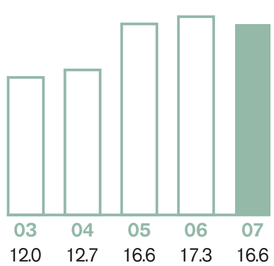
Fewer deliveries

Volvo delivered 9,916 (10,360) buses and bus chassis during 2007. One explanation for the decline is a downturn in the overall market in

Net sales as percentage of Volvo Group sales



Net sales[1,3], SEK bn

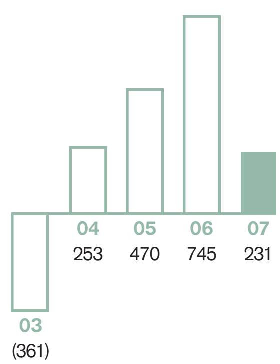


1 Years 2004–2007 are reported in accordance with IFRS and 2003 in accordance with prevailing Swedish GAAP. See Note 1 and 3.

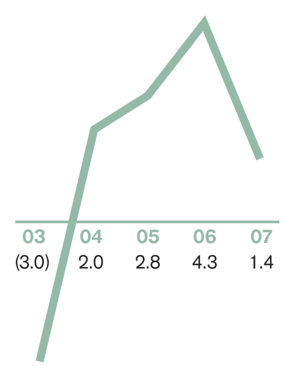
2 Excluding write-down of shares in Henlys Group 2003 and 2004.

3 Years 2006-2007 reported according to a new reporting structure. See Note 7.

Operating income (loss)[1,2,3], SEK M



Operating margin[1,2,3], %



areas where Volvo Buses is normally strong, such as Mexico, the Nordic countries and the UK. However, Volvo Buses' market share in the Nordic countries and South America strengthened. Another cause is production disruptions during the first half of the year in conjunction with the introduction of several new models.

Lower earnings

Net sales fell during 2007 to SEK 16,608 M (17,271 M), primarily due to lower volumes.

Operating income declined from SEK 745 M to 231, partly due to lower volumes and partly due to negative currency effects. The currencies in Brazil, Canada and Poland – countries where Volvo Buses have production – have strengthened in comparison with the US dollar and the euro. The result was also hampered by production disturbances related to product introductions.

Production start-up in India

During the year, Volvo manufactured 10,840 (10,440) buses and bus chassis. In December, production commenced at the company's new bus body plant in Bangalore, India. Production there is in the form of a joint-venture company with Volvo Buses owning 70% and the Azad Group 30%. This means that Volvo is now manufacturing complete buses in India, primarily for the domestic market but also for export.

Deliveries by market

	2006	**2007**
Western Europe	3,081	3,377
Eastern Europe	489	371
North America	1,741	1,547
South America	1,236	1,318
Asia	3,349	2,757
Other markets	464	546
Total	**10,360**	**9,916**

Net sales by market

SEK M	2006	**2007**
Europe	7,924	7,767
North America	4,910	4,630
South America	1,537	1,623
Asia	2,003	1,802
Other markets	897	786
Total	**17,271**	**16,608**

Ambitions 2007

- Continue the implementation of the earnings-improvement program within Volvo Buses.
- Shorten lead times from order to invoicing.
- Further strengthen positions in China and India.
- All employees shall be involved in the Operational Development program.

Outcome 2007

- The improvement program continued.
- New organization and new processes have been implemented and contributes to shorter lead times.
- New bus body plant in India and new versions of coaches in China have strengthened positions.
- More than half of the employees are engaged in the Operational Development programme, the start for the remaining employees have been scheduled.

Ambitions 2008

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

In recent years, Volvo Penta has strengthened its customer offering of so-called soft products – including the much-noted joystick, which makes it easier to dock a boat.

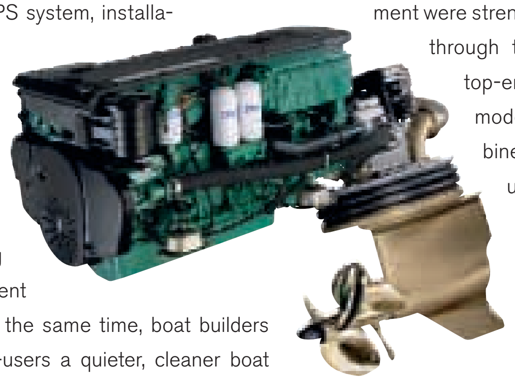
Volvo Penta
– continues to capture market share

By delivering high-tech products with a focus on performance, reliability and environmental characteristics, and by satisfying customer demands for efficient service solutions, Volvo Penta has become a leading global supplier with one of the strongest brands in the industry.

With approximately 5,000 dealers in 130 countries, Volvo Penta has a unique, strong global presence.

With technical solutions such as the IPS system, Volvo Penta generates competitive advantages for leading global boat manufacturers such as Bavaria, Beneteau/Jeanneau, Cranchi, Sessa Marine, Azimut, Tiara, Four Winns, Riviera and Intermarine.

Using the IPS system, installation time can be reduced by up to 75% compared with a traditional straight shaft, resulting in more efficient production. At the same time, boat builders can offer end-users a quieter, cleaner boat with up to 30% lower fuel consumption – and one with significantly better performance and maneuvering characteristics.



With such world-unique innovations as Aquamatic sterndrive and Duoprop counter-rotating propellers, Volvo Penta created and through the decades further developed the business segment for marine diesel engines with sterndrives.

Volvo Penta's market positions in this segment were strengthened further in 2007 through the launch of the new top-end D4-300 and D6-370 models. These engines combine performance with unique environmental and comfort features and contributed to strengthened competitive advantages for such world-leading boat builders as Fairline, Sunseeker and Princess.

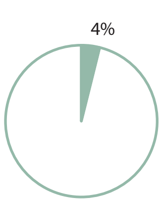
Volvo Penta contributed significant economies of scale to the Volvo Group's diesel engine production, primarily through sales of industrial engines, which in recent years have risen sharply. During 2007, Volvo Penta sold slightly more than 26,000 marine and industrial engines based on the Group's diesel engine platforms.

Overall market

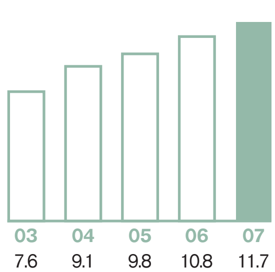
The overall market for marine engines remained strong in Europe, while demand in North America declined. The general trend in the market was that demand for smaller marine engines declined due to lower demand for smaller sized leisure boats.

The worldwide market for industrial engines strengthened compared with the preceding year, partly due to a recovery in China, but also strong growth in Europe, the Middle East and South America.

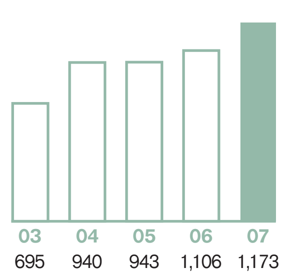
Net sales as percentage of Volvo Group sales



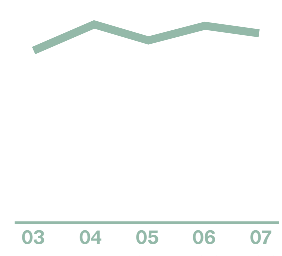
Net sales[1,2], SEK bn



Operating income[1,2], SEK M



Operating margin[1,2], %



1 Years 2004-2007 are reported in accordance with IFRS and 2003 in accordance with prevailing Swedish GAAP. See Note 1 and 3.

2 Years 2006-2007 are reported according to a new reporting structure. See Note 7.

Market trend

Marine engine sales in Europe continued to increase during 2007 and Volvo Penta's position as a world-leading supplier of marine diesel engines strengthened.

The new drive system with forward-facing propellers, IPS, continued to experience very strong growth and has significantly strengthened Volvo Penta's position in the inboard segment.

On the industrial engine side, diesel-powered generator sets, or gensets, is by far the most important product for Volvo Penta, which strengthened its global market share in this segment during the year.

Earnings trend

Sales increased by 9% to a total of SEK 11,719 M compared with SEK 10,774 M during the previous year, due to strong growth within both Marine Leisure and industrial engines. Operating income totaled SEK 1,173 M compared with SEK 1,106 M a year earlier. Operating margin amounted to 10.0% (10.3).

Production and investments

Volvo Penta invested SEK 100 M during the year in increased production capacity at the engine plant in Vara, where the high-performance D4/D6 diesels are manufactured. Following that investment, plant capacity is now 18,000 engines annually.

At Volvo's joint engine and transmission plants in Skövde, Lyon and Köping, Volvo Penta has contributed to high capacity utilization through strong sales of 9-, 12-, and 16-liter engines as well as sterndrives and IPS units.

Net sales by market

SEK M	2006	**2007**
Europe	6,111	6,798
North America	2,815	2,674
South America	221	274
Asia	1,359	1,624
Other markets	268	349
Total	**10,774**	**11,719**

Engine volumes

No. of units	2006	**2007**
Marine engines	66,615	67,333
Industrial engines	20,878	23,728
Total	**87,493**	**91,061**

Ambitions 2007

- Increased growth and strong focus on profitability.
- Broadened customer base in industrial engines.
- Delivery precision and shortened lead times in production.

Outcome 2007

- Strengthened market shares in the inboard segment.
- Good cost control and positive cash flow.
- SEK 100 M investment in increased production capacity in Vara, Sweden.

Ambitions 2008

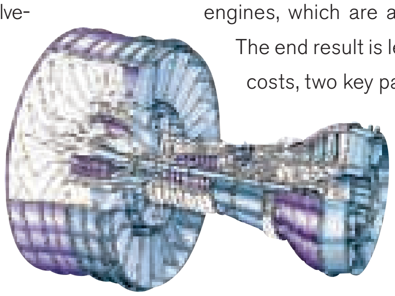
- Focus on delivery capacity to ensure favorable product supply in the market.
- Intensify work to ensure a positive product cost development.
- Establishment of a new global dealer network structure.
- Continued introduction of soft products and service programs.

The Airbus A380 is the largest passenger aircraft in the world. Volvo Aero manufactures engine components for both engine alternatives for the A380.

Volvo Aero
– leader in lightweight designs

Volvo Aero develops and manufactures advanced engine components for aircraft and space rockets.

Volvo Aero is moving from being primarily a manufacturing partner to playing an increasingly important role with greater responsibility for development work on new engines. The company's unique technologies – including world-leading efforts in the area of lightweight designs – are increasingly more in demand within the aerospace industry and are contributing to providing Volvo Aero an extended involvement in new aircraft engines.



Specialized expertise

Climate and environmental issues have recently come into greater focus for the entire aerospace industry. Everyone is in agreement that emissions need to be reduced. Lightweight designs, which are one of Volvo Aero's areas of strength, have a large impact on fuel consumption and the corresponding aircraft emissions. As a result, demand for Volvo Aero's lightweight technology has also increased significantly over the past year. To further strengthen its position in the field of lightweight technology, Volvo Aero acquired a composites company in December, whose expertise will now be transferred to future aircraft engine components.

By utilizing Volvo Aero's expertise in lightweight designs, simulation and new patented manufacturing methods, engine manufacturers can shorten lead times for development of engines, which are also quieter and lighter. The end result is less weight and reduced costs, two key parameters for future aircraft engines.

These technologies are based on successful synergies between civilian and military aircraft and within the field of space propulsion, where Volvo Aero also plays an important role within the European space program.

Several important milestones

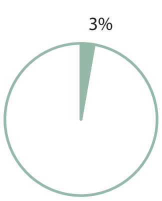
Volvo Aero's expansion into the commercial component sector continued during 2007. Work on developing components for General Electric's new GEnx engine, the single most important investment in Volvo Aero's history, continued according to plan. During the year, testing was completed, demonstrating that Volvo Aero's newly developed technology fulfilled the stated requirements.

February 22 marked an important milestone, with a GEnx engine making its maiden flight on GE's test plane. On July 3, the GEnx engine passed the critical "fan blade out" test, where a fan blade is blown loose from the engine.

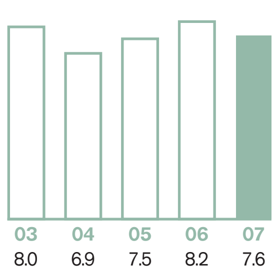
With the aim of reducing production costs and increasing its international competitiveness, Volvo Aero is investing more than SEK 1.5 billion in production equipment at its facilities in Trollhättan, Kongsberg and Newington. The new multifunction facility in Trollhättan was inaugurated in March, the most modern of its kind within the aircraft engine industry.

During the year, Pratt & Whitney signed an agreement with Volvo Aero to redesign a component for the GP7000 engine for the Airbus A380. The contract is a major success for Volvo Aero's lightweight designs initiative.

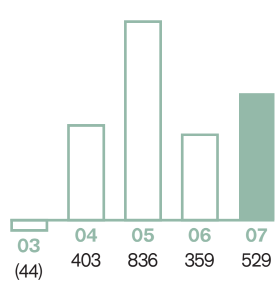
Net sales as percentage of Volvo Group sales, %



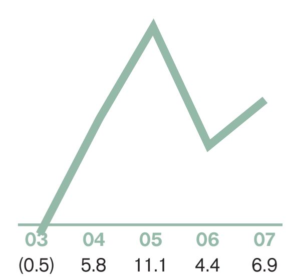
Net sales[1,2], SEK bn



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



Operating margin[1,2], %



1 Years 2004-2007 are reported in accordance with IFRS and 2003 in accordance with prevailing Swedish GAAP. See Note 1 and 3.

2 Years 2006-2007 are reported according to a new reporting structure. See Note 7.

Volvo Aero's new design will result in a more than 10% weight reduction.

To be able to further develop its lightweight technology, Volvo Aero acquired Applied Composites AB (ACAB) in December, a Swedish company with 70 employees. The goal is to develop and manufacture composite aircraft engine components with the help of ACAB's technology, which is significantly lighter than corresponding metal parts. In conjunction with the acquisition, Volvo Aero will be investing approximately SEK 50 M in research and development within the composites area over the next 18 months.

Market

World airline passenger traffic increased by 4.6% in 2007. Order bookings for large commercial jets continued to increase and the backlog at the end of the year grew to 6,848 aircraft. At current production rates, the backlog represents about seven years production. Continuing demand for new commercial jet aircraft is also pushing up engine requirements. The engine order book increased to 14,404 large engines at the end of December, an increase of 35%. Deliveries of large commercial aircraft increased 7%, to 894 aircraft in 2007.

The success for Volvo Aero's largest commercial engine project (GEnx) continued, as a result of the sales success of Boeing 787 and 747-8. The GEnx engine program has now accumulated 1,112 engines on the 787 and 747-8, which corresponds to an increase in the order book by more than 40% compared to a year ago. In January 2008, Boeing confirmed that first flight of the 787 has been delayed to around the end of the second quarter 2008. Deliveries are expected to begin early 2009.

For Volvo Aero, order bookings remain strong and the value of the order book in the component business at December 31 was 19% higher than at the same date in the preceding year.

Net sales by market

SEK M	2006	**2007**
Europe	3,798	3,462
North America	3,815	3,723
South America	173	127
Asia	356	234
Other markets	91	100
Total	**8,233**	**7,646**

Earnings

Volvo Aero's net sales decreased by 7% in 2007 to SEK 7,646 M (8,233). The trend within manufacturing of engine components remained very strong, with increased manufacturing and higher sales volumes of new spare parts in the commercial sector. Adjusted for exchange rate differences and the phase-out of Bromma operations in 2007, sales rose 8%.

Operating income amounted to SEK 529 M (359). Despite higher material costs, the components business continued to report favorable profitability. In addition, profitability improved within the aftermarket business. The operating margin increased to 6.9% (4.4).

Ambitions 2007

- Further develop the technology offering, to ensure a role in future engine programs.
- Fulfill commitment in the development and manufacture of the new GEnx engine.
- Expand component business.
- Increased volumes and improve profitability in the aftermarket.

Outcome 2007

- Further development has proceeded according to plan. Volvo Aero has received the task of redesigning one of the components in the GP7000 engine to reduce its weight.
- GEnx assignment completed, despite a tight timetable.
- The component business grew.
- Operations in Bromma were phased out. Overall positive development of volume and profitability, but profitability in the aftermarket will need to be improved further.

Ambitions 2008

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

Volvo Financial Services offers both wholesale and retail financing and is a strong contributor to establishing close links with customers.

Financial Services
– expansion into new markets

Financial solutions are vital to the Volvo Group. They increase customer satisfaction, competitive advantage, profitability and growth. Financial Services offers traditional financial services and dealer financing. In many markets, insurance, rental services and other offerings are also available.

In 2007, Volvo Financial Services (VFS) enjoyed great success in its slightly more than 50 markets, where it functions as the leading supplier of financial solutions to the Group's customers and dealers. The company has achieved this success through its dedicated business teams who know the Group's products better than any other bank or finance company. Their goals are to integrate VFS's activities more closely with the sales processes of the business areas, enhance the depth and breadth of the product offering and develop the supply of services to key accounts. As a result of this, VFS achieved higher levels of profitability, penetration and assets, while keeping credit losses and write-offs to historically low levels during the year.

Thanks to strong demand in 2007, several milestones were achieved and changes implemented, including the approval to establish customer finance companies in Chile, Hungary and Slovakia.

VFS launched new finance programs for the Group's latest two acquisitions, Lingong and Ingersoll Rand's Road Development division, at the same time that discussions were held with Nissan Diesel to investigate new financing opportunities in Japan and other parts of Asia.

In Europe, VFS reorganized its market approach in order to increase customer satisfaction and deliver stronger support to the individual Business Areas and brands supported by VFS. In the mature markets, Financial Services reduced its equity ratio to 8%, thereby freeing up capital for the Group.

An extensive range of services

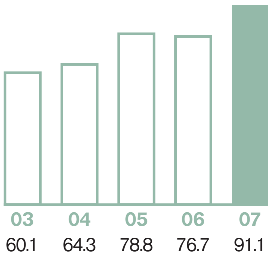
Financial Services makes significant contributions by providing traditional financial services such as installment contracts, operational and financial leasing and dealer financing. In many markets, insurance is available as well as other revenue-generating offers, including rental services, factoring, maintenance and repair contracts, syndication services and other services. All of these activities are designed to create lasting value for the shareholders over a business cycle.

Strong results

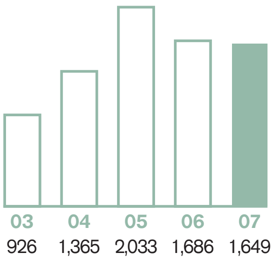
Total new financing volume in 2007 amounted to SEK 41.4 billion (35.3). VFS' strategy for profitable growth focused on three main objectives: organic growth, geographical expansion and growth through the acquisitions of the Volvo Group. As a result of closer cooperation with other Business Areas, penetration rates grew to 24% compared with 20% in 2006. In total, 46,686 new Volvo vehicles and equipment (41,732) were financed during the year.

The acquisitions of the Volvo Group provided VFS with growth opportunities in several markets. During 2007, VFS began offering financing to road development customers in the newly acquired operations from Ingersoll

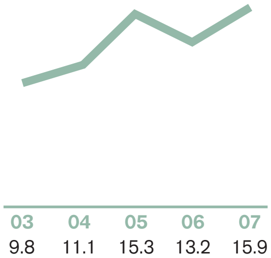
Credit portfolio, net[1], SEK bn



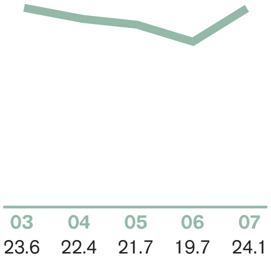
Operating income[1,3], SEK M



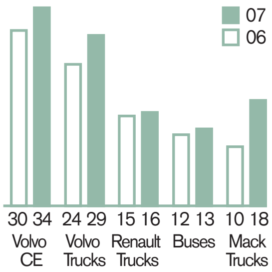
Return on shareholders' equity[1,3], %



Market penetration[2], %



Penetration by business area[2], %



1 Years 2004–2007 are reported in accordance with IFRS and 2003 in accordance with prevailing Swedish GAAP. See Note 1 and 3.
2 Share of business financed by Financial Services in markets where financial services are offered.
3 Years 2006-2007 are reported according to a new reporting structure, in which Volvo Group Real Estate and Volvo Treasury are not included in VFS. See Note 7.

Rand. Toward the end of the year, customers and dealers of Lingong in China were also offered tailored financing solutions.

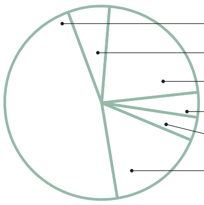
At December 31, 2007 total assets in Customer Finance amounted to SEK 95 billion (80). Excluding receivables in acquired companies, the credit portfolio grew by 12.6% (5.3), adjusted for exchange-rate movements.

In 2007, VFS maintained its operating income level and improved the return on equity. VFS achieved higher penetration levels and record new business volume. Operating income amounted to SEK 1,649 M (1,686). Return on shareholders' equity was 15.9% in 2007 (13.2). The equity ratio at the end of the year was 8.1% (10.2).

At the end of 2007, write-offs and delinquencies remained at low levels within the credit portfolio. Some softening was experienced in North America, although delinquencies, repossessions and write-offs were at comparatively normal levels. The total VFS write-off ratio was 0.29% (0.33). On December 31, 2007, the total credit reserves were 1.59% of the segment's credit portfolio (2.01).

The markets during 2007 were characterized by strong competition from other lenders. During the year, VFS continued to focus on growing its portfolio in a controlled way, with emphasis on risk and price management.

Credit portfolio by business area, %



Condensed income statement

SEK M	2006	**2007**
Finance and lease income	7,648	7,705
Finance and lease expenses	(4,487)	(4,535)
Gross income	**3,161**	**3,170**
Selling and administrative expenses	(1,286)	(1,437)
Credit provision expenses	(190)	(125)
Other operating income and expenses	(1)	41
Operating income	**1,686**	**1,649**
Income taxes	(589)	(502)
Income for the period	**1,097**	**1,147**
Return on equity, %	13.2	15.9

Distribution of credit portfolio, net

%	2006	**2007**
Operational leasing	0	0
Financial leasing	40	46
Installment contracts	42	38
Dealer financing	17	15
Other customer credits	1	1

Ambitions 2007

- Improve customer satisfaction.
- Enhance employee recruitment, development and retention activities.
- Execute on market growth plus fee income opportunities.
- Use better technology and processes to improve productivity and customer service.
- Continue to sharpen risk management activities.

Outcome 2007

- Higher dealer and business area satisfaction.
- Commitment to sustainable personnel development.
- Greater segment penetration and fee income.
- Prioritized IT strategy.
- Stable portfolio performance.

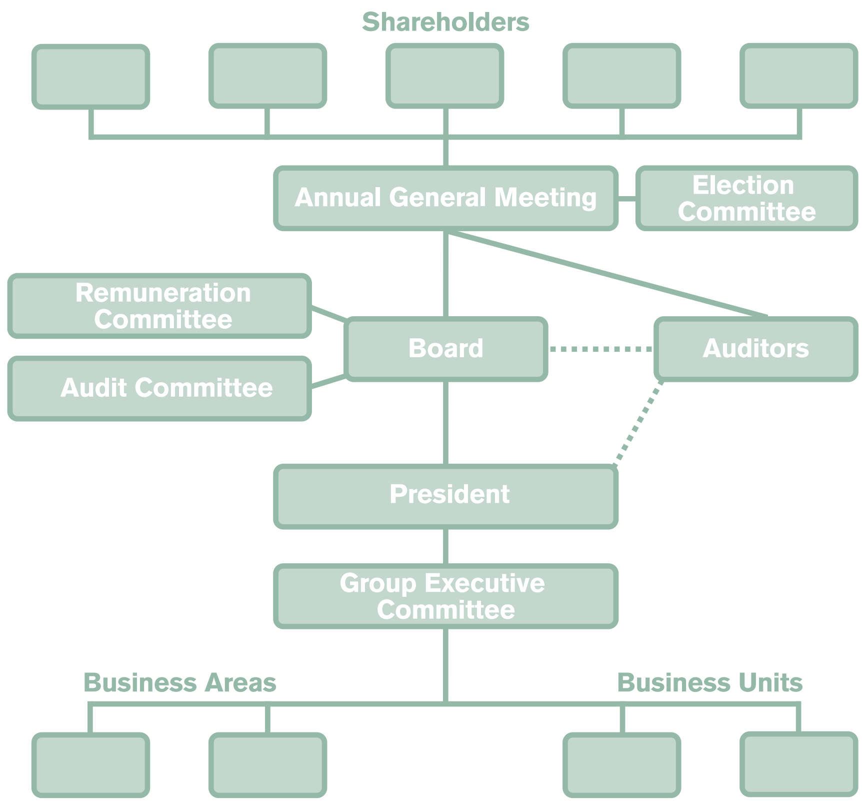
Ambitions 2008

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

Corporate Governance Report

During 2007, the Board focused specifically on issues pertaining to integration of new operations, the introduction of new products and development of the Group's operations in Asia. The Board also visited Volvo's facilities in Russia.

The Volvo Group Corporate Governance Model



Corporate bodies in corporate governance

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

The CEO is in charge of the daily management of the Group through primarily two different bodies, the Group Executive Committee and the business areas' and business units' Boards of Directors. The Group Executive Committee comprises those who report directly to the CEO. At year-end 2007, there were 18 Group Executive Committee members including the CEO. The Group Executive Committee comprised Presidents of the Group's business areas as well as President of Nissan Diesel and the President of Volvo Powertrain business unit, who is also the Senior Vice President Technology for the Volvo Group. The Group Executive Committee also includes the Executive Vice President, who is also the Deputy CEO, the Chief Financial Officer and Heads of the Group's staff units. Meetings, which are led by the CEO, deal with Group-wide issues and issues affecting more than one business area/unit, and supply information concerning the Group's performance. The CEO or another member of the Group Executive Committee is the Chairman of the Board for the Boards of all business areas and business units and these comprise mainly of other members of the Group Executive Committee. The Boards of the business areas and business units effect control and follow-ups of business areas' and business units' financial development, business plans and goals as well as make decisions regarding, for example, investments.

Swedish Code of Corporate Governance

Volvo applies the Swedish Code of Corporate Governance (the Code), in accordance with which this Corporate Governance Report has been prepared. The Board's report regarding internal controls over the financial reporting is included as a special section of this Corporate Governance Report, in accordance with application instructions from the Swedish Corporate Governance Board.

Between January 1, 2007 and December 31, 2007 Volvo did not deviate from any of the Code's regulations that were applicable during this period, with the exception of paragraph 4.2.1. The exception is that Tom Hedelius is a member of the Remuneration Committee even though he is not, according to the Code, independent in relation to the company and the company management since he has been a member of the Board of Directors of the company for more than 12 years. The Board considers, however, Tom Hedelius to be well suited as a member of the Remuneration Committee, regardless of the fact that he has been a Board member for a long time.

This corporate governance report has not been reviewed by the company's auditors.

Election Committee

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

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

The Election Committee, which was appointed at Volvo's Annual General Meeting in 2007 in accordance with the new instructions, comprised Volvo's Chairman Finn Johnsson, Carl-Olof By, representing Svenska Handelsbanken, SHB Pension Fund, SHB Pensionskassa, SHB Employee Fund and Oktogonen, Lars Förberg, representing Violet Partners LP, Björn Lind, representing SEB Fonder/Trygg Försäkring and Thierry Moulonguet, representing Renault s.a.s. The Election Committee elected Thierry Moulonguet as Chairman. During 2007, the Election Committee appointed Eva Halvarsson, representing Andra AP-fonden, as a member of of the Election Comittee. Due to a change in the shareholder structure, Eva Halvarsson was replaced in August 2007 by Christer Elmehagen, representing AMF Pension. The Election Committe also appointed Bengt Kjell, representing AB Industrivärden as a member of the Election Committee. The Election Committee's proposal in advance of the 2008 Annual General Meeting will be made public in conjunction with the notice to the Annual General Meeting and on Volvo's website.

The Board's composition and attendance at meetings January 1, 2007 to December 31, 2007

	Board	Audit Committee	Remuneration Committee
Finn Johnsson	8		4
Per-Olof Eriksson	7	3	
Tom Hedelius	8		4
Leif Johansson	8		
Louis Schweitzer	6		2
Philippe Klein	7		
Ying Yeh	7	3	
Peter Bijur	8	3	
Lars Westerberg[1]	4	1	
Olle Ludvigsson, arbetstagarrepresentant	8		
Johnny Rönnkvist, arbetstagarrepresentant	8		
Martin Linder, arbetstagarrepresentant	7		
Total number of meetings	**8**	**3**	**4**

1 Elected to the Board at the 2007 Annual General Meeting.

The Board

In 2007, AB Volvo's Board of Directors consisted of nine members elected by the Annual General Meeting. In addition, the Board had three members and two deputy members appointed by employee organizations. The CEO, Leif Johansson, was a member of the Board.

During 2007, six regular meetings, one statutory meeting and one extraordinary meeting were held.

The Board has adopted work procedures for its activities that contain rules pertaining to the distribution of work between the Board members, the number of Board meetings, matters to be handled at regular meetings of the Board and duties incumbent on the Chairman. In addition thereto, the work procedures contain directives concerning the tasks of the Audit Committee and the Remuneration Committee respectively. The Board has also issued written instructions specifying how financial information should be reported to the Board as well as the distribution of duties between the Board and the President.

The Annual General Meeting decides on the fees to be paid to the Board members elected by the shareholders. The Annual General Meeting held on April 4, 2007 approved a total fee to the Board, for the time until the end of the next Annual General Meeting, of SEK 5,725,000 to be distributed among the Board Members according to the following. The Chairman of the Board receives a fee of SEK 1,500,000 and each of the remaining members SEK 500,000, with the exception of the President. 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. The Board also reviewed the financial positions of AB Volvo and the Volvo Group on a regular basis and acted in order to ascertain that there are efficient systems in order to follow-up and control the business and financial position of the Volvo Group. In connection therewith, the Audit Committee was responsible for preparing for the Board's work to assure the quality of the company's financial reporting through reviewing the interim reports and the annual report. In connection therewith, the Board met with the company's auditors during 2007. The Board continuously evaluated the performance of the CEO.

During 2007, the Board focused specifically on issues pertaining to the Volvo Group's strategy with regard to Asia and thereby decided to make a public offer for the remaining shares in Nissan Diesel, which resulted in the Volvo Group at year-end owning all shares outstanding in the company. In addition, the Board also decided to sign a letter of intent with the Indian vehicle manufacturer Eicher Motors Limited regarding the establishment of a new Indian joint-venture company. The Board also made the decision to acquire Ingersoll Rand's road development division. In addition, the Board dealt with matters related to the integration of the newly acquired operations into the Volvo Group and matters relating to the development and introduction of new products such as engines that fulfill US 10 environmental requirements, hybrid engines and engines that can operate on renewable fuels. The Board also visited Volvo's facilities in Russia.

The Board's work is mainly performed through Board meetings and through meetings in the respective committees of the Board. In addition thereto, the Chairman of the Board is in regular contact with the CEO in order to discuss on-going business and to ensure that the decisions taken by the Board are executed. An account of each Board member's age, education, main professional experience, other board memberships, ownership of shares in Volvo as of February 26, 2008 and the years of membership on the Volvo Board, is presented on the Board and auditors page.

During 2007, the Board performed its yearly evaluation of the Board's work. The Chairman has informed the Election Committee on the result of the evaluation.

Independence requirements

The Board of Directors of Volvo must meet independence requirements pursuant to the rules of the Nordic Exchange in Stockholm, the Code and the Sarbanes-Oxley Act (SOX). In 2007, AB Volvo applied for deregistration of its class B shares from the SEC. Below follows a short description of the rules of the Nordic Exchange in Stockholm 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.

Considering the above demands regarding the Board's independence, the Election Committee has reported to the company the following understanding about the independence from the company and the company management as well as the company's largest shareholders with regard to the Board members who were elected at the Annual General Meeting in 2007:

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

Leif Johansson, as Volvo's CEO, is not independent from 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 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.

Philippe Klein and Louis Schweitzer are employee and Chairman of the Board, respectively, of Renault SA and represent Renault SA on the company's Board of Directors. Since Renault SA controls more than 10% of the shares and votes in V olvo, 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 to assure the quality of the company's financial reporting through reviewing the interim reports and the annual report. In addition, the Audit Committee's task is to establish guidelines specifying what other services than audit the company may procure from the company's auditors and to provide guidelines for and decisions on transactions with companies and persons closely associated with Volvo. The Audit Committee is also responsible for evaluating the internal and external auditors' work as well as to provide the Election Committee with the results of the evaluation and to assist in preparing proposals for auditors.

At the statutory Board meeting following the 2007 Annual General Meeting, Peter Bijur, Ying Yeh, Lars Westerberg and Per-Olof Eriksson were appointed members of the Audit Committee. Per-Olof Eriksson was appointed Chairman of the Audit Committee.

The Audit Committee met with the external auditors and Head of Internal Audit at the meetings of the Audit Committee. The Audit Committee has also met separately with the external auditors and the Head of Internal Audit without the presence of the company management. The Audit Committee held three meetings during 2007.

Remuneration Committee

In April 2003, the Board established a Remuneration Committee primarily for the purpose of preparing and deciding on issues relating to remuneration to senior executives in the Group. The duties of the Committee include presenting recommendations for resolution by the Board regarding terms of employment and remuneration for the President 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 2007, 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 as of February 26, 2008, and year of joining Volvo for the CEO and each member of the Group Executive Committee is presented in the Group Executive Committee section.

External auditing

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

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

In addition to the audit, PwC also provides certain services to Volvo. In 2007 such services included the performance of a financial due diligence in relation to the company's discussions with Dong Feng Motor Group regarding a possible future cooperation. PwC also 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 pre-approval of the nature of the services and the fees. Volvo believes that the provision of the additional services does not jeopardize PwC's independence.

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

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 departments Corporate Finance, Internal Audit, Investor Relations, Corporate Legal, Business Control and Financial Reporting.

Outstanding share- and share-price-related incentive programs

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

The Board's report regarding internal control over the financial reporting

The purpose of this report is to provide shareholders and other interested parties an understanding of how internal control is organized at Volvo with regard to financial reporting.

The report has been prepared in accordance with the Swedish Code of Corporate Governance (the Code), and the guidance issued by the Confederation of Swedish Enterprise and FAR. The report is therewith limited to internal control over financial reporting. In accordance with application directions for the Code from the Swedish Corporate Governance Board, this report does not contain any statement regarding how well the internal controls have functioned. This report is included as a section in the Corporate Governance Report, but does not comprise a portion of the formal annual report. This report has not been reviewed by the company's external auditors.

Introduction

Since AB Volvo's Series B shares are registered with the Securities and Exchange Commission (SEC) in the US, Volvo is subject to the Sarbanes-Oxley Act (SOX) that includes, among other aspects, comprehensive regulations regarding evaluation of internal control over the financial reporting. During 2007 Volvo applied for delisting of the Volvo share from the NASDAQ stock exchange in the US and for deregistration of the class B share from the SEC.

