The Volvo Group 2006

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

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 **83,000 employees**, production facilities in 18 countries, and sales activities in some **180 countries.**

During 2006 Volvo Group sales rose 7% to SEK **248 billion**, with earnings per share advancing 25% to **SEK 40.20.** The share is listed on the Stockholm Stock Exchange and on NASDAQ in the US.

Information about IFRS

As of January 1, 2005, AB Volvo complies with International Financial Reporting Standards (IFRS), previously known as IAS, as adopted by the European Union. Figures for the corresponding periods in 2004 have been restated according to IFRS. In the financial information on pages 1 to 77 Volvo Financial Services is reported in accordance with the equity method. Reporting in accordance with IAS 1 begins with Financial information on page 86.

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

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

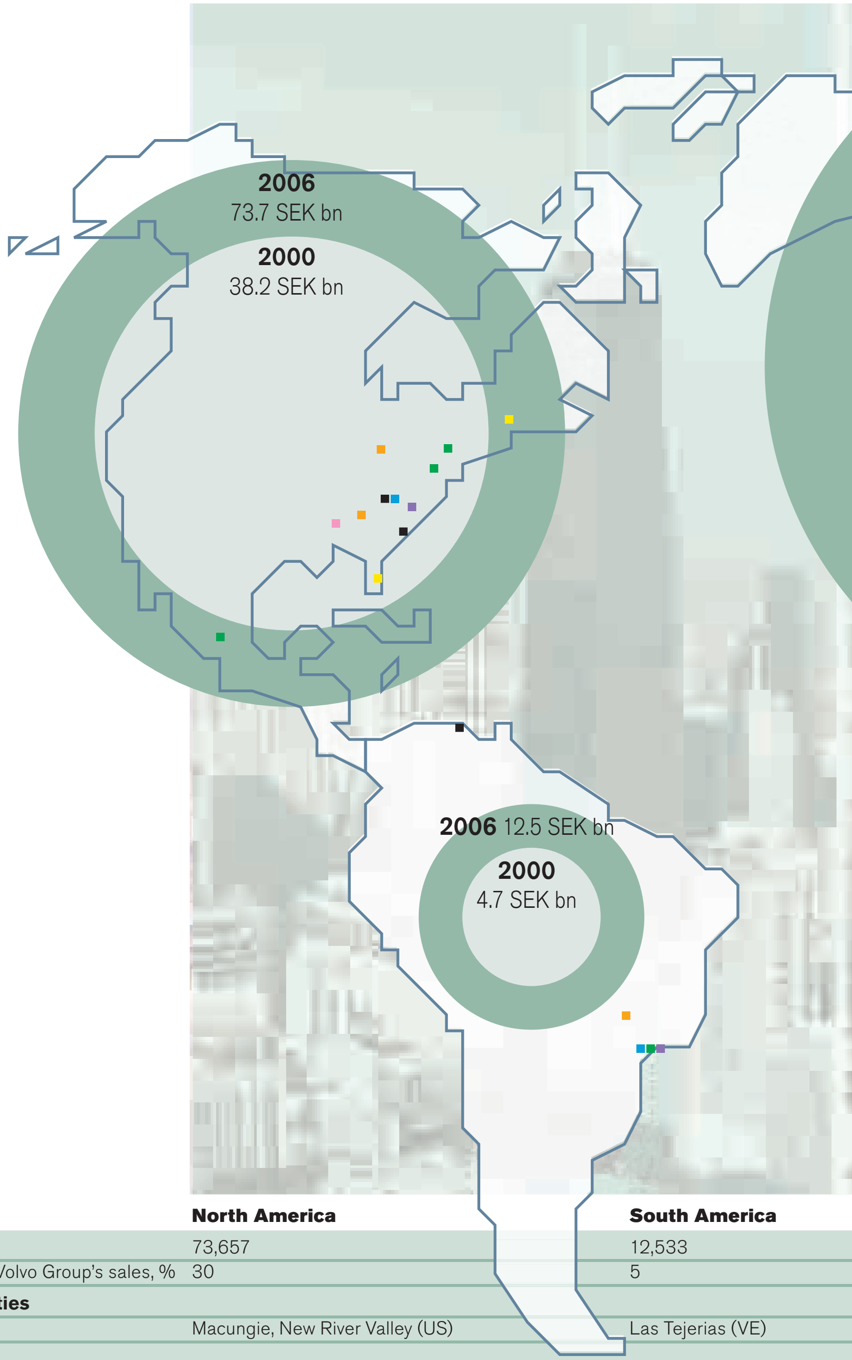
The Volvo Group's formal financial reports are presented on pages 46-77 and 86-152 in the printed version and has been audited by the company's auditors.

A global group

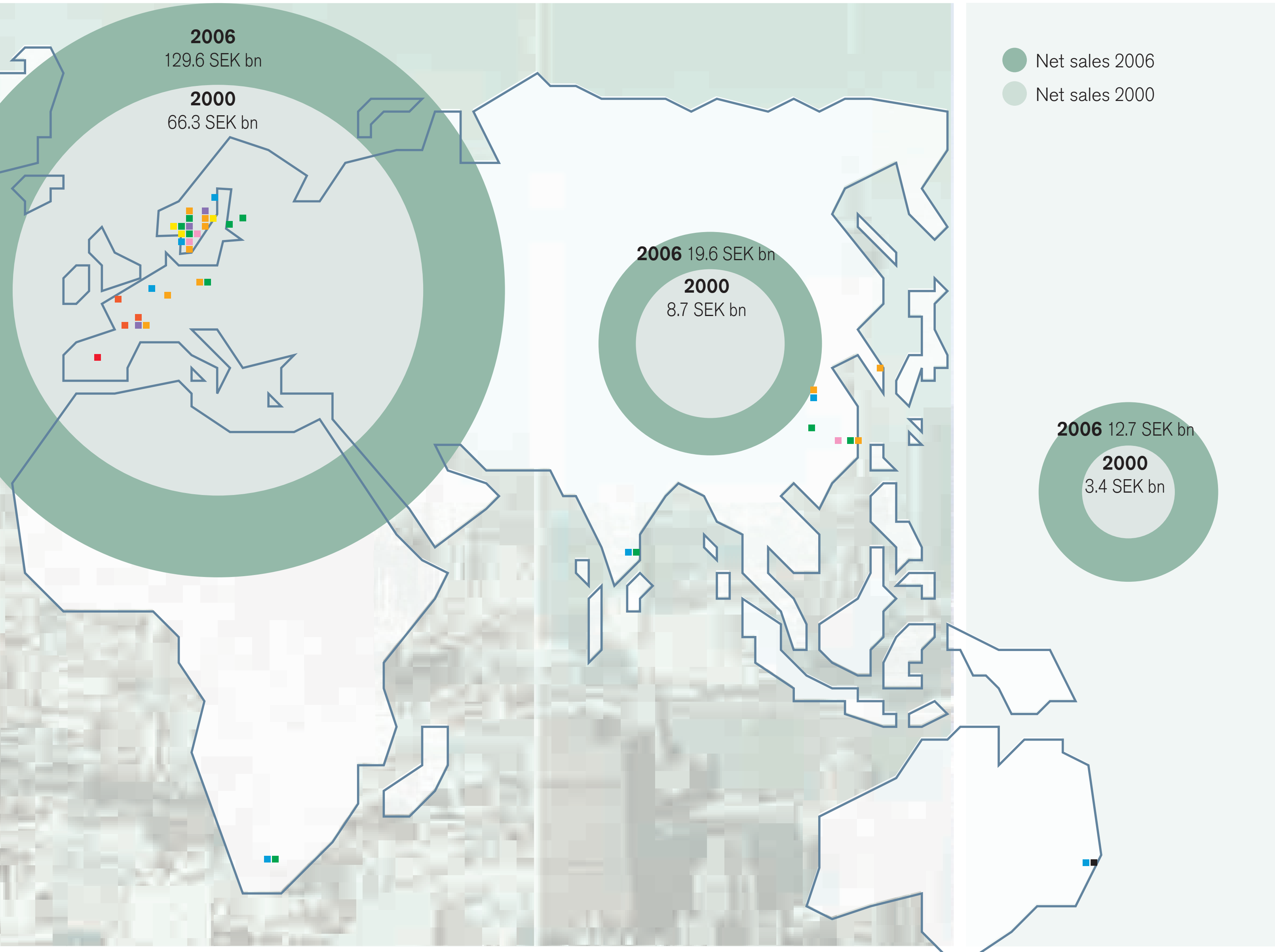
Volvo Group customers are active in more than 180 countries worldwide, mainly in Europe and North America as well as to a considerable extent in Asia. Group sales of products and services are conducted through wholly owned and independent dealers. The global service network handles customer demand for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

During 2006, the Group's workforce rose to 83,187 employees in 58 countries. The majority of employees are based in Sweden, France and the US.

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 2006, the Group increased its sales in Eastern Europe by 41%. Volvo implemented investments in Asia during 2006 in Japan and China. These provided a platform for increased sales and in the long term are expected to contribute to the Group's growth target.



		North America	South America
	Net sales, SEK M	73,657	12,533
	Percentage of the Volvo Group's sales, %	30	5
	Production facilities		
■	Mack Trucks	Macungie, New River Valley (US)	Las Tejerias (VE)
■	Renault Trucks		
■	Volvo Trucks	New River Valley (US)	Curitiba (BR)
■	Buses	St Claire, St Eustache (CA), Mexico City (MX)	Curitiba (BR)
■	Construction Equipment	Asheville (US), Goderich (CA)	Pederneiras (BR)
■	Volvo Penta	Lexington (US)	
■	Volvo Aero	Boca Raton, Newington (US)	
■	Volvo Powertrain	Hagerstown (US)	Curitiba (BR)



Europe	Asia	Rest of world
129,613	19,610	12,722
52	8	5
		Brisbane (AU)
Blainville, Bourg-en-Bresse, Limoges (FR), Villaverde (ES)		
Göteborg, Umeå (SE), Gent (BE)	Bangalore (IN), Jinan* (CN)	Durban (ZA), Brisbane (AU)
Borås, Säffle, Uddevalla (SE), Tammerfors, Åbo (FI), Wroclaw (PL)	Bangalore (IN), Shanghai*, Xian* (CN)	Durban (ZA)
Arvika, Braås, Eskilstuna, Hallsberg (SE), Konz-Könen (DE), Belley (FR), Wroclaw (PL)	Changwon (KR), Shanghai (CN), Linyi* (CN)	
Göteborg, Vara (SE)	Wuxi* (CN)	
Bromma, Trollhättan (SE), Kongsberg (NO)		
Köping, Skövde (SE), Vénissieux (FR)		

* Ownership ≥ 50%

The Volvo Group 2006

Additional improvements in profitability

Record number of product innovations

Acquisitions to strengthen market position in Asia

Strong sales growth. Net sales up 7% to SEK 248,135 M (231,191).

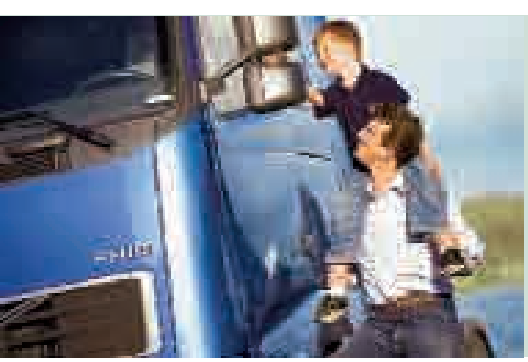
Continuing favorable earnings trend. Earnings for the year rose 25% to SEK 16,318 M (13,108) and the return on shareholders' equity increased to 19.6% (17.8).

Major investments in R&D programs for the next generation of engines and products to ensure future competitiveness.

Consolidation of the Group's presence in Asia as a result of the purchase of shares in Nissan Diesel and an agreement to purchase shares in Lingong, a Chinese manufacturer of construction equipment.

Earnings per share rose by 25% to SEK 40.20 (32.22).

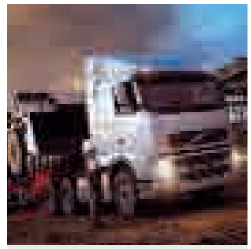
Proposed dividend of SEK 25.00 per share and an extraordinary payment through a 6:1 share split in which the sixth share will be redeemed by AB Volvo for an amount of SEK 25 per share.



Key ratios	2004	2005	**2006**
Net sales, SEK M	202,171	231,191	248,135
Operating income, M[1]	13,859	18,153	22,111
Adjustment of goodwill	–	–	(1,712)
Revaluation of shares	820	–	–
Operating income, SEK M	14,679	18,153	20,399
Operating margin, %	7.3	7.9	8.2
Income after financial items, SEK M	13,036	18,016	20,299
Income for the period, SEK M	9,907	13,108	16,318
Earnings per share, SEK	23.58	32.22	40.20
Dividend per share, SEK	12.50	16.75	25.00[2]
Extraordinary payment per share, SEK	–	–	25.00[3]
Return on shareholders' equity, %	13.9	17.8	19.6

1 Excluding revaluation of shares in Scania AB and Henlys Group Plc in 2004 and excluding adjustment of goodwill in 2006.
2 Proposed dividend 2006.
3 According to the Board's proposal.

Organization



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

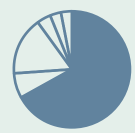
Renault Trucks
offers many types of vehicles from light trucks for delivery to heavy trucks for long haulage.

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

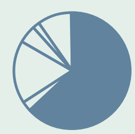
Business areas

Some 75 percent of the Group's workforce of about 83,000 employees is employed in the eight product-related business areas. Linked to these companies are a number of business units that supply components and services to support the Group's business areas globally. This organizational configuration permits companies to work closely with their customers and efficiently utilize Group-wide resources.

Percentage of the Volvo Group's net sales, %



Percentage of the Volvo Group's operating income, %



Position on world market

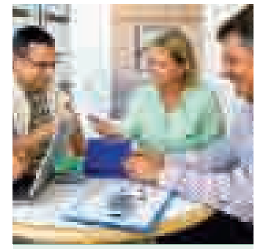
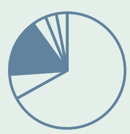
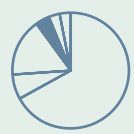
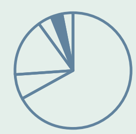
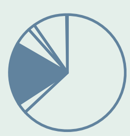
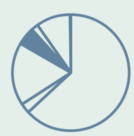
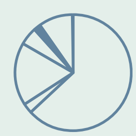
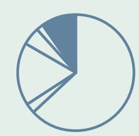
In total, the Volvo Group is Europe's largest and the world's second largest manufacturer of heavy trucks.

Number of employees: 35,180

Business units

The task of the business units is to develop and supply components, services and support for the Group's business areas. The major business units are Volvo Powertrain, Volvo IT, Volvo Parts and Volvo 3P.

	Number of employees	
Volvo 3P	2,872	Volvo 3P is responsible for product planning, product development and for purchasing for the Group's truck operations.
Volvo Powertrain	8,274	Volvo Powertrain coordinates Volvo Group's powertrain operations and supplies the Group's business areas with integrated powertrain systems comprising diesel engines, transmission systems and axles.
Volvo Parts	3,575	Volvo Parts supplies services to support the aftermarket for business areas within the Group.
Volvo Technology	403	Volvo Technology develops new technologies and business solutions for the Group companies.
Volvo Logistics	1,004	Volvo Logistics develops and manages logistics solutions for the automotive and aerospace industries worldwide.
Volvo Information Technology	4,663	Volvo Information Technology supplies IT solutions for industrial and commercial processes within and outside the Group.

				
Buses has a product range comprising city and intercity buses, coaches and chassis.	**Construction Equipment** manufactures equipment for construction applications and related industries.	**Volvo Penta** provides engines and power systems for leisure and commercial craft, as well as for industrial applications such as gensets and water pumps.	**Volvo Aero** offers components for aircraft engines and space applications, plus a wide range of services for the aerospace industry.	**Financial Services** conducts operations in customer and dealer financing.
				
				
Volvo Buses is one of the world's largest producers of buses.	Volvo Construction Equipment is the world's largest manufacturer of dumpers and one of the world's largest manufacturers of wheel loaders, excavation equipment, motor graders and compact construction equipment.	Volvo Penta is the world's largest producer of diesel engines for leisure boats.	Volvo Aero holds a leading position as an independent producer, with engine components in about 90% of all large commercial aircraft delivered in 2006.	Financial Services cooperates closely with the other business areas to strengthen the Group's competitiveness.
7,762	11,049	1,652	3,505	1,139

Volvo in society

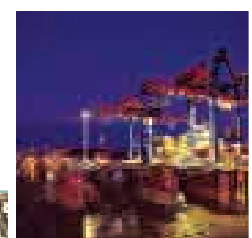
The Volvo Group is one of the world's leading suppliers of commercial transport solutions. Our trucks, buses, construction equipment, marine and industrial drive systems and components and services for the aviation sector are important parts of the world's transportation networks, which are in operation 24 hours a day, every day, throughout the year.

A truck must be capable of fulfilling important transportation services 24 hours a day. It is a link in the distribution chain, ensuring that society is provided with everything that is needed during the working day. That's why Volvo Group trucks are an everyday sight as they go about their distribution services in urban traffic.

The demands placed on trucks and truck transports are high, regardless of whether they apply to heavy truck-driving operations in remote forest areas, or long-distance transportation of fast-moving consumer goods. High efficiency and low costs are vital factors, while safety, ergonomics and environmental considerations are also assigned top priority.

Demands for availability and rapid transports are increasing continuously. Volvo Aero's many years of experience and leading-edge competencies in the field of aircraft engine components enable its customers to focus on their own core businesses – namely to provide optimally effective transport services.

Volvo Penta is best known for its boat engines and marine drive systems. But the company also delivers drive systems for a wide range of other applications, such as generator units for use at airports and hospitals, irrigation plants and engines for use in forklift and warehouse trucks.



Volvo Construction Equipment's yellow machines are used in work conducted in the most demanding environments and at every conceivable type of construction site – ranging from new highways, bridges and shopping malls to ditch digging and the transportation of materials in areas where there simply are no roads. These machines are also used within the forest industry and the materials handling sector.

Vision, mission and values

Our vision

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

Volvo Group's mission

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

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

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

Our values

The Volvo Group views 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.

Market overview

Global economic trend

The global economy continues to register solid growth. In recent years, global GDP growth has ranged from 4 percent to 5 percent, the highest level since the 1970s. The positive trend is evident in most global regions but is particularly noticeable in China, Eastern Europe and other emerging markets.

Nowadays, these growth markets account for a substantial share of the world economy and represent an increasingly integral part of the global production system with their extensive trade. Their share of overall global exports is currently 40 percent, compared with 20 percent in the 1970s.

Transport requirements

Social developments worldwide are fuelling an expansion in trade, locally as well as among regions and continents. The growth in trade is creating higher transport requirements, both for goods and people.

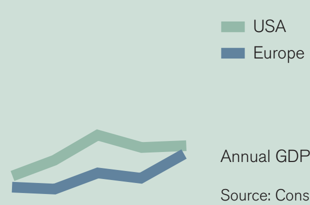
Transport vehicle requirements are cyclical but the industry has an underlying growth rate of about 4 percent annually in mature markets over a business cycle. In growth regions such as Asia and Eastern Europe, the growth rate is considerably higher.

Commodity prices

Rapid growth in global economy has resulted in high demand for energy. Oil prices have risen sharply in recent years, with a peak price of USD 75 per barrel in summer 2006. Prices levels have fallen since then, reaching about USD 59 per barrel at year-end 2006. While at the same time that there is a high demand for energy, the supply is limited, due partly to the political unrest in the Middle East, which affects prices. The prices of raw material to industry, such as metals and rubber, also rose during the year.

Fuel costs are a significant part of the operating cost for many of Volvo Group's customers. Generally, Volvo Group customers have proven skillful in offsetting fuel costs.

Growth in USA and Europe, %

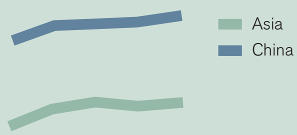


Annual GDP growth.

Source: Consensus Economics

	02	03	04	05	06
USA	1.6	2.5	3.9	3.2	3.3
Europe	0.9	0.8	1.7	1.4	2.7

Growth in Asia and China, %



Annual GDP growth.