Volvo primarily applies internal control principles introduced by the Committee of Sponsoring Organizations of the Treadway Commission (COSO). The COSO principles consist of five interrelated components. The components are: control environment, risk assessment, control activities, information and communication and follow-up/supervision.

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

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

Control environment

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

Fundamental to Volvo's control environment is the business culture that is established within the Group and in which managers and employees operate. Volvo works actively on communications and training regarding the company's basic values as described in The Volvo Way, an internal document concerning Volvo's business culture, and the Group's Code of Conduct, to ensure that good morals, ethics and integrity permeate the organization.

Risk assessment

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

Control activities

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

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

Information and communication

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

Follow-up/Supervision

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

Group Management

Leif Johansson
President and CEO

Born 1951. 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, Svenska Cellulosa Aktiebolaget SCA, Confederation of Swedish Enterprise and The Association of Swedish Engineering Industries. Member of the Royal Swedish Academy of Engineering Sciences. Member of the Volvo Board since 1997. **Holdings in Volvo, own and related parties:** 292,810 Volvo shares, including 257,690 Series B shares and 50,000 employee stock options.

Jorma Halonen
Executive Vice President and Deputy CEO

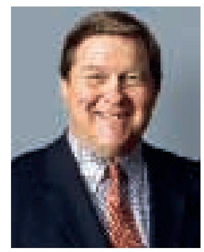
Born 1948. Bachelor of Science in Economics. Executive Vice President of AB Volvo and Deputy CEO of the Volvo Group since 2004. President of Volvo Truck Corporation 2001–2004. Prior to that various positions at Scania 1990–2001. Member of the Group Executive Committee since 2002. With Volvo since 2001. **Holdings in Volvo:** 40,000 Series B shares.


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 the Group Executive Committee since 2004. With Volvo since 2001. **Holdings in Volvo:** 12,500 Series B shares.

Stefano Chmielewski
President of Renault Trucks

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




Staffan Jufors
President of Volvo Truck Corporation

Born 1951. Master of Business Administration. President of Volvo Truck Corporation since 2004. President of Volvo Penta 1998–2004. Member of the Group Executive Committee since 1998. With Volvo since 1975. **Board member:** EBP AB. **Holdings in Volvo:** 29,790 shares, including 24,020 Series B shares.

Håkan Karlsson
President of Volvo Bus Corporation

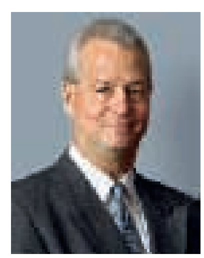
Born 1961. M. Sc. Engineering.
President of Volvo Bus Corporation since 2003. President of Volvo Logistics 2000–2003. Member of the Group Executive Committee since 2003. With Volvo since 1986. **Holdings in Volvo:** 27,010 shares, including 25,675 Series B shares.


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 the Group Executive Committee since 2000. With Volvo since 1985. **Holdings in Volvo:** None.

Göran Gummeson
President of Volvo Penta

Born 1947. President of Volvo Penta since 2004. Has held various positions at Volvo Penta since 1991, head of Volvo Penta's European operations 1998–2004. Member of the Group Executive Committee since 2004. With Volvo since 1991. **Holdings in Volvo:** 38,195 Series B shares.




Satoru Takeuchi
President of Nissan Diesel

Born 1946, President of Nissan Diesel since June 21, 2007. Member of the Volvo Group Executive Committee since June 21, 2007. **Holdings in Volvo:** none

Salvatore L Mauro
President of Volvo Financial Services

Born 1960. Bachelor of Science in Accounting. President of Volvo Financial Services since 2001. President of Volvo Car Finance Europe 1999–2001. Member of the Group Executive Committee since 2001. With Volvo since 1985. **Holdings in Volvo:** 5,015 Series B shares.


Olof Persson
President of Volvo Aero Corporation

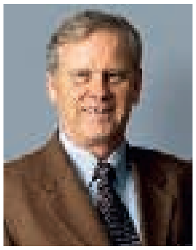
Born 1964. Bachelor of Business Administration. President of Volvo Aero Corporation since 2006. Member of the Group Executive Committee since 2006. With Volvo since 2006. **Board member:** Bombardier Transportation Sweden AB. **Holdings in Volvo:** 11,250 Series B shares.


Peter Karlsten
President of Volvo Powertrain

Born 1957. M. Sc. Electrical Engineering. President of Volvo Powertrain and Technical Director of the Volvo Group since December 1, Head of Volvo Trucks, Brazil 2001–2003, Head of Volvo Trucks North American truck operations 2003–2007. Member of the Group Executive Committee since December 1, 2007. With Volvo since 2001. **Holdings in Volvo:** 250 series B shares.

Mikael Bratt
Senior Vice President and CFO

Born 1967. Senior Vice President of AB Volvo and CFO of the Volvo Group since February 2008. Member of the Group Executive Committee since 2008, responsible for finance, strategy and business development. Mikael Bratt has held various senior positions in the financial areas in the Volvo Group since 1988, most recently as Vice President Corporate Finance, AB Volvo (since 2002). **Holdings in Volvo:** 835 Series A shares

Stefan Johnsson
Senior Vice President

Born 1959. Master of Business Administration. Senior Vice President of AB Volvo responsible for business units and human resources. Senior Vice President of AB Volvo and CFO of the Volvo Group 1998–2005. President of Volvo Group Finance Sweden 1994–1998. Member of the Group Executive Committee since 1998. With Volvo since 1987. **Board member:** The Chalmers University of Technology Foundation. **Holdings in Volvo:** 8,375 shares, including 8,000 Series B shares.

Per Löjdquist
Senior Vice President

Born 1949. Senior Vice President of AB Volvo, responsible for corporate communications and brand management. Member of the Group Executive Committee since 1997. With Volvo since 1973. **Board member:** West Sweden Chamber of Commerce and Industry and Nilörngruppen AB. **Holdings in Volvo:** 53,225 shares, including 36,445 Series B shares.


Jan-Eric Sundgren
Senior Vice President

Born 1951. M. Sc. Engineering, PhD in solid state Physics, Professor in materials science. Senior Vice President of AB Volvo responsible for public and environmental affairs. Member of the Group Executive Committee since 2006. With Volvo since 2006. **Board member:** Lindholmen Science Park AB, Meritea AB. Member of the Royal Swedish Academy of Engineering Sciences. **Holdings in Volvo:** 4,535 Series B shares.

Pär Östberg
Senior Vice President

Born 1962. Master of Business Administration. Senior Vice President of AB Volvo and responsible for the Group's Asian truck operations. Pär Östberg has held various senior positions within the financial areas in the Volvo Group since 1990, i.a. as CFO of the Volvo Group 2005–2008 and Senior Vice President and CFO of Renault Trucks 2004–2005. Member of the Group Executive Committee since 2005. With Volvo since 1990. **Holdings in Volvo:** 25,000 Series B shares.

Eva Persson
Senior Vice President

Born 1953. Master of Laws. Senior Vice President of AB Volvo and General Counsel of the Volvo Group. Responsible for legal, tax and security matters. Member of the Group Executive Committee since 1997. With Volvo since 1988. Secretary to the Board of Volvo since 1997. **Board member:** Handelsbanken Region Väst, Second Swedish National Pension Fund. Member of the Swedish Industry and Commerce Stock Exchange Committee. **Holdings in Volvo:** 10,000 shares, including 8,740 Series B shares.

Changes in Group Executive Committee

Iwao Nakamura, President of Nissan Diesel through June 21, 2007, was appointed a new member of the Group Executive Committee effective April 18, 2007. Iwao Nakamura retired midway through 2007 and was replaced on June 21, 2007 by **Satoru Takeuchi**, who also joined Volvo's Group Executive Committee effective the same date. Satoru Takeuchi came from the position of Senior Managing Director at Nissan Diesel.

Peter Karlsten became the President of Volvo Powertrain on December 1, 2007. He replaced **Lars-Göran Moberg**, who retired on December 31, 2007. Peter Karlsten also took over as Senior Vice President Technology for the Volvo Group and became a new member of the Group Executive Committee. Peter Karlsten was President of Volvo Trucks North America 2003–2007 and was head of Volvo Trucks in Brazil prior to that.

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

On January 15, 2008, **Dennis Slagle** was appointed President of Mack Trucks Inc. and member of the Group Executive Committee as of April 1, 2008. Dennis Slagle is taking over after **Paul Vikner**, who will become Vice Chairman in Mack Trucks Inc. as of April 1, 2008.

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

Board of Directors and Auditors

Board members elected by the Annual General Meeting

Finn Johnsson
Chairman of the Board,
Chairman of the Remuneration Committee

Born 1946, Master of Business Administration.
Board Chairman: Luvata Oy, Thomas Concrete Group AB, Unomedical A/S, KappAhl AB, City Airline and EFG European Furniture Group AB.
Board member: Skanska AB and AB Industrivärden. Member of the Volvo Board since 1998. Chairman since 2004. **Holdings in Volvo:** Through related parties 30,000 shares including 15,000 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.

Peter Bijur
Member of the Audit Committee

Born 1942, MBA Marketing, BA Political Science.
Board member: Gulfmark Offshore Inc. Member of the Volvo Board since 2006. **Holdings in Volvo:** 3,000 Series B shares.

Principal work experience: Numerous positions with Texaco Inc, retired as Chairman and Chief Executive Officer in 2001.


Per-Olof Eriksson
Chairman of the Audit Committee

Born 1938, Master of Engineering, Hon. Dr. of Technology.
Board Chairman: Callans Trä AB, Corss Country Systems AB, Odlander, Fredriksson & Co and OFP V Advisor AB.
Board member: Assa Abloy AB, Biotage AB, Elkem AS, Investment AB Öresund, Kamstrup-Senea AB and Södersjukhuset AB. Member of the Royal Swedish Academy of Engineering Sciences.
Member of Volvo Board since 1994.
Holdings in Volvo, own and related parties: 31,000 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.

Tom Hedelius
Member of the Remuneration Committee

Born 1939, Master of Business Administration, Hon. Dr. of Economics. **Board Chairman:** AB Industrivärden, B&B Tools AB, Anders Sandrews Stiftelse and Jan Wallanders and Tom Hedelius Stiftelse.
Honorary Chairman: Svenska Handelsbanken. **Vice Chairman:** Addtech AB and Lagercrantz Group AB.
Board member: Svenska Cellulosa Aktiebolaget SCA and Lundbergs AB. Member of the Volvo Board since 1994. **Holdings in Volvo, own and related parties:** 13,465 shares, including 3,465 Series B shares.

Principal work experience: AB 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.
Board member: Bristol-Myers Squibb Company, Svenska Cellulosa Aktiebolaget SCA, Confederation of Swedish Enterprise and The Association of Swedish Engineering Industries. Member of the Royal Swedish Academy of Engineering Sciences. Member of the Volvo Board since 1997. **Holdings in Volvo, own and related parties:** 292,810 shares, including 257,690 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.

Philippe Klein

Born 1957. Senior Vice President, CEO/COO Office and Corporate Administration, Nissan Motor Co., Ltd. Member of the Volvo Board since 2006
Holdings in Volvo: 2,250 Series B shares.

Principal work experience: Various positions within Renault (from Engine Engineer to Senior Vice President CEO's Office Renault SA and member of the Renault Management Committee); Vice President, CEO's Office at Nissan.


Louis Schweitzer
Member of the Remuneration Committee

Born 1942. Bachelor of Laws.
Board Chairman: Renault and AstraZeneca Plc. Chairman of the Supervisory Board Le Monde.
Board member: Electricité de France, BNP-Paribas, Véolia, L'Oréal and Vice President of the Philips Supervisory Board. Member of the Volvo Board since 2001.
Holdings in Volvo: 10,000 Series B shares.

Principal work experience: Official at French Budget Department; Chief of Staff of Mr Laurent Fabius (Minister of Budget, then Minister for Industry and Research, and Prime Minister), Chairman, French Commission for Equality (since 2005); numerous positions with Renault SA (Chief Financial Officer and Executive Vice President Finance and Planning, President and Chief Operating Officer, Chairman and Chief Executive Officer).

Ying Yeh
Member of the Audit Committee

Born 1948, BA, Literature & International Relations. President and Chairman of Kodak North Asia Region. Member of the Volvo Board since 2006.
Holdings in Volvo: None.

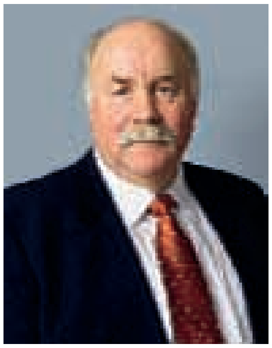
Principal work experience: Journalist NBC, New York. Numerous positions with the U S Government Foreign Service in Burma, Hong Kong, Taiwan and Beijing. Various positions with Eastman Kodak in China.


Lars Westerberg
Member of the Audit Committee

Born 1948. MSc Engineering, Bachelor Business Administration.
Board Chairman: Autoliv Inc. and Husqvarna AB.
Board member: SSAB and Plastal AB.
Member of the Volvo Board since 2007.
Holdings in Volvo: 40,000 Series A shares.

Principal work experienec: President and CEO of Gränges AB, ESAB and Autoliv Inc.

Board members and deputies appointed by employee organisations



Martin Linder

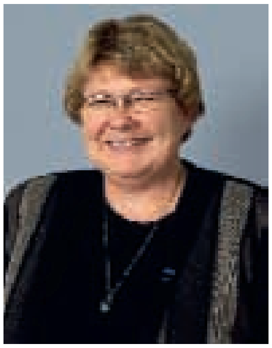
Employee representative. Born 1973. With Volvo since 1994.
Member of Volvo Board since 2004.
Holdings in Volvo: None.

Olle Ludvigsson

Employee representative. Born 1948. With Volvo since 1968.
Deputy member of Volvo Board 1983–1988; member since 1988.
Holdings in Volvo: 775 shares, including 525 Series B shares.

Johnny Rönnkvist

Employee representative. Born 1947. With Volvo since 1965.
Member of Volvo Board since 1999.
Holdings in Volvo: 915 shares, including 250 Series B shares.



Berth Thulin

Employee representative. Born 1951. With Volvo since 1975.
Deputy member of Volvo Board since 1999.
Holdings in Volvo: 725 Series B shares.

Margareta Öhlin

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

Secretary to the Board

Eva Persson

Born 1953, Master of Laws.
Senior Vice President of AB Volvo and General Counsel of the Volvo Group. Secretary to the Volvo Board since 1997.
Holdings in Volvo: 10.000 shares, including 8.740 Series B shares.

Auditors

PricewaterhouseCoopers AB

Göran Tidström

Authorized Public Accountant
Lead Partner

Auditor since 2006

Other assignments: Auditor of Securitas, Telia Sonera och Trelleborg. Chairman of the Board of EFRAG (European Financial Reporting Advisory Group) and Board member of IFAC (International Federation of Accountants).

Born 1946.

Olov Karlsson

Authorized Public Accountant
Partner

Auditor since 1998

Other assignments: Auditor of Trelleborg AB.

Born 1949.

Financial information 2007

Consolidated income statements

SEK M		2006	**2007**
Net sales	Note 7	258,835	**285,405**
Cost of sales		(199,054)	**(219,600)**
Gross income		59,781	**65,805**
Research and development expenses	Note 7	(8,354)	**(11,059)**
Selling expenses		(21,213)	**(26,068)**
Administrative expenses		(6,551)	**(7,133)**
Other operating income and expenses	Note 8	(3,466)	**163**
Income from investments in associated companies	Note 7, 9	61	**430**
Income from other investments	Note 10	141	**93**
Operating income	Note 7	20,399	**22,231**
Interest income and similar credits		666	**952**
Interest expenses and similar charges		(585)	**(1,122)**
Other financial income and expenses	Note 11	(181)	**(504)**
Income after financial items		20,299	**21,557**
Income taxes	Note 12	(3,981)	**(6,529)**
Income for the period		16,318	**15,028**
Attributable to:			
Equity holders of the parent company		16,268	**14,932**
Minority interests	Note 13	50	**96**
		16,318	**15,028**
Basic earnings per share, SEK	Note 23	8.04	**7.37**
Diluted earnings per share, SEK	Note 23	8.03	**7.37**

Consolidated balance sheets

SEK M		December 31, 2006		December 31, 2007	
Assets					
Non-current assets					
Intangible assets	Note 14		19,117		**36,508**
Tangible assets	Note 14				
Property, plant and equipment		33,269		**46,054**	
Investment property		1,110		**1,156**	
Assets under operating leases		20,501	54,880	**22,502**	**69,712**
Financial assets					
Associated companies	Note 15	5,794		**657**	
Other shares and participations	Note 15	1,096		**1,562**	
Long-term customer-financing receivables	Note 16	32,089		**40,486**	
Deferred tax assets	Note 12	6,663		**8,783**	
Other long-term receivables	Note 17	4,400	50,042	**4,779**	**56,267**
Total non-current assets			124,039		**162,487**
Current assets					
Inventories	Note 18		34,211		**43,645**
Short-term receivables					
Customer-financing receivables	Note 19	32,653		**38,361**	
Current tax assets		1,221		**1,703**	
Other receivables	Note 20	34,399	68,273	**44,417**	**84,481**
Non-current assets held for sale	Note 4		805		**-**
Marketable securities	Note 21		20,342		**16,490**
Cash and cash equivalents	Note 22		10,757		**14,544**
Total current assets			134,388		**159,160**
Total assets			258,427		**321,647**
Shareholders' equity and liabilities					
Shareholders' equity	Note 23				
Share capital		2,554		**2,554**	
Additional contributed capital		–		**-**	
Reserves		1,664		**2,146**	
Retained earnings		66,418		**62,570**	
Income for the period		16,268		**14,932**	
Equity attributable to the equity holders of the parent company		86,904		**82,202**	
Minority interests		284		**579**	
Total shareholders' equity			87,188		**82,781**
Non-current provisions					
Provisions for post-employment benefits	Note 24	8,692		**9,774**	
Provisions for deferred taxes	Note 12	4,422		**9,127**	
Other non-current provisions	Note 25	6,750	19,864	**7,301**	**26,202**
Non-current liabilities	Note 26				
Bond loans		23,179		**42,298**	
Other loans		15,530		**21,149**	
Other long-term liabilities		6,748	45,457	**8,282**	**71,729**
Current provisions	Note 25		9,799		**10,656**
Current liabilities	Note 27				
Loans		28,247		**44,872**	
Liabilities associated with assets held for sale	Note 4	280		**-**	
Trade payables		38,080		**52,663**	
Current tax liabilities		1,801		**451**	
Other current liabilities		27,711	96,119	**32,293**	**130,279**
Total shareholders' equity and liabilities			258,427		**321,647**
Assets pledged	Note 28		1,960		**1,556**
Contingent liabilities	Note 29		7,726		**8,153**

Changes in consolidated Shareholders' equity

		Shareholders' equity attributable to equity holders of the parent company						
SEK M		Share capital	Other reserves[2]	Translation reserve	Retained earnings	Total	Minority interests	Total equity
Balance at December 31, 2005		**2,554**	**(328)**	**3,252**	**73,022**	**78,500**	**260**	**78,760**
Translation differences		–	–	(2,743)	–	(2,743)	(20)	(2,763)
Translation differences on hedge instruments of net investments in foreign operations		–	–	149	–	149	–	149
Available-for-sale investments:	Note 15, 23							
Valuation gains/(losses) taken to equity		–	383	–	–	383	–	383
Change in hedge reserve	Note 23	–	999	–	–	999	–	999
Net income recognized directly in equity			**1,382**	**(2,594)**	**0**	**(1,212)**	**(20)**	**(1,232)**
Income for the period		–	–	–	16,268	16,268	50	16,318
Total recognized income and expense for the period		**–**	**1,382**	**(2,594)**	**16,268**	**15,056**	**30**	**15,086**
Cash dividend		–	–	–	(6,775)	(6,775)	(7)	(6,782)
Share based payments	Note 34	–	–	–	159	159	–	159
Other changes in Nissan Diesel's equity		–	–	–	(65)	(65)	–	(65)
Other changes		–	(67)	19	77	29	1	30
Balance at December 31, 2006		**2,554**	**987**	**677**	**82,686**	**86,904**	**284**	**87,188**
Translation differences		–	–	1,163	–	1,163	3	1,166
Translation differences on hedge instruments of net investments in foreign operations		–	–	(123)	–	(123)	–	(123)
Available-for-sale investments:	Note 15, 23							
Valuation gains/(losses) taken to equity		–	(222)	–	–	(222)	–	(222)
Change in hedge reserve	Note 23	–	(338)	–	–	(338)	–	(338)
Net income recognized directly in equity			**(560)**	**1,040**	**0**	**480**	**3**	**483**
Income for the period		–	–	–	14,932	14,932	96	15,028
Total recognized income and expense for the period			**(560)**	**1,040**	**14,932**	**15,412**	**99**	**15,511**
Share reduction		(426)	–	–	426	0	–	0
Bonus issue		426	–	–	(426)	0	–	0
Dividends and payment for redemption of shares to Volvo's shareholders		–	–	–	(20,255)	(20,255)	(78)	(20,333)
Share based payments	Note 34	–	–	–	176	176	–	176
Change in consolidation of Nissan Diesel[1]		–	–	–	(44)	(44)	–	(44)
Minority regarding new acquisitions		–	–	–	–	–	267	267
Other changes		–	8	(6)	7	9	7	16
Balance at December 31, 2007		**2,554**	**435**	**1,711**	**77,502**	**82,202**	**579**	**82,781**

1 Refers to change in consolidation method (neg 25) and change in minority interests for Nissan Diesel between the AB Volvo acquisition date and the acquisition of the remaining minority (neg 19).
2 For specification of other reserves please see Note 23.

Consolidated cash-flow statements

SEK M			2006		**2007**
Operating activities					
Operating income			20,399		**22,231**
Depreciation and amortization	Note 14		12,384		**12,474**
Other items not affecting cash	Note 30		652		**(458)**
Changes in working capital:					
(Increase)/decrease in receivables			(475)		**(2,692)**
(Increase)/decrease in customer finance receivables	Note 30		(5,188)		**(10,031)**
(Increase)/decrease in inventories			(3,111)		**(4,436)**
Increase/(decrease) in liabilities and provisions			1,106		**7,166**
Interest and similar items received			737		**1,077**
Interest and similar items paid			(585)		**(832)**
Other financial items			(29)		**(139)**
Income taxes paid			(4,388)		**(5,970)**
Cash-flow from operating activities			21,502		**18,390**
Investing activities					
Investments in fixed assets		(9,969)		**(10,150)**	
Investments in leasing assets		(4,611)		**(4,800)**	
Disposals of fixed assets and leasing assets		3,240		**2,945**	
Shares and participations, net	Note 30	(5,817)		**436**	
Acquired and divested subsidiaries and other business units, net	Note 4, 30	510		**(15,013)**	
Interest-bearing receivables including marketable securities		7,650	(8,997)	**3,554**	**(23,028)**
Cash-flow after net investments			12,505		**(4,638)**
Financing activities					
Increase/(decrease) in bond loans and other loans	Note 30	(2,609)		**28,746**	
Cash payment to AB Volvo shareholders'		(6,775)		**(20,255)**	
Repurchase of own shares		–		**-**	
Dividends to minority shareholders		(7)		**(78)**	
Other		35	(9,356)	**(3)**	**8,410**
Change in cash and cash equivalents, excluding translation differences			3,149		**3,772**
Translation difference on cash and cash equivalents			(505)		**15**
Change in cash and cash equivalents			2,644		**3,787**
Cash and cash equivalents, January 1	Note 22		8,113		**10,757**
Cash and cash equivalents, December 31	Note 22		10,757		**14,544**

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, 2006.

Note 1 Accounting principles

The consolidated financial statements for AB Volvo and its subsidiaries have been prepared in accordance with International Financial Reporting Standards (IFRS) issued by the International Accounting Standards Board (IASB), as adopted by the EU. The portions of IFRS not adopted by the EU have no material effect on this report. This annual report is prepared in accordance with IAS 1 Presentation of Financial Statements and in accordance with the Swedish Companies Act. In addition, RR30 Supplementary Rules for Groups, has been applied, issued by the Swedish Financial Accounting Standards Council.

In the preparation of these financial statements, the company management has made certain estimates and assumptions that affect the value of assets and liabilities as well as contingent liabilities at the balance sheet date. Reported amounts for income and expenses in the reporting period are also affected. The actual future outcome of certain transactions may differ from the estimated outcome when these financial statements were issued. Any such differences will affect the financial statements for future accounting periods. The key sources of estimation uncertainty are set out in Note 2.

Changes of accounting principles

Effective in 2005 Volvo has applied International Financial Reporting Standards (IFRS) in its financial reporting. In accordance with the IFRS transition rules in IFRS 1, Volvo applies retroactive application from the IFRS transition date at January 1, 2004. The details of the transition from Swedish GAAP to IFRS are set out in Note 3 in the annual reports of 2005 and 2006. Refer to the 2004 Annual Report for a description of the previous Swedish accounting principles applied by Volvo.

New accounting principles in 2007

In accordance with considerations presented in the Annual Report, Note 1, regarding new accounting principles for 2007, Volvo applies the new standard IFRS 7, Financial instruments: Disclosures and classification, as well as Amendments to IAS 1, Presentation of financial statements. IFRS 7 does not entail any change in the reporting and valuation of financial instruments. On the other hand, certain disclosure requirements have been expanded, compared with earlier requirements under IAS 32, particularly as concerns the exposure and management of risk relating to financial instruments. The Amendments to IAS 1 entail expanded additional disclosure regarding elements such as the definition of capital, capital structure and capital management policies. In addition to IFRS 7 and the Amendment to IAS 1, there are four IFRIC interpretations – IFRIC 7, Applying the Restatement Approach under IAS 29 Financial Reporting in Hyperinflationary Economies; IFRIC 8, Scope of IFRS 2; IFRIC 9, Reassessment of Embedded Derivatives; and IFRIC 10, Interim Financial Reporting and Impairment. The application of IFRS 7, Amendment to IAS 1 and IFRIC 7, 8, 9 and 10, has not had any impact on Volvo's financial position or earnings.

New accounting principles 2008 and 2009

When preparing the consolidated accounts as of December 31, 2007, a number of standards and interpretations have been published, but have not yet become effective. The following is a preliminary assessment of the effect the implementation of these standards and statements could have on the Volvo Group's financial statements.

IFRS 8 Operating segments

The standard becomes effective on January 1, 2009 and applies for the fiscal years beginning on that date. The standard addresses the distribution of the company's operations in different segments. In accordance with the standard, the company shall adopt an approach based on the internal reporting structure and determine the reportable segments based on this structure. Volvo does not expect the adoption of IFRS 8 to result in any change in the number of segments.

IFRIC 11 IFRS 2 Group and Treasury Share Transactions

The interpretation becomes effective on March 1, 2007 and applies to fiscal years beginning after that date. The interpretation clarifies treatment regarding classification of share-based payments in which the company repurchases shares to settle its undertaking and reporting of options programs in subsidiaries that apply IFRS. The Group will apply IFRIC 11 as of January 1, 2008, but this is not expected to have any impact on the Group's financial statements.

*IFRIC 12 Service Concession Arrangements**

The interpretation becomes effective on January 1, 2008 and applies to fiscal years beginning after that date. IFRIC 12 addresses arrangements in which a private company shall establish an infrastructure to provide public service for a specified period. The company is paid for this service during the term of the contract. The Group will apply IFRIC 12 as of January 1, 2008, but this is not expected to have any impact on the Group's financial statements.

*IFRIC 14 IAS 19 The limit on a defined benefit asset, minimum funding requirements and their interaction.**

The interpretation becomes effective on January 1, 2008 and applies to fiscal years beginning after that date. The interpretation discusses funding of defined benefit pension plans and minimum funding requirements in connection to IAS 19 and the limit on the measurement for a defined benefit asset. The Group will apply IFRIC 14 as of January 1, 2008, but this is not expected to have a significant impact on the Group's financial statements.

*IAS 23 amendment Borrowing costs**

The interpretation becomes effective on January 1, 2008 and applies to fiscal years beginning after that date. The amendment states that borrowing costs that are directly attributable to the acquisition, construction or production of a qualifying asset form part of the cost of that asset. The Group will apply the amendment as of January 1, 2009. According to the current accounting principle applied by Volvo, borrowing costs are expensed. The amendment will result in a change of accounting principle for the Volvo group, but is not expected to have a significant impact on the Group's financial statements.

*IAS 1 amendment Presentation of financial statements**

The amendment becomes effective on January 1, 2009 and applies to fiscal years beginning after that date. The amendment concerns the form for presentation of financial position, comprehensive income and cash flow. The Group will apply the amendment as of January 1, 2009, which will not have a significant impact on the Group's financial statements, but only to a limited extent affect the form of presentation for the group financial statements.

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

Notes to consolidated financial statements

Exchange rates

Country	Currency	Average rate 2006	Average rate 2007	Year-end rate 2006	Year-end rate 2007
Brazil	BRL	3.3927	3.4724	3.2190	3.6800
Canada	CAD	6.5096	6.3098	5.9235	6.5960
Denmark	DKK	1.2420	1.2423	1.2146	1.2716
Euro	EUR	9.2649	9.2564	9.0593	9.4828
Great Britain	GBP	13.5822	13.5369	13.4938	12.9113
Japan	JPY	0.0635	0.0575	0.0579	0.0573
Norway	NOK	1.1516	1.1555	1.0955	1.1885
South Korea	KRW	0.0077	0.0073	0.0074	0.0069
United States	USD	7.3791	6.7631	6.8738	6.4688

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 interest. 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 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. Transactions with the minority are reported as transactions with external parties to the group. Divestments to the minority may result in gains or losses in the income statement. Acquisitions from the minority may result in goodwill corresponding to the difference between considerations paid and acquired part of net asset value in the acquired subsidiary.

Companies 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, 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 when consolidating companies using foreign currencies

AB Volvo's functional currency is the Swedish krona. All reporting in group companies for group purposes is made in the currency in which the company has the majority of its revenues and expenses; normally the currency of the country where the company is located. AB Volvo's and the Volvo Group's reporting currency is Swedish kronor. In preparing the consolidated financial statements, all items in the income statements of foreign subsidiaries and joint ventures (except for subsidiaries in highly inflationary economies) are translated to Swedish kronor at the average exchange rates during the year (average rate). All balance sheet items are translated at exchange rates at the respective year-ends (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 difference related to a certain subsidiary, joint venture or associated company is reversed to income as a part of the gain/loss arising from the divestment or liquidation of such a company.

IAS 29, Financial Reporting in Hyperinflationary Economies, is applied to financial statements of subsidiaries operating in highly inflationary economies. Volvo applies reporting based on historical value. Translation differences 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 in the table on page 88.

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. Interest income in conjunction with finance leasing or installment contracts are recognized during the underlying contract period. Revenue for maintenance contracts are recognized according to how costs associated with the contracts are distributed during the contract period.

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

Leasing – Volvo as the lessor

Leasing contracts are defined in two categories, operating and finance lease, depending on the contract's financial implications. Operating leasing contracts are reported as non-current assets in Assets in operating leases. Income from operating leasing is reported equally distributed over the leasing period. Straight-line depreciation is applied to these assets in accordance with the terms of the undertaking and the deprecation amount is adjusted to correspond to the estimated realizable value when the undertaking expires. Assessed impairments are charged to the income statement. The product's assessed realizable value at expiration of the undertaking is reviewed continually on an individual basis.

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

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

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 the decline in value is significant or other than temporary. If the value decline is considered other than temporary, the value should be written down through the income statement. Unlisted shares, for which a reliable fair value can not be determined, should be reported at acquisition 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. In accordance with IAS 39, Volvo derecognizes financial assets when substantially all risks and benefits of the ownership of the financial assets have been transferred to an external party. The same principles are applied for financial assets in the segment reporting.

Financial liabilities are reported at amortized cost. 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 to 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, 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 the 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. Unrealized and realized gains and losses on hedges are reported in operating income within Other operating income and expenses.

– Under the more complex rules in IAS 39, Volvo has chosen to apply hedge accounting for financial instruments used to hedge interest and currency risks on loans only for cases when hedge accounting requirements are fulfilled. For cases where hedge accounting is not considered to be fulfilled, unrealized gains and losses up until the maturity date of the financial instrument will be charged to the financial net in the income statement.

Notes to consolidated financial statements

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

See Note 37 for further description of accounting principles regarding financial assets and liabilities.

Research and development expenses

Volvo applies IAS 38, Intangible Assets, for reporting of research and development expenses. In accordance with with this standard, expenditures for development of new products, production systems and software shall be reported as intangible assets if such expenditures with a high degree of certainty will result in future financial benefits for the company. The acquisition value for such intangible assets shall be amortized over the estimated useful life of the assets. In order for these development expenditures to be reported as assets, a number of criteria must be met. For example, it must be possible to prove the technical functionality of a new product or software prior to its development being reported as an asset. In normal cases, this means that expenditures are capitalized only during the industrialization phase of a product development project. Other research and development expenses are charged to income as incurred.

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

Volvo applies acquisition values for valuation of intangible and tangible assets. Loan expenses during the acquisition period for a non-current asset are expense. Depreciation is based on the acquisition value 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
Trademarks	20 years
Distribution networks	10 years
Product and software development	3 to 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 intangible asset. From May 1, 2007, Volvo has adjusted the depreciation period to the estimated useful life, which is estimated to be 20 years. The effect of the change in estimate is a positive SEK 56 M for the fiscal year 2007. Volvo capitalizes in a corresponding way certain costs for the participation in other industrial cooperation projects.

Information regarding estimated value of investment property is based on discounted cash flow projections. The estimation is performed by the Group's Real Estate business unit. The required return is based on current property market conditions for comparable properties in comparable locations.

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 substantially held by Volvo, so called finance leases, Volvo reports the asset and related obligation in the balance sheet at the lower of the leased asset's fair value or the present value of minimum lease payments. The future leasing fees are reported as loans. The lease asset is depreciated in accordance with Volvo's policy for the respective non-current asset. The lease payments when made are allocated between amortization and interest expenses. If the leasing contract is considered to be a so called operational lease the income statement is charged over the lease contract's lifetime.

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, if impaired valued at fair value after deduction for selling expenses.

Inventories

Inventories are stated at the lower of cost, in accordance with the first-in, first-out method (FIFO), or net realizable value. The acquisition value is based on the standard cost method, including costs for all direct manufacturing expenses and the apportionable share of the capacity and other related manufacturing costs. The standard costs are tested regularly and 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 share-based incentive programs. 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 for allotment 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 at each reporting date and provided for as an accrued expense over the vesting period, which is applied for the employee stock option program. See Note 34.

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 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. See Note 24.

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 regard to the valuation of deferred tax assets, that is, the value of future tax reductions, these items are recognized provided that it is probable that the amounts can be utilized against future taxable income.

Deferred taxes on temporary differences on participations in subsidiaries and associated companies are only reported when it is probable that the difference will be recovered in the near future.

Tax laws in Sweden and certain other countries allow companies to defer payment of taxes through allocations to untaxed reserves. These items are treated as temporary differences in the consolidated balance sheet, that is, a split is made between deferred tax liability and equity capital. In the consolidated income statement an allocation to, or withdrawal from, untaxed reserves is divided between deferred taxes and net income for the year.

Cash-flow statement

The cash-flow statement is prepared in accordance with IAS 7, Cash Flow Statement, indirect method. The cash-flow statements of foreign Group companies are translated at the average rate. Changes in Group structure, acquisitions and divestments, are reported net, excluding cash and cash equivalents, in the item Acquisition and divestment of subsidiaries and other business units and are included in Cash Flow from Investing Activities.

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

Earnings per share

Earnings per share is calculated as the income for the period attributed to the shareholders of the parent company, divided with the average number of outstanding shares per reporting period. On April 26 2007, Volvo's share split 6:1 with automatic redemption in which the sixth share was redeemed by AB Volvo for SEK 25 per share took effect, with the effect that the number of shares were fivefold. To calculate the diluted earnings 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. See Note 23 Shareholders' equity.

Notes to consolidated financial statements

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 valuations. Intangible and tangible non-current assets amounted to 106,220 (73,997) whereof 19,969 (8,849) represents goodwill. For Goodwill and certain other intangible assets with indefinite life-time an annual impairment review is performed. Such an impairment review will require management to determine the fair value of Volvo's cash generating units, on the basis of projected cash flows and internal business plans and forecasts. Volvo has since 2002 performed a simliar impairment review. No impairment charges were required for the period 2002 until 2007.

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 of the commitment. Estimated impairment losses are immediately charged to income. The estimated net realizable value of the products at the end of the commitments is monitored individually on a continuing basis. In monitoring estimated net realizable value of each product under a residual value commitment, management makes consideration of current price-level of the used product model, value of options, mileage, condition, future price deterioration due to expected change of market conditions, alternative distribution channels, inventory lead-time, repair and reconditioning costs, handling costs and overhead costs in the used product divisions. Provisions for residual value risk amount to 670 (781).

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, 2007, a valuation allowance of 156 (213) was established for the value of deferred tax assets. Net of this valuation allowance, deferred tax assets net of 12,208 (10,069) were recognized in the Group's balance sheet.

Inventory obsolescence

Inventories are reported at the lower of cost, in accordance with the first-in, first-out method (FIFO), and net realizable value. The estimated net realizable value includes management consideration of out-dated articles, over-stocking, physical damages, inventory-lead-time, handling and other selling costs. If the estimated net realizable value is lower than cost, a valuation allowance is established for inventory obsolescence. The total inventory value, net from inventory obsolescence allowance, is per December 31, 2007, 43,645 (34,211).

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, 2007, the total credit loss reserves in Volvo Financial Services amounted to 1.59% (2.01) of the total credit portfolio within the Customer Finance segment.

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. The actuarial assumptions are reviewed on an annual basis and modifications are made to them when it is deemed appropriate to do so. Actual results that differ from management's assumptions are accumulated and amortized over future periods 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, 2007 net provisions for post-employment benefits amounted to 7,643 (6,651).

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, 2007 warranty cost provisions amounted to 9,373 (8,411).

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 the size of the amount. 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 Transition to IFRS

Effective from 2005, all listed companies within the European Union (EU) are required to prepare their consolidated financial reporting in accordance with the International Financial Reporting Standards (IFRS) as adopted by the EU. In accordance with IFRS transition rules (IFRS 1) Volvo appplies IFRS as of January 1, 2005 with retroactive application from January 1, 2004. The impact of the transition to IFRS on Volvo consolidated financial reporting is described in Note 3 of the annual reports 2005 and 2006.

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, 2007 is shown in the table, **AB Volvo's holding of shares.** Significant acquisitions, formations and divestments within the Group are listed below.

Ingersoll Rand's road development division

On April 30 2007, Volvo completed the acquisition of American Ingersoll Rand's road development division, with the exception of the operations in India, which followed on May 4, 2007. Ingersoll Rand's road development division is a world-leading manufacturer of heavy construction equipment for road and soil work, with net sales of about SEK 6.4 billion and an operating income of 745 in 2006. The acquisition is mainly an acquisition of assets; accounts receivables, inventory and plant and equipment. The purchase consideration amounts to SEK 8.8 billion. The final purchase price will be determined during the first quarter 2008, but is currently estimated to SEK 9.3 billion. The difference refers to changes in the net asset value between the agreement date and the acquisition date. The goodwill arising from the acquisition is mainly related to synergies at the operating income level, attributed to sales and distribution. The effect of the acquisition on the Volvo Group cash and cash equivalents is estimated at SEK (9.2) billion. The division is consolidated in the Volvo Group from May 1, 2007. Ingersoll Rand's road development division is reported in the Construction Equipment segment.

Nissan Diesel

During the fourth quarter 2007, Volvo acquired the minority in Nissan Diesel and owns 100% of the company at the end of 2007.

The acquisition of Nissan Diesel has been achieved in stages during the year. At the beginning of 2007, the reported value for Nissan Diesel amounted to SEK 5,445 M, which was equivalent to holdings of 19%. Moreover, AB Volvo had purchased all 57.5 million preferred shares in Nissan Diesel from Nissan Motor and Japanese banks, for an approximate total of SEK 3.5 billion. The holdings were then reported as an associated company, since according to Volvo's assessment, Volvo held significant control. On March 29, Volvo acquired additional shares in Nissan Diesel, worth SEK 7.4 billion. This brought the total holdings to 96% of the shares outstanding at the end of the first quarter.

Nissan Diesel is consolidated in the consolidated balance sheet of the Volvo Group as of the end of first quarter of 2007. As Volvo consolidates Nissan Diesel according to the purchase method, the holdings previosusly-reported as an associate company have been reversed. Sales and earnings are reported as from the beginning of second quarter. The operations of Nissan Diesel are reported in the Trucks segment. The goodwill arising from the acquisition of Nissan Diesel is related to integration gains as a result of increased purchasing volumes and positive effects within product development, engines and drivelines.

The effect of the acquisition on the Volvo Group cash and cash equivalents amounts to SEK (11.9) billion, whereof SEK (0.4) billion is related to the acquisition of the outstanding 4% of the shares in the fourth quarter 2007, SEK (6.0) billion is related to the first quarter 2007 and SEK (5.5) billion relates to the holdings previously reported as shares in an associate company.

During 2007, Volvo reviewed the recognition of certain financial arrangements in Nissan Diesel with the result that the purchase price allocation was adjusted in the fourth quarter. Nissan Diesel had entered into certain credit guarantees for customer finance receivables. In accordance with IAS 39 Financial Instruments: Recognition and Measurement, an evaluation was made whether substantially all the risks and rewards had been transferred to an external party. Volvo concluded that was not the case, but also that Volvo did not retain substantially all risks and rewards with regard to the customer finance receivables. In accordance with IAS 39, Volvo recognized the part of the receivables that reflected Volvo's continuous involvement and therefore adjusted the purchase price allocation regarding customer finance receivables with SEK 3.1 billion, equivalent to slightly more than 50% of the outstanding customer finance receivables pertaining to Nissan Diesel products in the external financing company. A corresponding amount was reported as a financial liability. The adjustment did not affect the reported goodwill. The receivables and the liabilities are reported in the segment Customer Finance. Furthermore, the purchase price allocation has been adjusted with regard to pension provision, vacation payment liability and valuation of intangible assets as well as the acquisition of the minority. These adjustments resulted in a total increase in goodwill of SEK 0.3 billion in the fourth quarter.

Nissan Diesel was delisted from the Tokyo Stock Exchange in July.

Shandong Lingong Construction Machinery Co.

In January 2007, the acquisition of 70% of the shares in the Chinese manufacturer of construction equipment, Shandong Lingong Construction Machinery Co. (Lingong), was completed, after having obtained all the requisite approvals from the Chinese authorities. Lingong is China's third-largest manufacturer of wheel-loaders, with an extensive dealership network in the country. Volvo Construction Equipment paid CNY 328 M, corresponding to slightly more than SEK 300 M, for 70% of the shares in Lingong. The transaction has a limited effect on Volvo's financial position.

Other divestment and acquisitions

During the fourth quarter Volvo Aero acquired the composite company Applied Composites AB, ACAB, as a part of the investment in lightweight technologies. The transaction has a limited impact on the Volvo Group.

During the second quarter Volvo divested its ownership in U.S. truck stop chain Petro Stopping Centers Holding L.P. and the former subsidiary Sörred Energi. The two transactions resulted in a total capital gain of 516.

In addition to this, only a few dealerships have been acquired or divested during 2007. These transactions have not had any material impact on the Volvo Group.

During 2006, a number of French dealer companies were divested within the business area Trucks.

The effects on the Volvo Group's balance sheet and cash flow statement in connection with the **acquisition of subsidiaries and other business units** are specified in the following table based on valuations on the respective acquisition dates:

	2006	2007							
		Nissan Diesel			Ingersoll Rand's road development division			Other	
SEK bn	**Total**	Net book value	Adjustments to fair value	Fair value	Net book value	Adjustments to fair value	Fair value	Total other acquisitions	**Total**
Intangible assets									
Product development	–	328	2,795	3,123	–	233	233	0	3,356
Trademarks	–	–	1,974	1,974	–	546	546	67	2,587
Distribution network	–	–	–	–	–	745	745	58	803
Other intangible assets	–	48	(27)	21	687	(687)	–	86	107
Other assets and liabilities									
Property plant and equipment	73	12,230	(2,650)	9,580	940	217	1,157	489	11,226
Shares and participations	5	937	–	937	–	–	–	2	939
Inventories	131	2,670	85	2,755	1,141	57	1,198	932	4,885
Current receivables	91	5,517	–	5,517	1,267	–	1,267	421	7,205
Liquid funds	8	1,645	–	1,645	82	–	82	363	2,090
Other assets	0	602	5,375	5,977	45	–	45	263	6,285
Provisions	(24)	(2,494)	(2,667)	(5,161)	(265)	(748)	(1,013)	(41)	(6,215)
Loans	(20)	(8,226)	(3,149)	(11,375)	–	–	–	(724)	(12,099)
Other liabilities	(69)	(6,676)	(275)	(6,951)	(515)	–	(515)	(1443)	(8,909)
Minority interests	–	(179)	–	(179)	–	–	–	–	(179)
	195	6,402	1,461	7,863	3,382	363	3,745	473	12,081
Goodwill				5,691			5,604	123	11,418
Total net assets	**195**			**13,554**			**9,349**	**596**	**23,499**
Less: minority interests	–			–			0	(82)	(82)
Total acquired net assets	**195**			**13,554**			**9,349**	**514**	**23,417**
Cash and cash equivalents paid	(167)			(13,554)			(8,889)	(514)	(22,957)
Cash and cash equivalents according to acquisition analysis	8			1,645			82	363	2,090
Effect on Group cash and cash equivalents in the period[1]	**(159)**			**(11,909)**			**(8,807)**	**(151)**	**(20,867)**
Cash to be paid	–			–			(460)	–	(460)
Effect on Group cash and cash equivalents	**(159)**			**(11,909)**			**(9,267)**	**(151)**	**(21,327)**

The purchase price allocations are preliminary and are expected to be finalized within 12 months from the acquisition date.

1 Whereof the effect on the consolidated cash flow during 2007 amounts to SEK 15,4 billion.

The effects during 2006 include wholly owned subsidiaries that previously were accounted for according to the equity method.

During 2007 Nissan Diesel has contributed 486 to the consolidated earnings and 20,308 to the consolidated net sales. In the first quarter of 2007, Nissan Diesel was reported in accordance with the equity method. Nissan Diesel reported net sales of 7,007 and net income of 568 for its total operations for the first quarter of 2007.

During 2007 the Ingersoll Rand's road construction equipment division has contributed 60 to the consolidated earnings and 3,317 to the consolidated net sales. If Volvo would have made the acquisition at the beginning of the year, the additional contribution to the operating income and sales would have been approximately 249 and 2,133 respectively excluding depreciation of acquisition adjustments.

Acquisitions presented under Other have not had a material effect on the consolidated numbers for the Volvo Group.

Acquisitions after the end of the period

Volvo has not made any acquisitions after the end of the period that have had a significant impact on the Volvo Group.

The Volvo Group has signed a letter of intent with the Indian vehicle manufacturer Eicher Motors Limited regarding the establishment of a new Indian joint-venture company. According to the letter of intent, the joint-venture company will hold Eicher Motors Limited's truck and bus operations and the Volvo Group's Indian sales operations within trucks. The parties have initiated negotiations regarding a final agreement. Implementation of the transaction requires the approval of the affected government authorities and the shareholders in Eicher Motors Limited. The transaction is expected to be completed before mid-year 2008.

Notes to consolidated financial statements

The effects on the Volvo Group's balance sheet and cash-flow statement in connection with the **divestment of subsidiaries and other business units** are specified in the following table:

Divestments	2006	2007
Intangible assets	(2)	–
Property, plant and equipment	(181)	(96)
Assets under operating lease	(369)	(11)
Inventories	(254)	(79)
Other receivables	(416)	(48)
Cash and cash equivalents	(128)	0
Provisions	84	17
Other liabilities	723	42
Divested net assets	**(543)**	**(175)**
Cash and cash equivalents received	797	408
Cash and cash equivalents, divested companies	(128)	0
Effect on Group cash and cash equivalents	**669**	**408**

Non-Current Assets Held for Sale

Volvo Aero Engine Services (VAES)

During the fourth quarter 2006 a strategic decision on closure of Volvo Aero's operations in Bromma was taken. In November 2006, it was announced that Volvo Aero had initiated codetermination negotiations with the trade unions relating to the closure of Volvo Aero Engine Services (VAES) in Bromma, which conducts overhaul of large aircraft engines. The operations have been gradually phased out during 2007. In 2006, costs for a closure were estimated to 258. Additional costs in 2007 were 62. The assets and liabilities in the table adjoined are listed to a net realizable value.

Non-Current Assets Held for Sale[1]	2006	2007
Tangible assets	56	–
Financial assets	22	–
Inventories	480	–
Short-term recievables	247	–
Total assets	**805**	**-**
Provision for post-employment benefits	7	–
Other provisions	20	–
Current liabilities	253	–
Total shareholders' equity and liabilities	**280**	**-**

1 Assets and liabilities 2006 do not balance since the table only display the assets and liabilities in Volvo Aero Engine Services held for sale.

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, 2007	
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	2006	2007
Net sales	630	654
Operating income	(9)	3
Income after financial items	(17)	(3)
Income of the period	**(17)**	**(3)**

Volvo's share of joint ventures' balance sheets	2006	2007
Non-current assets	99	121
Current assets	359	454
Total assets	**458**	**575**
Shareholders' equity	168	167
Provisions	2	12
Long-term liabilities	3	2
Current liabilities	285	394
Total shareholders' equity and liabilities	**458**	**575**

At the end of 2007 guarantees amounting to 88 (0) were issued for the benefit of joint ventures by AB Volvo. At the same date Volvo's share of contingent liabilities issued by its joint ventures amounted to 0 (0).

	2006		2007	
Average number of employees	Number of employees	of which women, %	Number of employees	of which women, %
Shanghai Sunwin Bus Corp.	488	18	473	21
Xian Silver Bus Corp.	258	15	245	8
Total number of employees	**746**	**17**	**718**	**17**

Note 6 Associated companies

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

Income statement data	2006 Nissan Diesel[1]	2006 Other companies	2006 Total	2007
Net sales	15,488	7,245	22,733	7,401
Cost of sales	(14,874)	(7,167)	(22,041)	(7,293)
Financial income and expense	(22)	(21)	(43)	(18)
Income before taxes	**592**	**57**	**649**	**90**
Income taxes	(310)	(17)	(327)	(24)
Income of the period	**282**	**40**	**322**	**66**

Balance sheet data	Dec 31 2006	Dec 31 2006	Dec 31 2006	Dec 31 2007
Property, plant and equipment, net	10,292	1,093	11,385	1,460
Other non-current assets	7,984	11	7,995	130
Current assets	10,666	7,494	18,160	4,904
Total Assets	**28,942**	**8,598**	**37,540**	**6,494**
Shareholders' equity	8,334	996	9,330	1,462
Provisions	591	47	638	44
Long-term liabilities	7,921	206	8,126	236
Current liabilities	12,096	7,349	19,446	4,752
Total Shareholders' equity and liabilities	**28,942**	**8,598**	**37,540**	**6,494**

1 Volvo's holding in Nissan Diesel was reported as an associated company in 2006, since Volvo believed that substantial influence existed. As from April 1, 2007, Nissan Diesel is consolidated as a subsidiary in the Volvo Group.

Note 7 Segment reporting

Reporting by business segment

The Volvo Group's operations are organized in nine business areas: Volvo Trucks, Renault Trucks, Mack Trucks, Trucks Asia, Buses, Construction Equipment, Volvo Penta, Volvo Aero and Customer Finance. In addition to the nine business areas, there are other operations consisting mainly of business units that are designed to support the business areas' operations. The business units include Volvo Powertrain, Volvo 3P, Volvo IT, Volvo Logistics and Volvo Parts.

Each business area, except for Customer Finance, has total responsibility for its operating income, operating capital and operating cash flow. The Financial Services within Customer Finance has responsibility for its net income and total balance sheet within certain restrictions and principles that are established centrally. The supervision and coordination of treasury and tax matters is organized centrally to obtain the benefits of a Group-wide approach. The legal structure of the Volvo Group is based on optimal handling of treasury, tax and administrative matters and, accordingly, differs from the operating structure.

The business units are designated to support the business areas and are therefore not reportable business segments. In the external reporting of Volvo Group net sales and operating income are reported for each product area. As of January 1, 2007, the benefits from the synergies created in the business units are transferred back to the various product areas. The allocation is based on the degree to which individual product areas have utilized the services of the business units. In prior years, only the earnings of the business units Volvo Powertrain and Volvo Parts have been distributed to the relevant product areas, and other business units have been reported under Other. Comparison figures for 2006 have been restated. Bridges to restatement of the 2006 quarterly and full-year figures per product area were presented in an attachment to the press release issued on April 17, 2007. The cash flow for 2006 has not been restated after the changes in the financial reporting structure. The Other heading now contains mainly earnings linked to corporate functions.

As of January 1, 2007, the responsibility for the Group's treasury operations and real estate has been transferred from Financial Services. The treasury operations are reported among corporate functions. The Group's real estate, held in Volvo Real Estate, is reported under industrial operations, and earnings are transferred back to the business areas, after previously having been reported under Financial Services. For this reason, the net financial position of the industrial operations has changed, as of December 31, 2006, from SEK 24.7 billion to SEK 23.1 billion, corresponding to a change in relation to shareholders' equity from 28.3% to 29.2%.

As the four truck brands share product development, production and other activities in business units such as Volvo 3P and Volvo Powertrain and also share certain infrastructure in distribution such as dealers, the four truck brands are reported as one business segment.

Notes to consolidated financial statements

Net sales	2006	2007
Trucks	171,265	187,892
Construction Equipment	42,131	53,633
Buses	17,271	16,608
Volvo Penta	10,774	11,719
Volvo Aero	8,233	7,646
Other and eliminations	(654)	(703)
Industrial operations	**249,020**	**276,795**
Customer Finance	7,648	7,705
Reclassifications and eliminations	2,167	905
Volvo Group	**258,835**	**285,405**

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

Net sales to Group companies	2006	2007
Trucks	933	1,584
Construction Equipment	134	247
Buses	120	549
Volvo Penta	24	41
Volvo Aero	86	93
Other and eliminations	(104)	(1,261)
Industrial operations	**1,193**	**1,253**
Customer Finance	376	383
Eliminations	(1,569)	(1,636)
Volvo Group	**0**	**0**

Internal sales between business areas are generally made at standard cost of sales, including calculated interest and product improvement expenses. Internal sales from service companies are generally made at market prices.

Operating income	2006	2007
Trucks	13,116	15,193
Construction equipment	4,072	4,218
Buses	745	231
Volvo Penta	1,105	1,173
Volvo Aero	359	529
Other	(684)	(761)
Industrial operations	**18,713**	**20,583**
Customer Finance	1,686	1,649
Volvo Group	**20,399**	**22,231**

Operating income in 2006 includes adjustment of goodwill of (1,712), which was reported in Trucks.

Depreciation and amortization	2006	2007
Trucks	7,980	7,601
Construction Equipment	982	1,502
Buses	375	385
Volvo Penta	335	417
Volvo Aero	375	346
Other	(377)	(465)
Industrial operations	**9,670**	**9,786**
Customer Finance	168	147
Reclassification Group versus segment Customer Finance	2,545	2,541
Volvo Group total[1]	**12,383**	**12,474**

1 Of which write-down 55 (80).

Research and development expenses	2006	2007
Trucks	5,694	7,799
Construction Equipment	1,119	1,588
Buses	663	739
Volvo Penta	559	645
Volvo Aero	292	290
Other	27	(2)
Volvo Group total	**8,354**	**11,059**

Income from investments in associated companies	2006	2007
Trucks	23	403
Construction Equipment	0	0
Buses	10	11
Volvo Penta	0	0
Volvo Aero	8	0
Other	19	14
Industrial operations	**60**	**428**
Customer Finance	1	2
Volvo Group total	**61**	**430**

Total assets	2006	2007
Operating assets, Industrial operations:[1]		
Trucks	88,208	116,599
Construction Equipment	25,877	42,693
Buses	10,260	11,477
Volvo Penta	5,298	5,973
Volvo Aero	10,176	10,177
Other	1,815	1,405
Total operating assets Industrial operations	**141,634**	**188,324**
Interest-bearing financial assets	43,212	43,727
Tax receivables	7,476	10,094
Total assets in Customer Finance	79,802	94,605
Other and eliminations	(13,697)	(15,103)
Volvo Group total	**258,427**	**321,647**

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

Total shareholders' equity and liabilities	2006	2007
Operating liabilities, Industrial operations:[1]		
Trucks	63,652	77,975
Construction Equipment	12,352	18,310
Buses	4,984	6,072
Volvo Penta	2,728	3,254
Volvo Aero	4,312	4,137
Other	872	372
Total operating liabilities Industrial operations	**88,900**	**110,120**
Financial liabilities	20,136	48,032
Tax liabilities	4,624	8,519
Total liabilities in Customer Finance	71,661	86,953
Other and eliminations	(14,082)	(14,758)
Total liabilities	**171,239**	**238,866**
Shareholders' equity	87,188	82,781
Volvo Group total	**258,427**	**321,647**

1 Defined as Total liabilities less Shareholders' equity, Financial liabilities and Tax liabilities.

Investments in associated companies	2006	2007
Trucks	5,498	292
Construction Equipment	–	–
Buses	43	55
Volvo Penta	–	–
Volvo Aero	1	1
Customer Finance	24	25
Other	228	284
Volvo Group total	**5,794**	**657**

Trucks 2006 includes investment in Nissan Diesel of 5,445.

Capital expenditures	2006	2007
Trucks	6,340	5,816
Construction Equipment	1,804	2,795
Buses	406	405
Volvo Penta	461	510
Volvo Aero	853	824
Other	64	31
Industrial operations	**9,928**	**10,381**
Customer Finance	666	291
Reclassification Group versus segment Customer Finance	3,440	4,266
Volvo Group total	**14,034**	**14,938**

Reporting by geographical segment

Net sales	2006	2007
Europe	138,342	158,019
North America	74,928	50,651
South America	13,159	16,237
Asia	19,655	42,513
Other markets	12,751	17,985
Volvo Group total*	**258,835**	**285,405**
*of which:		
Sweden	13,805	13,987
United States	61,793	39,697
France	31,155	31,327

Total assets	2006	2007
Sweden	81,173	76,832
Europe excluding Sweden	91,163	110,806
North America	58,444	61,218
South America	10,766	13,521
Asia	11,512	51,879
Other markets	5,369	7,391
Volvo Group total	**258,427**	**321,647**

Capital expenditures	2006	2007
Sweden	3,970	3,444
Europe excluding Sweden	7,395	6,991
North America	1,851	2,806
South America	280	220
Asia	421	1,365
Other markets	117	112
Volvo Group total	**14,034**	**14,938**

Note 8 Other operating income and expenses

	2006	2007
Gains/losses on currency related forward and options contracts	481	453
Exchange rate differences on trade receivables and payables	(825)	96
Gains/losses on divestment of group companies	286	324
Change in allowances and write-offs for doubtful receivables, customer financing	(189)	(121)
Change in allowances and write-offs for doubtful receivables, other	(273)	18
Expenses for closing Volvo operations in Bromma, Sweden	(258)	(62)
Volvo profit sharing program	(444)	(436)
Adjustment of goodwill in the subsidiary Mack Trucks	(1,712)	–
Other income and expenses	(532)	(109)
Total	**(3,466)**	**163**

Notes to consolidated financial statements

Note 9 Income from investments in associated companies

Income from investments in associated companies are specified below:

Income/loss	2006	2007
Nissan Diesel to April 1, 2007	39	76
JV Fonderie Venissieux	(12)	7
Thomas Hardie Commercials Ltd	3	3
Merkavim Metal Works Ltd	10	11
Other companies	15	11
Subtotal	**55**	**108**
Revaluation and write-down of shares		
Other companies	(2)	(3)
Subtotal	**(2)**	**(3)**
Gains (losses) on divestment of shares in associated companies		
Petro Stopping Centers Holdings LP	–	325
Other companies	8	0
Subtotal	**8**	**325**
Total income (loss) from investments in associated companies	**61**	**430**

Note 10 Income from other investments

Dividends received	2006	2007
Holdings of Nissan Diesel	–	8
Other	2	5
Subtotal	**2**	**13**
Revaluation and write-downs of shares		
Holdings of Volvo Technology Transfer[1]	(7)	(11)
Other	11	(2)
Subtotal	**4**	**(13)**
Gain on divestment of shares		
Holdings of Volvo Technology Transfer[1]	130	44
Småföretagarinvest	–	46
Other	5	3
Subtotal	**135**	**93**
Total	**141**	**93**

1 A Volvo venture-capital company.

Note 11 Other financial income and expenses

SEK M	2006	2007
Financial instruments at fair value through profit or loss	(61)	(389)
Exchange rate gains and losses on financial assets and liabilites	(52)	(15)
Financial income and expenses related to taxes	(22)	(42)
Costs for Treasury function, credit facilities, etc	(46)	(58)
Total	**(181)**	**(504)**

For further information regarding financial instruments please see Note 37.

Note 12 Income taxes

Income taxes were distributed as follows:

	2006	2007
Current taxes relating to the period	(4,559)	(5,203)
Adjustment of current taxes for prior periods	176	(20)
Deferred taxes originated or reversed during the period	(2,116)	(1,548)
Recognition and derecognition of deferred tax assets	2,518	242
Total income taxes	**(3,981)**	**(6,529)**

Provisions have been made for estimated tax charges that may arise as a result of prior tax audits in the Volvo Group. Volvo evaluates tax processes on a regular basis and makes provisions for possible outcome when it is probable that Vovo will have to pay more taxes and when it is possible to make a reasonably assessment of the possible outcome. Tax claims for which no provision has been deemed necessary were reported as contingent liabilities.

Deferred taxes relate to income taxes payable or recoverable in future periods in respect of taxable temporary differences, deductible temporary differences, unused tax loss carryforwards or unused tax credit carryforwards. Deferred tax assets are recognized to the extent that it is probable that the amount can be utilized against future taxable income. At December 31, 2007, 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 156 (213).

Deferred taxes of 70 (265) have at December 31, 2007, been accounted for as a direct reduction of equity. It is related to fair value of derivative instruments.

At year-end 2007, the Group had unused tax loss carryforwards of about 3,900 (5,900). These loss carryforwards expire according to the adjoining table.

Due date	2006	2007
Within 1 year	500	500
Within 2 years	100	200
Within 3 years	100	0
Within 4 years	0	100
Within 5 years	200	100
After 6 years	5,000	3,000
Total	**5,900**	**3,900**

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.

	2006, %	2007, %
Swedish corporate income tax rates	28	28
Difference in tax rate in various countries	2	4
Capital gains	0	0
Other non-taxable income	(1)	(2)
Other non-deductible expenses	4	1
Adjustment of current taxes for prior years	(1)	(1)
Recognition and derecognition of deferred tax assets	(12)	(1)
Other, net	0	1
Income tax rate for the Group	**20**	**30**

Reversal of reserve for deferred tax receivables

During the third quarter 2006, AB Volvo decided to reverse a valuation reserve for deferred tax receivables in the Mack Trucks subsidiary. The decision was based on the fact that Volvo assesses that the company has a long-term higher profitability. Reporting of the deferred tax receivables reduced tax expenses in the income statement in the third quarter by 2,048. In accordance with prevailing accounting rules, Volvo adjusted goodwill by 1,712, which affected operating income adversely. The combined earnings effect for the third quarter 2006 was a positive 336.

Notes to consolidated financial statements

Specification of deferred tax assets and tax liabilities	2006	2007
Deferred tax assets:		
Unused tax loss carryforwards	1,935	1,257
Other unused tax credits	248	97
Intercompany profit in inventories	526	666
Valuation allowance for doubtful receivables	463	589
Provisions for warranties	1,357	1,510
Provisions for residual value risks	398	371
Provisions for post-employment benefits	2,701	2,876
Provisions for restructuring measures	17	23
Adjustment to fair value at company acquisitions	–	1,782
Fair value of derivative instruments: Change of hedge reserves	3	127
Other deductible temporary differences	2,634	3,066
Deferred tax assets before deduction for valuation allowance	**10,282**	**12,364**
Valuation allowance	(213)	(156)
Deferred tax assets after deduction for valuation allowance	**10,069**	**12,208**

	2006	2007
Deferred tax liabilities:		
Accelerated depreciation on property, plant and equipment	2,514	2,660
Accelerated depreciation on leasing assets	1,226	1,368
LIFO valuation of inventories	182	185
Capitalized product and software development	2,113	2,021
Adjustment to fair value at company acquisitions	–	2,885
Untaxed reserves	635	1,008
Fair value of derivative instruments: Change of hedge reserves	268	197
Other taxable temporary differences	890	2,228
Deferred tax liabilities	**7,828**	**12,552**
Deferred tax assets /liabilities, net[1]	**2,241**	**(344)**

1 Deferred taxes are partially recognized in the balance sheet on a net basis after taking into account offsetting possibilities. Changes in tax rates during 2007 have been considered when measuring deferred tax assets and deferred tax liabilities and have affected the income tax cost of the year. Changes in tax rates are mostly related to Germany, though no material effect on the income tax cost of the year.

The cumulative amount of undistributed earnings in foreign subsidiaries, which Volvo currently intends to indefinitely reinvest outside of Sweden and upon which deferred income taxes have not been provided, is approximately SEK 43 billion (29) 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.

Note 13 Minority interests

Minority interests in income (loss) for the period and in shareholders' equity consisted mainly of the minority interests in Volvo Aero Norge A/S (22%), in Wuxi da Hao Power Co, Ltd (30%), in Berliet Maroc S.A (30%), in Shandong Lingong Construction Machinery Co, Ltd (30%) as well as in Nissan Diesel America, Inc (50%) and Nissan Diesel South Africa (Pty) Ltd (20%).

Note 14 Intangible and tangible assets

Intangible assets, acquisition costs	Goodwill[1]	Entrance fees, industrial programs	Product and software development	Other intangible assets	**Total intangible assets**
Value in balance sheet 2006	8,849	2,913	14,288	2,012	**28,062**
Capital expenditures	–	110	2,057	35	**2,202**
Sales/scrapping	–	–	(571)	(9)	**(580)**
Acquired and divested operations[3]	11,418	–	3,356	3,499	**18,273**
Translation differences	(304)	4	(35)	(1)	**(336)**
Reclassifications and other	6	141	28	(149)	**26**
Value in balance sheet 2007	**19,969**	**3,168**	**19,123**	**5,387**	**47,647**

Accumulated depreciation and amortization	Goodwill	Entrance fees, industrial programs	Product and software development	Other intangible assets	**Total intangible assets**
Value in balance sheet 2006	–	1,729	6,105	1,111	**8,945**
Depreciation and amortization	–	86	2,357	276	**2,719**
Write-downs	–	–	–	–	**-**
Sales/scrapping	–	0	(543)	(5)	**(548)**
Acquired and divested operations[3]	–	0	0	2	**2**
Translation differences	–	0	25	11	**36**
Reclassifications and other	–	(176)	10	151	**(15)**
Value in balance sheet 2007	**-**	**1,639**	**7,954**	**1,546**	**11,139**
Net carrying value in balance sheet 2007[4]	**19,969**	**1,529**	**11,169**	**3,841**	**36,508**

Tangible assets, acquisition costs	Buildings	Land and land improvements	Machinery and equipment[2]	Construction in progress, including advance payments	**Total investment property, property, plant and equipment**	Assets under operating leases	**Total tangible assets**
Value in balance sheet 2006	18,584	4,447	44,694	3,068	**70,793**	30,155	**100,948**
Capital expenditures	931	357	5,005	1,643	**7,936**	4,800	**12,736**
Sales/scrapping	(279)	(101)	(4,034)	2	**(4,412)**	(4,239)	**(8,651)**
Acquired and divested operations[3]	5,852	4,886	12,039	187	**22,964**	(16)	**22,948**
Translation differences	137	(14)	(94)	(13)	**16**	223	**239**
Reclassifications and other	678	(31)	1,382	(1,721)	**308**	2,052	**2,360**
Value in balance sheet 2007	**25,903**	**9,544**	**58,992**	**3,166**	**97,605**	**32,975**	**130,580**

Accumulated depreciation and amortization	Buildings	Land and land improvements	Machinery and equipment[2]	Construction in progress, including advance payments	**Total investment property, property, plant and equipment**	Assets under operating leases	**Total tangible assets**
Value in balance sheet 2006	7,592	527	28,295	–	**36,414**	9,654	**46,068**
Depreciation and amortization[5]	967	55	4,363	–	**5,385**	4,370	**9,755**
Sales/scrapping	(164)	(5)	(3,341)	–	**(3,510)**	(2,294)	**(5,804)**
Acquired and divested operations[3]	3,442	1	8,391	–	**11,834**	(12)	**11,822**
Translation differences	60	(15)	254	–	**299**	81	**380**
Reclassifications and other	(66)	(4)	43	–	**(27)**	(1,326)	**(1,353)**
Value in balance sheet 2007	**11,831**	**559**	**38,005**	**-**	**50,395**	**10,473**	**60,868**
Net carrying value in balance sheet 2007[4]	**14,072**	**8,985**	**20,987**	**3,166**	**47,210**	**22,502**	**69,712**

1 Includes on the date of IFRS adoption, acquisition costs of 14,184 and accumulated amortization of 3,863.
2 Machinery and equipment pertains mainly to production equipment.
3 Includes subsidiaries and joint ventures that previously were accounted for according to the equity method.
4 Acquisition costs less accumulated depreciation, amortization and write-downs.
5 Of which write-down 0 (80).