Source: Consensus Economics

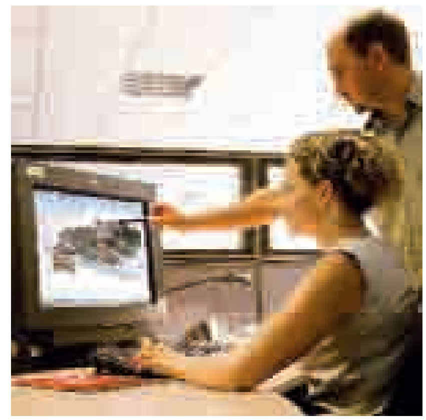
	02	03	04	05	06
Asia	3.6	4.6	5.1	4.8	5.0
China	9.1	10.0	10.1	10.2	10.6

An industry in flux

The transport industry is moving through a process of change in which increasingly stringent environmental standards are a major driving force. Substantial investments are required for R&D programs involving new technologies to reduce emissions from vehicles and for the development of alternative fuels and drivelines. To meet these challenges, consolidation is in progress among manufacturers through mergers and acquisitions.

In mature markets in the US and Europe, consolidation in the truck industry has been in progress over a number of decades and has made substantial progress. In other regions or sectors – such as Asia or the construction industry – the pressure to consolidate is expected to increase.

Meanwhile, new competitors have emerged as major regional players in growth markets with the aim of becoming global players. Restructuring creates the potential for the Volvo Group to further strengthen its positions in each business area by means of acquisitions.

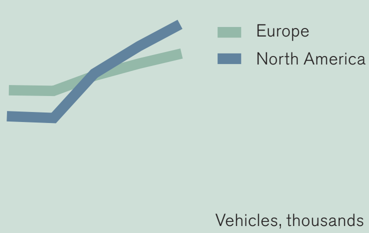


Growth markets

The Volvo Group's goal is to be the world's leading supplier of commercial transport solutions. Volvo currently has well-established positions in the European and North American markets. However, the most rapid growth is occurring in regions in which the Group had very limited operations ten or 15 years ago. The Volvo Group plans to expand in these markets – in Asia, for example.

China and India are examples of markets that are already considerably large and will prove even more important for the Volvo Group's future growth. In addition, Eastern European markets are showing steep growth and the Group is well positioned to capitalize on expansion in these markets.

Heavy truck registrations, > 16 tons

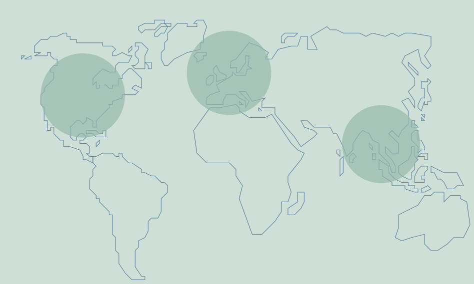


	02	03	04	05	06
Europe	229	229	255	277	295
North America	180	178	249	308	349

Consolidation – European truck manufactures

1966			2006
Mercedes	Dennis	Astra	
Volvo	Unic	Hotchkiss	
Gräf u .Stift	Saurer	Barreiros	**Volvo Group**
Lancia	Fiat	Bernard	**DaimlerChrysler**
Scania	Leyland	Bedford	
Ford	Krupp	Saviem	**Paccar**
BMC	ÖAF	Pegaso	
Henschel	Berliet	FTF	**MAN**
Willeme	Bussing	Dodge	
Seddon	DAF	MAN	**Scania**
Guy	Magirus	Foden	
Steyr	Berna		**Iveco**
Commer	OM		
Atkinson	ERF		

Three strong markets, heavy trucks



CEO comment

2006 was an exam year for our strategy. A new generation of products would be on the market, developed and produced in a new industrial structure. The new engines would have to meet the dramatically more stringent emission standards in Europe, the US and Japan. As we had anticipated, it was an industrious year – and a great success. 2006 was a record year.

Challenging assignment

>>> Already at the acquistion of Renault Trucks and Mack six years ago, we knew that the road ahead was going to be challenging. We faced the integration of thousands of employees into new units, changing from three different production systems for engines to one common system, shrinking the engine families from 18 to two and coordinating the truck companies' purchasing, product planning and product development in a new unit. In addition, the units for IT, logistics and spare parts were assigned to take a Group-wide lead for coordination within their areas. All these actions were aimed at gaining maximum benefit from the technical resources and our combined volumes.

We also had aggressive plans to strengthen and expand the dealer network to provide better service to customers and advance our positions on new markets.

New and more efficient structure

Accordingly, there were many reasons for concern at the beginning of 2006. We had never previously implemented such a comprehensive product renewal. We phased in new production systems at the same time as we phased out the old. This was in a booming business climate, with plants operating at peak capacity. Concurrently, we put time and resources into the investments in Asia and Eastern Europe.

Naturally, we are very proud that we succeeded in realizing our plans. In all significant respects, we carried out the changeovers as scheduled and although they increased costs temporarily our new products rolled out in a proper manner. The Group is now well consolidated and our own as well as independent dealers have a highly positive development.

Successful products

The solid order bookings at the end of 2006 and beginning of 2007 demonstrate the strength of the new product generation. The diesel engines are leading in fuel efficiency and provide competitive advantages for all of the Group's vehicles and equipment. As a result of the more efficient structure, we have been able to free up resources to develop more customer-adapted variants, which further strengthen positions. As a result of the increased benefits for the customer, we have been able to price our vehicles, equipment and services at the right levels.

Group-wide production

The changes implemented are not solely significant structurally, but also important for the internal transfer of know-how. Increased coordination and common technical solutions have resulted in improved quality. Step by step we are developing a Group-wide production method based on standardization, best practice and a common corporate culture.

Raised financial targets

Since the changes yield effects in the form of a structurally higher profitability, the Board decided to raise the Group's financial targets. We are now aiming at an average operating margin of more than 7 percent over a business cycle, adding also another, currently, one percentage point from the financing operations.

The growth target of 10 percent annually is retained.

Aggressive strategy for growth

The strategy to reach the growth target is to grow geographically and at the same time broaden our offering to customers. We expect organic growth of 5–6 percent and to obtain the remaining percent through acquisitions. In line with this, the Board has sought a distinct balance between the need for financial freedom of action for long-term value growth and an attractive level for annual share dividends.

Geographically, we are targeting the fast-growing economies in Eastern Europe and Asia.

The economies in Eastern Europe are in a very dynamic phase and new transport patterns are being established. For many years we have been active in this region extending the dealer network and services. This is now bearing fruit. The nearly 40 percent sales increase during 2006 is evidence that we are taking a share of the rapid economic growth.

Major potential in Asia

Since the quality and emissions standards in countries such as China and India are still relatively low, the challenge in these countries is greater. Pricing is different and local manufacturing is a necessity for competing with domestic producers. However, in the long term we see the greatest potential for growth in Asia. A favorable sign for the environment and our development is China's ambition to establish more stringent emission standards.

In general, we foresee an increasing global harmonization of technical as well as environmental demands, which strengthens our position since we have gone further than the competition in developing a global product program.

With investments in India and China, we aim to share in their growing economies, in the manner that we are now experiencing in Eastern Europe.

New phase in Asia

In order to strengthen our position in Asia, we have taken several steps of significant strategic importance. Within the truck segment, we established a strategic alliance with Japanese Nissan Diesel. To start with, we acquired a 19 percent holding in Nissan Diesel and in February, 2007, we made a public offer for the whole company.

Nissan Diesel holds a solid position in Japan and the rest of Asia. A merger would give advantages within product development and purchasing as well as within the production of engines and drivelines. Gains also arise in that the companies are given access to each other's dealer and service networks.

The cooperation with Nissan Diesel has also resulted in more in-depth discussions about future coordination with China's largest truck manufacturer, Dongfeng Motors.

In China we have also entered an exciting new phase through the purchase of 70 percent of the Chinese wheel loader manufacturer Lingong. As the first foreign manufacturer of construction equipment, we gain a base with a nationwide dealer network in China.

Broader offering to customers

Parallel with investments on new markets, we are increasing efforts to expand our offering of services, accessories and spare parts. We view this as our greatest possibility to create long-term growth in established markets. In this respect, we are working with intensifying cooperation with customers to develop broader business solutions. Customer financing is an important component in this respect and for expansion in markets with a less developed credit system.

An important part of our strategy for increased profitability is the growth of services, accessories and spare parts.

New technology for a better environment

As a vehicle manufacturer, we have major responsibility for the environment and to contribute to a sustainable society. We view this responsibility with the greatest seriousness. We have set very high goals to reduce energy consumption in production and to make more of our plants carbon-dioxide neutral. In the midst of this tough period I have described, we have also intensified the development of alternative drivelines to reduce fuel consumption and the emission of greenhouse gases. Among other activities, we presented our fuel-efficient hybrid technology in 2006, which we plan to have in production in 2009.

Successful integration work

I wish to thank all employees for an excellent job. In my opinion, and that of the Board, we have succeeded well with the difficult task of integrating new companies and implementing structural changes. This is thanks to our hard work each day in an organization that has performed in a disciplined and motivated manner.

2007 will be an exciting year during which we will have the entire new product generation on the market and take new strides in the expansion eastward.

Leif Johansson
President and CEO

Our customers' needs govern our strategy…

The Volvo Group's customers mainly conduct transport-related operations. They impose rigorous requirements on both products and services. In a competitive market, customer satisfaction is a key factor, since it assures future sales and is essential for healthy profitability.

Developing and broadening cooperation with customers

Close cooperation with customers is decisive for enabling the Volvo Group to better understand their needs and meet their expectations with the right products and services.

Quality in the Volvo Group's offering is also linked to how customers are treated and how services are performed. While product characteristics and quality are of key importance, it is above all the people in the Volvo Group, and their skills, values, attitudes and conduct, which create success.

The Group must constantly be able to offer customers the solutions that are best commercially for their operations. At the same time, customers' experience of the brands should be consistent and in line with the Group's basic values. This applies both within the Group and at dealerships. Accordingly, the Volvo Group works continuously to develop its dealership network with the aim of further improving its service to customers.

The foremost argument for Coca-Cola in selecting Volvo in the early '90s was the extensive Volvo service network. Volvo still has the most widespread service network of all foreign truck manufacturers operating on the Russian market today.

Building strong relations with key customers

The Volvo Group strives to forge closer relations with key customers. There are several advantages; the Group can support customers' growth even more effectively than before, while simultaneously helping to broaden the offering of products and services to existing customers. In this way, the Volvo Group can benefit from its broad range of products and services and establish synergies with key customers.