"Reclassifications and other" mainly consist of "assets under operating leases" related to legal sales transactions, where revenue is deferred and accounted for as operating lease revenue. Assets classified as inventory will, when the operating lease model is applied for revenue recognition, be classified from "inventory" to "assets under operating leases", when the legal sales transaction occurs. If the product is returned after the lease period, there will again be a reclassification from "assets under operating leases" to "inventory". When a buy-back agreement has expired, but the related product is not returned, the acquisition cost and the accumulated depreciation are reversed in "reclassification and other", within the line item "assets under operating leases". Some of the reclassifications within tangible assets relate to construction in progress, which are reclassified to the respective category within property, plant and equipment.

Notes to consolidated financial statements

Depreciation and amortization by type of asset	2006	2007
Intangible assets	1,930	2,719
Property, plant and equipment	4,494	5,385
Assets under operating leases	4,247	4,370
Depreciations excluding adjustment of goodwill	**10,671**	**12,474**
Adjustment of goodwill	1,712	–
Total	**12,383**	**12,474**

Capital expenditures by type of asset	2006	2007
Intangible assets	3,066	2,202
Property, plant and equipment	6,357	7,936
Assets under operating leases	4,611	4,800
Total	**14,034**	**14,938**

Capital expenditures for property, plant and equipment approved but not yet implemented at December 31, 2007, amounted to SEK 9.2 billion (6.8).

Goodwill

Volvo verifies annually, or more frequently if necessary, the value of its operations to secure that they do not fall below the carrying value. If impairment is detected the carrying value, in the first place goodwill, has to be written down. Volvo's evaluation model is based on a discounted cash-flow model, with a forecast period of four years. Evaluation is made on cash-generating units, identified as Volvo's operational areas or Business areas.

Goodwill assets are allocated to these cash-generating units on the basis of anticipated future utility. The evaluation is based on management's best judgment of the operations' development. The basis for this judgment is long-term forecasts of the market's growth, two to four percent, in relation to the development of Volvo's operations. In the model, Volvo is expected to maintain stable capital efficiency over time. The evaluation is made on nominal 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 2007.

During 2007, the value of Volvo's operations has exceeded the carrying value of goodwill for all operational areas, and accordingly, no impairment was recognized. The size of the over value differ between the operations and they are therefore to a varying degree sensible to changes of the assumptions described above. Volvo follows on account of this the development of the business areas whose over value is dependent on the fulfilment of Volvo's assessments. The most important factors for the future operations of Volvo, are described on the Volvo business areas pages 51–71, as well as in the Risk management section, pages 48–50.

Goodwill per Business Area	2006	2007
Volvo Trucks	3,129	4,307
Renault Trucks	1,391	2,331
Trucks Asia	–	3,397
Mack Trucks	592	824
Construction Equipment	2,329	7,592
Buses	1,055	1,148
Other business areas	353	370
Total goodwill value	**8,849**	**19,969**

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 1,755 (1,633) at year-end. Capital expenditures during 2007 amounted to 80 (81). Accumulated depreciation was 599 (523) at year-end, whereof 57 (55) during 2007. The estimated fair value of investment property was SEK 2.0 billion (1.9) 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 295 (281) in rental income from investment properties and 50 (50) in direct costs.

Note 15 Shares and participations

Group holdings of shares and participations in non-Group companies	Registration number	Percentage holding	Dec 31, 2006 Carrying value SEK M	Dec 31, 2007 Carrying value SEK M
Shares in associated companies, equity method of accounting				
Dong Feng Nissan Diesel Motor Co.,Ltd., China	–	50	–	116
Blue Chip Jet II HB, Sweden	969717-2105	50	148	266
Blue Chip Jet HB, Sweden	969639-1011	40	81	19
Nissan Diesel Doto Sales Co.,Ltd., Japan	–	38	–	57
Nissan Diesel Niigata Sales Co.,Ltd., Japan	–	50	–	42
PK-UD Axle Co.,Ltd. (HangZhou), China	–	45	–	20
Merkavim Metal Works Ltd, Israel	–	27	34	46
Diamond Finance Ltd, Great Britain	–	40	24	25
Thomas Hardie Commercials Ltd, Great Britain	–	24	14	15
JV Fonderie Venissieux, France	–	49	23	25
Quingdao Sunwin Bus Corp, China		21	9	9
Arabian Vehicle & Truck Industry Ltd, Saudi Arabia	–	25	9	9
Nissan Diesel, Japan	–	–	5,445	–
Other holdings		–	7	8
Total shares and participations in associated companies in accordance with Group Balance Sheet[1]			**5,794**	**657**
Shares and participations in other companies				
Deutz AG, Germany	–	7	740	536
Nippon Express Co.,Ltd., Japan	–	1	–	140
Sankyu Inc., Japan	–	1	–	60
TBK Co.,Ltd., Japan	–	7	–	68
Småföretagarinvest AB, Sweden	–	–	14	–
Other holdings		–	342	758
Total shares and participations in other companies in accordance with Group Balance Sheet			**1,096**	**1,562**
Total value of Group holdings of shares and participations in non-group companies			**6,890**	**2,219**

1 Volvo's share of shareholders' equity in associated companies (incl. equity in untaxed reserves) amounted to 657 (5,794). Excess values amounted to 54 (549).

The market values of Volvo's holdings of shares and participations in listed companies as of December 31, 2007 are shown in the table below.

	Carrying value	Market value
Deutz AG	536	536
Nippon Express Co.,Ltd., Japan	140	140
TBK Co.,Ltd.. Japan	68	68
Sankyu Inc., Japan	60	60
Nishi-Nippon Railroad Co.,Ltd., Japan	36	36
Nippon Konpo Unyu Soko Co.,Ltd.	25	25
Hitachi Construction. Machinery Co.,Ltd., Japan	24	24
Fukuyama Transporting Co.,Ltd.. Japan	22	22
Senko Co.,Ltd, Japan	21	21
Tonami Transportation Co.,Ltd., Japan	17	17
Yamato Holdings Co.,Ltd., Japan	11	11
Denyo Co.,Ltd., Japan	10	10
Holdings in other listed companies	60	60
Total holdings in listed companies	**1,030**	**1,030**
Holdings in non-listed companies[1]	532	–
Total shares and participations in other companies	**1,562**	**1,030**

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

Notes to consolidated financial statements

Petro Stopping Centers

The company was divested in 2007.

Småföretagarinvest AB

The company was divested in 2007.

Nissan Diesel

Nissan Diesel is consolidated in the Volvo Group as of the first quarter of 2007.

On March 21, AB Volvo acquired 40 million shares, corresponding to 13% of the shares, in the Japanese truck manufacturer Nissan Diesel from Nissan Motor for approximately SEK 1,5 billion, with an option to acquire Nissan Motor's remaining 6% of the shares. During the third quarter, AB Volvo exercised its option and purchased an additional 6% of the shares in Nissan Diesel for approximately SEK 500 M. AB Volvo owned a total of 19% of the shares in the Japanese truck manufacturer at December 31, 2006. In addition, AB Volvo acquired all 57.5 million preference shares in Nissan Diesel from Nissan Motor and Japanese banks for a total of SEK 3.5 billion. The book value for the shares in Nissan Diesel was 5,445 at December 2006.

For the period ending March 31, 2007, the holding was reported as an associated company, since according to Volvo's assessment a substantial influence existed. Executive Vice President of AB Volvo and Deputy CEO of the Volvo Group, Jorma Halonen, was appointed Chairman of the Board of Directors of Nissan Diesel in 2006. Volvo reported its share in earnings of Nissan Diesel with a time-lag of one quarter.

Deutz

During 2006 Volvo invested additionaly 95 in Deutz AG.

Changes in the Volvo Group's holdings of shares and participations:	2006	2007
Balance sheet, December 31, preceding year	751	6,890
Change in Group structure	–	(5,535)
Acquisitions and divestments, net	5,809	907
Net of write-downs/revaluations	(72)	(15)
New issue of shares and shareholders' contributions	45	155
Share of income in associated companies	55	108
Change in Group structure	0	0
Fair value of shares	392	(204)
Translation differences	(30)	(39)
Dividends	(3)	0
Other	(57)	(48)
Balance sheet, December 31	**6,890**	**2,219**

Note 16 Long-term customer-financing receivables

	2006	2007
Installment credits	17,475	19,836
Financial leasing	13,980	20,298
Other receivables	634	352
Total	**32,089**	**40,486**

Effective interest rate for Long-term customer-financing receivables was 7.45% as per December 31, 2007.

Long-term customer-financing receivables maturities	
2009	18,170
2010	12,824
2011	6,810
2012	2,066
2013 or later	616
Total	**40,486**

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

Note 17 Other long-term receivables

	2006	2007
Other loans to external parties	300	177
Prepaid pensions	2,041	2,131
Other financial receivables	1,394	1,088
Other receivables	665	1,383
Total	**4,400**	**4,779**

Note 18 Inventories

	2006	2007
Finished products	20,396	28,077
Production materials, etc.	13,815	15,568
Total	**34,211**	**43,645**

Inventories recognized as cost of sale during the period, 204,881 (185,616).

Increase (decrease) in allowance for inventory obsolescence	2006	2007
Balance sheet, December 31, preceding year	2,401	2,015
Increase in allowance for inventory obsolescence charged to income	186	757
Scrapping	(169)	(239)
Translation differences	(130)	2
Reclassifications, etc.	(273)	302
Balance sheet, December 31	**2,015**	**2,837**

Note 19 Short-term customer-financing receivables

	2006	2007
Installment credits	12,034	13,620
Financial leasing	7,493	10,494
Dealer financing	11,703	13,191
Other receivables	1,423	1,056
Total	**32,653**	**38,361**

Effective interest rate for Short-term customer-financing receivables was 7.26% as per December 31, 2007.
See notes 36 and 37 for financial instruments and goals and policies in financial risk management.

Notes to consolidated financial statements

Note 20 Other short-term receivables

	2006	2007
Accounts receivable	23,251	30,504
Prepaid expenses and accrued income	2,263	2,855
VAT receivables	2,280	2,884
Loans to external parties	537	403
Other financial receivables[1]	2,344	2,903
Other receivables	3,724	4,868
Total, after deduction of valuation allowances for doubtful accounts receivable	**34,399**	**44,417**

1 Fair value financial derivatives.

Change of valuation allowances for doubtful accounts receivable	2007
Balance sheet, December 31, preceding year	939
New valuation allowance charged to income	152
Reversal of valuation allowance charged to income	(231)
Utilization of valuation allowance related to actual losses	(70)
Acquired and divested operations	114
Translation differences	16
Reclassifications, etc.	3
Balance sheet, December 31	**923**

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

Note 21 Marketable securities

Marketable securities consist mainly of interest-bearing securities, distributed as shown below:

	2006	2007
Government securities	2,169	778
Banks and financial institutions	7,101	6,293
Real estate financial institutions	11,072	9,419
Total	**20,342**	**16,490**

Note 22 Cash and cash equivalents

	2006	2007
Cash in banks	6,702	10,262
Time deposits in banks	4,055	4,282
Total	**10,757**	**14,544**

Note 23 Shareholders' equity

The share capital of the Parent Company is divided into two series of shares: A and B. Both series carry the same rights, except that each Series A share carries the right to one vote and each Series B share carries the right to one tenth of a vote. The shares quota value is SEK 1.20.

At the end of 2006 share capital amounted to 2,554 and was based on 425,684,044 registered shares. During 2007, following a decision at the Annual General Meeting, a 6:1 share split with automatic redemption was carried out, in which the sixth share was redeemed by AB Volvo for SEK 25.00 per share. Together with the ordinary dividend a total of 20,255 was distributed to Volvo's shareholders. The decision also included a bonus issue without issuance of new shares through the transfer of 426 from unrestricted shareholders' equity to share capital which then was restored to the same level as prior to the redemption procedure. Following these transactions Volvo has a total of 2,128,420,220 registered shares.

Cash dividend decided by the Annual General Meeting 2007 was SEK 25.00 (16.75) per share or total 10,127.5 (6,775).

Unrestricted equity in the Parent Company at December 31, 2007 amounted to 22,254 (39,345).

Information regarding shares	2006	2007
Own Series A shares	4,145,627	20,728,135
Own Series B shares	16,739,827	82,054,652
Total own shares	**20,885,454**	**102,782,787**
Own shares in % of total registered shares	4.9	4.8
Outstanding Series A shares	131,374,699	656,873,495
Outstanding Series B shares	273,423,891	1,368,763,938
Total outstanding shares	**404,798,590**	**2,025,637,433**
Total registered Series A shares	135,520,326	677,601,630
Total registered Series B shares	290,163,718	1,450,818,590
Total registered shares	**425,684,044**	**2,128,420,220**
Average number of outstanding shares	404,663,051	2,025,279,790

Changes in outstanding Volvo shares	
Balance December 31, 2006	404,798,590
Share split 6:1 with automatic redemption	1,619,194,360
Share-based incentive program	1,644,483
	2,025,637,433

Change in other reserve	Hedge reserve	Available for sale-reserve	Total
Balance at January 1, 2007	521	466	987
Fair value gains in year	7	–	7
Tax on fair value gains	(2)	–	(2)
Transfers to income	(592)	–	(592)
Tax on transfers to income statement	166	–	166
Change in fair value of commodity contracts	83	–	83
Fair value adjustments regarding holding in Deutz	–	(204)	(204)
Fair value adjustments regarding shares held by Nissan Diesel	–	(43)	(43)
Fair value adjustments regarding holding in Vindic AB	–	25	25
Other	(1)	9	8
Balance at December 31, 2007	**182**	**253**	**435**

Earnings per share

Earnings per share is calculated as income for the period, attributable to the Parent Company's shareholders, divided by the Parent Company's average number of shares outstanding for the fiscal year. Diluted earnings per share is calculated as income for the period attributable to the Parent Company's shareholders divided by the average number of shares outstanding plus the average number of shares that would be issued as in effect of ongoing share-based incentive programs and employee stock option programs. If during the year there were potential shares redeemed or expired during the period, these are also included in the average number of shares used to calculate the earnings per share after dilution.

The share-based incentive program creates a dilution effect when the non-market-based financial goals are achieved for the fiscal year. Similarly, the employee stock option program creates a dilution effect by taking into account the difference between the exercise price and the share's average market price to determine how many shares that are assumed to be issued without any payment. It is solely this number of shares that have an effect on the calculated diluted earnings. The number of shares that this value symbolizes is less than the total potential number of shares attributable to the employee stock option program.

	2006	2007
Number of shares, December 31, in millions	404.8	2,026
Average number of shares before dilution in millions	404.7	2,025
Average number of shares after dilution in millions	405.0	2,026
Average share price, SEK	391.94	118.39
Net income attributable to Parent Company shareholders	16,268	14,932
Basic earnings per share, SEK	8.04	7.37
Diluted earnings per share, SEK	8.03	7.37
Dilution effect, number of shares		
Share-based incentive program	72,583	143,073
Employee stock option program	242,900	462,477
Number of potential shares, December 31	315,483	605,550

The share-based incentive program is implemented if certain non-market based financial goals are fulfilled partly or wholly. The requirement for 2007 was met and creates a dilution effect amounting to 143,073 shares. The employee stock option program creates a dilution effect amounting to 462,477 shares. In this case, the difference between the exercise price and the share's average value under the actual period has been taken into account. Except for the share split and the programs described above no other transactions have occurred that affected, or will have an effect on, the compilation of the reported share capital.

Notes to consolidated financial statements

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.

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.

Summary of provision for post-employment benefits	2006	2007
Obligations	34,740	35,984
Fair value of plan assets	25,227	25,768
Funded status	**(9,513)**	**(10,216)**
Unrecognized actuarial (gains) and losses	2,958	2,220
Unrecognized past service costs	(96)	353
Net provisions for post-employment benefits	**(6,651)**	**(7,643)**

Assumptions applied for actuarial calculations, %	December 31 2006	December 31 2007
Sweden		
Discount rate	4.00	4.50
Expected return on plan assets[1]	6.00	6.00
Expected salary increases	3.20	3.20
Inflation	1.50	2.00
United States		
Discount rate	5.50	5.75–6.25
Expected return on plan assets[1]	7.65	7.65
Expected salary increases	3.50	3.50
Inflation	2.50	2.50
France		
Discount rate	4.25	5.25
Expected salary increases	3.00	3.00
Inflation	2.00	2.00
Great Britain		
Discount rate	5.00	5.75
Expected return on plan assets[1]	5.00–5.80	5.30–6.10
Expected salary increases	4.00–4.60	4.20–4.90
Inflation	3.00	3.40

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	2006	2007
Current year service costs	870	877
Interest costs	1,285	1,380
Expected return on plan assets	(1,359)	(1,653)
Actuarial gains and losses[1]	48	68
Past service costs		
– Unvested	(56)	15
– Vested	0	25
Curtailments and settlements	(28)	(4)
Termination benefits	135	147
Pension costs for defined benefit plans	**895**	**855**
Pension costs for defined contribution plans	2,844	3,080
Total pension costs	**3,739**	**3,935**

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	2006	2007
Current year service costs	132	129
Interest costs	348	319
Expected return on plan assets	(4)	(11)
Actuarial gains and losses[1]	1	4
Past service costs		
– Unvested	(9)	5
– Vested	(17)	0
Curtailments and settlements	3	(2)
Termination benefits	8	32
Total costs for post-employment benefits other than pensions	**462**	**476**

1 For each plan, actuarial gains and losses are reported as income or expenses, when the accumulated amount exceed the so called corridor. The income or expenses are then recognized over the expected average remaining service period of the employees.

An increase of one percentage point per year in healthcare costs would change the accumulated post-employment benefit obligation as of December 31, 2007 by approximately 198, and the post-employment benefit expense by approximately 18. A decrease of one percentage point would decrease the accumulated value of obligations by about 169 and reduce costs by approximately 15. Calculations made as of December 31, 2007 show an annual increase of 10% 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, 2006	**6,841**	**13,279**	**1,858**	**4,635**	**7,151**	**2,757**	**36,521**
Acquisitions, divestments and other changes	(54)	–	14	–	(44)	301	**217**
Current year service costs	248	246	41	103	104	190	**932**
Interest costs	277	686	70	220	345	92	**1,690**
Past service costs							
– Unvested	–	6	2	–	(8)	–	**0**
– Vested	4	–	8	–	(17)	6	**1**
Termination benefits	122	–	–	–	–	(2)	**120**
Curtailments and settlements	(146)	(15)	(4)	–	1	(1)	**(165)**
Employee contributions	–	–	–	33	–	–	**33**
Actuarial (gains) and losses	113	437	10	173	201	44	**978**
Exchange rate translation	–	(1,844)	(69)	(86)	(962)	(213)	**(3,174)**
Benefits paid	(263)	(778)	(359)	(91)	(572)	(350)	**(2,413)**
Obligations at December 31, 2006	**7,142**	**12,017**	**1,571**	**4,987**	**6,199**	**2,824**	**34,740**
of which							
Funded defined benefit plans	6,560	11,830	–	4,451	3,978	1,996	**28,815**

Notes to consolidated financial statements

Obligations in defined benefit plans	Sweden Pensions	United States Pensions	France Pensions	Great Britain Pensions	US Other benefits	Other plans	Total
Acquisitions, divestments and other changes	57	688	(8)	–	216	1,949	**2,902**
Current year service costs	259	267	47	90	89	211	**963**
Interest costs	295	653	60	251	311	115	**1,685**
Past service costs							
– Unvested	–	2	457	–	–	(10)	**449**
– Vested	–	7	–	–	–	26	**33**
Termination benefits	165	–	–	–	–	36	**201**
Curtailments and settlements	7	(1)	(1)	–	–	(34)	**(29)**
Employee contributions	–	–	–	33	–	–	**33**
Actuarial (gains) and losses	822	(923)	(143)	(402)	(308)	(156)	**(1,110)**
Exchange rate translation	–	(706)	76	(206)	(354)	131	**(1,059)**
Benefits paid	(296)	(797)	(259)	(145)	(571)	(756)	**(2,824)**
Obligations at December 31, 2007	**8,451**	**11,207**	**1,800**	**4,608**	**5,582**	**4,336**	**35,984**
of which							
Funded defined benefit plans	7,847	10,928	–	4,050	3,617	1,884	**28,326**

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, 2006	**5,925**	**10,728**	**-**	**4,072**	**190**	**1,363**	**22,278**
Acquisitions, divestments and other changes	–	–	–	–	–	164	**164**
Expected return on plan assets	347	753	–	204	4	55	**1,363**
Actuarial gains and (losses)	233	323	–	94	3	64	**717**
Employer contributions	–	2,858	–	646	38	181	**3,723**
Employee contributions	–	–	–	33	–	2	**35**
Exchange rate translation	–	(1,674)	–	(78)	(24)	(130)	**(1,906)**
Benefits paid	(111)	(762)	–	(91)	(72)	(111)	**(1,147)**
Plan assets at December 31, 2006	**6,394**	**12,226**	**-**	**4,880**	**139**	**1,588**	**25,227**
Acquisitions, divestments and other changes	–	643	–	–	–	49	**692**
Expected return on plan assets	384	849	–	275	1	97	**1,606**
Actuarial gains and (losses)	(182)	13	–	(45)	4	(12)	**(222)**
Employer contributions	52	–	–	135	54	144	**385**
Employee contributions	–	–	–	33	–	26	**59**
Exchange rate translation	–	(751)	–	(222)	(7)	115	**(865)**
Benefits paid	–	(785)	–	(145)	(55)	(129)	**(1,114)**
Plan assets at December 31, 2007	**6,648**	**12,195**	**-**	**4,911**	**136**	**1,878**	**25,768**

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, 2006	**(748)**	**209**	**(1,571)**	**(107)**	**(6,060)**	**(1,236)**	**(9,513)**
Unrecognized actuarial (gains) and losses	626	798	224	649	412	249	**2,958**
Unrecognized past service costs	–	8	(25)	–	(71)	(8)	**(96)**
Net provisions for post-employment benefits at December 31, 2006	**(122)**	**1,015**	**(1,372)**	**542**	**(5,719)**	**(995)**	**(6,651)**
whereof reported as							
Prepaid pensions and other assets	–	1,412	–	542	87	–	**2,041**
Provisions for post-employment benefits	(122)	(397)	(1,372)	–	(5,806)	(995)	**(8,692)**
Funded status at December 31, 2007	**(1,803)**	**988**	**(1,800)**	**303**	**(5,446)**	**(2,458)**	**(10,216)**
Unrecognized actuarial (gains) and losses	1,616	(111)	115	255	67	278	**2,220**
Unrecognized past service costs	–	(1)	422	–	(66)	(2)	**353**
Net provisions for post-employment benefits at December 31, 2007	**(187)**	**876**	**(1,263)**	**558**	**(5,445)**	**(2,182)**	**(7,643)**
whereof reported as							
Prepaid pensions and other assets	12	1,226	–	558	242	93	**2,131**
Provisions for post-employment benefits	(199)	(350)	(1,263)	–	(5,687)	(2,275)	**(9,774)**

Plan assets by category	2006	%	2007	%
Shares and participation, Volvo	51	0	313	1
Shares and participations, other	12,709	51	12,422	48
Bonds	10,076	40	10,578	41
Property	313	1	427	2
Other	2,078	8	2,028	8
Total	**25,227**	**100**	**25,768**	**100**

Actuarial gains and losses	2006	2007
Experience-based adjustments in obligations	(530)	151
Experience-based adjustments in plan assets	717	(222)
Effects of changes in actuarial assumptions	(448)	959
Actuarial gains and (losses), net	**(261)**	**888**

Notes to consolidated financial statements

Volvo's pension foundation in Sweden was formed in 1996 to secure obligations relating to retirement pensions for salaried employees in Sweden in accordance with the ITP plan (a Swedish individual pension plan). Plan assets amounting to 2,456 was contributed to the foundation at its formation, corresponding to the value of the pension obligations at that time. Since its formation, net contributions of 1,472, whereof 52 during 2007, have been made to the foundation. The plan assets in Volvo's Swedish pension foundation are invested in Swedish and foreign stocks and mutual funds, and in interest-bearing securities, in accordance with a distribution that is determined by the foundation's Board of Directors. At December 31, 2007, the fair value of the foundation's plan assets amounted to 6,648 (6,394), of which 43% (45) was invested in shares or mutual funds. At the same date, retirement pension obligations attributable to the ITP plan amounted to 7,847 (6,560). In the valuation of Volvo's pension liability for the Swedish companies, the life-expectancy assumptions was changed during 2007. Men are now assumed to live about two years longer than previously. The increase for women is about one year. The changed life-expectancy assumptions increased the pension obligation by about 14%. However, this increase has not affected the carrying amount of the Volvo Group's liabilities immediately since Volvo applies the corridor approach to actuarial gains and losses. Swedish companies can secure new pension obligations through balance sheet provisions or pension fund contributions. Furthermore, a credit insurance must be taken 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 2007, 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 152,0% (143.1%). Alecta's current funding ratio exceeds the target of 140%. Accordingly, Alecta's Board of Directors has decided to reduce premiums for defined benefit plans and family pensions by 40% during 2008.

Volvo's subsidiaries in the United States mainly secure their pension obligations through transfer of funds to pension plans. At the end of 2007, the total value of pension obligations secured by pension plans of this type amounted to 10,928 (11,830). At the same point in time, the total value of the plan assets in these plans amounted to 12,195 (12,226), of which 58% (60) 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 2007, Volvo contributed 0 (2,858) to the pension plans.

During 2007 Volvo has made extra contributions to the pension-plans in Great Britain in the amount of 135 (646).

In 2008, Volvo estimate to transfer an amount of not more than SEK 1 billion to pension plans.

Note 25 Other provisions

	Value in balance sheet 2006	Provisions and reversal	Utilization	Acquired and divested companies	Translation differences	Reclassifications	Value in blance sheet 2007	Whereof due within 12 months	Whereof due after 12 months
Warranties	8,411	4,495	(3,811)	300	(24)	2	9,373	5,014	4,359
Provisions in insurance operations	362	91	(66)	–	–	–	387	5	382
Restructuring measures	429	101	(322)	5	4	(3)	214	186	28
Provisions for residual value risks	781	8	(56)	–	(13)	(50)	670	433	237
Provisions for service contracts	1,677	626	(400)	(13)	23	(2)	1,911	1,128	783
Dealer bonus	–	2,681	(2,438)	–	(8)	1,567	1,802	1,784	18
Other provisions	4,889	2,070	(2,195)	385	(9)	(1,540)	3,600	2,106	1,494
Total	**16,549**	**10,072**	**(9,288)**	**677**	**(27)**	**(26)**	**17,957**	**10,656**	**7,301**

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, 2007. Volvo hedges foreign-exchange and interest-rate risks using derivative instruments. See Note 36.

Bond loans	Actual interest rate, Dec 31, 2007, %	Effective interest rate, Dec 31, 2007, %	2006	2007
SEK 2004–2007/2009–2017	4.00–4.94	4.00–5.02	8,973	13,378
JPY 2001–2006/2009–2011	1.39–2.70	1.39–2.70	231	1,203
CZK 2003–2005/2009–2010	2.69–4.50	–	389	–
USD 2007/2010	5.13	5.22	1,614	647
EUR 1997–2007/2009–2017	4.06–6.13	4.06–6.13	11,623	27,070
NOK 2006/2009	3.59	–	329	–
Other bond loans	–	–	20	–
Total			**23,179**	**42,298**

Other loans	Actual interest rate, Dec 31, 2007, %	Effective interest rate Dec 31, 2007, %	2006	2007
USD 1999–2007/2009–2012	4.45–5.45	4.52–5.41	4,466	3,522
EUR 2003–2007/2010–2014	3.75–5.48	3.82–5.52	3,238	4,076
GBP 2005/2009–2010	4.95–7.14	4.95–7.14	1,048	520
SEK 2004–2007/2010–2017	4.95–5.43	5.03–5.57	222	1,228
CAD 2004–2006/2010–2012	5.27–5.33	5.37–5.44	2,281	1,518
MXN 2005/2010	8.04–8.52	8.35–8.86	693	1,239
JPY 2004–2007/2009–2015	1.00–2.36	1.22–2.36	654	4,631
CHF 2006/2009–2011	3.04–3.09	3.07–3.12	1,127	1,141
BRL 2003/2017	8.05	8.40	1,220	2,085
Other loans	5.06–9.15	5.15–9.85	581	1,189
Total other long-term loans[1]			**15,530**	**21,149**
Deferred leasing income			2,201	2,894
Residual value liability			4,187	4,440
Other long-term financial liabilities			123	523
Other long-term liabilities			237	425
Total			**45,457**	**71,729**

1 Whereof financial derivatives 74 (93).

Of the above long-term loans, 541 (657) was secured.

Long-term loans mature as follows:	
2009	23,336
2010	12,624
2011	5,681
2012	2,441
2013	1,409
2014 or later	17,956
Total	**63,447**

Of other long-term liabilities the majority will mature within five years.

At year-end 2007, credit facilities granted but not utilized and which can be used without restrictions amounted to approximately SEK 23.2 billion (23.2). Approximately SEK 22.8 billion of these facilities consisted of stand-by facilities for loans with varying maturities through the year 2013. A fee is normally charged for the unused portion of credit facilities and is reported in the income statement under other financial income and expenses.

Note 27 Current liabilities

Balance sheet amounts for loans were as follows:

	2006	2007
Bank loans	4,475	12,979
Other loans[1]	23,772	31,893
Total	**28,247**	**44,872**

1 Whereof financial derivatives 242 (147).

Bank loans include current maturities, 2,975 (1,442), of long-term loans. Other loans include current maturities of long-term loans, 22,554 (18,967), and commercial paper, 6,547 (4,043).

Non-interest-bearing liabilities accounted for 85,406 (67,591), or 66% (70) of the Group's total current liabilities.

Balance sheet amounts for Other current liabilities were as follows:

	2006	2007
Advances from customers	2,538	3,321
Wages, salaries and withholding taxes	5,745	6,703
VAT liabilities	1,292	1,524
Accrued expenses and prepaid income	10,929	12,161
Deferred leasing income	1,546	1,864
Residual value liability	1,594	1,928
Other financial liabilities	814	982
Other liabilities	3,253	3,810
Total	**27,711**	**32,293**

Secured bank loans at year-end 2007 amounted to 264 (157). The corresponding amount for other current liabilities was 590 (1,294).

Notes to consolidated financial statements

Note 28 Assets pledged

	2006	2007
Property, plant and equipment – mortgages	310	202
Assets under operating leases	609	265
Chattel mortgages	367	364
Receivables	576	600
Cash, marketable securities	98	125
Total	**1,960**	**1,556**

The liabilities for which the above assets were pledged amounted at year-end to 1,395 (2,108).

Note 29 Contingent liabilities

	2006	2007
Credit guarantees issued for customers and others	1,109	1,884
Tax claims	983	783
Other contingent liabilities	5,634	5,486
Total	**7,726**	**8,153**

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, 2006, the estimated value of counter guarantees received and other collaterals, for example the estimated net selling price of used products, amounted to 3,934 (3,650).

Tax claims amounted to 783 (983) pertain to charges against the Volvo Group for which provisions are not considered necessary. Other contingent liabilities pertain mainly to residual value guarantees.

In North America the former agreement between Mack Trucks and UAW, the American union for vehicle workers, was due 30 September 2007. The agreement has been prolonged on a day-to-day basis. During January 2008 Volvo Trucks has also initiated negotiations with the UAW for the North American operations. On 31 January, 2008 the agreement between Volvo Trucks North America Operations and UAW was due, without the parties agreing on a prolongation. Since the parties at that time had not succeeded in reaching an agreement, the UAW chose to engage in a strike. Negotiations are ongoing. At present, it is not possible to estimate neither the duration of the strike nor the outcome of the negotiations, which have not been terminated, but there is a risk that the outcome may have a significant negative impact on the consolidated operating income in 2008.

Legal proceedings

In March 1999, a Volvo FH12 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. 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. The question concerning civil damages was however not finally settled by the judgement in the criminal proceedings. A number of civil proceedings related to the fire have been initiated against Volvo companies and many other parties in France, Italy and Belgium. During December 2007 a settlement agreement was concluded whereby Volvo group companies are held harmless and indemnified against all claims related to the tunnel fire.

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 was 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. In July 2007 the arbitration court decided in favour of VAN. Accordingly the contingent liability in this matter has been cancelled.

AB Volvo is cooperating with investigations of transactions by two of its subsidiaries in connection with the United Nations Oil for Food Program by the US Securities and Exchange Commission and the US Department of Justice. Volvo is also aware that Swedish and French authorities are also separately investigating the Oil for Food Program.

Global actors like Volvo are occasionally involved in tax disputes of different proportions and in different stages. On a regular basis Volvo evaluates the exposure related to such disputes and, to the extent it is possible to reasonably estimate what the outcome will be, makes provisions when it is more likely than not that there will be additional tax to pay.

Volvo is involved in a number of other legal proceedings incidental to the normal conduct of its businesses. Volvo does not believe that any liabilities related to such proceedings are likely to entail any risk, in the aggregate, of having a material effect on the financial condition of the Volvo Group.

Volvo continuously reports VAT receivables in Russia for the customer finance operations. As an effect of the expanding operations, the VAT receivables exceed the VAT liabilities. Volvo has won all court cases related to the entitlement regarding these receivables, but has not yet received any payment. At year-end 2007 these receivables amounted to approximately SEK 250 M.

Note 30 Cash-flow

Other items not affecting cash amounted to:	2006	2007
Risk provisions and losses related to doubtful receivables/customer – financing receivables	476	90
Capital gains/losses on the sale of subsidiaries and other business units	(281)	(558)
Unrealized exchange rate gains/losses on trade receivables and payables	143	(68)
Incentive program	258	210
Other changes	56	(132)
	652	**(458)**

	2006	2007
Investments in customer finance receivables	20,854	20,405
New investments in finance leasing – and installement contracts	(26,042)	(30,436)
	(5,188)	**(10,031)**

Investments in shares and participations:	2006	2007
New issue of shares	(35)	(24)
Shareholders contribution	(10)	14
Acquisitions	(5,781)	0
Divestments	24	106
Revaluations	(21)	15
Other	6	325
	(5,817)	**436**

Acquired and divested subsidiaries and other business units:	2006	2007
Acquired subsidiaries and other business units	(159)	(15,421)
Divested subsidiaries and other business units	669	408
	510	**(15,013)**

Change in bonds and other loans:	2006	2007
New borrowing	69,320	146,887
Amortization	(71,929)	(118,141)
	(2,609)	**28,746**

Note 31 Leasing

Volvo as a lessor

At December 31, 2007, future rental income from noncancellable financial and operating leases (minimum leasing fees) amounted to 49,435 (31,808). Future rental income is distributed as follows:

	Finance leases	Operating leases
2008	13,190	3,991
2009–2012	24,267	7,232
2013 or later	399	356
Total	**37,856**	**11,579**
Allowance for uncollectible future rental income	(481)	
Unearned rental income	(3,827)	
Present value of future rental income related to noncancellable leases	**33,548**	

Volvo as a lessee

At December 31, 2007, future rental payments (minimum leasing fees) related to noncancellable leases amounted to 3,705 (3,234).

Future rental payments are distributed as follows:

	Finance leases	Operating leases
2008	313	803
2009–2012	347	1,642
2013 or later	92	508
Total	**752**	**2,953**

Notes to consolidated financial statements

Rental expenses amounted to:

	2006	2007
Finance leases:		
Contingent rents	0	0
Operating leases:		
Contingent rents	(38)	(10)
Rental payments	(1,468)	(1,053)
Sublease payments	15	13
Total	**(1,491)**	**(1,050)**

Book value of assets subject to finance lease:

	2006	2007
Acquisition costs:		
Buildings	151	139
Land and land improvements	72	69
Machinery and equipment	114	675
Assets under operating lease	888	403
Total	**1,225**	**1,286**
Accumulated depreciation:		
Buildings	(49)	(45)
Land and land improvements	–	–
Machinery and equipment	(35)	(207)
Assets under operating lease	(609)	(200)
Total	**(693)**	**(452)**
Book value:		
Buildings	102	94
Land and land improvements	72	69
Machinery and equipment	79	468
Assets under operating lease	279	203
Total	**532**	**834**

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.

	2006	2007
Sales to associated companies	156	1,096
Purchase from associated companies	288	98
Receivables from associated companies, Dec 31	40	397
Liabilities to associated companies, Dec 31	39	19

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 151 (336) and 2,950 (4,031). Amounts due from and due to Renault SA amounted to 40 (97) and 1,089 (1,176) respectively, at December 31, 2007. 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.

Note 33 Government grants

During 2007, government grants amounting to 469 (216) have been received and 365 (141) have been accounted for in the income statement. The grants were mainly received from the European Commission and the Swedish government. R&D credits is included with 210. Volvo Buses received a grant of 116 from the Swedish Energy Agency for the development of hybrid technology. 14 of the 116 has been accounted for during 2007.

Note 34 Personnel

In accordance with a resolution adopted at the Annual General Meeting 2007, the fee paid to the Board of Directors was set at SEK 5,725,000, to be distributed among the members as follows: SEK 1,500,000 to the Chairman and SEK 500,000 to each of the members; in addition, SEK 250,000 to the chairman of the Audit Committee and SEK 125,000 to other members of the Audit Committee and SEK 75,000 to each of the members of the Remuneration Committee. Apart from the board fee, the members of the Board of directors have not obtained any other remuneration.

Remuneration to senior executives, SEK	Fixed salary	Variable salary	Other benefits[1]	Pension
Board Chairman	1,575,000	–	–	–
President and CEO	11,839,816	4,799,721	5,042,438	4,619,073
Other members of GEC[2]	54,290,794	16,859,594	50,649,394	50,661,581
Total remuneration and benefits	**67,705,610**	**21,659,315**	**55,691,832**	**55,280,654**
Total costs 2007[3]	**85,810,172**	**28,026,753**	**74,947,694**	**65,564,442**
Total costs 2006[3]	**80,243,527**	**32,494,979**	**85,581,958**	**70,140,948[4]**

1 Other benefits for the President and CEO include SEK 4,480,000 related to allotted shares during 2007, and for other members of the GEC SEK 25,013,520 related to allotted shares and SEK 8,737,277 pertaining to cash payments, for the GEC members not residing in Sweden, linked to the share-based incentive program. For GEC additional SEK 12,784,671 is included for exercised employee stock options.

2 In addition to the CEO, the Group Executive Committee (GEC) comprised of 17 members at the end of the year.

3 Total costs for GEC include social fees on salaries and benefits, special pension tax and additional costs for other benefits. The cost for other benefits includes cost earlier accounted for in previous years relating to the option and sharebased payment programs amounting to approximately SEK 67 M.

4 In the beginning of 2005 a previously announced one-time payment of SEK 34 M was made when Leif Johansson shifted over to a defined contribution based pension. SEK 13.3 M of the payment was reported in 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 for the Volvo Group up to a maximum of 50% of his fixed annual salary. In 2007, the variable salary corresponded to 40.5% of the fixed annual salary. Leif Johansson also participates in the Volvo Group long-term incentive program. In 2007, Leif Johansson received 8,000 shares, corresponding to 40,000 shares after share split, since the financial goals for 2006 were achieved.

Leif Johansson is covered by the Volvo executive pension plans, Volvo Management Pension (VMP) and Volvo Executive Pension (VEP). The retirement benefit is a defined contribution plan with refund protection. The disability pension is a defined benefit plan. Contributions to VMP and VEP are not tax deductable, the benefit from the insurance not taxable to the company, but pension paid will be tax deductable. A defined time for retirement does not exist. The pensionable salary consists of the current monthly salary times 12, together with the average of the outcome of the variable salary, maximized to 50% of the salary, for the previous five years. The premium for the VMP is SEK 30,000 together with 20% of the pensionable salary over 30 income base amounts and the premium for VEP is 10% of pensionable salary. There is no other commitment other than the payment of the premiums. The disability pension constitutes of 70% of pensionable salary up to 30 income base amounts and 40% of the pensionable salary between 30 and 50 income base amounts. The right to disability pension is conditional to employment and will cease upon termination of duty. See the table above for premiums paid during the year.

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

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. During 2007, a variable salary could amount to a maximum of 50% of the fixed annual salary.

Notes to consolidated financial statements

Severance payments

The employment contracts for members of the Group Executive Committee and certain other senior executives contain rules governing severance payments when the company terminates the employment. The rules provide that, when the company terminates the employment, an employee is entitled to severance pay equal to the employee's monthly salary for a period of 12 or 24 months, depending on age at date of severance.

In agreements concluded after the spring of 1993, severance pay is reduced, in the event the employee gains employment during the severance period, with an amount equal to 75% of the income from the new employment. In agreements concluded after the spring of 2004, severance pay is reduced by the full income from the new employment. Furthermore, age limit at date of notice of termination is removed and 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.

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.

Incentive programs

Volvo currently has two different types of incentive programs for certain senior executives outstanding, one program for employee stock options (exercised 2006/2008) and a share-based incentive program (allotment in 2008).

Employee stock options program

The period to exercise the employee stock options are ongoing as from May 2, 2006, up to and including May 1, 2008. The Volvo B share price, for options exercised during 2007, have in average been SEK 549 within a range from SEK 477 up to SEK 620 before the split and after the split in average SEK 116 within a range from SEK 110 up to SEK 148. The Volvo B share price, for options exercised during 2006, have in average been SEK 375 within a range from SEK 322 up to SEK 469.

Share-based incentive program

In 2005 the Annual General Meeting approved a share-based incentive program for certain senior executives within the Volvo Group. Allotment of a value corresponding to 167,833 shares in the program was executed in April 2006 and was based on the fulfillment of certain financial goals determined by the Board for fiscal year 2005. The allotment was made from Volvo's treasury stock, with 100,833, and cash payment corresponding to 67,000 shares. The share price at allotment was SEK 365. The total costs for the share-based incentive program 2005/2006 amounted to 70, whereof 21 during 2006 and 49 during 2005 and pertains to the costs for payments in shares and in cash.

In 2006 the Annual General Meeting approved a share-based incentive program for certain senior executives within the Volvo Group. Allotment of a value corresponding to 480,000 shares in the program was executed in March 2007 and was based on the fulfillment of certain financial goals determined by the Board for fiscal year 2006.The allotment was made from Volvo's treasury stock, with 263,667, and cash payment corresponding to 216,333 shares. The share price at allotment was SEK 560. The total costs for the share-based incentive program 2006/2007 amounted to 276, where of 110 during 2007 and 166 during 2006 and pertains to the costs for payments in shares and in cash.

The Annual General Meeting in 2007 decided on a similar program for allotment in 2008. Allotment will be made in 2008 as certain financial goals determined by the Board for fiscal year 2007 have been fulfilled by the company. The cost for Volvo for the incentive program including social fees will be approximately 332, since the price of the Volvo B shares at the grant date, excluding dividend of SEK 5.00 for 2007, was SEK 109.81 and the share price at December 31, 2007, was 108.50. The Annual General Meeting decided that Volvo's own shares may be used for allotment in this program.

The Board of Directors intends to propose that the Annual General Meeting approve a share-based incentive program for senior executives within the Volvo Group pertaining to the 2008 financial year. The program will result in the number of eligible senior executives (including members of Group Management) amounting to not more than 275 persons and the maximum number of Volvo shares that may be allotted to 2,950,000[1], of which CEO Leif Johansson may receive a maximum of 40,000 shares and the other participants a maximum of 10,000–20,000 shares each. Participants not resident in Sweden at the time of allotment may, to the extent AB Volvo considers it favourable from a cost or administrative perspective, instead of shares, receive an amount in cash corresponding to the market value of the shares at the time of allotment. Shares will be allotted provided the Volvo Group's return on equity (ROE), calculated on the basis of the Volvo Group's annual report 2008, is higher than 12%. Maximum allotment will be effected if ROE reaches 15% and shares will be allotted proportionally within the interval in accordance with the Board's instructions. The Board of Directors has decided to review these targets for possible future programs. Assuming the said goals are fulfilled in full and that the Volvo share price is SEK 92 at implementation of the program, Volvo's costs for the program, including social fees, will be approximately 319. Another element of the proposal is that treasury shares held by AB Volvo may be used to fulfil the company's commitments in accordance with the program.

Remuneration policy decided at the Annual General Meeting in 2007

The Annual General Meeting of 2007 decided upon principles for remuneration and other employment terms for the members of Volvo's Group Executive Committee ("Remuneration Policy"). The accepted principles can be summarized as follows.

The guiding principle is that remuneration and other employment terms for company management, shall be competitive to ensure that Volvo can attract and retain skilled persons in the Group Executive Committee. The fixed salary shall be competitive and shall reflect the individual's area of responsibility and performance.

In addition to the fixed salary a variable salary may be paid. The variable salary may amount to a maximum of 50% of the fixed salary and be based on the Volvo Group's and/or the executive's Group company's fulfilment of certain improvement and financial goals. These 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 addition to pension benefits provided by law and collective bargain agreements, the members of the Group Executive Committee domiciled in Sweden are offered a defined-contribution pension plan whereby the amount of the individual's pensions comprises the premium paid and any return. Members of the Group Executive Committee domiciled outside Sweden are offered pension solutions that are competitive in the country in which the person is domiciled.

With regard to notice of termination of employment for members of the Group Executive Committee domiciled in Sweden, the notification period is 12 months if the company terminates the employment and six months if the individual terminates the employment. In addition, the employee is entitled to a severance pay of 12 months' salary if Volvo terminates the employment. Those members who are domiciled outside Sweden are offered terms in this respect that are competitive in the country in which the person is domiciled.

Financial instruments and shares	2003/2008 employee stock options, number	Shares[1]
CEO	50,000	40,000
Other members of GEC	50,000	310,833
Other senior executives	37,195	2,104,167
Total	**137,195**	**2,455,000**

1 The table shows payments in cash with the corresponding value in shares. Of the total 2,455,000 shares, 1,345,000 shares and a cash-settlement corresponding to 1,110,000 shares will be granted.

		Total number of outstanding options					
Summary of options program	Allotment date	Dec 31, 2006	Dec 31, 2007	Excercise price	Excercise period	Value/ options	Vesting, years
2002, employee stock options[1]	May 2, 2003	264,750	137,195	30	May 2, 2006– May 1, 2008	32.00	3

1 In January 2000, a decision was made to implement a new incentive program for senior executives within the Volvo Group in the form of so-called employee stock options. The decision covers allotment of options for 2000, 2001 and 2002. The executives have not made any payment for the options. The employee stock options gives the holders the right to exercise their options or alternatively receive the difference between the actual price at that time and the exercise price determined at allotment. The theoretical value of the options at allotment was set using the Black & Scholes pricing model for options. For the options allotted in 2003, the Annual General Meeting has decided that Volvo's own shares may be used for the program. Recalculation has taken place of the exercise price and the number of shares each option entitles the option holder to acquire. The exercise price was previously SEK 163 per share and each option entitled the option holder to acquire one share. According to the terms and conditions of the option program, recalculation shall take place under certain circumstances such as extra dividends, issues of new shares and dividend of shares. At the AB Volvo Annual General Meeting in 2004, a decision was taken to distribute shares in Ainax AB to Volvo's shareholders. As a consequence hereof, a recalculation of the exercise price and the number of shares each option entitles the option holder to acquire has taken place. On April 26, Volvo's share split 6:1 with automatic redemption, in which the sixth share was redeemed by AB Volvo for SEK 25 per share took effect, which meant that the number of shares were fivefold. The exercise price after that is SEK 30 per share and each option entitles the option holder to acquire 5.43041 Volvo B shares.

Cost for incentive programs

Change in obligations related to the employee stock option programs is recorded in the income statement. The cost 2007 for the employee stock option program amounted to 37. The cost 2007 for the share-based incentive program 2006/2007 was 110 and for the share-based incentive program 2007/2008 249. Total cost for the three programs was 396 for 2007 (245). The cost for the incentive program includes both cash payments and costs for remuneration in shares, including social costs. At December 31, 2007, provisions related to the employee stock option program and share-based incentive program amounted to 216 (219).

Change in number of options per program	Program
Number of options	2002
Dec 31, 2006	264,750
Allotted	–
Cancelled	–
Exercised	(127,555)
Dec 31, 2007	137,195

Notes to consolidated financial statements

Average number of employees	2006 Number of employees	2006 of which women, %	2007 Number of employees	2007 of which women, %
AB Volvo				
Sweden	160	51	178	51
Subsidiaries				
Sweden	26,722	19	27,826	20
Western Europe	26,380	15	27,340	15
Eastern Europe	4,225	16	5,027	18
North America	14,609	20	11,716	19
South America	3,874	13	4,664	13
Asia	4,075	15	12,824	10
Other countries	2,255	12	2,685	20
Group total	**82,300**	**17**	**92,260**	**17**

Board members and chief officers	2006 Number at year-end	2006 of which women, %	2007 Number at year-end	2007 of which women %
AB Volvo				
Board members	11	9	11	9
CEO and GEC	17	6	18	6
Volvo Group				
Board members	939	11	954	11
Presidents and other senior executives	1,422	15	1,678	15

Wages salaries and other remuneration, SEK M	2006 Board and Presidents[1]	2006 of which variable salaries	2006 Other employees	2007 Board and Presidents[1]	2007 of which variable salaries	2007 Other employees
AB Volvo						
Sweden	33.4	11.2	170.8	37.9	14.0	165.4
Subsidiaries						
Sweden	93.1	29.3	9,760.8	79.2	30.6	10,426.3
Western Europe	442.0	8.0	9,380.7	495.9	24.3	10,482.3
Eastern Europe	37.6	2.9	521.8	56.8	7.3	863.5
North America	187.5	6.8	6,537.0	189.5	23.2	5,800.1
South America	22.1	4.1	617.9	15.3	1.7	766.7
Asia	56.7	1.7	1,053.7	168.3	13.0	3,564.5
Other countries	28.6	0.9	481.7	49.8	6.3	543.8
Group total	**901.0**	**64.9**	**28,524.4**	**1,092.7**	**120.4**	**32,612.6**

Wages, salaries, other remuneration and social costs, SEK M	2006 Wages, salaries, remunerations	2006 Social costs	2006 of which pens. costs	2007 Wages, salaries, remunerations	2007 Social costs	2007 of which pens. costs
AB Volvo[2]	204.2	141.6	104.9	203.3	106.9	66.0
Subsidiaries	29,221.3	10,047.2	3,634.2	33,502.0	10,638.0	3,868.8
Group total[3]	**29,425.5**	**10,188.8**	**3,739.1**	**33,705.3**	**10,744.9**	**3,934.8**

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 20 in the Parent Company.
3 Of the Group's pension costs, 288.4 (181.7) pertain to Board members and Presidents, including current and former Board members, Presidents and Executive Vice Presidents. The Group's outstanding pension obligations to these individuals amount to 183.3 (461.2).

The cost for non-monetary benefits in the Group amounted to 1,500.9 (1,247.0) of which 41.0 (43.7) to Board members and presidents.

The cost for non-monetary benefits in the Parent company amounted to 11.2 (10.1) of which 1.0 (1.3) to Board members and presidents.

Note 35 Fees to the auditors

Audit fees	2006	2007
Audit fees to PricewaterhouseCoopers	130	109
Audit fees to other audit firms	1	3
Total	**131**	**112**

Other fees to PricewaterhouseCoopers		
Fees for audit related services	20	97
Fees for tax services	14	12
Total	**34**	**109**
Fees and other remuneration to external auditors total	**165**	**221**

Auditing assignments involve examination of the annual report and financial accounting and the administration by the Board and the President, other tasks related to the duties of a company auditor and consultation or other services that may result from observations noted during such examination or implementation of such other tasks. All other tasks are defined as other assignments.

Note 36 Goals and policies in financial risk management

Apart from derivatives, Volvo's financial instruments consist of bank loans, financial leasing contracts, accounts payable, accounts receivable, shares and participations, as well as cash and short-term investments.

The primary risks deriving from the handling of financial instruments are interest-rate risk, currency risk, liquidity risk and credit risk. All of these risks are handled in accordance with an established financial policy.

Interest-rate risk

Interest-rate risk refers to the risk that changed interest-rate levels will affect consolidated earnings and cash flow (cash-flow risks) or the fair value of financial assets and liabilities (price risks). Matching the interest-fixing terms of financial assets and liabilities reduces the exposure. Interest-rate swaps are used to change/influence the interest-fixing term for the Group's financial assets and liabilities. Currency interest-rate swaps permit borrowing in foreign currencies from different markets without introducing currency risk. Volvo also has standardized interest-rate forward contracts (futures) and FRAs (forward-rate agreements). Most of these contracts are used to hedge interest-rate levels for short-term borrowing or investment.

Cash-flow risks

The effect of changed interest-rate levels on future currency and interest-rate flows refers mainly to the Group's customer financing operations and net financial items. Within the customer finance operations the degree of matching interest-rate fixing on borrowing and lending is measured. The calculation of the matching degree excludes equity, which in the customer finance operations amount to between 8 and 10%. According to the Group's policy, the degree of matching for interest-rate fixing on borrowing and lending in the customer-financing operations must exceed 80%. At year-end 2007, the degree of such matching was 100% (100). A part of the short-term financing of the customer financing operations is however pertaining to internal loans from the industrial operations, why the matching ratio in the Volvo group was slightly lower. At year-end 2007, in addition to the assets in its customer-financing operations, Volvo's interest-bearing assets consisted primarily of liquid assets invested in short-term interest-bearing securities. The objective is to achieve an interest-fixing term of six months for the liquid assets in Volvo's industrial operations through the use of derivatives. On December 31, 2007, after taking derivatives into account, the average interest on these assets was 4.4% (3.5). Apart from loans raised to finance the credit portfolio of the customer-financing operations, at this same point in time, Volvo's financial liabilities consisted primarily of provisions for pensions and similar commitments. After taking derivatives into account, outstanding loans had interest terms corresponding to an interest-rate fixing term of six months and the average interest at year-end amounted to 4,5% (6.3).

Price risks

Exposure to price risks as result of changed interest-rate levels refers to financial assets and liabilities with a lower interest-rate fixing term (fixed interest). A comparison of the reported values and the fair values of all of Volvo's financial assets and liabilities, as well as its derivatives, is given in Note 37, Financial instruments. After the transition to IFRS in 2005, the market values agree with the book values.

Assuming that the market interest rates for all currencies suddenly rose by one percentage point (100 interest-rate points) over the interest-rate level on December 31, 2007, over a 12-month period, all other variables remaining unchanged, Volvo's net interest income would be favorably impacted by 108 (236). Assuming that the market interest rates for all currencies fell in a similar manner by one percentage point (100 interest-rate points), Volvo's net interest income would be adversely impacted by a corresponding amount.

The following table shows the effect on earnings in Volvo's key currencies that would result is the interest-rate level were to change by 1 percentage point.

SEK M	Effect on earnings
SEK	225
USD	10
EUR	(116)
CAD	(10)
JPY	(121)
KRW	7

The above sensitivity analysis is based on assumptions that rarely occur in reality. It is not unreasonable that market interest rates change with 100 interest-rate points over a 12-month period. However, in reality, market interest rates usually do not rise or fall at one point in time. Moreover, the sensitivity analysis also assumes a parallel shift in the yield curve and an identical effect of changed market interest rates on the interest-rates of both assets and liabilities. Consequently, the effect of actual interest-rate changes may deviate from the above analysis. Volvo uses derivatives to hedge currency and interest rate risks.

Notes to consolidated financial statements

Currency risks

The content of the reported balance sheet may be affected by changes in different exchange rates. Currency risks in Volvo's operations are related to changes in the value of contracted and expected future payment flows (commercial currency exposure), changes in the value of loans and investments (financial currency exposure) and changes in the value of assets and liabilities in foreign subsidiaries (currency exposure of shareholders' equity). The aim of Volvo's currency-risk management is to minimize, over the short term, negative effects on Volvo's earnings and financial position stemming from exchange-rate changes.

Commercial currency exposure

In order to hedge the value of future payment flows in foreign currencies, Volvo uses forward contracts and currency options. The Group's currency policy has been changed, effective 2007. For each currency, 75% of the forecast net flows for the coming six months are hedged and 50% for months seven to 12, while contracted flows after 12 months shall normally be hedged. The former Group's currency policy, for each currency, 50–80% of the forecast net flow in the next six months was hedged and 30–60% for months seven to 12, and contracted flows after 12 months should normally be hedged.

The nominal amount of all outstanding forward and option contracts amounted to SEK 63.1 bn (57.2) at December 31, 2007. On the same date, the fair value of these contracts was positive in an amount of 266 (764).

The table below presents the effect a change of the value of the Swedish krona in relation to other currencies would have on the fair value of outstanding contracts. In reality, currencies usually do not change in the same direction at any given time, so the actual effect of exchange-rate changes may differ from the below sensitivity analysis.

Change in value of SEK in relation to all foreign currencies, %	Fair value of outstanding contracts
(10)	(4.443)
0	266
10	4.975

Financial currency exposure

Loans and investments in the Group's subsidiaries are done mainly through Volvo Treasury in local currencies, which minimizes individual companies' financial currency exposure. Volvo Treasury uses various derivatives, in order to facilitate lending and borrowing in different currencies without increase the company's own risk. The financial net position of the Volvo Group is affected by exchange rate fluctuations, since financial assets and liabilities are distributed among Group companies that conduct their operations in different currencies.

Currency exposure of shareholders' equity

The consolidated value of assets and liabilities in foreign subsidiaries is affected by current exchange rates in conjunction with translation of assets and liabilities to Swedish kronor. To minimize currency exposure of shareholders' capital, the size of shareholders' equity in foreign subsidiaries is continuously optimized with respect to commercial and legal conditions. Currency hedging of shareholders' equity may occur in cases where a foreign subsidiary is considered overcapitalized. Net assets in foreign subsidiaries and associated companies amounted at year-end 2007 to SEK 61.1 billion (43.6). Of this amount, SEK 3.8 billion (3.6) was currency-hedged through loans in foreign currencies. Out of the loans used as hedging instruments SEK 2.9 billion are due in 2010 and the remaining SEK 0.9 billion in 2011. The need to undertake currency hedging relating to investments in associated companies and other companies is assessed on a case-by-case basis.

Credit risks

Volvo's credit provision is steered by Group-wide policies and customer-classification rules. The credit portfolio should contain a sound distribution among different customer categories and industries. The credit risks are managed through active credit monitoring, follow-up routines and, where applicable, product reclamation. Moreover, regular monitoring ensures that the necessary provisions are made for doubtful receivables. In the tables below, ageing analyses are presented of accounts receivables overdues and customer finance receivables overdue in relation to the reserves made. It is not unusual that a receivable is settled a couple of days after due date, which affects the extent of the age interval 1–30 days.

The credit portfolio of Volvo's customer-financing operations amounted at December 31, 2007, to approximately SEK 79 billion (65) in the Volvo group[1]. The credit risk of this portfolio is distributed over a large number of retail customers and dealers. Collaterals are provided in the form of the financed products. Credit provision aims for a balance between risk exposure and expected yield. The Volvo Group's financial assets are largely managed by Volvo Treasury and invested in the money and capital markets. All investments must meet the requirements of low credit risk and high liquidity. According to Volvo's credit policy, counterparties for investments and derivative transactions should have a rating of A or better from one of the well-established credit rating institutions.

The use of derivatives involves a counterparty risk, in that a potential gain will not be realized if the counterparty fails to fulfill its part of the contract. To reduce the exposure, master netting agreements are signed, wherever possible, with the counterparty in question. Counterparty risk exposure for futures contracts is limited through daily or monthly cash transfers corresponding to the value change of open contracts. The estimated gross exposure to counterparty risk relating to futures, interest-rate swaps and interest-rate forward contracts, options and commodities contracts amounted at December 31, 2007, to 3,424 (1,158), 2,527 (2,621), 48 (78) and 113 (25).

Credit portfolio – Accounts receivables and Customer financing receivables

Accounts receivables	2006	2007
Account receivables gross	24,190	31,427
Valuation allowance for doubtful accounts receivables	(939)	(923)
Accounts receivables net	**23,251**	**30,504**

For details regarding the accounts receivables and the valuation for doubtful accounts receivables, refer to Note 20.

Customer financing receivables	2006	2007
Customer financing receivables gross	66,172	80,210
Valuation allowance for doubtful customer financing receivables	(1,430)	(1,363)
Customer financing receivables net	**64,742**	**78,847**

1 In accordance with IAS 14 Segment Reporting, operational leasing contracts are reclassified to financial leasing contracts in the segment reporting of Customer Finance, which constitutes the difference between the portfolio value reported in the segment reporting and the portfolio value reported in the Volvo group. See Note 1 Accounting principles for details regarding the accounting treatment.

Change of valuation allowances for doubtful customer financing receivables	2007
Balance sheet, December 31, preceding year	1,430
New valuation allowance charged to income	235
Reversal of valuation allowance charged to income	(92)
Utilization of valuation allowance related to actual losses	(227)
Translation differences	17
Balance sheet, December 31	**1,363**

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

Age analysis of portfolio value – Accounts receivables and Customer financing receivables

	2006					2007				
Accounts receivables	not due	1–30	31–90	>90	**Total**	not due	1–30	31–90	>90	**Total**
Accounts receivables gross	20,383	2,129	594	1,084	**24,190**	27,520	1,930	704	1,273	**31,427**
Valuation allowance for doubtful accounts receivables	(99)	(36)	(47)	(757)	**(939)**	(214)	(39)	(71)	(599)	**(923)**
Accounts receivables not recognized as impairment losses	**20,284**	**2,093**	**547**	**327**	**23,251**	**27,306**	**1,891**	**633**	**674**	**30,504**

	2006					2007				
Customer financing receivables payments due	not due	1–30	31–90	>90	**Total**	not due	1–30	31–90	>90	**Total**
Overdue amount	–	447	130	54	**631**	–	597	173	126	**896**
Valuation allowance for doubtful customer financing receivables	(155)	(32)	(49)	(132)	**(368)**	(159)	(46)	(70)	(115)	**(390)**
Customer financing receivables not recognized as impairment losses	**(155)**	**415**	**81**	**(78)**	**263**	**(159)**	**551**	**103**	**11**	**506**

The table above presents overdue payments within the customer financing operations in relation to specific reserves. The total contractual amount that the overdue payments are pertaining to are presented in the table below. In order to provide for occured but not yet identified customer financing receivables overdues, there are additional reserves of 973 (1,062). The remaining exposure is secured by liens on the purchased equipment, and, in certain circumstances, other credit enhancements such as personal guarantees, credit insurance, liens on other property owned by the borrower etc.

Collaterals taken in possession that meet the recognition criteria amounted to 129.9 (111.9) at December 31, 2007.

	2006					2007				
Customer financing receivables total exposure	not due	1–30	31–90	>90	**Total**	not due	1–30	31–90	>90	**Total**
Customer financing receivables	55,303	8,726	1,412	731	**66,172**	66,812	10,527	2,162	709	**80,210**

Concentration of credit risk

Customer concentration

The ten largest customers in Customer Finance account for 4.7% of the total asset portfolio. The rest of the portfolio is pertinent to a large number of customer. This way the credit risk is spread across both many markets and among many customers.

Concentration by geographical markets

The table below shows the concentration of the customer financing portfolio divided into geographical markets.

Geographical market	Percentage of customer financing portfolio
Europe	57.5
North America	29.9
Asia	5.6
Other markets	7.0

Renegotiated financial assets

Financial assets that would otherwise have been overdue whose terms have been renegotiated amount to 937 (996) and are mainly related to renegotiated customer contracts within the customer finance operations.

Liquidity risks

Volvo assures itself of sound financial preparedness by always keeping a certain percentage of its sales in liquid assets. A sound balance between short- and long-term borrowing, as well as borrowing preparedness in the form of overdraft facilities, should cover long-term financing needs.

The table below shows expected future cash-flows including derivatives related to financial liabilities. Capital flow refers to expected payments of loans and derivatives. Interest flow refers to the future interest payments on loans and derivatives based on interests rates expected by the market. The interest flow is reported within cash flow from operating activities.

See also Note 26 Non-current liabilities for long-term loans maturity analysis and for credit facilities granted but not utilized as well as Note 31 Leasing for contractual duration analysis of future rental payments of noncancellable finance lease agreements and operating lease agreements.

Future cash-flow including derivatives related to financial liabilities	Capital flow	Interest flow
2008	(42,380)	(3,928)
2009	(22,557)	(2,716)
2010	(12,661)	(1,891)
2011	(5,678)	(1,426)
2012	(3,196)	(1,171)
2013	(2,604)	(986)
2014–	(17,693)	(2,425)

Notes to consolidated financial statements

Note 37 Financial instruments

The financial assets treated within the framework of IAS 39 are classified either as financial assets at fair value through profit and loss, as claims under a loan and receivables, as investments held to maturity or as available-for-sale financial assets.

Transaction expenses are included in the asset's fair value except in cases in which the change in value is recognized in the income statement. The transaction costs arising in conjunction with assuming financial liabilities are amortized over the term of the loan as a financial cost. Embedded derivatives are detached from the related main contract, if applicable. Contracts containing embedded derivatives are valued at fair value in the income statement if the contracts inherent risk and other characteristics indicate a close relation to the embedded derivative. Classifications made of financial instruments are evaluated each quarter and, if necessary, the classification is adjusted.

Purchases and sales of financial assets and liabilities are recognized on the transaction date. A financial asset is derecognized (extinguished) in the balance sheet when all significant risks and benefits linked to the asset have been transferred to a third party.

The fair value of assets is determined based on the market prices in such cases they exist. If market prices are unavailable, the fair value is determined for each asset using various valuation techniques.

Financial assets at fair value through profit and loss

A financial asset recognized at fair value in the income statement is categorized as follows: Either (1) it is recognized with the financial instruments or in accordance with (2) the so-called fair value option on initial recognition has been designated as such. For the first category to apply, it is required that the asset is acquired with the main purpose of being sold in the near future and that it is part of a portfolio and there is a proven pattern of short-term capitalization of gains. All of Volvo's financial assts that are recognized at fair value in the income statement are in category 1.

Derivatives, included embedded derivatives detached from the host contract, are classified as held-for-trading if the are part of an evidently effective hedge accounting or are a financial guarantee. Gains and losses on these assets are recognized in the income statement.

A financial contract containing one or more embedded derivatives is classified in its entirety as a financial asset whose value change is recognized in the income statement if not the embedded derivative does not affect future cash flow attributable to the financial asset or separation of the embedded instrument is required.

Short-term investments are valued at fair value and the changes in this value are recognized in the income statement. Short-term investments that mainly consist of interest-bearing financial instruments are reported in Note 21.

Volvo classifies financial derivatives as financial assets whose value changes are reported in the income statements if they evidently are not used in hedge accounting. All derivatives are reported in this note below.

Financial assets held to maturity

Held-to-maturity investments are assets with fixed payments and term and that Volvo intends and is able to hold to maturity. After initial valuation, these assets are valued at accrued acquisition value in accordance with the effective interest method, with adjustment for any impairment. Gains and losses are recognized in the income statement when assets are divested or impaired as well as in pace with the accrued interested being reported. At year end 2007 Volvo did not have any financial instruments classified in this category.

Loan receivables and other receivables

Loans and receivables are non-derivative financial assets with fixed or determinable payments, originated or acquired, that are not quoted in an active market. After initial recognition, loans and receivables are valued at accrued acquisition value in accordance with the effective interest method. Gains and losses are recognized in the income statement when the loans or receivables are divested or impaired as well as in pace with the accrued interested being reported.

Accounts receivables are recognized initially at fair value, which normally corresponds to the nominal value. In the event that the payment terms exceed one year, the receivable is recognized at the discounted present value. Provisions for doubtful receivables are made continuously after assessment of whether the customer's payment capacity has changed.

Volvo reports different loans and receivables. Note 16, Long-term receivables in customer financing operations presents mainly receivables related to installment purchases and finance leasing. Note 17, Other long-term receivable, presents, among other items, Other loans to external parties. Note 19, Current receivables in customer financing operations, presents installment purchases, finance leasing and dealer financing and Note 20, Other current receivables, is mainly accounts receivable.

Available-for-sale assets

This category includes assets available for sales or those that have not been classified in any of the other three categories. These assets are initially measured at fair value. Fair value changes are recognized directly in shareholders' equity. The cumulative gain or loss that was recognized in equity is recognized in profit or loss when an available-for-sale financial asset is sold. Unrealized value declines are recognized in equity, if the decline is not considered temporary. If the value decline is significant and has lasted for a longer period, the value impairment is recognized in the income statement. If the event causing the impairment no longer exists, impairment can be reversed in the income statement if it does not involve an equity instrument.

Earned or paid interest attributable to these assets is recognized in the income statement as part of net financial items in accordance with the effective interest method. Dividends received attributable to these assts are recognized in the income statement as Earnings from other shares and participations.

Volvo reports shares and participations in listed companies at market value on the balance-sheet date, with the exception of investments classed as associated companies and joint ventures. Companies listed on financial marketplaces are reported at market value on the balance-sheet date. Holdings in unlisted companies for which a market value is unavailable, are recognized at acquisition value. Volvo classifies these types of investments as assets available for sale. Note 15 Shares and participations lists Volvo's holdings of shares and participations in listed companies.

Impairments

Financial assets at fair value through profit and loss

Impairments do not need to be reported for this category of assets since they are continuously revalued at their fair value in the income statement.

Assets that are valued at amortized cost

Volvo conducts routine controls to ensure that the carrying value of assets valued at amortized cost, such as loans and receivables, has not decreased, which would result in an impairment loss reported in the income statement. Impairments consist of the difference between carrying value and current value of the estimated future payment flow attributable to the specific asset. Discounting of future cash-flow is based on the effective rate used initially.