1 Profitable growth

Since 2001, the Volvo Group has had an average annual growth rate of 7 percent, which has been achieved through both organic growth and acquisitions. The Volvo Group's objective is to continue growing with focus on profitability. The growth target is 10 percent annually over a business cycle, which will be achieved through organic growth and through acquisitions at approximately equal proportions.

Expanding geographic coverage and product offering

The Volvo Group holds established positions in markets in Europe and North America. Today, however, the most rapid growth is occurring in markets where the Group had very little business only ten to 15 years ago. In growth markets, a stronger position and increased market shares are to be achieved by attracting new customers and through strategic alliances. The Group is making large investments in the dealer and service networks and concurrently carrying out a number of acquisitions. The aim is for markets outside Europe and North America, such as India, Japan, China and Russia, to account for a substantial portion of the Group's total sales in the long term.

The aim in established markets is for an expanded customer offering, with an increased proportion of sales in the aftermarket and a high proportion of services to contribute to achieving the growth target. Strong brands increase customers' trust and create loyalty to the Group's products and services, thereby supporting profitable long-term growth.

10%

Volvo's aim is to grow by 10 percent annually. Growth will be achieved organically as well as through acquisitions.

Activities during a business cycle

The sectors in which the Volvo Group operates are exposed to economic fluctuations. The Volvo Group endeavors to actively handle both upswings and downturns in each sector to achieve better profitability. The strategy of developing aftermarket services and growing in new markets enables the Group to achieve a more favorable balance between all the phases of a business cycle.

2 Innovation and product development

Renewal and concept development

Development of innovative technology is the key to success for new generations of products, and to maintaining market-leading positions in the future. Efforts are constantly under way within the Group to improve the performance of products and thereby strengthen competitiveness. At the same time, research looking even further into the future is conducted in order to achieve new technical breakthroughs.

The Volvo Group cooperates worldwide with a large number of external partners in projects and forums that allow experience to be exchanged and contact to be made with cutting-edge technologies and innovations. The Volvo Group will continue to actively exchange information with many different players, such as universities, research institutes, customers, suppliers and government authorities.

Product development has to be based on requirements from the customers. Volvo CE invites selected customers at an early stage when new products are to be designed. Customers give the company valuable feedback on what needs they have and what features should be included in coming products.

Providing a complete, customer-oriented offering

For a global organization such as the Volvo Group, product planning must ensure that the right products with the right specifications are offered in the right markets. Accordingly, products typically offer an extensive range of customer adaptations. Product adaptation supports the distinctive features of each brand and its competitive advantages as seen from the customer's perspective.

Improving fuel efficiency and increasing the use of alternative fuels

It is a major challenge to create a sustainable society that does not jeopardize the environment for future generations. The Volvo Group is a driving force within the transport industry in such areas as energy and the environment. This undertaking seeks to attain a gradual transition from fossil fuels, such as oil and natural gas, to fuels from renewable sources and hybrid drive systems.

3 Highest quality in implementation

Enhancing productivity and cost-efficiency

The Volvo Group strives to continuously optimize cost-efficiency and productivity in all parts of its operations. This contributes to increased profitability and improves the Group's capacity to handle economic fluctuations.

Part of the internal cost-efficiency work involves reducing production costs and the costs for sales and administration. Product costs must be constantly scrutinized and kept to a minimum to generate competitiveness without compromising on quality.

The Volvo Group strives to be characterized by the highest quality. Getting it right from the start increases customer satisfaction, keeps costs down and saves time and energy.

The Volvo Group plans to continue with the introduction of the Volvo Production System (VPS), which was designed to establish common production processes throughout the Group. VPS increases flexibility and efficiency in the industrial organization. It is also expected that VPS will create value for customers through improved quality, more reliable deliveries and reduced costs.

Execution in focus

A key competitive advantage in the commercial transport sector is the capacity to be efficient and suited to purpose. The Volvo Group's capacity to handle development projects, combined with its ability to rapidly introduce processes for new ways of working, contributes to improved results.

Maintaining expertise

The Volvo Group is growing in new geographic markets and developing new technology, as well as meeting a number of demographic challenges. It is therefore vital to develop the appropriate expertise to assure the Group's future competitiveness.

Diversity is a commercial driving force and a source of international competitiveness and hence profitability. The Volvo Group is increasing its efforts to benefit from the strength that stems from diversity in terms of gender, age, ethnic background and education, among other areas.

The quality of leadership is another key success factor for the Volvo Group's capacity to generate future business.

We work continuously with our processes with the aim to increase quality and to optimize manufacturing.

Financial strategy

New financial targets – Structurally higher profitability, stronger cash flow and lower risk

Volvo's Board of Directors believes that the Volvo Group currently has structurally higher profitability, stronger cash flow and lower risk. Consequently, in September 2006 the Board decided to revise the company's financial targets. The three financial targets cover growth, profitability 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. A new organization featuring business units with Group-wide responsibility for engines and product development, purchasing and product planning has fuelled in-house efficiency programs and ensured the realization of the 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.

Overall, the Volvo Group's new composition has led to structurally higher margins and stronger cash-flow. Higher earnings have led to a sharp increase in dividends in recent years, while also creating resources that have been used for product development, geographic expansion and other developments. 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.

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 investments, acquisitions and a competitive dividend with a stable and long-term development. Any surplus capital will be transferred to the shareholders.

New financial targets

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

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

The Volvo Group's new profitability target is that operating margin is to exceed 7 percent annually over a business cycle. The target covers all Group operations, except Financial Services, which currently contributes approximately one additional percentage point.

The Volvo Group's capital is intended primarily for the financing of acquisitions, and 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 percent should mainly be regarded as a reserve that can be used in the event of a major acquisition.

The financial resources of the Group must be used as efficiently as possible to ensure and further strengthen the profitability within the

Group and thereby securing the return of equity to the shareholders. This is particularly important since the Volvo Group operates in a cyclical industry, which is also in a consolidation process in which costs will be increased for integrating acquired operations.

Financial Services

The target for Financial Services is a return on shareholders' equity of 12–15 percent and an equity ratio of 10–12 percent. At the end of 2006 total assets in Financial Services amounted to approximately SEK 84 billion and the equity ratio was 11.5 percent.

Long-term credit rating

The purpose of Volvo's capital structure is to balance expectations from the stock markets 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 that mature. The Group's goal is to maintain good credit ratings as a base for favorable financing of certain operations 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 10% annually. This objective will be achieved through organic growth and acquisitions. Net sales rose 7% in 2006. During the period 2002–2006, the average growth rate – excluding divested operations – was 7% annually.

Operating margin

The Volvo Group's new profitability target is that operating margin is to exceed 7% annually over a business cycle.

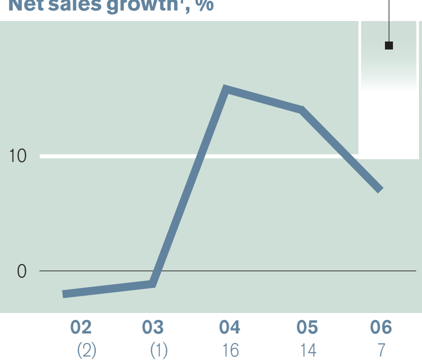
The operating margin for 2006 was 8.9%. The average annual operating margin for the Volvo Group was 5.4% from 2002 to 2006. The previous target for the operating margin was 5% to 7% over a business cycle, including the operations of Financial Services.

Capital structure

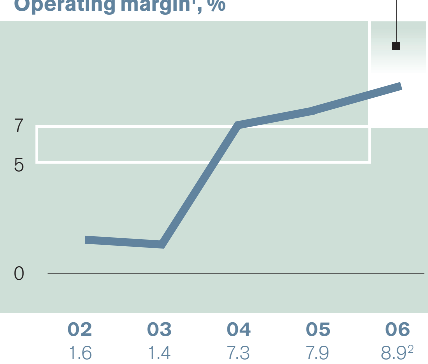
The capital structure target was changed from a net debt of a maximum 30% of shareholders' equity to a maximum 40% of shareholders' equity.

As of December 31, 2006, the Volvo Group had a net financial position corresponding to 28.3% of shareholders' equity.

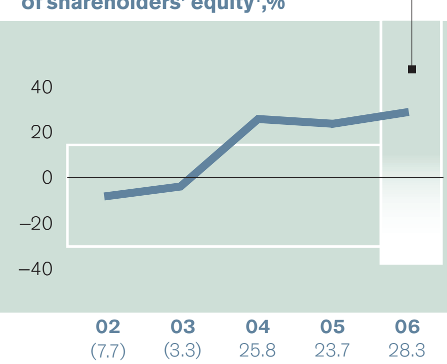
Net sales growth[1], %



Operating margin[1], %



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



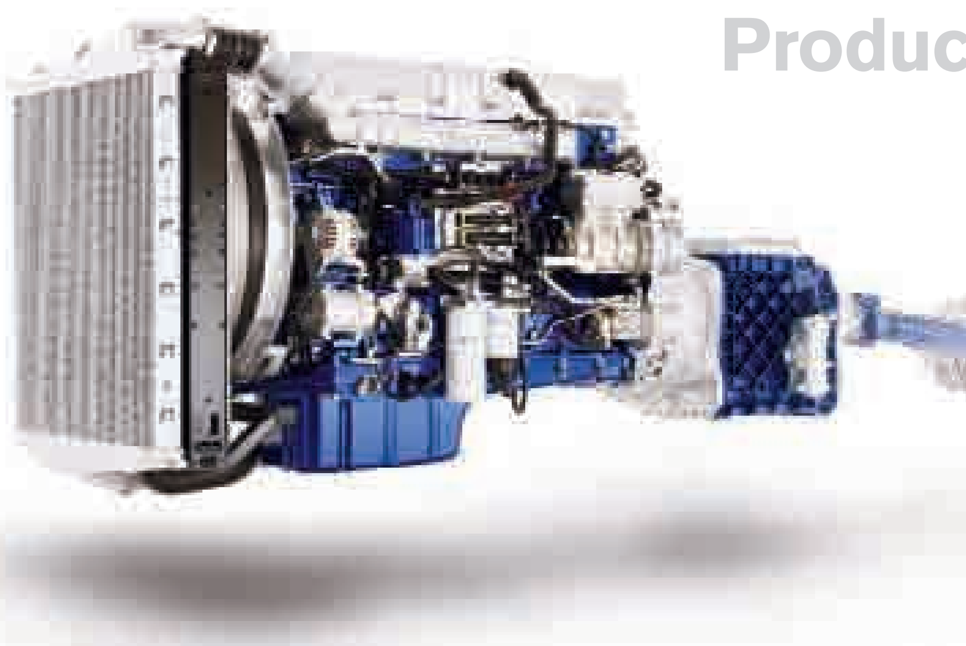
1 Years 2004, 2005 and 2006 are reported in accordance with IFRS and 2002 and 2003 in accordance with prevailing Swedish GAAP. See Note 1 and 3.

2 Excluding adjustment of goodwill.

Leading supplier of commercial transport solutions

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."

Products



Through constant development and improvement of products and services, the Group's competitiveness is strengthened at the same time as value is created for customers, thereby helping to create future value for shareholders.

It is not enough to manufacture and sell high-quality products to realize the Volvo Group's vision of being the world leader in commercial transport solutions. Many customers expect complete transport solutions, which creates a need to be able to offer various services, accessories and spare parts to support key products.

Vehicles and equipment

The Volvo Group is the world's largest manufacturer of heavy-duty diesel engines for commercial use and also a significant manufacturer of drivelines for heavy vehicles. The Group has manufacturing, research and development facilities for drivelines on three continents and its products are offered in more than 180 markets around the world.

Drivelines are designed so that they can be adapted a large number of applications in most of the Group's products. Diesel engines are used in trucks, buses and construction equipment as well as in boats and industrial applications such as, for example, generator sets.

The strongest driving force to development of drivelines is customers' needs and requests.

The new Renault Midlum and Renault Premium Distribution

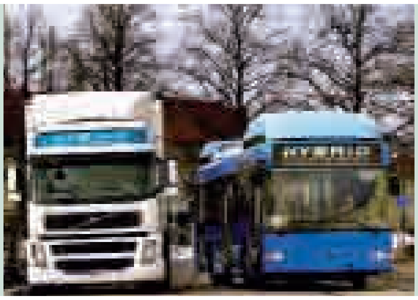
New Renault Midlum and Renault Premium Distribution vehicles were launched in 2006. These latest models feature the new 5- and 7-liter engines (Renault Midlum) as well as 7- and 11-liter engines (Renault Premium Distribution), which comply with Euro 4 emission requirements. Certain models are also prepared for the Euro 5 standard, which will come into effect in 2009.

World premier for Volvo 7700

The new version of the Volvo 7700 city bus was unveiled in June 2006. The major innovation in the Volvo 7700 is the switch from a 7-liter to a 9-liter engine, which is available in both diesel and gas versions. As a result of Volvo selecting SCR catalyzer technology, Volvo Buses can now offer customers an engine that meets both the Euro 4 and Euro 5 standards, while also cutting fuel consumption.

Volvo Group's hybrid technology for heavy vehicles and machinery

At the beginning of the year, the Volvo Group presented a new, efficient hybrid solution for heavy vehicles. The Volvo Group's hybrid technology offers the largest fuel savings on stretches involving considerable braking and acceleration, as in the case of city buses, city distribution operations, refuse applications and construction work. Fuel savings are up to 35% in these applications.



Accessories, spare parts and services

Products that feature reliability, durability, drivability and fuel economy help to increase customers' profitability and productivity. The Group's goal is to exceed customer expectations at a lower price than the competitors.

Accessories, spare parts and services

The Volvo Group's vision is to be the world leader of commercial transport solutions. Most transports require, in addition to the vehicle, a number of accessories or services to carry out specific transport assignments in the best way. This is where the Volvo Group's wide selection of accessories, spare parts and services, or soft products, enter the picture.

This selection of services includes a range of financing solutions, rental services, used trucks, service contracts and IT services.

Because the accessories, spare parts and services businesses predominately belong to the aftermarket, these serve to balance fluctuation in the economy. By increasing the selection of soft products, the Group's profitability is increased throughout the entire business cycle.

The strategy of increasing sales of accessories, spare parts and services is also important for reaching the Volvo Group's profitability and growth targets, particularly in mature markets.

Today, soft products account for a significant share of the Group's total sales and is expected to grow further in the years ahead.

Financing

Financial solutions are vital to the Volvo Group. The customer offering includes traditional financial services such as installment contracts, operating and financial leasing and dealer financing.

Services

Volvo Trucks has in the recent years developed its retail network in Europe through the wholly-owned Volvo Truck Centers. This is an important part of the company's strategy to work closer with the customers and hereby be able to be more efficient when it comes to distribution, service and marketing.

Accessories

Customers are offered a wide range of accessories. Volvo's wheel loader, for example, can be fitted with a number of different tools to help with various tasks.

However, crucial to our success is that we must successfully continue developing the intellectual capital and stimulate exchange of thoughts and ideas.

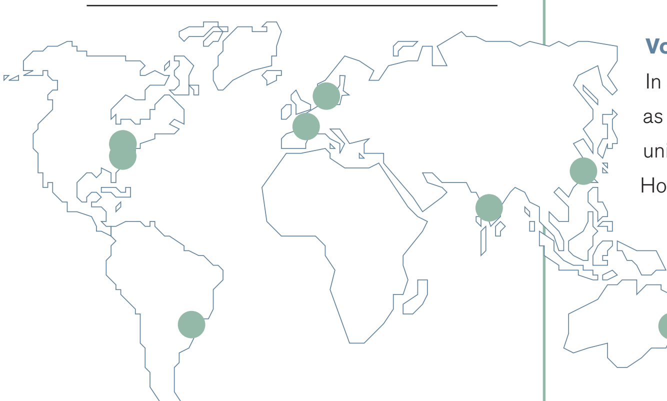
Torbjörn Holmström, President, Volvo 3P

DEVELOPMENT & SYNERGIES

Volvo 3P in brief

Volvo 3P is a business unit responsible for product planning, product development and purchasing for the three truck companies, Volvo Trucks, Mack Trucks and Renault Trucks.

The business unit has 2,872 employees and offices in Gothenburg (Sweden), Lyon (France), Allentown and Greensboro (USA), Curitiba (Brazil), Bangalore (India), Shanghai (China) and Brisbane (Australia).



‹‹‹ Torbjörn Holmström

Torbjörn Holmström, born in 1955, has been the President of Volvo 3P since 2003. Between 1999 and 2003, he was an executive at Volvo Powertrain. During the first two years, he was responsible for transmission development and the last two years for driveline development. He has held other executive positions at Volvo Powertrain and was responsible for drivelines at Volvo do Brasil. Torbjörn Holmström received an engineering degree from Chalmers University of Technology in 1979.

The Volvo 3P business unit has contributed strongly to the improved profitability in recent years within the Volvo Group in general and the truck units in particular. Despite this, Volvo 3P is unknown to most people outside the Group.

Volvo 3P combines development

In a newspaper, Volvo 3P was described as probably the most unknown business unit of the Volvo Group. And Torbjörn Holmström, who has been the President of Volvo 3P since 2003, has no objections to that. "Volvo Trucks, Renault Trucks and Mack Trucks are naturally the ones that should be visible externally, but it could be said that we are the cement or even the soul in the collaboration between the three truck brands," says Torbjörn.

Volvo 3P is namely responsible for several significant areas, which are not always visible to customers, shareholders or other stakeholders, but which are significantly important to the Group's profitability. The areas of responsibility are summarized in the three ps: product planning, product development and purchasing. And, it stretches over the entire Volvo Group's global truck operations.

The mission is to produce synergies and industrial efficiency. In daily numbers, this means that Volvo 3P must produce improved products at lower costs than in the past. And, there is a great deal of cost savings to be made. Each year, Volvo 3P and Volvo Powertrain make purchases for nearly SEK 70 billion and the Volvo Group invests about SEK 8 billion in research and development.

"The Volvo Group saved a total of SEK 3.8 billion already two years after the acquisitions of Renault Trucks and Mack Trucks. With regard to Volvo 3P, profits to date were primarily from purchasing, but we estimate that jointly with Volvo Powertrain we will contribute a similar amount in 2006 and 2007, as the new trucks are introduced. The new trucks contain several more components and systems that were developed and purchased jointly," explains Torbjörn Holmström.

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INTERVIEW

DEVELOPMENT & SYNERGIES

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Efficient product development

In terms of the number of employees, product development is Volvo 3P's largest area. Nearly 2,300 employees work in close collaboration with the three truck brands and Volvo Powertrain. Volvo 3P concentrates on chassis, cabs and electrical systems, while Volvo Powertrain works on the driveline, meaning the engine, gearbox and the rear axle.

The work is based on common architecture and shared technology between the truck companies. This offers many advantages. Resources such as expertise, time and capital can be combined to produce a joint solution to a difficult technical problem, instead of distributing resources for three different alternatives. This strengthens the motivation to invest resources in developing optimum solutions for each truck model based on the customer's requirements.

"A truck contains a large number of components that are common in all trucks and this applies to the driveline as well as the work we do. This produces improved quality and lower costs, which is advantageous to our customers. Development resources are also released to develop truck models that are even more optimized for different types of transports, by adapting solutions to each brand core segment. It is vital to remember that Volvo 3P is there to strengthen each brand, not to dilute it," says Torbjörn Holmström.

This is why there are distinct definitions for the souls of the different brands, in terms of appearance, cabs, interior fittings, engines and driving performance. A truck from Volvo must naturally feel like a Volvo just as there are distinct vehicles from Renault Trucks and Mack Trucks.

Product planning for the future

When product development is about producing the correct products for launching within one or a few years, product planning has a long-range horizon. This is to ensure that the Group has the correct products in the long term and to coordinate technology and components between truck brands.

"We implement rolling eight-year plans for products and a ten-year plan for technology development. But the plans are not written in stone, they are adapted each year to changes in the Volvo Group and the environment. There is a list of what the Group would like to implement and it is a question of distributing resources to the correct projects," says Torbjörn Holmström.

Bulk purchasing generates lower costs

To date, purchasing is the area in which coordination gains have been most significant. The Volvo Group has considerable size and purchasing power when negotiating purchasing contracts with suppliers. In the past year, the focus was on the significant increases in the prices of raw materials such as steel and other metals, rubber and plastic.

Torbjörn Holmström feels that by implementing global purchasing and larger volumes, price increases were handled in a satisfactory manner. He also stated that in the past years purchasing was concentrated to fewer strategic suppliers.