Initially, the impairment requirement shall be evaluated for each respective asset. If, based on objective grounds, it cannot be determined that one or more assets are subject to an impairment loss, the assets are grouped in units based, for example, on similar credit risks to evaluate the impairment loss requirement collectively. Individually written down assets or assets written down during previous periods are not included when grouping assets for impairment test.

If the conditions for a completed impairment loss later prove to no longer be present, and that can be related to a specific event after the impairment event, the impairment loss is reversed in the income statement as long as the carrying value does not exceed the amortized cost at the time of the reversal.

When regard to accounts receivable, provisions shall be made when there is objective evidence that Volvo will not receive the full value of the receivable. They are excluded only when the receivable is deemed to be worthless and will not be obtained.

Assets available for sale

If an asset available for sale is to be impaired, it shall be effected by taking the difference between the asset's acquisition value (adjusted for any accrued interest if it involves that type of asset) and its fair value. If it instead involves equity instruments such as shares, a completed impairment shall not be reversed in the income statement. On the other hand, impairments that have been made on debt instruments (interest-bearing instruments) shall in whole or part be reversed in the income statement, in those instances where an event that is proven to have occurred after the impairment was performed is identified and impacts the valuation of that asset.

Hedge Accounting

Volvo uses derivative financial instruments, such as foreign exchange derivative contracts, forwards and futures and interest-rate swaps, for hedging against interest-rate risks and currency-rate risks. Derivatives are initially valued at their fair value and revalued on subsequent occasions at their fair value in the income statement, if it can be proven that they have not been included in an effective hedging situation. Derivatives are accounted for as an asset when they have a positive value and as a liability when they have a negative value. Profits and losses on derivatives that do not fulfill the requirements for hedge accounting are reported in the income statement. For 2007, 20 (10) was accounted for in the statement regarding ineffective cash-flow hedging. The following types of hedges can be utilized:

- A fair value hedge is used to hedge against exposure to changes in fair value of a recognized asset or liability or a previously unrecognized firm commitment.
- A cash-flow hedge is used to hedge against exposure to variability in cash-flows that is attributable to a particular risk associated with a recognized asset or liability or a highly probable forecast transaction in regards to a previously unrecognized firm commitment.
- A hedge of a net investment in a foreign operation.

In order for hedge accounting to be used, a number of criteria must be met: the position to be hedged shall be identified and exposed to currency and interest rate fluctuations, the purpose of the loan/instrument shall be to perform a hedge, and the hedge shall effectively protect the underlying position against changes in its value. Financial instruments utilized for the purpose of protecting future cash-flows shall be considered a hedge if the flow is deemed very likely to occur.

In order to apply hedge accounting in accordance with IAS 39, hedge effectiveness must be within a range of 80% to 125%. When it comes to cash-flow hedging, the effective portion of the hedge is reported against shareholders' equity and the ineffectiveness against the income statement.

Financial instruments used for hedging of forecast 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. The fair value of derivatives is determined primarily by their market value. To the extent that the requirements for hedge accounting are not met, any changes in value attributable to derivatives are immediately charged to the income statement. 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.

Volvo also applies hedge accounting for certain net investments in foreign operations. Current earnings from such hedging are reported in a separate portion of shareholders' equity. At divestment, the accumulated earnings from the hedge are recognized in the income statement.

Notes to consolidated financial statements

Information regarding reported and fair values

In the table below, carrying values are compared with fair values of financial instruments.

	Dec 31, 2006		Dec 31, 2007	
	Carrying value	Fair value	Carrying value	Fair value
Assets				
Financial assets at fair value through profit and loss				
The Volvo Group's outstanding currency risk contracts – commercial exposure	1,074	1,074	1,192	1,192
The Volvo Group's outstanding raw materials contracts	25	25	113	113
The Volvo Group's outstanding interest risk contracts – financial exposure	2,661	2,661	2,685	2,685
Marketable securities	20,342	20,342	16,490	16,490
	24,102	24,102	20,480	20,480
Loan receivables and other receivables				
Account receivables	23,251	–	30,504	–
Customer financing receivables[3]	64,742	–	78,847	–
Loans to external parties and other interest-bearing receivables	447	–	525	–
Conduit loans and other interest-bearing loans	393	382	106	102
	88,833	382	109,982	102
Financial assets for sale				
Shares and participations for which:				
a market value can be calculated[1]	740	740	1,030	1,030
a market value can not be calculated[2]	356	–	1,189	–
	1,096	740	2,219	1,030
Cash and cash equivalents	10,757	–	14,543	–
Liabilities				
Financial liabilities at fair value through profit and loss				
The Volvo Group's outstanding currency risk contracts – commercial exposure	310	310	924	924
The Volvo Group's outstanding raw materials contract	47	47	20	20
The Volvo Group's outstanding interest risk contracts – financial exposure	820	820	876	876
	1,177	1,177	1,820	1,820
Financial liabilities valued at amortized cost				
Long term bond loans and other loans	38,818	40,575	63,470	66,338
Short term bank loans and other loans	28,100	27,032	44,630	44,161
	66,918	67,607	108,100	110,499
Trade Payables	**38,080**	**-**	**52,663**	**-**

1 Refers to Volvo's ownership in Deutz AG valued at market value and Nissan Diesel's holdings in noted shares.

2 Unlisted, for which a reliable fair value can not be determined, are reported at aquisition value. No single block of shares represent a significant amount.

3 Volvo does not estimate the risk premium for the customer finance receivables and chooses therefore not to disclose fair value for this category.

Gains, losses, interest income and expenses related to financial instruments

	2006			2007		
	Gains/ Losses	Interest income	Interest expenses	Gains/ Losses	Interest income	Interest expenses
Financial assets and liabilities at fair value through profit and loss						
Marketable securities	807	0	0	898	0	0
Derivatives for financial exposure	(214)	0	0	(403)	0	0
Loans originated by the company and accounts receivables	0	66	0	0	37	0
Financial assets available for sale						
Shares and participations for which a market value can be calculated	0	–	–	8	–	–
Shares and participations for which a market value cannot be calculated	137	–	–	98	–	–
Cash and cash equivalents	–	180	0	–	249	0
Financial liabilities valued at amortized cost	32	0	(2,835)	3	0	(4,048)
Effect on income	762	246	(2,835)	604	286	(4,048)

Net effect of foreign exchange gains and losses

	2006	2007
Derivative instruments	2,020	1,364
Cash and cash equivalents	362	(191)
Loans originated by the company and Financial liabilities value at amortized cost – Volvo internal	(4,647)	(133)
Loans originated by the company and Financial liabilities value at amortized cost – External	2,296	(965)
Net effect	**31**	**75**

Various categories of financial instruments are treated separately as specified in the notes above. Below is an account of derivative instruments and options.

Outstanding derivative instruments for dealing with currency and interest-rate risks related to financial assets and liabilities

	Dec 31, 2006		Dec 31, 2007	
	Notional amount	Carrying value	Notional amount	Carrying value
Interest-rate swaps				
– receivable position	92,651	2,412	103,738	2,519
– payable position	30,578	(598)	47,415	(512)
Forwards and futures				
– receivable position	114,886	209	21,776	8
– payable position	80,331	(197)	24,164	(6)
Foreign exchange derivative contracts				
– receivable position	8,077	124	18,521	359
– payable position	18,423	(124)	19,636	(595)
Options purchased				
– receivable position	290	21	503	11
– payable position	200	(4)	503	(11)
Options written				
– receivable position	603	3	647	2
– payable position	442	(5)	155	0
Total		**1,841**		**1,775**

Volvo has chosen to apply hedge accouting for a loan of 1 billion euro borrowed during the second quarter. Fair value of the outstanding hedge instrument amounts to 159 (0). Volvo has also applied hedge accounting for hedge of a currency risk in future repayment of a loan in foreing currency for which the outgoing fair value of the hedge instrument amouts to (148) 0. This hedge is designated as a cash-flow hedge and changes in fair value has affected the cash-flow hedge reserve within equity. Changes in market value on the instruments used for hedging of risk in financial assets and liabilities for which hedge accounting has not been applied are reported in net financial income and expense, see Note 11.

Notes to consolidated financial statements

Outstanding forward contracts and options contracts for hedging of currency risk and interest risk of commercial receivables and liabilities

	Dec 31, 2006		Dec 31, 2007	
	Notional amount	Carrying value	Notional amount	Carrying value
Foreign exchange derivative contracts				
– receivable position	28,930	1,034	28,826	3,065
– payable position	18,494	(304)	31,146	(2,819)
Options purchased				
– receivable position	5,423	54	1,726	35
– payable position	–	–	–	–
Options written				
– receivable position	–	–	–	–
– payable position	4,394	(20)	1,382	(15)
Subtotal		**764**		**266**
Raw materials derivative contracts				
– receivable position	94	25	208	113
– payable position	(510)	(47)	(530)	(19)
Total		**742**		**360**

Derecognition of financial assets

Financial assets that have been transferred in such a way that part or all of the financial assets do not qualify for derecognition, are included in reported assets of the Volvo Group. In accordance with IAS 39 Financial Instruments, Recognition and Measurement, an evaluation is made whether substantially all the risks and rewards have been transferred to an external part. When Volvo has concluded that it is not the case, the part of the financial assets that reflect Volvo's continuous involvement are being recognized. On December 31, 2007, Volvo recognizes SEK 3.4 billion corresponding to Volvo's continuous involvement, mostly within the customer financing operations. Of this balance, SEK 3.0 billion derives from credit guarantees for customer finance receivables that Nissan Diesel has entered into. The amount is equivalent to slightly more than 50% of the outstanding customer finance receivables pertaining to Nissan Diesel products in the external financing company. A corresponding amount is reported as a financial liability.

Pledged assets

Pledged assets for loans and contingent liabilities amount to 1,556 (1,960). See note 28 Pledged assets, for the different classes of assets.

Hedge accounting

Cash-flow hedging

Derivative financial instruments used for hedging of forecasted commercial cash-flows and electricity consumption have, in accordance with IAS 39, been reported at fair value, which is debited or credited to a separate component of equity to the extent the requirements for cash-flow hedge accounting are fulfilled. To the extent that the requirements for hedge accounting are not met, any changes in value attributable to derivatives are immediately charged to the income statement. 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. The table in Note 23, Shareholders' equity shows how the currency risk reserve has changed during the year.

The Volvo Group's outstanding forward contracts and options contracts for hedging of commercial currency risks

Million		Currencies USD	GBP	EUR	JPY	Other currencies Net SEK	Fair value
Due date 2008	amount	1,919	280	1,378	(7,889)	8,277	
Due date 2009	amount	(15)	–	–	–	(875)	
Due date 2010	amount	(2)	–	–	–	45	
Totalt		**1,902**	**280**	**1,378**	**(7,889)**	**7,447**	
Average contract rate		6.75	13.30	9.28	0.06		
Fair value of outstanding forward contracts		**348**	**76**	**(282)**	**6**	**118**	**266**

The hedged amount of projected future flows for all periods are within the framework of Volvo's currency policy.

Volvo tests all cash-flow hedges for effectiveness when they are entered into. Hedging is considered to be effective when the projected future cash flow's currency fluctuation and maturity date coincide with those of the hedging instrument. The hedging relationship is regularly tested up until its maturity date. If the identified relationships are no longer deemed effective, the currency fluctuations on the hedging instrument from the last period the instrument was concidered effective are reported in the Group's income statement. For 2007, Volvo reported 20 (10) in revenue related to the ineffectiveness of cash-flow hedging.

Hedging of forecasted electricity is considered to be effective when predetermined factors that affect electricity prices are in agreement with forecasts of future electricity consumption and designated derivative instruments. No ineffective hedging of forecasted electricity consumption was identified during 2007.

Hedging of currency and interest rate risks on loans

Volvo has chosen to apply hedge accounting from June 1 for a loan of 1 billion euro borrowed during the second quarter. Volvo has not applied hedge accounting for financial instruments used to hedge interest and currency risks on loans before. Going forward, in applicable cases when the requirements for hedge accounting are considered to be fulfilled, Volvo will consider to apply hedge accounting for this kind of instruments.

Hedging of net investments in foreign operations

Volvo applies hedge accounting for certain net investments in foreign operations. Current earnings from such hedging shall be accounted for in a separate item within shareholders' equity. A total of neg 123 (63) in shareholders' equity relating to hedging of net investments in foreign operations was reported in 2007. An amount of 0 (37) was reported in earnings relating to concluded hedges.

Parent Company AB Volvo

Corporate registration number 556012-5790.

Board of Directors' report

During the first quarter 2007, 2,886 was transferred to N.A. KK, a wholly-owned newly-formed Japanese company, whose main business is to acquire and hold the shares in Nissan Diesel. The parent company's holding in Nissan Diesel (19%) with a carrying value of 2,001 was sold to N.A. KK and remaining shares consisting of preference shares with a carrying value of 3,493, were reclassified from shares in non-Group companies to shares in Group companies at the time Nissan Diesel was consolidated in the balance sheet of the Volvo Group.

During the spring, following a decision at the Annual General Meeting, an extraordinary dividend was carried out in the form of a 6:1 split with automatic redemption, in which the sixth share was redeemed by AB Volvo for SEK 25 per share. Together with the ordinary dividend a total of 20,255 was distributed to Volvo's shareholders. The decision also included a bonus issue without issuance of new shares through the transfer of 426 from unrestricted shareholders' equity to share capital which then was restored to the same level as prior to the redemption procedure. Following these transactions Volvo has a total of 2,128,420,220 registered shares, of which 677,601,630 shares of series A and 1,450,818,590 shares of series B.

As of January 31, 2008, AB Volvo divested the shares in the subsidiary Mack Trucks Inc to Volvo Holding USA AB for SEK 3.2 billion corresponding to book value. Volvo Holding USA AB is a wholly-owned subsidiary in the Volvo group.

Income from investments in Group companies includes dividends amounting to 841 (399), Group contributions and transfer price adjustments, net of 5,944 (8,721) and write-downs of shareholdings of 135 (192).

The carrying value of shares and participations in Group companies amounted to 47,011 (40,419), of which 46,461 (39,870) 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 94,345 (76,232).

Shares and participations in non-Group companies included 214 (5,642) 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 286 (180). Shares and participations in non-Group companies include listed shares in Deutz AG with a carrying value of 536, corresponding to the quoted market price at year-end.

Financial net debt amounted to 20,894 (3,589).

AB Volvo's risk capital (shareholders' equity plus untaxed reserves) amounted to 35,379 corresponding to 59% of total assets. The comparable figure at year-end 2006 was 89%.

Income statements

SEK M		2006	**2007**
Net sales		764	**781**
Cost of sales		(764)	**(781)**
Gross income		0	**0**
Selling expenses		(16)	**(5)**
Administrative expenses	Note 2	(621)	**(619)**
Other operating income and expenses	Note 3	5	**13**
Income from investments in Group companies	Note 4	8,565	**6,651**
Income from investments in associated companies	Note 5	7	**(118)**
Income from other investments		0	**0**
Operating income		7,940	**5,922**
Interest income and similar credits	Note 6	56	**13**
Interest expenses and similar charges	Note 6	(67)	**(527)**
Other financial income and expenses	Note 7	126	**36**
Income after financial items		8,055	**5,444**
Allocations	Note 8	(2,000)	**(1,230)**
Income taxes	Note 9	(1,706)	**(1,022)**
Income for the period		4,349	**3,192**

Balance sheets

SEK M			December 31, 2006		December 31, 2007
Assets					
Non-current assets					
Rights	Note 10		0		**0**
Property, plant and equipment	Note 10		16		**17**
Financial assets					
Shares and participations in Group companies	Note 11	40,419		**47,011**	
Other shares and participations	Note 11	6,400		**772**	
Deferred tax assets	Note 9	197		**199**	
Other long-term receivables		11	47,027	**11**	**47,993**
Total non-current assets			47,043		**48,010**
Current assets					
Short-term receivables from Group companies			10,541		**10,814**
Current tax receivables			–		**539**
Other short-term receivables	Note 12		89		**210**
Cash and bank accounts			29		**10**
Total current assets			10,659		**11,573**
Total assets			57,702		**59,583**
Shareholders' equity and liabilities					
Shareholders' equity					
Restricted equity					
Share capital (2,128,420,220 shares, quota value SEK 1:20)		2,554		**2,554**	
Statutory reserve		7,337	9,891	**7,337**	**9,891**
Unrestricted equity					
Non-restricted reserves		515		**359**	
Retained earnings		34,481		**18,703**	
Income for the period		4,349	39,345	**3,192**	**22,254**
Total shareholders' equity			49,236		**32,145**
Untaxed reserves	Note 13		2,004		**3,234**
Provisions					
Provisions for pensions	Note 14	185		**179**	
Other provisions		31	216	**23**	**202**
Non-current liabilities	Note 15				
Liabilities to Group companies			6		**6**
Current liabilities					
Trade payables		72		**112**	
Other liabilities to Group companies		5,757		**23,563**	
Current tax liabilities		50		**-**	
Other current liabilities	Note 16	361	6,240	**321**	**23,996**
Total shareholders' equity and liabilities			57,702		**59,583**
Assets pledged			–		**-**
Contingent liabilities	Note 17		126,276		**192,071**

Changes in Shareholders' equity

SEK M	Restricted equity: Share capital	Restricted equity: Statutory reserve	Unrestricted equity: Share premium reserve	Unrestricted equity: Fair value reserve	Unrestricted equity: Retained earnings	Unrestricted equity: Total	Total shareholders' equity
Balance at December 31, 2005	**2,554**	**7,337**	**-**	**83**	**41,137**	**41,220**	**51,111**
Cash dividend	–	–	–	–	(6,775)	(6,775)	(6,775)
Share-based payments	–	–	40	–	119	159	159
Revaluation of shares in listed companies	–	–	–	392	–	392	392
Income for the period	–	–	–	–	4,349	4,349	4,349
Balance at December 31, 2006	**2,554**	**7,337**	**40**	**475**	**38,830**	**39,345**	**49,236**
Share reduction	(426)	–	–	–	426	0	0
Bonus issue	426	–	–	–	(426)	0	0
Dividends and payment for redemption of shares to Volvo´s shareholders	–	–	–	–	(20,255)	(20,255)	(20,255)
Share-based payments	–	–	48	–	128	176	176
Revaluation of shares in listed companies	–	–	–	(204)	–	(204)	(204)
Income for the period	–	–	–	–	3,192	3,192	3,192
Balance at December 31, 2007	**2,554**	**7,337**	**88**	**271**	**21,895**	**22,254**	**32,145**

The distribution of share capital by class of shares is shown in Note 23 to the consolidated financial statements.

Cash-flow statements

SEK M			2006		**2007**
Operating activities					
Operating income			7,940		**5,922**
Depreciation and amortization			1		**1**
Other items not affecting cash	Note 18		(2,676)		**451**
Changes in working capital:					
(Increase)/decrease in receivables			(155)		**(131)**
Increase/(decrease) in liabilities and provisions			(163)		**(84)**
Interest and similar items received			325		**202**
Interest and similar items paid			(314)		**(711)**
Other financial items			21		**36**
Income taxes paid/received			(2,066)		**(1,614)**
Cash-flow from operating activities			2,913		**4,072**
Investing activities					
Investments in fixed assets		0		**(1)**	
Shares and participations in Group companies, net	Note 18	(162)		**(2,927)**	
Shares and participations in non-Group companies, net	Note 18	(5,737)		**1,814**	
Interest-bearing receivables including marketable securities, net	Note 18	–	(5,899)	**(13)**	**(1,127)**
Cash-flow after net investments			(2,986)		**2,945**
Financing activities					
Increase/(decrease) in loans	Note 18	2,743		**17,291**	
Cash payment to AB Volvo shareholders		(6,775)	(4,032)	**(20,255)**	**(2,964)**
Change in liquid funds			(7,018)		**(19)**
Liquid funds, January 1			7,047		**29**
Liquid funds, December 31			29		**10**

Liquid funds

Liquid funds include cash and bank balances and deposits at Volvo Treasury.

Notes and comments

General information

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

Intra-Group transactions
Of the Parent Company's net sales, 677 (664) pertained to Group companies while purchases from Group companies amounted to 421 (380).

Fees to auditors
Fees and other remunerations paid to external auditors for the fiscal year of 2007 totaled 107 (28), of which 18 (20) for auditing, distributed between PricewaterhouseCoopers, 18 (20) and others, – (0), and 89 (8) 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.

The Parent Company also applies RR 32:06 including the exception in the application of IAS 39 which concerns accounting and valuation of financial contracts of guarantee in favour of subsidiaries and associated companies.

The share-based incentive programs adopted at the Annual General Meeting as from 2004 are covered by IFRS 2 Share-based payments.

The Volvo Group has adopted IAS 19 Employee Benefits in its financial reporting. The parent company is still applying the principles of FAR's Recommendation No. 4 "Accounting of pension liabilities and pension costs" as in previous years. Consequently there are differences between the Volvo Group and the Parent Company in the accounting for defined-benefit pension plans as well as in valuation of plan assets invested in the Volvo Pension Foundation.

The difference between depreciation according to plan and 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.

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 (2).

Note 4 Income from investments in Group companies

Of the income reported, 841 (399) pertain to dividends from Group companies. Of the dividends, 719 pertain to dividend from Volvo Financial Services AB. The shares in VFS Servizi Finanziari Spa have been written down by 22 and the shares in Volvo Information Technology AB have been written down by 113. In 2006, the shares in Volvo Information Technology AB and in Kommersiella Fordon Europa AB were written down by 32 and 160, respectively.

Transfer price adjustments and Group contributions total a net of 5,944 (8,721). In 2006, the redemption of the preference shares in VNA Holdning Inc resulted in a capital loss of 363.

Note 5 Income from investments in associated companies

Income from associated companies that are reported in the Group accounts in accordance with the equity method amounted to –118 (7). Divestment of shares in Nissan Diesel to N.A. KK, a wholly-owned Japanese subsidiary, resulted in a capital loss of 142. The participations in Blue Chip Jet I HB amounted to 104 and in Blue Chip Jet II HB to –80.

Note 6 Interest income and expenses

Interest income and similar credits amounting to 13 (56) included interest in the amount of 10 (56) from subsidiaries, and interest expenses and similar charges totaling 527 (67) included interest of 521 (61) to subsidiaries.

Note 7 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.

Note 8 Allocations

	2006	2007
Allocation to additional depreciation	0	0
Tax allocation reserves	(2,000)	(1,230)
Total	**(2,000)**	**(1,230)**

Notes and comments

Note 9 Income taxes

	2006	2007
Current taxes	(1,705)	(1,024)
Deferred taxes	(1)	2
Total income taxes	**(1,706)**	**(1,022)**

Current taxes were distributed as follows:

	2006	2007
Current taxes for the period	(1,740)	(1,036)
Adjustment of current taxes for prior periods	35	12
Total current taxes	**(1,705)**	**(1,024)**

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 – (–) and to changes in other temporary differences to 2 (–1).

The table below shows the principal reasons for the difference between the corporate income tax (28%) and the tax for the period.

	2006	2007
Income before taxes	6,055	4,214
Income tax according to applicable tax rate (28%)	(1,695)	(1,180)
Capital gains/losses	(102)	(35)
Non-taxable dividends	114	235
Non-taxable revaluations of shareholdings	(54)	(42)
Other non-deductible expenses	(15)	(15)
Other non-taxable income	11	3
Adjustment of current taxes for prior periods	35	12
Income taxes for the period	**(1,706)**	**(1,022)**

Specification of deferred tax assets	2006	2007
Valuation allowance for doubtful receivables	1	1
Provision for post-employment benefits	196	198
Deferred tax assets	**197**	**199**

Note 10 Intangible and tangible assets

Acquisition cost	Value in balance sheet 2006	Capital expenditures	Sales/ scrapping	Value in balance sheet 2007
Rights	52	–	–	52
Total intangible assets	**52**	**-**	**-**	**52**
Buildings	6	–	0	6
Land and land improvements	3	–	–	3
Machinery and equipment	48	1	(3)	46
Total tangible assets	**57**	**1**	**(3)**	**55**

Accumulated depreciation	Value in balance sheet 2006[2]	Depre-ciation[1]	Sales/ scrapping	Value in balance sheet 2007[2]	Net carrying value in balance sheet 2007[3]
Rights	52	–	–	52	0
Total intangible assets	**52**	**-**	**-**	**52**	**0**
Buildings	1	0	0	1	5
Land and land improvements	0	0	–	0	3
Machinery and equipment	40	0	(3)	37	9
Total tangible assets	**41**	**0**	**(3)**	**38**	**17**

The assessed value of buildings was 3 (3) and of land 2 (2). Capital expenditures in tangible assets amounted to 1 (0). Capital expenditures approved but not yet implemented at year-end 2007 amounted to 2 (3).

1 Including write-downs.
2 Including accumulated write-downs.
3 Acquisition value, less accumulated depreciation, amortization and write-downs.

Note 11 Investments in shares and participations

Holdings of shares and participations are specified in AB Volvo's holding of shares. Changes in holdings of shares and participations are shown below.

	Group companies		Non-Group companies	
	2006	2007	2006	2007
Balance December 31, previous year	40,812	40,419	271	6,400
Acquisitions/New issue of shares/Dividends	491	2,909	5,737	148
Divestments	(1,053)	(1)	–	(2,103)
Shareholder contributions	361	342	–	–
Write-downs/Participations in partnerships	(192)	(151)	–	24
Revaluation of shares in listed companies	–	–	392	(204)
Reclassification, Nissan Diesel	–	3,493	–	(3,493)
Balance, December 31	**40,419**	**47,011**	**6,400**	**772**

Shares and participations in Group companies

During the first quarter 2007, 2,886 was transferred to N.A.KK, a wholly-owned newly-formed Japanese company, whose main business is to acquire and hold the shares in Nissan Diesel. The parent company's holding in Nissan Diesel (19%) with a carrying value of 2,001 was sold to N.A.KK and remaining shares consisting of preference shares with a carrying value of 3,493, were reclassified from shares in non-Group companies to shares in Group companies at the time Nissan Diesel was consolidated in the balance sheet of the Volvo Group.

During the year, Ericsson AB's share in Alviva AB was acquired by AB Volvo with the amount of 23. Alviva AB was established in 2002 as a joint venture between AB Volvo (51%) and Ericsson AB (49%) in order to pursue healthcare.

Shareholders' contributions were made in 2007 with 35 to VNA Holding Inc and with 307 to Volvo Financial Services AB.

Write-downs were carried out at year-end on the holdings in Volvo Penta UK Ltd, 16, VFS Servizi Finanziari Spa 22, and Volvo Information Technology AB, 113.

2006: During the first quarter of 2006, 491 was transferred to the newly-formed company Volvo Automotive Finance (China) Ltd for the Volvo Group's future customer-financing activities in China.

Shareholders' contributions were made with 34 to ZAO Volvo Vostok, with 300 to Volvo Information Technology AB and with 27 to Volvo Italia Spa.

The redemption of preference shares in VNA Holding Inc decreased the holding by 1,053.

Write-downs were carried out at year-end on the holdings in Volvo Information Technology AB, 32 and Kommersiella Fordon Europa AB, 160.

Shares and participations in non-Group companies

The participations in the partnerships Blue Chip Jet I HB and Blue Chip Jet II HB increased during the year by a net of 24.

Blue Chip Jet II HB was capitalized during 2007 with 145. Repayment of 102 was received from Blue Chip Jet I HB.

The revaluation of AB Volvo's ownership in the listed company Deutz AG has decreased the value by 204 during 2007.

2006: On March 21 2006, AB Volvo acquired 40 million shares, corresponding to 13% of the shares, in the Japanese truck manufacturer Nissan Diesel from Nissan Motor, with an option on Nissan Motor's remaining 6% within four years. The purchase price amounted to 1,505. The holding was reported as an associated company, since Volvo believed that substantial influence existed.

During the third quarter, AB Volvo exercised its option to purchase an additional 6% of the shares in Nissan Diesel from Nissan Motor for 496. In addition, AB Volvo acquired all 57.5 million preference shares in Nissan Diesel from Nissan Motor and Japanese banks for a total of 3,493. The purchase price for the preference shares added to the value and was reported as investments in associated companies. The preference shares that Volvo acquired could during the period 2008–2014 be converted to shares in installments. After full conversion, the preference shares would represent 165.5 million shares. The total purchase consideration for 46.5% of the shares and votes in Nissan Diesel amounted to 5,494.

During the year, the newly-formed partnership Blue Chip Jet II HB was capitalized with 148.

Henlys Group Plc was liquidated during 2006.

The revaluation of AB Volvo's ownership in the listed company Deutz AG increased the value by 392 during 2006. In addition, the holding increased by 95 through conversion into shares.

Notes and comments

Note 12 Other short-term receivables

	2006	2007
Accounts receivables	17	26
Prepaid expenses and accrued income	35	180
Other receivables	37	4
Total	**89**	**210**

The valuation allowance for doubtful receivables amounted to 5 (5) at the end of the year.

Note 13 Untaxed reserves

The composition of, and changes in, untaxed reserves	Value in balance sheet 2006	Allocations 2007	Value in balance sheet 2007
Tax allocation reserve	2,000	1,230	3,230
Accumulated additional depreciation			
Land	3	–	3
Machinery and equipment	1	0	1
Total	**2,004**	**1,230**	**3,234**

Note 14 Provisions for pensions

Provisions for pensions and similar benefits correspond to the actuarially calculated value of obligations not insured with third parties or secured through transfers of funds to pension foundations. The amount of pensions falling due within one year is included. AB Volvo has insured the pension obligations with third parties. Of the amount reported, 0 (0) pertains to contractual obligations within the framework of the PRI (Pension Registration Institute) system.

The Volvo Pension Foundation was formed in 1996. Plan assets amounting to 224 were contributed to the foundation at its formation, corresponding to the value of the pension obligations at that time. Since its formation, net contributions of 25 have been made to the foundation.

AB Volvo's pension costs amounted to 96 (105).

The accumulated benefit obligation of all AB Volvo's pension obligations at year-end 2007 amounted to 590, 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 66 higher than the corresponding pension obligations.

Note 15 Non-current liabilities

Long-term debt matures as follows:	
2013 or later	6
Total	**6**

Note 16 Other current liabilities

	2006	2007
Wages, salaries and withholding taxes	72	78
Other liabilities	136	103
Accrued expenses and prepaid income	153	140
Total	**361**	**321**

No collateral is provided for current liabilities.

Note 17 Contingent liabilities

Of the contingent liabilities amounting to 192,071 (126,276), 191,976 (126,244) pertained to Group companies.

Guarantees for various credit programs are included in amounts corresponding to the credit limits. These guarantees amount to 185,971 (120,612), of which guarantees on behalf of Group companies totaled 185,884 (120,587).

At the end of each year, the utilized portion amounted to 84,397 (62,194), including 84,302 (62,162) pertaining to Group companies.

Note 18 Cash-flow

Other items not affecting cash	2006	2007
Revaluation of shareholdings	192	127
Dividends, transfer price adjustments and Group contributions	(3,296)	63
Gain/loss on sale of shares	363	125
Other	65	136
Total	**(2,676)**	**451**

Further information is provided in Notes 4 and 5.

Shares and participations in Group companies, net		
Investments	(853)	(2,944)
Disposals	691	17
Net investments in shares and participations in Group companies	**(162)**	**(2,927)**

Investments and sales of shares in Group companies are shown in Note 11.

Shares and participations in non-Group companies, net	2006	2007
Investments	(5,737)	(147)
Disposals	0	1,961
Net investments in shares and participations in non-Group companies	**(5,737)**	**1,814**

Investments and sales of shares in non-Group companies are presented in Note 11.

Interest-bearing receivables including marketable securities, net		
New loans granted	–	(318)
Amortization received	–	305
Change in interest-bearing receivables, net	**-**	**(13)**

Increase /decrease in loans		
New loans	3,433	17,609
Amortization	(690)	(318)
Change in loans, net	**2,743**	**17,291**

Notes and comments

Note 19 Financial risks and instruments

Volvo's accounting policies for financial instruments are described in Note 1, Note 36 and Note 37 to the consolidated financial statements. Hedging transactions in AB Volvo are carried out through Volvo Treasury AB. The Parent Company has used interest-rate swaps to hedge financial liabilities of Group companies. Maturities of these swaps are between 2008 and 2009.

Outstanding derivative instruments for hedging of financial currency risks and interest rate risks related to financial assets and liabilities

	December 31, 2006			December 31, 2007		
	Notional amount	Carrying value	Fair value	Notional amount	Carrying value	Fair value
Interest-rate swaps						
– payable position	5,430	(4)	(4)	5,110	(2)	(2)

Note 20 Personnel

Wages, salaries and other remunerations amounted to 203 (204). Social costs amounted to 137 (142) of which pension costs, 96 (105). Of the pension costs 27 (32) pertained to Board members and Presidents. The Company's outstanding pension obligations to these individuals amounted to 1 (141).