An increased portion of joint technology and components also means positive effects in terms of purchasing, in which one selected supplier receives increased volume base, which results in lower production costs and improved coverage of development costs.

"We have reduced the number of suppliers from 2,500 to around 1,500. We have also reduced purchasing costs, and my opinion is that we are just as effective as those companies that are regarded as the strongest purchasers in the market", says Torbjörn Holmström.

Are there any gains left in purchasing?

Torbjörn Holmström believes that there are possibilities to improve purchasing conditions further, due to the fact that the Volvo Group has such a high volume of important components that major suppliers want to cooperate and are offering excellent conditions. And, the volumes are likely to increase, since the Volvo Group and Nissan Diesel have commenced purchasing cooperation.

Global organization

Volvo 3P's head office and global development center is located in bright, airy premises adjacent to the Volvo Trucks plant in Lundby, Göteborg, but the organization is global with more than 2,900 employees and 600 consultants in eight offices on five continents.

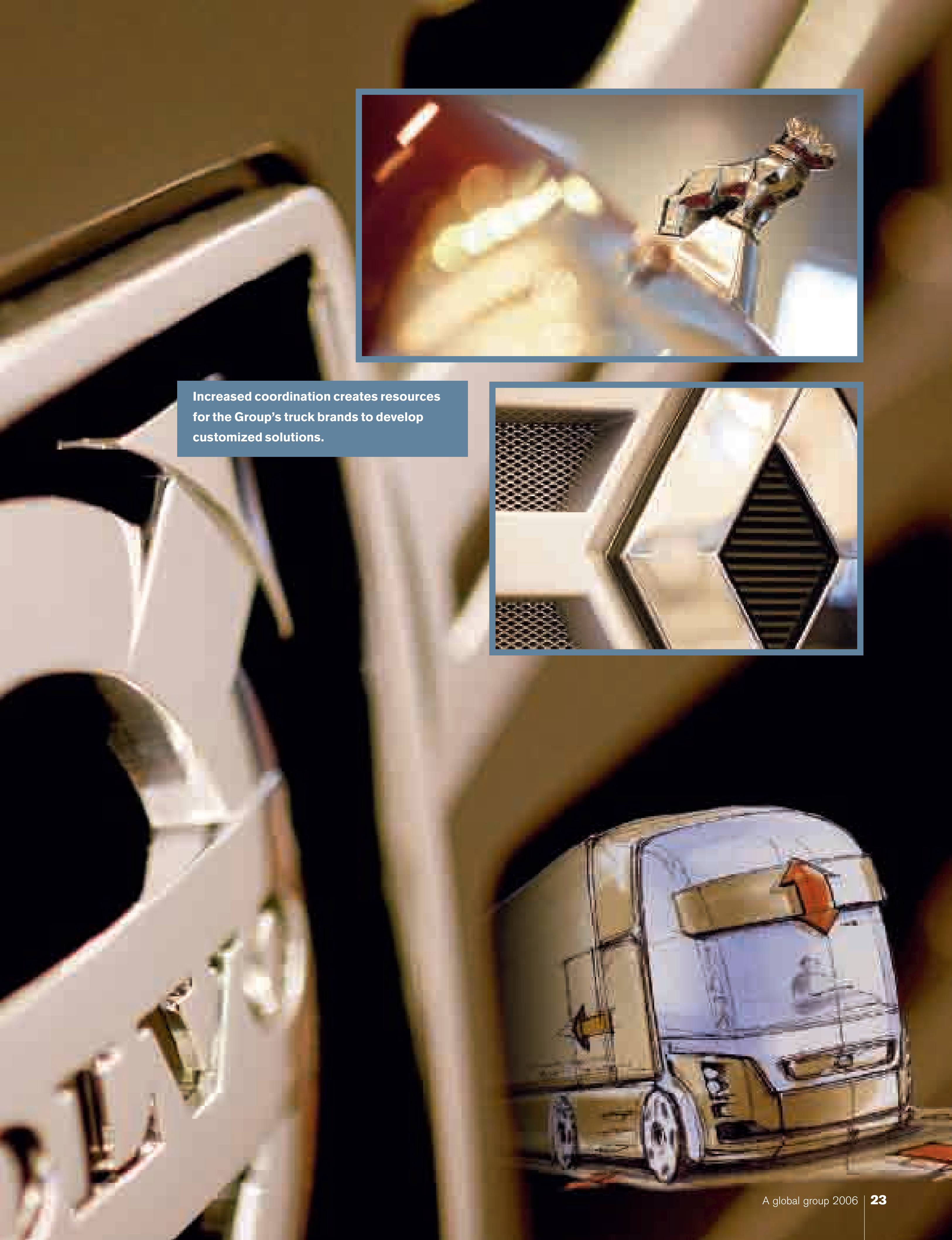
"It is important to be established in close proximity to truck operations," stresses Torbjörn Holmström. He believes that it is also crucial that information and knowledge are exchanged freely between the various countries.

"We have taken the best expertise in terms of development of various truck types from the three truck companies and important ingredients such as quality and cost efficiency and learned from each other."

And, the one thing he would like to specifically highlight is the company culture, in which nothing is regarded as an obstacle, but instead assistance and support is provided to each other to jointly create solutions that contribute to strengthening the position of the Volvo Group.

What are the major challenges facing Volvo 3P?

"The simple response would be to point to all the products that are being developed and that will comply with future demands in terms of environmental laws. Today, jointly with Volvo Powertrain, we look at what must be delivered between 2010 and 2013. However, crucial to our success is that we must successfully continue developing the intellectual capital and stimulate exchange of thoughts and ideas," says Torbjörn Holmström.



Increased coordination creates resources for the Group's truck brands to develop customized solutions.

INTERVIEW

UNIFORM POWER

Volvo Powertrain in brief

Volvo Powertrain is the world's largest producer of heavy diesel engines in the 9–18 liter classes. The business unit coordinates Volvo's powertrain operations and supplies the Volvo Group's business areas with integrated powertrain systems comprising diesel engines, transmissions and driveshafts.

Volvo Powertrain has 8,274 employees, including 5,677 in production and 2,597 in product development and administration.

It was a hectic year for Volvo Powertrain. The strategies and plans that were adopted after the acquisition of Renault Trucks and Mack Trucks were followed through.

Volvo Powertrain – the Group's engine

The Group now 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.

"If Volvo 3P is the soul in the cooperation between the business areas, then we are the heart," says Lars-Göran Moberg, President of Volvo Powertrain. "Our task is to ensure that good drivelines are available for Volvo Trucks, Mack Trucks, Renault Trucks, Buses, Construction Equipment and Volvo Penta."

It sounds self-evident when Lars-Göran Moberg says it, but it is no small undertaking to be the driveline supplier for the Volvo Group,

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Jessica Sandström, who is in charge of ongoing hybrid-development projects at Volvo Powertrain, talks to Lars-Göran Moberg, President.

INTERVIEW

UNIFORM POWER

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the world's second largest company in its sector. Similarly, it was no small task to reorganize the entire operation, while simultaneously delivering annual volumes amounting to 200,000 engines and 80,000 gearboxes.

"We are the world's largest producer of heavy diesel engines, from 9 liters up to 18 liters. Our aim is to lead development in terms of performance, quality and environmental characteristics, and to deliver our products at competitive prices," explains Lars-Göran Moberg.

The driveline, which consists of the engine, gearbox and the driveshaft or driveshafts, is often described as the heart of a vehicle. Volvo Powertrain is responsible for the development and production of heavy engines, gearboxes and driveshafts. The business unit is also responsible for ensuring that the Volvo Group is supplied with medium-heavy engines, which come from partner company Deutz, in which the Volvo Group holds 7 percent interest.

Powertrain is also a substantial manufacturer of heavy gearboxes in-house, with production in Köping, Sweden and Hagerstown, Maryland, in the US. Extensive efforts have also been made in this area to standardize development, purchasing and manufacturing, while concurrently broadening the customer offering. Since its introduction in 2002, Volvo's internally produced AMT gearbox has grown rapidly in volume at the cost of manual gearboxes. In practice, it is the industry standard in Europe and was recently launched in North America.

Common engine platforms

To date, increased volumes have been the driving force for profitability at Volvo Powertrain. The decision to work toward two platforms is aimed at further strengthening the business area in the future, although the strategy gave rise to costs during 2006 for both the new and the old generation of engines, since both were being produced in parallel for a while.

"We see considerable advantages in the increased volumes and the concentration to two platforms regarding costs for quality and delivery precision," says Lars-Göran Moberg.

The new platforms will further increase economies of scale, since the Volvo Group works with a common architecture and shared technology. But Lars-Göran Moberg emphasizes that, despite this, the range of choices for customers is larger than before.

The Volvo Group's engine offering is one of the broadest in the market, and engines are adapted to the size of vehicles, what type of transport work they will be doing, as well as the environment in which the product is to operate.

"We develop and produce engines with different characteristics, but based on common architecture and shared technology. The truck brands will always retain their distinctive brand identity, and the same applies to the engines. The most important point for the customers is that we produce drivelines that are optimized for the transport work to be done by the specific vehicle, combined with lower fuel consumption and better operating characteristics. As a result of the common engine strategy, Volvo Construction Equipment and Volvo Penta also have a solid competitive advantage with regards to forthcoming emissions standards," says Lars-Göran Moberg.

Several advantages

The Volvo Group's structure, with a common business unit for the development, production and purchase of drivelines, has several advantages. Volvo Powertrain has concentrated its expertise in research and development to specialized units in Sweden, France, the US and Brazil. The division of labor is clear and there is extensive cooperation between the units. The joint focus on a platform creates synergies and resources that help to improve the driveline's performance and cost-efficiency.

The production structure has also been overhauled. Previously there were three different industrial systems. Now there is a single common system designed to achieve economies of scale, high quality and delivery reliability, within which the four sister plants in Göteborg, Lyon, Hagerstown and Curitiba supply their local markets with heavy engines and heavy gearboxes.

Volvo Powertrain has also concentrated its purchasing – from nearly 700 suppliers a few years ago to slightly more than 80 today. Those that have been selected now have the capacity to participate more actively in the development process.

"It should also be borne in mind that we implemented all these changes and development projects at the same time as we were integrating three formerly separate powertrain divisions," says Lars-Göran Moberg. "Today, we are a global organization with a coordinated industrial structure, a common supplier structure and common platforms. Now we must make sure that we get the maximum out of the new product range and the new industrial system."