The number of employees at year-end was 182 (176). 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	2006	2007
Total absence due to illness in percentage of regular working hours	1.4	1.8
of which, continuous sick leave for 60 days or more, %	44.0	62.1
Absence due to illness in percentage of regular working hours		
Men, %	0.8	0.5
Women, %	2.1	3.2
29 years or younger, %	0.7	0.2
30–49 years, %	0.9	1.2
50 years or older, %	2.4	3.2

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, 2006 Carrying value, SEK M	Dec 31, 2007 Carrying value, SEK M
Nissan Diesel, Japan	–	19	5,494	–
Deutz AG, Germany	–	7	740	536
Blue Chip Jet II HB, Sweden	969717-2105	50	148	212
Blue Chip Jet I HB, Sweden	969639-1011	40	0	2
Other investments			18	22
Total carrying value, Non-Group companies			**6,400**	**772**

1 Percentage figures refer to share capital as well as voting rights.

AB Volvo's holding of shares and participations in major Group companies	Registration number	Percentage holding	Dec 31, 2006 Carrying value, SEK M	Dec 31, 2007 Carrying value, SEK M
Volvo Lastvagnar AB, Sweden	556013-9700	100	8,678	8,678
Volvo Truck Center Sweden AB, Sweden	556072-7777	100	–	–
Volvo Finland AB, Finland	–	100	–	–
Volvo Trucks Center Hamburg Gmbh, Germany	–	100	–	–
Volvo Group Belgium NV, Belgium	–	100	–	–
Volvo Group UK Ltd, Great Britain	–	100	–	–
Volvo Otomotiv Turk Ltd STI, Turkey	–	100	–	–
Volvo India Ltd, India	–	100	–	–
Volvo Holding Sverige AB, Sweden	556539-9853	100	7,634	7,634
Volvo Logistics AB, Sweden	556197-9732	100	–	–
BRS Ltd, Great Britain	–	100	–	–
Mack Canada Inc, Canada	–	100	–	–
Volvo Construction Equipment North America, Canada	–	100	–	–
Volvo Polska Sp. O.O., Poland	–	100	–	–
Volvo (Southern Africa) Pty Ltd, South Africa	–	100	–	–
Volvo do Brasil Veiculos Ltda, Brazil	–	100	–	–
Banco Volvo (Brasil) SA, Brazil	–	100	–	–
Volvo Trucks Canada Inc., Canada	–	100	–	–
Volvo Road Machinery Ltd, Canada	–	100	–	–
Prévost Car Inc, Canada	–	100	–	–
Volvo Commercial Vehicles Australia Pty, Australia	–	100	–	–
Volvo Holding France SA, France	–	100	–	–
Volvo Trucks France SAS, France	–	100	–	–
Volvo Compact Equipment SAS, France	–	100	–	–
Volvo CE Europe SAS, France	–	100	–	–
VFS Finance France SAS, France	–	100	–	–
VFS Location France SAS, France	–	100	–	–

Notes and comments

AB Volvo's holding of shares and participations in major Group companies (cont.)	Registration number	Percentage holding	Dec 31, 2006 Carrying value, SEK M	Dec 31, 2007 Carrying value, SEK M
Renault Trucks, France	–	100	–	–
Renault Trucks Deutschland GmbH, Germany	–	100	–	–
Renault Trucks Polska SP Z OO, Poland	–	100	–	–
Renault Trucks, España, Spain	–	100	–	–
Renault Trucks Italia Spa, Italy	–	100	–	–
Mack Trucks Inc, USA	–	100	3,225	3,225
Mack de Venezuela C.A., Venezuela	–	100	–	–
Nissan Diesel Motor Ltd, Japan	–	100	–	3,493
Kanto Nissan Diesel Co.,Ltd., Japan	–	100	–	–
Tokai Nissan Diesel Co.,Ltd., Japan	–	100	–	–
Chubu Nissan Diesel, Japan	–	100	–	–
Kinki Nissan Diesel Co.,Ltd., Japan	–	100	–	–
Kyushu Nissan Diesel Co., Ltd., Japan	–	100	–	–
Nissan Diesel South Africa (Pty) Ltd., South Africa	–	80	–	–
Volvo Bussar AB, Sweden	556197-3826	100	1,877	1,877
Volvo Bus Finland Oy, Finland	–	100	–	–
Volvo Construction Equipment NV, The Netherlands	–	100	2,582	2,582
Volvo Construction Equipment AB, Sweden	556021-9338	100	–	–
Volvo Maskin AS, Norway	–	100	–	–
Volvo Construction Equipment Europe Ltd, Great Britain	–	100	–	–
Volvo Construction Equipment Europe GmbH, Germany	–	100	–	–
ABG Algemeinen Baumaschinen GmbH, Germany	–	100	–	–
Volvo Compact Equipment GmbH & Co KG, Germany	–	100	–	–
AB Volvo Penta, Sweden	556034-1330	100	421	421
Volvo Aero AB, Sweden	556029-0347	100	2,885	2,885
Volvo Aero Norge AS, Norway	–	78	–	–
VNA Holding Inc., USA	–	100	2,456	2,491
Volvo Trucks North America Inc, USA	–	100	–	–
Arrow Truck Sales, Inc., USA	–	100	–	–
Volvo Construction Equipment North America Inc., USA	–	100	–	–
Volvo Motor Graders Inc., USA	–	100	–	–
Volvo Penta of The Americas Inc., USA	–	100	–	–
Volvo Aero Services LP, USA	–	100	–	–
Volvo Commercial Finance LLC The Americas, USA	–	100	–	–
VFS US LLC, USA	–	100	–	–
VFS Leasing Co., USA	–	100	–	–

AB Volvo's holding of shares and participations in major Group companies (cont.)	Registration number	Percentage holding	Dec 31, 2006 Carrying value, SEK M	Dec 31, 2007 Carrying value, SEK M
Volvo Financial Services AB, Sweden	556000-5406	100	1,413	1,720
VFS International AB, Sweden	556316-6064	100	–	–
VFS Nordic AB, Sweden	556579-1778	100	–	–
VFS Financial Services BV, The Netherlands	–	100	–	–
VFS Financial Services Belgium NV, Belgium	–	100	–	–
VFS Financial Services (UK) Ltd, Great Britain	–	100	–	–
VFS Deutschland GmbH, Germany	–	100	–	–
VFS Financial Services Spain EFC, SA Spain	–	100	–	–
Volvo Finance (Suisse) SA, Switzerland	–	100	–	–
VFS Vostok, Russia	–	100	–	–
VFS Romania, Romania	–	100	–	–
VFS Canada Inc, Canada	–	100	–	–
NA Co Ltd, Japan	–	100	–	2,886
Volvo Treasury AB, Sweden	556135-4449	100	3,044	3,044
Sotrof AB, Sweden	556519-4494	100	1,388	1,388
Volvo Group Real Estate AB, Sweden	556006-8313	100	–	–
Volvo Group Finance Europe BV, The Netherlands	–	100	1,003	1,003
Volvo Korea Holding AB, Sweden	556531-8572	100	–	–
Volvo Construction Equipment Korea Co Ltd, South Korea	–	100	–	–
Volvo China Investment Co Ltd, China	–	100	523	523
Shanghai Sunwin Bus Co, China[2]	–	50	–	–
XIAN Silver Bus Co, China[2]	–	50	–	–
Shandong Lingong Construction Machinery, China	–	70	–	–
Volvo Automotive Finance (China) Ltd, China	–	100	491	491
Volvo 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 Information Technology AB, Sweden	556103-2698	100	276	163
Volvo Parts AB, Sweden	556365-9746	100	200	200
Volvo Group Insurance Försäkrings AB, Sweden	516401-8037	100	182	182
Volvo Business Services AB, Sweden	556029-5197	100	107	107
Volvo Danmark Holding AS, Denmark	–	100	104	104
VFS Servizi Financiari Spa, Italy[3]	–	100	101	79
Kommersiella Fordon Europa AB, Sweden	556049-3388	100	89	89
Volvo Norge AS, Norway	–	100	56	56
Volvo Malaysia Sdn, Malaysia	–	100	48	48
ZAO Volvo Vostok, Russia[4]	–	100	34	34
Volvo Italia Spa, Italy	–	100	27	27
Rossareds Fastighets AB, Sweden	556009-1190	100	26	26
Alviva AB, Sweden	556622-8820	100	1	24
Volvo Penta UK Ltd, Great Britain	–	100	16	0
Volvo East Asia (Pte) Ltd, Singapore	–	100	9	9
Volvo Automotive Holding BV, The Netherlands	–	100	3	3
Volvo Information Technology GB Ltd, Great Britain	–	100	3	3
Other holdings			7	6
Total carrying value Group companies[5]			**40,419**	**47,011**

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 AB Volvo and Volvo Trucks Regional Central Europe is 100%.
5 AB Volvo's share of shareholders' equity in subsidiaries (including equity in untaxed reserves) was 94,345 (76,232).

Remuneration policy

Proposed by the Board of Directors of AB Volvo to be adopted by the Annual General Meeting April 9, 2008

This Policy concerns the remuneration and other terms of employment for the Group Executive Committee of the Volvo Group. The members of the Group Executive Committee, including the President and the Executive Vice President are in the following referred to as the "Executives".

This Policy will be valid for employment agreements entered into after the approval of the Policy by the Annual General Meeting and for changes made to existing employment agreements thereafter.

1 Guiding principles for remuneration and other terms of employment

The guiding principle is that the remuneration and the other terms of employment for the Executives shall be competitive in order to ensure that the Volvo Group can attract and retain competent Executives.

The annual report 2007 sets out details on the total remuneration and benefits awarded to the Executives during 2007.

2 The principles for fixed salaries

The Executive's fixed salary shall be competitive and based on the individual Executive's responsibilities and performance.

3 The principal terms of variable salary and incentive schemes, including the relation between fixed and variable components of the remuneration and the linkage between performance and remuneration

The Executives may receive variable salaries in addition to fixed salaries. The variable salary may, as regards the President, amount to a maximum of 65% of the fixed annual salary and, as regards the other Executives, a maximum of 50% of the fixed annual salary.

The variable salary may be based on i.a. the performance of the entire Volvo Group or the performance of the Business Area or Business Unit where the Executive is employed. The performance will be related to the fulfilment of various improvement targets or the attainment of certain financial objectives. Such targets will be set by the Board and may relate to i.a. operating income or cash flow.

On a yearly basis, the Board will evaluate whether a share or share-price related incentive program will be proposed to the Annual General Meeting or not. The Annual General Meeting decides upon such programs. In the report on 2007 operations released on February 6, 2008, it was announced that the Board of Directors has decided to propose that the Annual General Meeting 2008 approve the adoption of a share-based incentive program relating to the financial year 2008.

The Executives are also participating in Volvo's Profit Sharing Program (VPS), which applies to the majority of the Volvo Group's employees and which can give a maximum individual result of SEK 8,500 per year, provided AB Volvo's return on equity (ROE) amounts to 20% or more. Results under VPS are principally placed in Volvo shares and they can be disposed of on the individual level after three years, at the earliest.

4 The principal terms of non-monetary benefits, pension, notice of termination and severance pay

4.1 Non-monetary benefits

The Executives will be entitled to customary non-monetary benefits such as company cars and company health care. In addition thereto in individual cases company housing and other benefits may also be offered.

4.2 Pension

In addition to pension benefits which the Executives are entitled to according to law and collective bargaining agreements, Executives resident in Sweden may be offered defined-contribution plans with annual premiums amounting to SEK 30,000 plus 20% of the pensionable salary over 30 income base amounts. In the defined-contribution plan, the pension earned will correspond to the sum of paid-in premiums and possible return without any guaranteed level of pension received by the employee. In the defined-contribution plan, no definite retirement date is set.

Some of the Executives have earlier been entitled to defined-benefit pension plans, but the majority of the Executives have re-negotiated these to the new system of defined-contribution plans. In connection therewith, agreements have in some cases been reached on individual adjusting premiums in accordance with actuarial calculations.

Previous pension agreements for certain Executives stipulated that early retirement could be obtained from the age of 60. Such agreements are no longer signed and the majority of the Executives that earlier were entitled to such defined-benefits pension plans have agreed to exchange these for defined-contribution plans without any defined point of time for retirement. The premium amounts to 10% of the pensionable salary plus individual adjusting premiums based on actuarial calculations in some cases.

Executives resident outside Sweden may be offered pension benefits that are competitive in the country where the Executives are resident, preferably defined-contribution plans.

4.3 Notice of termination and severance pay

For Executives resident in Sweden, the termination period from the Company will be 12 months and six months from the Executive. In addition thereto, the Executive, provided that termination has been made by the Company, will be entitled to 12 months severance pay.

Executives resident outside Sweden may be offered notice periods for termination and severance payment that are competitive in the country where the Executives are resident, preferably solutions comparable to the solutions applied to Executives resident in Sweden.

5. The Board's preparation and decision-making on issues concerning remuneration and other terms of employment for the Group Executive Committee

The Remuneration Committee recommends and the Board decides on the remuneration and other terms of employment for the President and the Executive Vice President. The Remuneration Committee decides on the remuneration and other terms of employment for the other members of the Group Executive Committee, in accordance with the principles decided by the Board.

The Remuneration Committee is further responsible for the review and recommendation to the Board of share and share-price related incentive programs to be decided upon by the Annual General Meeting.

6. Deviations from this Policy

The Board of Directors may deviate from this Policy, except as regards point 3, third paragraph, if there are specific reasons to do so in an individual case.

7. Deviations from an earlier approved Policy

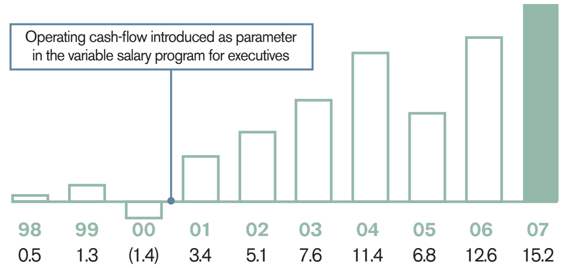
The Board of Directors has, in accordance with section 6 of the Remuneration Policy adopted by the Annual General Meeting 2007, deviated from section 3 of said Policy as regards variable salary to the President. The Board has decided that the President's variable salary shall amount to a maximum of 65% of the fixed annual salary as from January 1, 2008. The reason for the deviation is that the President's remuneration is revised on a calendar year basis and that the Board considered the deviation justified when adjusting the President's total remuneration to the market.

8. Information on earlier decisions on remuneration that has not become due for payment at the time of the Annual General Meeting's consideration of this Policy

The decisions already taken on remuneration to the Executives fall within the frames of this policy, except that some of the Executives have a right to receive 24 months severance pay provided they are above 50 years of age. Further, some Executives have outstanding rights under the employee stock option program under which options were allotted in May 2003. The options may be exercised until May 2008. Information on that program can be found on the Corporate Governance website.

The policy concerning the remuneration and other terms of employment for the Group Executive Committee of the Volvo Group which was decided at the Annual General Meeting 2007 is contained in Note 34 Personnel.

Operating cash-flow – Industrial operations, SEK bn



Proposed disposition of unappropriated earnings

AB Volvo	SEK M
Retained earnings	19,062
Income for the period	3,192
Total	**22,254**

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 5.50 per share	11,141
To be carried forward	11,113
Total	**22,254**

The record date for determining who is entitled to receive dividends is proposed to be Monday, April 14, 2008. In view of the Board of Directors' proposal to the Annual General Meeting to be held 9 April 2008 to decide on the distribution of a dividend of SEK 5.50 per share, the Board hereby makes the following statement in accordance with Chapter 18, Section 4 of the Swedish Companies Act.

The Board concludes that the Company's restricted equity is fully covered after the proposed dividend. The Board further concludes that the proposed dividend is justifiable in view of the parameters set out in Chapter 17, Section 3, second and third paragraphs of the Swedish Companies Act. In connection herewith, the Board wish to point out the following.

The proposed dividend reduces the Company's solvency from 53.9 per cent to 43.4 per cent and the Group's solvency from 25.7 per cent to 23.1 per cent, calculated as per year end 2007. The Board of Directors considers this solvency to be satisfactory with regard to the business in which the Group is active.

According to the Board of Directors' opinion, the proposed dividend will not affect the Company's or the Group's ability to fulfil their payment obligations and the Company and the Group are well prepared to handle both changes in the liquidity and unexpected events.

The Board of Directors is of the opinion that the Company and the Group have capacity to take future business risks as well as to bear contingent losses. The proposed dividend will not negatively affect the Company's and the Group's ability to make further commercially justified investments in accordance with the Board of Directors' plans.

In addition to what has been stated above, the Board of Directors has considered other known circumstances which may be of importance for the Company's and the Group's financial position. In doing so, no circumstance has appeared that does not justify the proposed dividend.

If the Annual General Meeting resolves in accordance with the Board of Directors' proposal, SEK 11,113 M will remain of the Company's non-restricted equity, calculated as per year end 2007.

The Board of Directors has the view that the Company's and the Group's shareholders' equity will, after the proposed dividend, be sufficient in relation to the nature, scope and risks of the business.

Had the assets and liabilities not been estimated at their market value pursuant to Chapter 4, Section 14 of the Swedish Annual Accounts Act, the company's shareholders' equity would have been SEK 272,765,399.00 less.

The Board of Directors and the President certify that the annual financial report has been prepared in accordance with generally accepted accounting principles and that the consolidated accounts have been prepared in accordance with the international set of accounting standards referred to in Regulation (EC) No 1606/2002 of the European Parliament and of the Council of 19 July 2002 on the application of international accounting standards, and give a true and fair view of the position and profit or loss of the Company and the Group, and that the Board of Directors' Report for the Company and for the Group gives a fair review of the development and performance of the business, position and profit or loss of the Company and the Group, and describes the principal risks and uncertainties that the Company and the companies of the Group face.

Göteborg, February 26, 2008

Finn Johnsson
Board Chairman

Peter Bijur
Board member

Per-Olof Eriksson
Board member

Tom Hedelius
Board member

Leif Johansson
President and CEO of the Volvo Group and Board member

Philippe Klein
Board member

Louis Schweitzer
Board member

Lars Westerberg
Board member

Ying Yeh
Board member

Martin Linder
Board member

Olle Ludvigsson
Board member

Johnny Rönnkvist
Board member

Our audit report was issued on February 26, 2008

PricewaterhouseCoopers AB

Göran Tidström
Authorized Public Accountant
Lead Partner

Olov Karlsson
Authorized Public Accountant
Partner

Audit report for AB Volvo

We have audited the annual accounts, the consolidated accounts, the accounting records and the administration of the Board of Directors and the President of AB Volvo for the year 2007. The annual accounts and the consolidated accounts of the Company is included on pages 16–17, 30–71 and 82–147 of the printed version of this document. The Board of Directors and the President are responsible for these accounts and the administration of the Company as well as for the application of the Annual Accounts Act when preparing the annual accounts and the application of international financial reporting standards IFRSs as adopted by the EU and the Annual Accounts Act when preparing the consolidated accounts. Our responsibility is to express an opinion on the annual accounts, the consolidated accounts and the administration, based on our audit.

We conducted our audit in accordance with generally accepted auditing standards in Sweden. Those standards require that we plan and perform the audit to obtain reasonable assurance that the annual accounts and the consolidated accounts are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the accounts. An audit also includes assessing the accounting principles used and their application by the Board of Directors and the President, and significant estimates made by the Board of Directors and the President when preparing the annual accounts and consolidated accounts, as well as evaluating the overall presentation of information in the annual accounts and consolidated accounts. As a basis for our opinion 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 IFRS as adopted by the EU and the Annual Accounts Act and give a true and fair view of the Group's financial position and results of operations. The Board of Directors' Report is consistent with the other parts of the annual accounts and the consolidated accounts.

We recommend to the annual general meeting of shareholders that the income statements and balance sheets of the Parent Company and the Group be adopted, that the profit of the Parent Company be dealt with in accordance with the proposal in the Board of Directors' Report, and that the members of the Board of Directors and the President be discharged from liability for the financial year.

Göteborg, February 26, 2008

PricewaterhouseCoopers AB

Göran Tidström
Authorized Public Accountant
Lead Partner

Olov Karlsson
Authorized Public Accountant
Partner

Eleven-year summary

The eleven-year summary presents each year in accordance with General Accepted Accounting Practice for that year. Earlier years are not restated when new accounting standards are applied. The years 1996–2003 are accounted for in accordance with Swedish GAAP for the respective year. As from 2004 the reporting is based on IFRS. The transition to IFRS is described in Note 3 in the Annual Reports 2005 and 2006. As from January 1, 2007, the benefits from the synergies created in the business units are transferred back to the product areas. Also, as from January 1, 2007, the responsibility for the Group's treasury operations and real estate has been transferred from Financial services, which, as from January 1, 2007, only are consolidated in accordance with the purchase method. Comparison figures for 2006 have been recalculated.

Consolidated income statements

SEK M	1997	1998	1999	2000	2001	2002	2003	2004	2005	2006	2007
Net sales	**183,625**	**212,936**	**125,019**	**130,070**	**189,280**	**186,198**	**183,291**	**211,076**	**240,559**	**258,835**	**285,405**
Cost of sales	(138,990)	(163,876)	(99,501)	(104,548)	(155,592)	(151,569)	(146,879)	(164,170)	(186,662)	(199,054)	(219,600)
Gross income	**44,635**	**49,060**	**25,518**	**25,522**	**33,688**	**34,629**	**36,412**	**46,906**	**53,897**	**59,781**	**65,805**
Research and development expenses	(8,659)	(10,104)	(4,525)	(4,876)	(5,391)	(5,869)	(6,829)	(7,614)	(7,557)	(8,354)	(11,059)
Selling expenses	(17,160)	(19,042)	(8,865)	(10,140)	(15,766)	(16,604)	(16,866)	(19,369)	(20,778)	(21,213)	(26,068)
Administrative expenses	(7,018)	(8,091)	(4,791)	(4,974)	(6,709)	(5,658)	(5,467)	(5,483)	(6,301)	(6,551)	(7,133)
Other operating income and expenses	(3,141)	(2,634)	(611)	622	(4,096)	(4,152)	(1,367)	(618)	(588)	(3,466)	163
Income (loss) from investments in associated companies	2,929	444	567	444	50	182	200	27	(557)	61	430
Income from other investments	1,168	4,526	170	70	1,410	309	(3,579)	830	37	141	93
Income from divestment of subsidiaries	–	–	26,695	–	–	–	–	–	–	–	–
Restructuring costs	–	(2,331)	–	–	(3,862)	–	–	–	–	–	–
Operating income (loss)	**12,754**	**11,828**	**34,158**	**6,668**	**(676)**	**2,837**	**2,504**	**14,679**	**18,153**	**20,399**	**22,231**
Interest income and similar credits	3,197	1,268	1,812	1,588	1,275	1,217	1,096	821	654	666	952
Interest expenses and similar charges	(2,699)	(1,315)	(1,505)	(1,845)	(2,274)	(1,840)	(1,888)	(1,254)	(972)	(585)	(1,122)
Other financial income and expenses	(76)	(162)	131	(165)	(191)	(201)	(55)	(1,210)	181	(181)	(504)
Income (loss) after financial items	**13,176**	**11,619**	**34,596**	**6,246**	**(1,866)**	**2,013**	**1,657**	**13,036**	**18,016**	**20,299**	**21,557**
Income taxes	(2,583)	(3,140)	(2,270)	(1,510)	326	(590)	(1,334)	(3,129)	(4,908)	(3,981)	(6,529)
Income (loss) for the period	**10,593**	**8,479**	**32,326**	**4,736**	**(1,540)**	**1,423**	**323**	**9,907**	**13,108**	**16,318**	**15,028**
Attributable to											
Equity holders of the parent company	10,481	8,437	32,222	4,709	(1,467)	1,393	298	9,867	13,054	16,268	14,932
Minority interest	112	42	104	27	(73)	30	25	40	54	50	96
	10,593	**8,479**	**32,326**	**4,736**	**(1,540)**	**1,423**	**323**	**9,907**	**13,108**	**16,318**	**15,028**

Consolidated income statements Industrial operations

SEK M	1997	1998	1999	2000	2001	2002	2003	2004	2005	2006	2007
Net sales	**178,531**	**205,712**	**116,382**	**120,392**	**180,615**	**177,080**	**174,768**	**202,171**	**231,191**	**249,020**	**276,795**
Cost of sales	(135,027)	(158,077)	(92,772)	(97,131)	(149,477)	(145,453)	(141,256)	(158,453)	(180,823)	(192,400)	(214,160)
Gross income	**43,504**	**47,635**	**23,610**	**23,261**	**31,138**	**31,627**	**33,512**	**43,718**	**50,368**	**56,620**	**62,635**
Research and development expenses	(8,659)	(10,104)	(4,525)	(4,876)	(5,391)	(5,869)	(6,829)	(7,614)	(7,557)	(8,354)	(11,059)
Selling expenses	(16,763)	(18,468)	(8,117)	(9,285)	(14,663)	(15,393)	(15,891)	(18,317)	(19,616)	(19,999)	(24,671)
Administrative expenses	(6,889)	(7,950)	(4,632)	(4,651)	(6,474)	(5,464)	(5,259)	(5,310)	(6,147)	(6,481)	(7,092)
Other operating income and expenses	(3,015)	(2,515)	(587)	309	(3,071)	(2,989)	(540)	7	(397)	(3,275)	249
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)	61	428
Income from other investments	1,168	4,526	170	70	1,408	309	(3,581)	828	37	141	93
Income from divestment of subsidiaries	–	–	26,695	–	–	–	–	–	–	–	–
Restructuring costs	–	(2,331)	–	–	(3,862)	–	–	–	–	–	–
Operating income (loss)	**12,754**	**11,828**	**34,158**	**6,668**	**(676)**	**2,837**	**2,504**	**14,679**	**18,153**	**18,713**	**20,583**

Eleven-year summary

Consolidated balance sheets

SEK M	1997	1998	1999	2000	2001	2002	2003	2004	2005	2006	2007
Intangible assets	3,284	5,778	6,618	6,925	17,525	17,045	16,756	17,612	20,421	19,117	36,508
Property, plant and equipment	30,793	36,207	19,788	22,231	33,234	30,799	30,640	31,151	35,068	34,379	47,210
Assets under operating leases	13,501	22,285	12,337	14,216	27,101	23,525	21,201	19,534	20,839	20,501	22,502
Shares and participations	4,583	3,393	29,213	30,481	27,798	27,492	22,206	2,003	751	6,890	2,219
Inventories	27,993	32,128	21,438	23,551	31,075	28,305	26,459	28,598	33,937	34,211	43,645
Customer-financing receivables	32,304	46,798	34,313	41,791	48,784	46,998	46,002	51,193	64,466	64,742	78,847
Interest-bearing receivables	4,667	4,735	18,617	19,228	8,079	5,490	6,632	3,384	1,897	4,116	4,530
Other receivables	27,087	34,197	24,019	26,352	39,946	33,990	32,621	35,747	42,881	42,567	55,152
Non-current assets held for sale	–	–	–	–	–	–	–	–	–	805	–
Liquid funds	20,603	20,224	29,269	15,968	27,383	25,578	28,735	34,746	36,947	31,099	31,034
Assets	**164,815**	**205,745**	**195,612**	**200,743**	**260,925**	**239,222**	**231,252**	**223,968**	**257,207**	**258,427**	**321,647**
Shareholders' equity[1]	62,850	70,235	98,236	88,931	85,576	78,525	72,636	70,155	78,760	87,188	82,781
Provision for post-employment benefits	3,296	2,936	2,130	2,632	14,647	16,236	15,288	14,703	11,986	8,692	9,774
Other provisions	19,657	25,187	14,832	14,941	18,427	16,721	15,048	14,993	18,556	20,970	27,084
Loans	41,217	64,230	53,345	66,233	81,568	72,437	74,092	61,807	74,885	66,957	108,318
Liabilities associated with assets held for sale	–	–	–	–	–	–	–	–	–	280	–
Other liabilities	37,795	43,157	27,069	28,006	60,707	55,303	54,188	62,310	73,020	74,340	93,690
Shareholders' equity and liabilities	**164,815**	**205,745**	**195,612**	**200,743**	**260,925**	**239,222**	**231,252**	**223,968**	**257,207**	**258,427**	**321,647**
[1] of which minority interests	899	860	544	593	391	247	216	229	260	284	579
Assets pledged	6,743	5,388	3,930	2,990	3,737	3,610	3,809	3,046	3,255	1,960	1,556
Contingent liabilities	5,406	6,737	6,666	6,789	10,441	9,334	9,611	9,189	7,850	7,726	8,153

Consolidated balance sheets, Industrial operations

SEK M	1997	1998	1999	2000	2001	2002	2003	2004	2005	2006	2007
Intangible assets	3,262	5,692	6,518	6,781	17,366	16,919	16,662	17,570	20,348	19,054	36,441
Property, plant and equipment	28,755	33,944	17,318	19,652	30,370	27,789	27,248	27,260	31,330	30,493	47,132
Assets under operating leases	1,366	1,817	1,611	4,245	15,020	11,155	8,976	8,477	10,260	11,822	13,850
Shares and participations	9,894	11,744	35,296	37,366	35,145	34,750	30,022	10,116	10,357	16,565	2,189
Inventories	27,756	31,883	21,053	22,998	30,557	27,564	25,848	28,291	33,583	33,893	43,264
Customer-financing receivables	227	384	9	15	114	99	118	230	1,377	1,193	1,233
Interest-bearing receivables	4,664	4,715	18,617	19,286	12,426	8,495	9,413	12,127	7,691	13,214	13,701
Other receivables	25,802	31,398	21,075	24,882	38,815	34,256	33,079	36,535	43,992	43,335	55,970
Non-current assets held for sale	–	–	–	–	–	–	–	–	–	805	–
Liquid funds	16,605	15,439	24,465	10,958	24,874	24,154	28,102	34,628	36,047	29,907	30,026
Assets	**118,331**	**137,016**	**145,962**	**146,183**	**204,687**	**185,181**	**179,468**	**175,234**	**194,985**	**200,281**	**243,806**
Shareholders' equity	62,810	70,179	98,236	88,931	85,576	78,525	72,636	70,155	78,760	87,188	75,129
Provision for post-employment benefits	3,266	2,904	2,118	2,619	14,632	16,218	15,264	14,677	11,966	8,661	9,746
Other provisions	15,962	19,435	9,861	8,277	14,085	13,893	12,792	14,115	17,164	19,385	25,372
Loans	1,047	5,018	12,206	18,233	29,710	22,494	24,677	13,968	13,097	9,779	38,286
Liabilities associated with assets held for sale	–	–	–	–	–	–	–	–	–	280	–
Other liabilities	35,246	39,480	23,541	28,123	60,684	54,051	54,099	62,319	73,998	74,988	95,273
Shareholders' equity and liabilities	**118,331**	**137,016**	**145,962**	**146,183**	**204,687**	**185,181**	**179,468**	**175,234**	**194,985**	**200,281**	**243,806**

Eleven-year summary

Consolidated cash-flow statements

SEK bn	1997	1998	1999	2000	2001	2002	2003	2004	2005	2006	2007
Operating income[1]	12.8	11.8	7.5	6.7	(0.7)	2.8	2.5	14.7	18.2	20.4	22.2
Depreciation and amortization	6.8	9.6	5.2	6.3	10.0	10.8	10.2	10.0	9.9	12.4	12.5
Other items not affecting cash	(3.5)	(4.9)	(0.3)	(0.4)	0.5	2.0	4.9	(0.1)	0.4	0.7	(0.5)
Change in working capital	4.7	1.5	(1.0)	(3.3)	6.4	1.0	0.4	(1.4)	(4.7)	(7.7)	(9.9)
Customer financing receivables, net	(15.5)	(12.8)	(7.1)	(4.5)	(3.7)	(5.7)	(4.3)	(7.4)	(7.8)	–	–
Financial items and income tax	(0.4)	(2.0)	(1.7)	(1.3)	(2.1)	(1.3)	(0.9)	(0.5)	(2.0)	(4.3)	(5.9)
Cash-flow from operating activities	**4.9**	**3.2**	**2.6**	**3.5**	**10.4**	**9.6**	**12.8**	**15.3**	**14.0**	**21.5**	**18.4**
Investments in fixed assets	(9.9)	(10.5)	(4.9)	(5.4)	(8.1)	(6.7)	(6.0)	(7.4)	(10.3)	(10.0)	(10.1)
Investments in leasing assets	(9.8)	(12.7)	(5.6)	(5.7)	(5.8)	(5.2)	(5.3)	(4.4)	(4.5)	(4.6)	(4.8)
Disposals of fixed assets and leasing assets	1.8	2.6	1.6	2.1	2.6	3.2	2.9	2.4	2.6	3.2	2.9
Shares and participations, net	10.7	5.5	(25.9)	(1.6)	3.9	(0.1)	(0.1)	15.1	0.3	(5.8)	0.4
Acquired and divested subsidiaries and other business units, net	(1.3)	(5.6)	31.0	0.0	13.0	(0.2)	0.0	(0.1)	0.7	0.5	(15.0)
Interest-bearing receivables including marketable securities	10.1	3.5	(16.9)	11.7	(3.7)	(1.5)	(2.0)	(6.4)	(1.3)	7.7	3.6
Cash-flow after net investments	**6.5**	**(14.0)**	**(18.1)**	**4.6**	**12.3**	**(0.9)**	**2.3**	**14.5**	**1.5**	**12.5**	**(4.6)**
Increase (decrease) in loans	5.6	19.5	16.3	8.1	6.2	(0.1)	1.9	(8.8)	3.6	(2.6)	28.7
Repurchase of own shares	–	–	–	(11.8)	(8.3)	–	–	(2.5)	(1.8)	–	–
Cash dividend/payment to AB Volvo's shareholders	(2.0)	(2.2)	(2.6)	(3.1)	(3.4)	(3.4)	(3.4)	(3.4)	(5.1)	(6.8)	(20.3)
Other	(5.9)	(0.2)	(0.1)	0.0	0.1	0.1	0.1	0.0	0.0	0.0	0.0
Change in cash and cash equivalents excluding translation differences	**4.2**	**3.1**	**(4.5)**	**(2.2)**	**6.9**	**(4.3)**	**0.9**	**(0.2)**	**(1.8)**	**3.1**	**3.8**
Translation differences on cash and cash equivalents	0.3	0.3	(0.2)	0.3	0.6	(0.7)	(0.6)	(0.2)	1.1	(0.5)	0.0
Change in cash and cash equivalents	**4.5**	**3.4**	**(4.7)**	**(1.9)**	**7.5**	**(5.0)**	**0.3**	**(0.4)**	**(0.7)**	**2.6**	**3.8**

1 1999, excluding gain on sale of Volvo Cars of SEK 26.7 billion.

Operating cash flow Industrial operations

SEK bn	1997	1998	1999	2000	2001	2002	2003	2004	2005	2006	2007
Operating income	12.4	11.1	6.4	5.2	(1.0)	2.3	1.6	13.3	16.1	18.7	20.6
Depreciation and amortization	5.0	6.4	3.1	3.8	7.0	7.8	7.2	7.1	7.3	9.8	10.3
Other items not affecting cash	(4.0)	(5.5)	(0.5)	(1.6)	0.0	1.0	4.1	(0.6)	0.2	0.2	(0.4)
Change in working capital	3.7	0.4	(1.6)	(3.0)	6.8	0.4	0.7	(1.4)	(5.6)	(3.1)	(0.1)
Financial items and income taxes	(0.5)	(2.3)	(1.7)	(0.8)	(2.3)	(1.1)	(0.7)	(0.2)	(1.9)	(3.7)	(6.0)
Cash flow from operating activities	**16.6**	**10.1**	**5.7**	**3.6**	**10.5**	**10.4**	**12.9**	**18.2**	**16.1**	**21.9**	**24.4**
Investments in fixed assets	(9.5)	(10.2)	(4.7)	(5.1)	(7.7)	(6.3)	(5.8)	(7.2)	(9.9)	(9.7)	(10.1)
Investments in leasing assets	(0.5)	(0.9)	(0.5)	(0.6)	(0.5)	(0.1)	(0.1)	(0.3)	(0.3)	(0.5)	(0.2)
Disposals of fixed assets and leasing assets	1.0	1.5	0.8	0.7	1.1	1.1	0.6	0.7	0.9	0.9	1.1
Operating cash flow	**7.6**	**0.5**	**1.3**	**(1.4)**	**3.4**	**5.1**	**7.6**	**11.4**	**6.8**	**12.6**	**15.2**

Exports from Sweden

SEK M	1997	1998	1999	2000	2001	2002	2003	2004	2005	2006	2007
Volvo Group, total	58,569	64,401	52,719	46,251	50,394	52,730	49,300	62,653	71,133	80,517	88,606

Key ratios

	1997	1998	1999	2000	2001	2002	2003	2004	2005	2006	2007
Gross margin, %[1]	24.4	23.2	20.3	19.3	17.2	17.9	19.2	21.6	21.8	22.7	22.6
Research and development expenses as percentage of net sales[1]	4.9	4.9	3.9	4.1	3.0	3.3	3.9	3.8	3.3	3.4	4.0
Selling expenses as percent of net sales[1]	9.4	9.0	7.0	7.7	8.1	8.7	9.1	9.1	8.5	8.0	8.9
Administration expenses as percentage of net sales[1]	3.9	3.9	4.0	3.9	3.6	3.1	3.0	2.6	2.7	2.6	2.6
Return on shareholders' equity, %	17.2	13.0	34.9	5.0	neg	1.7	0.4	13.9	17.8	19.6	18.1
Interest coverage, times[1]	5.8	9.6	23.1	4.5	neg	2.2	1.9	11.0	16.7	26.1	20.7
Self-financing ratio, %	27	16	29	39	92	110	152	163	116	189	153
Self-financing ratio Industrial operations, %	184	105	130	72	148	196	243	268	173	235	265
Financial position, Industrial operations, SEK M	16,956	12,232	28,758	9,392	(7,042)	(6,063)	(2,426)	18,110	18,675	23,076	(4,305)
Net financial position as percentage of shareholders' equity, Industrial operations	27.0	17.4	29.3	10.6	(8.2)	(7.7)	(3.3)	25.8	23.7	29.2	(5.7)
Shareholders' equity as percentage of total assets	38.1	34.1	50.2	44.3	32.8	32.8	31.4	31.3	30.6	33.7	25.7
Shareholders' equity as percentage of total assets, Industrial operations	53.1	51.2	67.3	60.8	41.8	42.4	40.5	40.0	40.4	40.6	30.8
Shareholders' equity excluding minority interest as percentage of total assets	37.6	33.7	49.9	44.0	32.6	32.7	31.3	31.2	30.5	33.6	25.6

1 Pertains to the Industrial operations. For periods before 2006, Financial Services is included and consolidated according to the equity method.