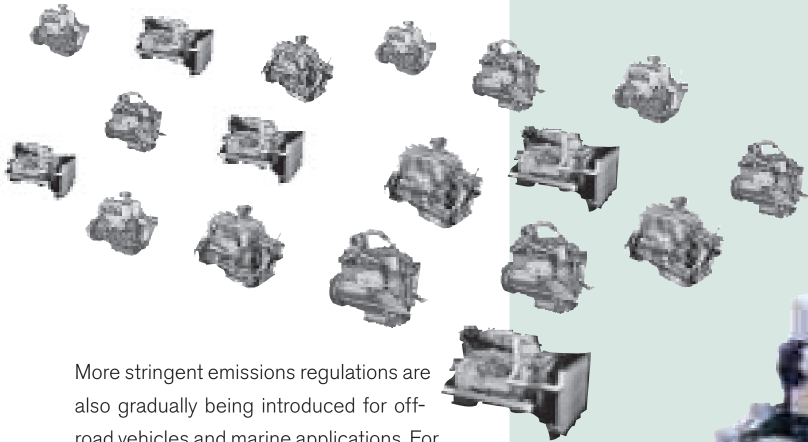
Emissions requirements one of the challenges

Lars-Göran Moberg identifies tougher emissions legislation and changed customer requirements as future challenges.

Lower fuel consumption is becoming increasingly important both from an environmental viewpoint and from a commercial perspective, with fuel accounting for an increasingly large proportion of operating costs. There are several key steps along the way toward cleaner engines for trucks and buses. The Euro 4 standard was introduced in October 2006, and Euro 5 is planned for 2009. On January 1, 2007, the US'07 standard came into force in the US. The standard drastically reduces emissions levels compared with only a year ago. A final step towards near zero emissions will be taken when US'10 and Euro 6 will come into force in 2010 and 2012/2013 respectively, according to plan.

Lars-Göran Moberg

Lars-Göran Moberg, born 1943, holds a Masters degree in Engineering and has been President of Volvo Powertrain since 2001. He is also Board Chairman of Volvo 3P and Volvo Technology and Technical Director of AB Volvo. He has worked for Volvo since 1995 and has been a member of Volvo's Group Executive Committee since 2001.



More stringent emissions regulations are also gradually being introduced for off-road vehicles and marine applications. For off-road vehicles the Tier 3 regulations are currently being introduced and the next major step will be Tier 4, which comes into effect in 2011.

Alternative fuels and drivelines

The Volvo Group is working on parallel programs to meet environmental requirements and reduce the need for fossil fuels. One program aims to make engines run more efficiently on today's fuels, while another is focusing on finding alternative fuels. It is not a major problem to optimize diesel engines to operate on other fuels. Rather, the problem is to produce sufficient volumes of fuel and to distribute it. A third program is focusing on alternative drivelines to complement diesel engines – hybrid drivelines, for example.

"We have made considerable progress in hybrid technology, and during 2006 we presented a hybrid solution for heavy vehicles that gives fuel savings of up to 35 percent," says Jessica Sandström, in charge of ongoing hybrid-development projects at Volvo Powertrain.

The new hybrid solution could be on the market as early as 2009.

"Development is proceeding rapidly and we are positioned to capitalize on all the advantages that come from being a truly global company with world-leading technology and processes," says Lars-Göran Moberg.

18 ›››› 2

Common engine platforms

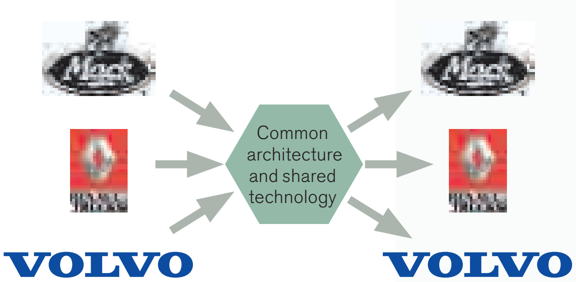
In 2001, the Volvo Group had 18 different engine platforms ranging from 4 liters to 16 liters. The company knew that environmental requirements would become increasingly tough, but not what technology was the best choice to meet the new requirements. Since it was impractical to develop new technology for 18 different platforms, the Volvo Group decided to concentrate on two platforms to meet the legal requirements contained in US'10 and Euro 6 standards, and to introduce the most advanced technology possible to enhance quality, operating economy, fuel efficiency and performance.

Today, the Group has two engine platforms: a heavy one developed and produced by Volvo Powertrain, and a medium-heavy one developed and produced in cooperation with Deutz.

Volvo Powertrain's platform concept has successfully been implemented for heavy gearboxes and axles.

Common strength

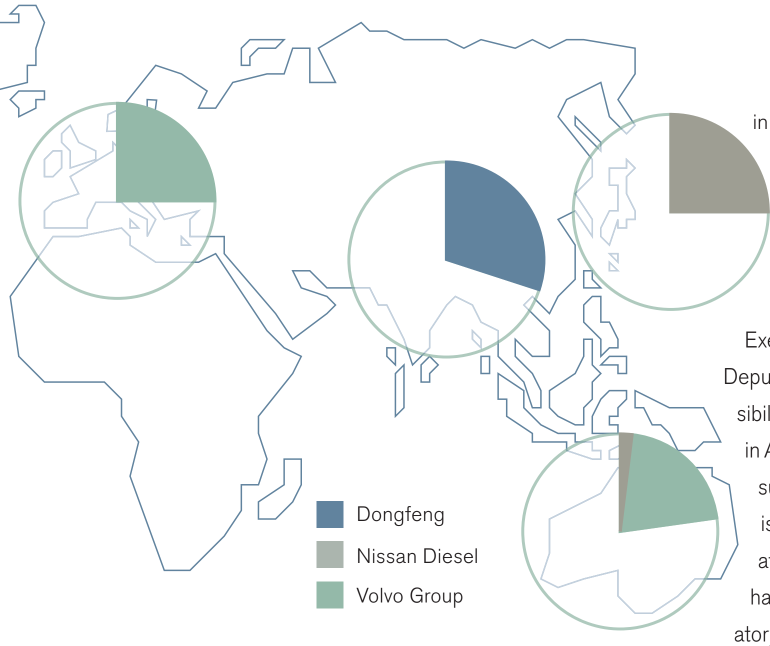
Create synergies | Utilize synergies



Results	Advantages
Large base volume	Broad product offering and optimal investments
Large volumes of components	Low product cost
Common architecture	Advanced engine development
Shared technology	Enhanced quality, fewer item numbers and higher efficiency
Common suppliers	Lower costs and higher efficiency

INTERVIEW

LONG-TERM STRATEGY IN ASIA



Acquisitions

The Volvo Group has experience of acquiring companies in Southeast Asia and developing them into strong parts of the Group's global organization. The construction-machine division of South Korean company Samsung Heavy Industries was purchased in 1998 and its name changed to Volvo Construction Equipment Korea Ltd. Its operations are mostly concerned with the production of excavators. Since the acquisition, the company has developed favorably, with an increased rate of product renewal, rising volumes and improved profitability.

	1998	**2006**
Number of employees	1,565	1,443
Net sales, SEK M	2,028	9,395
Profitability, SEK M	Loss	765

Long-term strategy in Asia

During the past few years, the Volvo Group has taken several steps forward in its Asian strategy, whereby the Volvo Group's aim is to make Asia one of its core markets in the future, in the same way as Europe and North America are core markets today.

During 2006, AB Volvo purchased a holding in Japanese truck producer Nissan Diesel and in February 2007, presented a public offer for the whole company. The holding in Nissan Diesel opened up for the discussions on a possible investment in Chinese Dongfeng Motor, which manufactures heavy and medium-duty commercial vehicles. In 2006, the Volvo Group also decided to establish a partnership to produce bus bodies in India, and in January 2007, closed the acquisition of a 70-percent interest in the Chinese wheel loader producer Lingong.

"These are important steps in our strategy to strengthen our presence in Asia," says Jorma Halonen, Executive Vice President and Deputy CEO with specific responsibility for the Group's expansion in Asia. "Behind us, we have the successful acquisition of what is now Volvo's excavator operation in South Korea, and we have previously made exploratory moves in China and elsewhere, but now it feels as if we have gained a real foothold in Asia."

Huge market with rapid growth

There is intense activity, accompanied by extremely high growth figures, in the Asian economies. And these are in no way small markets – of the approximately one million heavy trucks sold each year in the world market, Asia accounts for one third, and China alone for one fourth.

In China, signs of economic growth are visible in most parts of the country and include construction of infrastructure, such as roads and railways, and buildings for offices or housing. As an example, China had 35,000 kilometers of expressway in 2006 and this figure is set to double by 2010. Many of the highways have six or eight lanes. By way of comparison, Europe has approximately 54,000 kilometers of expressway and the US 85,000 kilometers.

"Half of the world's population lives in Asia, and that's where growth is largest," says Jorma Halonen. "For that reason, among others, this is a market where we must naturally be more active than previously."

However, it needs to be borne in mind that the major portion of the trucks, buses and construction equipment currently sold there are domestically produced, and that vehicles conforming to Western European or North American standards have had difficulty competing. The price differential has been far too large – at least so far. But Jorma Halonen points out that as the economy grows and competition increases, Chinese companies will increasingly wish to make maximum use of their vehicles over a larger part of the day. Higher quality, better operating characteristics and lower fuel consumption will then become key parameters, and these areas are in which the Volvo Group's strength lies.

While the main focus is often on China when growth in Asia is discussed, there are naturally other markets in the region that are of considerable interest to Volvo, such as India, Thailand, Malaysia, South Korea and Japan.

Public offer for Nissan Diesel

During the year, AB Volvo acquired 19 percent of the shares in Nissan Diesel from Nissan Motors and in February 2007, presented a public offer for the remaining shares in the company. Nissan Diesel has staged a very strong recovery during the past few years and is today a profitable and attractive company with an established position in the truck sector in Southeast Asia.

Nissan Diesel's and the Volvo Group's products and geographic coverage complement each other, and the deal paves the way for cooperation in the areas of components, production, sales and aftermarket, as well as creating opportunities for joint development of engines and gearboxes.

China's largest truck producer

Dongfeng Motor Co Ltd. is China's largest truck producer, with annual production of some 170,000 trucks. Dongfeng Motor Co Ltd. is in equal parts owned by car manufacturer Nissan Motors and Dongfeng Motor Group.