Eleven-year summary

Volvo share statistics

Data per share (adjusted for issues and splits)[1]

	1997	1998	1999	2000	2001	2002	2003	2004	2005	2006	2007
Basic earnings, SEK[1]	4.64	3.82	14.60	2.24	(0.70)	0.66	0.14	4.72	6.44	8.03	7.37
Cash dividend, SEK	1.00	1.20	1.40	1.60	1.60	1.60	1.60	2.50	3.35	10.00[9]	5.50[10]
Share price at year-end, SEK (B share)	42.6	37.2	44	31.3	35.2	28.4	44	52.7	74.9	90.70	108.50
Direct return, % (B share)[2]	2.3	3.2	3.2	5.1	4.5	5.6	10.5[8]	4.7	4.5	11.0	5.1
Effective return, % (B share)[3]	46	(10)	22	(23)	17.6	(14.8)	71.2	25.5	48.5	39.8	25.7
Price/earnings ratio (B share)[4]	9	9	3	14	neg	43	310	11.2	11.6	11.3	14.7
EBIT multiple[5]	9	11	10	10	25	23	14	9.2	9.3	10.3	9.7
Payout ratio, %[6]	22	31	10	71	neg	242	1,143	53	52	62	75
Shareholders' equity, SEK[7]	28	31.4	44.2	44.4	40.6	37.4	34.6	34	38.8	43	41
Return on shareholders' equity	17.2	13.0	34.9	5.0	neg	1.7	0.4	13.9	17.8	19.6	18.1

Other share data

	1997	1998	1999	2000	2001	2002	2003	2004	2005	2006	2007
Number of shareholders at year-end	225,500	210,600	238,000	230,000	214,000	211,000	208,500	202,300	195,442	183,735	197,519
Number of Series A shares outstanding at year-end, million	138.6	138.6	138.6	124.7	131.7	131.7	131.7	131.5	131.4	131.4	657
Number of Series B shares outstanding at year-end, million	302.9	302.9	302.9	272.6	287.8	287.8	287.8	278.6	273.1	273.4	1,369
Average number of outstanding shares, million	452.5	441.5	441.5	421.7	422.4	419.4	419.4	418.5	405.2	404.7	2,025
Number of Series A shares traded in Stockholm during the year, million	23.7	34.5	27.0	42.4	40.3	27.3	31.4	42.0	39.3	56.4	172.3
Number of Series B shares traded in Stockholm during the year, million	362.7	371.3	479.6	391.2	344.4	349.4	404.8	498.0	518.7	617.0	2,712.4
Number of shares traded in ADR, NASDAQ during the year, million	51.8	50.5	54.9	16.0	15.0	11.0	10.4	24.0	19.8	14.1	113.5

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, 2005 and 2006.
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, distribution of one share of Swedish Match 1996, and 2006 includes a share split 6:1 in which the sixth share was redeemed by AB Volvo for an amount of SEK 5.00 per share).
4 Share price at year-end divided by basic earnings per share.
5 Market value at year-end minus net financial position and minority interests divided by operating income excluding restructuring costs and revaluation of shares.
6 Cash dividend divided by basic earnings per share.
7 Shareholders' equity for shareholders in AB Volvo divided by number of shares outstanding at year-end.
8 Including distribution of shares in Ainax equal to SEK 3.01 (share-split adjusted) per Volvo share in 2004.
9 Including extrapayment of SEK 5 through redemption of shares.
10 Proposed by the Board of Directors.

The largest shareholders in AB Volvo, December 31, 2007[1]

	Number of shares	% of total votes	Share capital, %
Renault SA	441,520,885	21.3	21.8
Industrivärden	45,511,650	5.5	2.2
Svenska Handelsbanken[2]	42,928,644	5.3	2.1
Violet Partners LP	39,727,400	5.0	2.0
SEB fonder (savings funds)/ Trygg Försäkring	46,604,631	4.4	2.3
AMF Pension and Funds	63,739,506	3.9	3.1
Second Swedish National Pension Fund (AP2)	30,595,846	3.7	1.5
Alecta (pension funds)	36,575,00	3.1	1.8
Swedbank Robur fonder	58,844,875	2.9	2.9
Skandia Liv	24,080,223	2.6	1.2
Total	**830,128,660**	**57.7**	**40.9**

1 Based on the number of outstanding shares.
2 Svenska Handelsbanken comprises shares held by Svenska Handelsbanken, Svenska Handelsbanken Pension Fund, Svenska Handelsbanken Personnel Foundation, Svenska Handelsbanken pensionskassa and Oktogonen.

Distribution of shares, December 31, 2007

Volvo shareholders	Number of shareholders	% of total votes[1]	Share of capital, %[1]
1–1,000 shares	147,500	1.8	2.1
1,001–10,000 shares	45,665	4.9	6.1
10,001–20,000 shares	2,212	1.2	1.5
20,001–	2,142	92.1	90.3
Total	**197,519**	**100.0**	**100.0**

Following the repurchase of its own shares, AB Volvo held 4.8% of the Company's shares on Dec. 31, 2007.

1 Based on all registered shares.

Business area statistics

Net sales[1]

SEK M		1997	1998	1999	2000	2001	2002	2003	2004	2005	2006	2007
Trucks	Western Europe	22,280	27,837	30,006	30,415	60,841	61,406	63,097	68,664	70,567	80,116	86,035
	Eastern Europe	2,274	3,089	2,265	3,158	5,526	6,424	7,004	8,767	9,139	13,166	22,616
	North America	12,206	17,659	22,303	17,048	33,630	33,721	28,151	35,154	46,129	50,605	27,255
	South America	3,832	3,777	2,190	3,111	3,993	3,277	3,464	5,223	7,657	9,213	11,483
	Asia	2,410	2,047	2,010	3,432	4,659	5,919	9,206	12,378	13,551	8,975	26,593
	Other markets	1,503	1,267	1,492	1,911	7,919	8,005	6,047	6,693	8,353	9,190	13,910
	Total	**44,505**	**55,676**	**60,266**	**59,075**	**116,568**	**118,752**	**116,969**	**136,879**	**155,396**	**171,265**	**187,892**
Construction Equipment	Western Europe	7,836	9,557	9,901	10,029	10,326	10,383	11,576	12,443	14,213	18,438	21,852
	Eastern Europe	263	336	193	255	341	454	772	1,010	1,311	1,888	3,442
	North America	5,680	6,548	5,725	5,823	6,145	5,667	5,428	8,601	10,337	11,280	11,170
	South America	991	957	498	776	847	709	636	922	1,238	1,358	2,155
	Asia	1,036	1,092	1,903	2,484	2,773	3,048	3,707	4,961	5,717	6,903	12,179
	Other markets	847	882	662	626	703	751	1,035	1,423	2,000	2,264	2,835
	Total	**16,653**	**19,372**	**18,882**	**19,993**	**21,135**	**21,012**	**23,154**	**29,360**	**34,816**	**42,131**	**53,633**
Buses	Western Europe	5,082	5,528	5,735	6,767	6,263	6,695	6,153	6,422	6,564	7,390	7,204
	Eastern Europe	190	366	226	182	373	409	381	526	578	534	563
	North America	2,314	5,574	6,871	7,723	6,847	3,838	2,984	2,960	4,247	4,910	4,630
	South America	1,002	910	469	732	757	366	329	521	2,641	1,537	1,623
	Asia	1,562	1,519	943	1,269	1,839	2,022	1,447	1,632	1,612	2,003	1,802
	Other markets	432	389	469	514	596	705	684	661	947	897	786
	Total	**10,582**	**14,286**	**14,713**	**17,187**	**16,675**	**14,035**	**11,978**	**12,722**	**16,589**	**17,271**	**16,608**
Volvo Penta	Western Europe	2,219	2,725	2,986	3,204	3,789	3,846	4,081	4,723	4,845	5,748	6,290
	Eastern Europe	34	23	26	30	38	99	108	184	257	363	508
	North America	1,332	1,412	1,770	2,257	2,175	2,261	2,109	2,500	2,832	2,815	2,674
	South America	136	153	134	160	213	127	146	142	208	221	274
	Asia	643	476	692	794	988	1,141	947	1,324	1,427	1,359	1,624
	Other markets	102	142	153	154	177	195	205	184	207	268	349
	Total	**4,466**	**4,931**	**5,761**	**6,599**	**7,380**	**7,669**	**7,596**	**9,057**	**9,776**	**10,774**	**11,719**
Volvo Aero	Western Europe	3,682	4,231	4,560	4,651	4,788	3,422	3,951	3,130	3,346	3,674	3,431
	Eastern Europe	6	47	16	42	87	28	49	49	60	124	31
	North America	3,066	3,502	4,557	5,040	5,841	4,573	3,301	3,127	3,612	3,815	3,723
	South America	257	284	193	134	187	177	152	138	168	173	127
	Asia	264	336	491	701	708	497	428	400	284	356	234
	Other markets	201	184	136	145	173	140	149	81	68	91	100
	Total	**7,476**	**8,584**	**9,953**	**10,713**	**11,784**	**8,837**	**8,030**	**6,925**	**7,538**	**8,233**	**7,646**
	Other and eliminations	3,436	4,781	6,807	6,825	7,073	6,775	7,041	7,228	7,076	(654)	(703)
Net sales Industrial operations		**87,118**	**107,630**	**116,382**	**120,392**	**180,615**	**177,080**	**174,768**	**202,171**	**231,191**	**249,020**	**276,795**
Customer Finance	Western Europe	4,461	5,465	6,300	6,240	5,314	5,573	5,604	6,114	4,213	4,009	3,845
	Eastern Europe	0	86	185	257	360	424	474	499	584	379	639
	North America	509	1,152	1,620	2,626	3,216	3,344	2,542	2,432	2,036	2,569	2,467
	South America	72	297	455	452	451	403	358	396	570	608	620
	Asia	0	0	1	0	24	49	65	90	101	45	87
	Other markets	52	224	76	103	130	132	110	67	45	38	47
	Total	**5,094**	**7,224**	**8,637**	**9,678**	**9,495**	**9,925**	**9,153**	**9,598**	**7,549**	**7,648**	**7,705**
	Eliminations	–	–	–	–	(830)	(807)	(630)	(693)	1,819	2,167	905
Volvo Group excluding divested operations		**92,212**	**114,854**	**125,019**	**130,070**	**189,280**	**186,198**	**183,291**	**211,076**	**240,559**	**258,835**	**285,405**
Cars		96,453	103,798	–	–	–	–	–	–	–	–	–
Other divested operations and eliminations		(5,040)	(5,716)	–	–	–	–	–	–	–	–	–
Volvo Group total		**183,625**	**212,936**	**125,019**	**130,070**	**189,280**	**186,198**	**183,291**	**211,076**	**240,559**	**258,835**	**285,405**

As of January 1, 2007, the benefits from the synergies created in the business units are transferred back to the various business areas. Comparison figures for 2006 have been restated.

1 Net sales 1997–2001 have been restated in accordance with new organization effective from 2002.

Eleven-year summary

Operating income

SEK M	1997[7]	1998[6]	1999[5]	2000	2001[4]	2002	2003[3]	2004[2]	2005	2006[1]	2007
Trucks[8]	1,707	2,769	3,247	1,414	(2,066)	1,189	3,951	8,992	11,717	13,116	15,193
Construction Equipment	1,436	626	1,709	1,594	527	406	908	1,898	2,752	4,072	4,218
Buses	550	(37)	224	440	(916)	(94)	(790)	158	470	745	231
Volvo Penta	181	(63)	314	484	658	647	695	940	943	1,105	1,173
Volvo Aero	472	527	584	621	653	5	(44)	403	836	359	529
Customer Finance	375	681	1,066	1,499	325	490	926	1,365	2,033	1,686	1,649
Other	3,624	3,950	319	616	143	194	(3,142)	923	(598)	(684)	(762)
Volvo Group excluding divested operations	**8,345**	**8,453**	**7,463**	**6,668**	**(676)**	**2,837**	**2,504**	**14,679**	**18,153**	**20,399**	**22,231**
Cars	4,409	3,375	26,695	–	–	–	–	–	–	–	–
Other divested operations	–	–	–	–	–	–	–	–	–	–	–
Operating income (loss) Volvo Group	**12,754**	**11,828**	**34,158**	**6,668**	**(676)**	**2,837**	**2,504**	**14,679**	**18,153**	**20,399**	**22,231**

As of January 1, 2007, the benefits from the synergies created in the business units are transferred back to the various Business Areas. Comparison figures for 2006 have been restated.

1 Operating income in 2006 includes adjustment of goodwill of (1,712), reported in Trucks.
2 Operating income in 2004 included reversal of write-down of shares in Scania AB of 915, reported in Other, and write-down of shares in Henlys Group Plc of 95, reported in Buses.
3 Operating income in 2003 included write-down of shares in Scania AB and Henlys Group Plc amounting to 4,030, of which 429 was reported in Buses (Henlys Group) and 3,601 was reported in Other (Scania AB).
4 Operating income in 2001 included restructuring costs mainly related to the integration of Mack Trucks and Renault Trucks of 3,862 of which 3,106 in Trucks, 392 in Buses and 364 in Construction Equipment.
5 Effective January 1, 1999, Volvo Cars was reported as a divested operation. The capital gain from the divestment was 26,695.
6 Restructuring costs in 1998 amounted to 1,650 of which 46 in Trucks, 422 in Buses, 910 in Construction Equipment and 158 in Volvo Penta. In addition operating income included a capital gain from the sale of shares in Pharmacia UpJohn amounting to 4,452.
7 Operating income in 1997 included a capital gain from the sale of shares in Pripps Ringnes amounting to 3,027.
8 Refers to Volvo Trucks for 1997–2000.

Operating margin

%	1997	1998	1999	2000	2001	2002	2003	2004	2005	2006	2007
Trucks	3.8	5.0	5.4	2.4	(1.8)	1.0	3.4	6.6	7.5	7.7	8.1
Construction Equipment	8.6	3.2	9.1	8.0	2.5	1.9	3.9	6.5	7.9	9.7	7.9
Buses	5.2	(0.3)	1.5	2.6	(5.5)	(0.7)	(6.6)	1.2	2.8	4.3	1.4
Volvo Penta	4.1	(1.3)	5.5	7.3	8.9	8.4	9.1	10.4	9.6	10.3	10.0
Volvo Aero	6.3	6.1	5.9	5.8	5.5	0.1	(0.5)	5.8	11.1	4.4	6.9
Volvo Group excluding divested operations	**9.6**	**7.9**	**6.4**	**5.5**	**(0.4)**	**1.6**	**1.4**	**7.3**	**7.9**	**7.9**	**7.8**
Operating margin, total	**7.1**	**5.7**	**29.3**	**5.5**	**(0.4)**	**1.6**	**1.4**	**7.3**	**7.9**	**7.9**	**7.8**

Number of employees at year-end

Number	1997	1998	1999	2000	2001	2002	2003	2004	2005	2006	2007
Trucks	22,090	22,560	23,330	24,320	44,180	43,470	46,900	49,450	50,240	49,900	64,390
Construction Equipment	8,550	9,680	8,900	8,830	7,780	8,410	9,280	9,930	10,290	11,050	19,710
Buses	4,220	8,690	8,860	9,060	6,230	6,660	6,680	7,700	7,710	7,760	9,290
Volvo Penta	1,400	1,490	1,400	1,480	1,370	1,410	1,440	1,580	1,560	1,650	3,000
Volvo Aero	4,170	3,990	4,550	4,240	4,040	3,660	3,440	3,350	3,460	3,510	3,550
Financial Services	710	860	1,160	1,220	1,080	1,060	1,060	1,100	1,070	1,010	1,150
Other	3,840	5,190	5,270	5,120	6,240	6,490	6,940	7,970	7,530	8,310	610
Volvo Group, excluding divested operations	**44,980**	**52,460**	**53,470**	**54,270**	**70,920**	**71,160**	**75,740**	**81,080**	**81,860**	**83,190**	**101,700**
Cars	27,920	27,360	–	–	–	–	–	–	–	–	–
Volvo Group, total	**72,900**	**79,820**	**53,470**	**54,270**	**70,920**	**71,160**	**75,740**	**81,080**	**81,860**	**83,190**	**101,700**

Employees

Number	1997	1998	1999	2000	2001	2002	2003	2004	2005	2006	2007
Sweden	43,650	43,900	24,840	25,030	24,350	25,420	26,380	28,530	27,070	27,830	28,660
Europe, excluding Sweden	16,100	17,880	11,900	12,320	27,800	27,130	29,120	28,930	29,650	30,070	32,780
North America	8,450	12,100	11,880	11,410	12,670	12,440	12,270	14,620	15,140	14,820	15,750
South America	2,000	1,980	1,930	2,100	2,090	2,020	2,640	3,110	3,690	3,890	4,640
Asia	1,720	3,340	2,480	2,570	2,550	2,590	3,710	4,130	4,210	4,420	17,150
Other markets	980	620	440	840	1,460	1,560	1,620	1,760	2,100	2,160	2,720
Volvo Group total	**72,900**	**79,820**	**53,470**	**54,270**	**70,920**	**71,160**	**75,740**	**81,080**	**81,860**	**83,190**	**101,700**

Delivered units

Number	1997	1998	1999	2000	2001	2002	2003	2004	2005	2006	2007
Heavy trucks (>16 tons)	63,930	78,690	81,240	76,470	117,180	120,200	120,920	152,300	172,242	179,089	172,322
Medium-heavy trucks (7–15.9 tons)	5,050	4,590	3,850	5,360	17,310	16,220	15,870	18,800	18,643	14,695	27,933
Light trucks (<7 tons)					20,820	20,710	19,200	22,120	23,494	26,147	36,101
Total trucks	**68,980**	**83,280**	**85,090**	**81,830**	**155,310**	**157,130**	**155,990**	**193,220**	**214,379**	**219,931**	**236,356**
Buses and bus chassis	**8,730**	**10,200**	**9,500**	**11,015**	**9,953**	**9,059**	**7,817**	**8,232**	**10,675**	**10,360**	**9,916**

Number		1997	1998	1999	2000	2001	2002	2003	2004	2005	2006	2007
Trucks	Total Europe	34,470	42,350	42,530	46,140	98,040	96,290	92,080	102,670	103,622	114,417	128,070
	Western Europe	31,040	37,810	39,630	42,050	90,460	87,490	82,670	90,750	91,087	97,074	100,106
	Eastern Europe	3,430	4,540	2,900	4,090	7,580	8,800	9,410	11,920	12,535	17,343	27,964
	North America	20,900	29,310	34,300	23,610	34,650	36,510	34,760	49,270	64,974	70,499	33,280
	South America	6,970	6,020	3,900	4,530	5,790	5,360	5,980	9,190	11,248	11,646	15,264
	Asia	4,710	3,760	2,720	5,560	6,600	9,140	16,290	24,880	25,706	12,817	39,916
	Other markets	1,930	1,840	1,640	1,990	10,230	9,830	6,880	7,210	8,829	10,552	19,826
	Total	**68,980**	**83,280**	**85,090**	**81,830**	**155,310**	**157,130**	**155,990**	**193,220**	**214,379**	**219,931**	**236,356**
Buses	Total Europe	4,190	3,860	3,630	3,994	3,115	3,413	3,087	3,417	3,723	3,570	3,748
	Western Europe	4,030	3,580	3,430	3,870	2,899	3,076	2,782	3,073	3,385	3,081	3,377
	Eastern Europe	160	280	200	124	216	337	305	344	338	489	371
	North America	1,110	2,730	3,640	3,869	3,128	1,945	1,553	1,388	1,546	1,741	1,547
	South America	1,350	1,510	710	980	1,009	495	369	624	2,297	1,236	1,318
	Asia	1,410	1,650	1,000	1,659	2,209	2,639	2,227	2,341	2,554	3,349	2,757
	Other markets	670	450	520	513	492	567	581	462	555	464	546
	Total	**8,730**	**10,200**	**9,500**	**11,015**	**9,953**	**9,059**	**7,817**	**8,232**	**10,675**	**10,360**	**9,916**

Environmental performance of Volvo production plants, Industrial operations

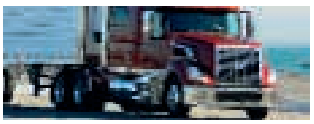
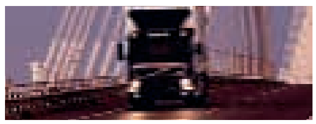
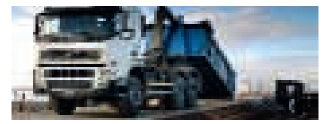
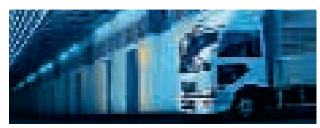
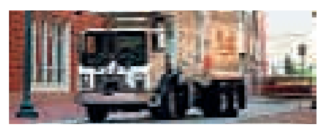
Absolute values related to net sales	2003	2004	2005	2006	2007[1]
Energy consumption (GWh; MWh/SEK M)	2,607; 14.9	2,695; 13.3	2,683; 11.6	2,612; 10.5	2,426; 9.6
CO_2 emissions (1,000 tons; tons/SEK M)	298; 1.7	293; 1.5	292; 1.3	282; 1.1	242; 1.0
Water consumption (1,000 m^3; m^3/SEK M)	8,587; 49.1	8,495; 42.2	7,419; 32.1	7,596; 30.6	7,067; 27.9
NOx emissions (tons; kilos/SEK M)	570; 3.3	645; 3.2	672; 2.9	606; 2.4	542; 2.1
Solvent emissions (tons; kilos/SEK M)	1,965; 11.2	2,085; 10.3	1,960; 8.5	2,048; 8.3	1,979; 7.8
Sulphur dioxide emissions (tons; kilos/SEK M)	200; 1.1	184; 0.9	209; 0.9	69; 0.3	58; 0.2
Hazardous waste (tons; kg/SEK M)	21,613; 124	24,675; 122	23,590; 102	26,987; 109	27,120; 107
Net sales, SEK bn	174.8	202.1	231.2	248.1	253.2

1 Excluding Nissan Diesel and Ingersoll Rand Road Development.

Customer offering

Trucks

All four brands in the Volvo Group's truck operations have a unique and distinct brand-specific character and compete in certain markets. Volvo Trucks, Renault Trucks, Nissan Diesel and Mack Trucks offer customers a broad range of products and services for efficient and economic transports.

	Long-haul	Regional distribution	City distribution	Construction
Volvo Trucks				
Renault Trucks				
Nissan Diesel				
Mack Trucks				

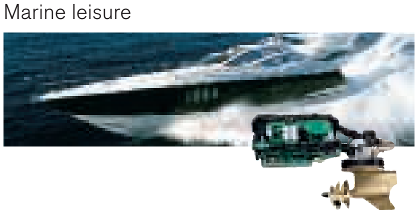
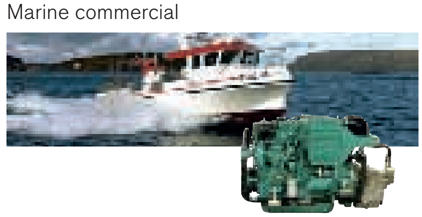
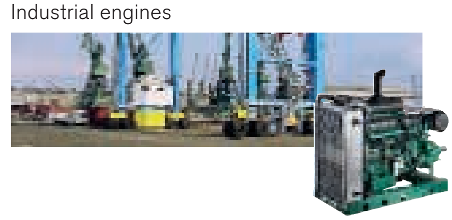
Buses

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

City buses	Intercity buses	Coaches	Chassis
			

Marine and industrial applications

Volvo Penta manufactures engines and drive systems for marine applications, for both leisure and commercial craft, with an engine range of 10 to 2,000 hp. Volvo Penta also supplies industrial engines ranging from 75 kW to 600 kW for irrigation pumps, generator units and other application areas.

Marine leisure	Marine commercial	Industrial engines
		

Construction equipment

Volvo Construction Equipment develops, manufactures and markets equipment for construction and related industries. Its products are leaders in many world markets, and include a comprehensive range of wheel loaders, hydraulic wheeled and crawler excavators, articulated haulers, road machinery graders and a wide range of compact equipment.

Compact construction equipment

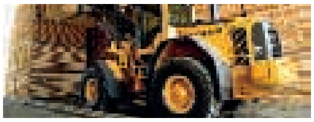

Wheel loaders

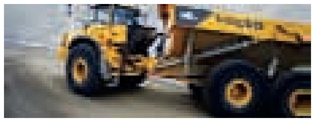

Backhoe loaders


Crawler Excavators


Skidsteer loaders

Heavy construction equipment


Wheel loaders


Articulated haulers


Backhoe loaders


Wheeled excavators


Crawler excavators


Lingong wheel loaders

Road machinery


Motor graders

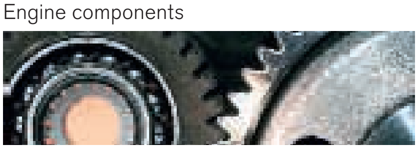

Compaction equipment


Pavers

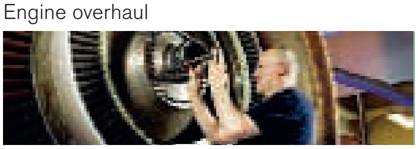
Aerospace industry

Volvo Aero specializes in a number of highly advanced components for aircraft engines and space rockets. More than 90% of all new large commercial aircraft are equipped with engine components from Volvo Aero, which is also responsible for the engines of the Swedish Air Force's Gripen fighters. Volvo Aero also has a substantial aftermarket business.

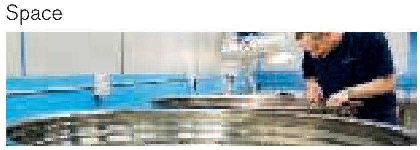
Engine components



Engine overhaul



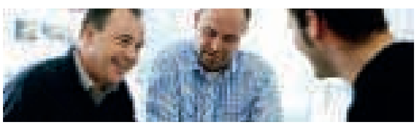
Space



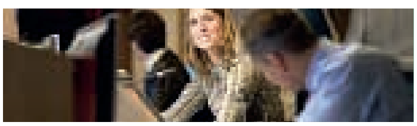
Financial services

Financial services such as customer and dealer financing, treasury and property management contribute to create shareholder value. Providing cost effective and attractive financing solutions is essential in retaining existing customers and attracting new ones to the Volvo Group.

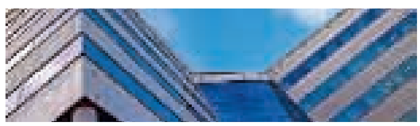
Customer financing



In-house bank



Property management



Definitions

Basic earnings per share
Income for the period attributable to shareholders of the parent company divided by the weighted average number of shares outstanding during the period.

Capital expenditures
Capital expenditures include investments in property, plant and equipment, intangible assets and assets under operating leases. Investments in fixed assets included in the Group's cash-flow statement include only capital expenditures that have reduced the Group's liquid funds during the year.

Cash-flow
Combined changes in the Group's liquid funds during the fiscal year. Changes inliquid funds are specified with reference to changes in operations, operating activities, changes depending on investments in equipment, fixed assets etc and financing acitivites such as changes in loans and investments.

Diluted earnings per share
Diluted earnings per share is calculated as income for the period attributable to the Parent Company's shareholders divided by the average number of shares outstanding plus the average number of shares that would be issued as an effect of ongoing share-based incentive programs and employee stock option programs.

Equity ratio
Shareholders' equity divided by total assets.

Interest coverage
Operating income plus interest income and similar credits divided by interest expense and similar charges.

Joint ventures
Companies over which the Company has joint control together with one or more external parties.

Net financial position
Cash and cash equivalents, marketable securities and interest-bearing short- and long-term receivables reduced by short- and long-term interest-bearing loans and provisions for post-employment benefits.

Operating margin
Operating income divided by net sales.

Return on shareholders' equity
Income for the period divided by average shareholders' equity.

Self-financing ratio
Cash-flow from operating activities (see Cash-flow statement) divided by net investments in fixed assets and leasing assets as defined in the cash-flow statement.

Annual General Meeting, April 9, 2008

The Annual General Meeting of AB Volvo will be held in Göteborg in Lisebergshallen (entrance from Örgrytevägen) Wednesday April 9, 2008, 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 April 3, 2008, give notice of intention to attend, preferably not later than 12:00, Thursday, April 3, 2008.

• by telephone, +46 31 66 00 00 beginning March 5
• by mail addressed to AB Volvo (publ), Legal Department, SE-405 08 Göteborg, Sweden
• at Volvo's website www.volvogroup.com

When giving notice, shareholders should state their:

• name
• personal number (registration number)
• address and telephone number
• name and personal number (registration number) of the proxy, if any
• name(s) of any 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 April 3, 2008.

April 14, 2008 has been proposed as the record date for dividends, which are expected to be distributed on April 17, 2008.

Volvo's Election Committee

The following persons are members of Volvo's Election Committee:

Thierry Moulonguet	Chairman of the Election Committee, Renault s.a.s
Finn Johnsson	Chairman of the Board
Carl-Olof By	Handelsbanken and others
Björn Lind	SEB funds / Trygg Insurance
Lars Förberg	Violet Partners LP
Bengt Kjell	AB Industrivärden
Christer Elmehagen	AMF Pension

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

Three months ended March 31, 2008	April 25, 2008
Six months ended June 30, 2008	July 23, 2008
Nine months ended September 30, 2008	October 24, 2008
Report on 2008 operations	February, 2009
Annual Report 2008	March, 2009

The reports are available on www.volvogroup.com on date of publication and are also sent directly to all shareholders who have advised Volvo that they wish to receive financial information.

Historical and current time series reflecting the Volvo Group's market information and share data are published regularly on www.volvogroup.com.

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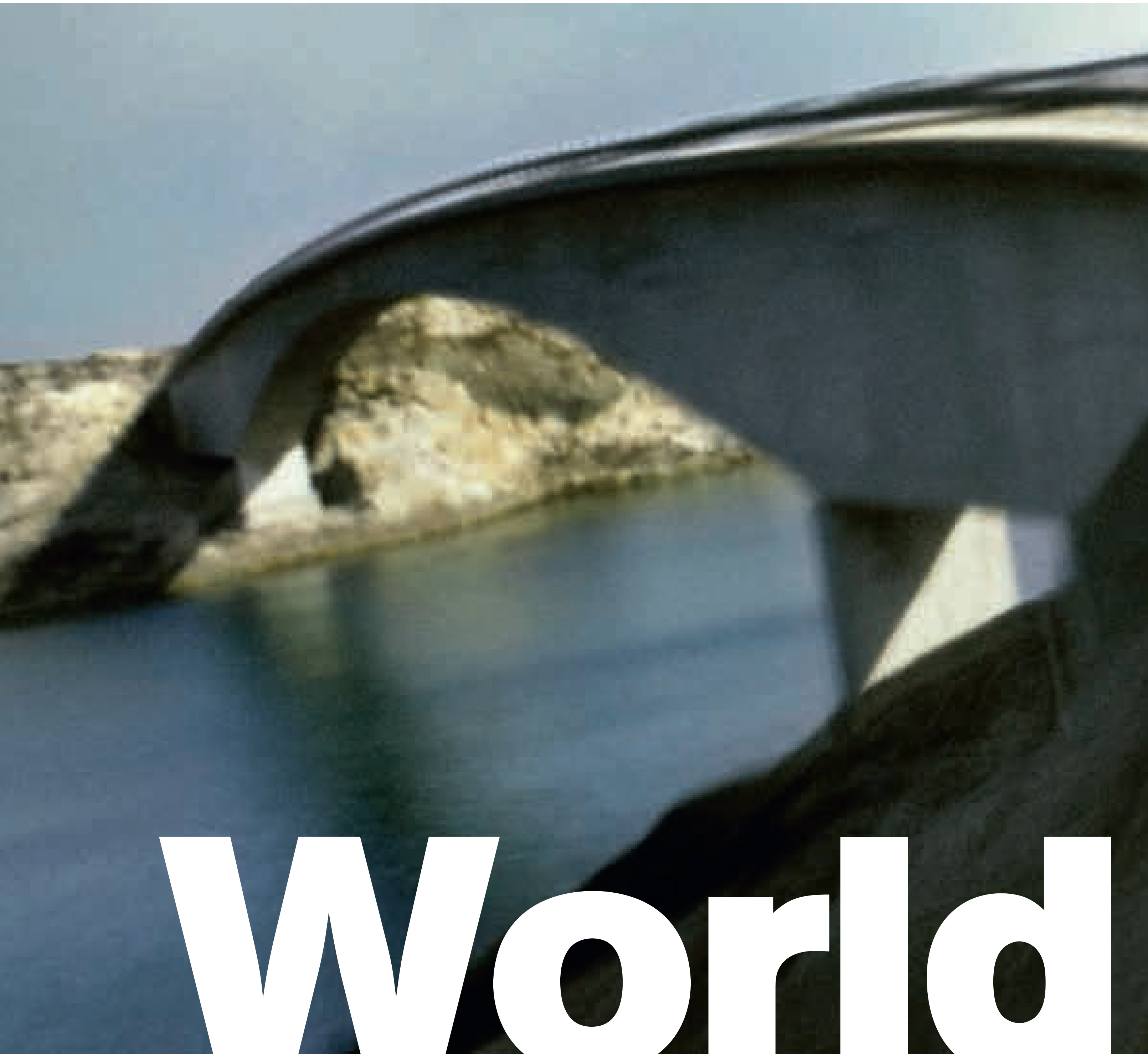

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