In the beginning of 2007, AB Volvo, Nissan Motors and Dongfeng Motor Group deepened discussions on how the commercial-vehicle operations best can be developed. At that time, a non-binding framework agreement was signed with the intention of AB Volvo to invest in the heavy and medium-duty commercial vehicle and engine business.

"If handled properly, the opportunities that could open up for us are enormous. To be a global company, it is simply essential to have production and growing sales in Asia," says Jorma Halonen.

‹‹‹ Jorma Halonen & Tony Helsham

Jorma Halonen in conversation with Tony Helsham during a Group Executive Committee meeting in November 2006.

The share

The Volvo Group's strategy has resulted in structurally higher profitability, a lower risk level and a stronger cash flow. Combined, these have resulted in increased shareholder value.

>>> The Volvo share is listed on the Stockholm Stock Exchange in Sweden and on the NASDAQ exchange in the US. Volvo A and Volvo B shares are traded on the Stockholm Stock Exchange and a trading block consists 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. Since 1985, a program for American Depositary Receipts (ADRs) has existed in the United States. Each ADR represents one Volvo B share.

Dow Jones Sustainability Indexes
Member 2006/07

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 Affärsvärlden, among others.

Positive trend for the share

In general, the trend on the world's leading stock exchanges was positive in 2006. On the Stockholm Stock Exchange, OMXS index rose by 23.6%.

Trading in Volvo A shares on the Stockholm Stock Exchange increased by 43% compared with 2005 and the share price rose by 33%. At year-end, the share price for the A share was SEK 486.00. The highest price paid was SEK 493.00 on November 15, 2006, which is the highest price paid for Volvo A shares up until the end of 2006.

Trading in Volvo B shares on the Stockholm Stock Exchange increased by 19% compared with 2005. The share price rose by 25% and was SEK 471.50 per share at year-end. The highest price paid was SEK 478.50 on November 15, 2006, which is the highest price paid for Volvo B shares up until the end of 2006.

On NASDAQ, the volume of trading in the Volvo share fell by 28%, while the share price rose by 40%. At year-end, the share price was USD 68.75 (SEK 472.50).

In 2006, a total of 673 (558) million Volvo shares were traded on the Stockholm Stock Exchange, corresponding to a daily average of 2.7 (2.2) million shares traded. At year-end 2006, Volvo's market capitalization totaled SEK 193 billion (150).

Additional information concerning the Volvo share is presented in the 11-year summary on page 158.

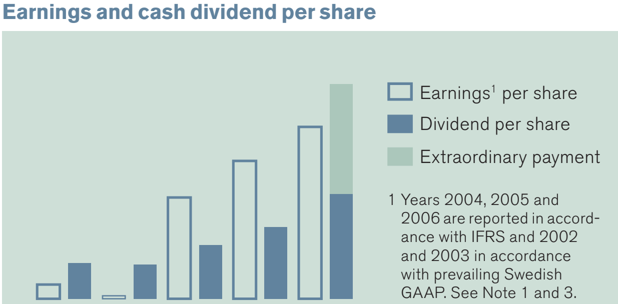
Dividend

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 is, the share's value development plus reinvested dividends, has amounted to an average of 49% per year since 2002. This can be compared with the average total return for the Stockholm Stock Exchange in its entirety, which during the same period, was 16%, according to SIX.

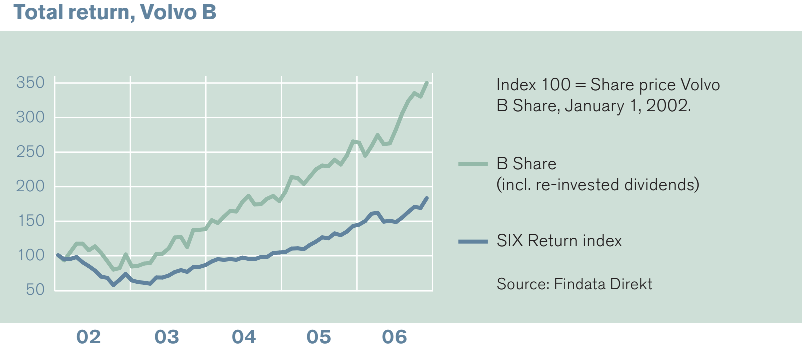
For fiscal year 2006, the Board of Directors proposes that the shareholders at the Annual General Meeting approve an ordinary dividend of SEK 25 per share and an extraordinary payment through a 6:1 share split in which the sixth share will be redeemed by AB Volvo for an amount of SEK 25 per share. The share split reduces the value of each trading block and should make trading easier for shareholders with smaller holdings.

Earnings and cash dividend per share



	02	03	04	05	06
Earnings per share	3.3	0.7	23.6	32.2	40.2
Dividend per share	8.0	8.0	12.5	16.75	25.0
Extraordinary payment					25.0

Total return, Volvo B



Price trend, Volvo Series B shares, SEK

Source: Stockholm Stock Exchange

Communication with the shareholders

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

Through a separate website at www.volvo.com, it is possible for shareholders and other stakeholders to view and download financial reports for the past ten 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 offers shareholders to personally determine the information to be received from Volvo.

Share capital, December 31, 2006

Registered number of shares [1]	425,684,044
of which, Series A shares [2]	135,520,326
of which, Series B shares [3]	290,163,718
Quota value, SEK	6
Share capital, SEK M	2,554
Number of shareholders	183,735
Private persons	175,298
Legal entities	8,437

1 Following the repurchase of the Group's own shares, the number of outstanding shares was 404,798,590.

2 Series A shares carry one vote each.

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

The largest shareholders in AB Volvo, December 31, 2006[1]

	Voting rights, %[2]
Renault SA	21.3
SHB	6.5
SEB Fonder/Trygg Försäkring	5.5
Violet Partners LP	5.3
Andra AP-fonden	5.0

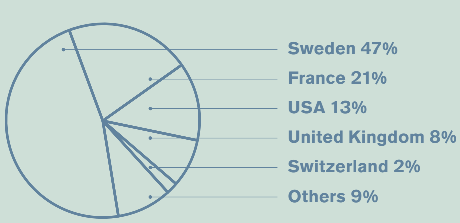
1 Following the repurchase of its own shares, AB Volvo held 4.9% of the Company´s shares on December 31, 2006.

2 Based on all registered shares.

Credit rating at December 31, 2006

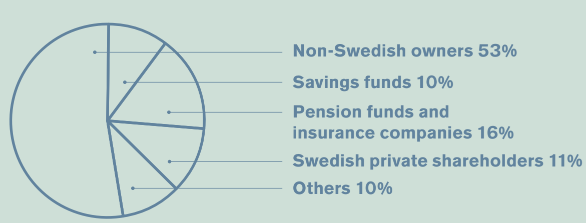
	Short term	Long term
Moody's	P-2 stable	A3 stable
Standard & Poor	A2 stable	Not rated

Ownership by country[1], %



1 Share of capital, registered shares.

Ownership categories[1], %



1 Share of capital, registered shares.

More details on the Volvo share are provided on page 158 Volvo share statistics.

Sustainable development

"As a vehicle manufacturer we have major responsibility for the environment and to contribute to a sustainable society. We view this responsibility with the greatest seriousness."

Leif Johansson

Key ratios for sustainabillity

	2004	2005	**2006**
Net sales, SEK M	202,171	231,191	248,135
Income after financial items, SEK M	13,036	18,016	20,299
Dividend, SEK M	5,055	6,775	10,120
Number of employees	81,078	81,856	83,187
of which women, %	16	17	17
Total absence due to illness of regular working hours in the Group's Swedish companies, %	n/a	5.2	4.7
Energy consumption, MWh/SEK M	13,3	11,6	10,5
Water consumption, m3/SEK M	42,2	32,1	30,6
Hazardous waste, kg/SEK M	122,1	102,0	108,8
Solvent emissions, kg/SEK M	10,3	8,5	8,3

Long tradition of reporting

AB Volvo published its first environmental report in 1990. Sustainability efforts have been included in the Group's annual report since 2002. The purpose of the sustainability report is to present the Volvo Group's short- and long-term sustainability efforts. The sustainability report is based on the relevant parts of the Sustainability Reporting Guidelines elaborated by the Global Reporting Initiative and issued in 2006. Unless otherwise stated, the information relates to the entire Volvo Group.

The Volvo Group's mission

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

The Volvo Group has a strong impact on the communities in which it operates. The Group's companies are major employers as well as providing work for a large number of subcontractors. The Volvo Group aims to be a strong partner for entrepreneurs, suppliers and other players in the community and a good employer for its employees. The Volvo Group aims to promote prosperity and sustainable development.

The basis of our sustainability efforts

The Volvo Group strives to conduct responsible business based on its Code of Conduct, core values and established guidelines. The Volvo Group's Code of Conduct and corporate values – quality, safety and environment care – form the basis of the company's sustainability efforts.

The Volvo Group's Code of Conduct

The Volvo Group's Code of Conduct was adopted in 2003 and underscores the principles by which the Group conducts its relations with employees, business partners and other stakeholders. It applies to all employees of the Volvo Group and to the members of the Board of Directors.

Suppliers, dealers, consultants and other business partners are also encouraged to follow these principles. The Code of Conduct is applied in assessing both current and potential suppliers.

The Volvo Group's managers are responsible for informing their respective organisations about the content of the Code of Conduct and for encouraging employees to report any behavior that is non-compliant with its principles.

The Code of Conduct is based on the UN Global Compact and it offers guidelines regarding legislation, business partner relations, accounting and reporting, conflicts of interest, political involvement and stakeholder communications.

The Volvo Group has a reporting system for behavior that may be non-compliant with the Code of Conduct. Employees who in good faith report actual or suspected violations may not be discriminated against or otherwise penalized. All persons handling such reports are sworn to confidentiality.

With regard to environmental management, the Volvo Group aims to rationalize resources and applies the cautionary principle. The Group routinely checks that its environmental efforts are aligned with environmental targets.

With regard to human rights and working conditions, the Volvo Group supports and respects the protection of internationally proclaimed human rights and works to ensure that the Group is not complicit in human rights abuses.

Corporate values applied from the start

Everything that the Volvo Group does is driven by an uncompromising focus on quality. Product and service offerings should be of the highest quality in order to provide optimum customer value. This quality commitment requires consistent working methods to be adopted throughout the organization.

"Cars are driven by people. This means that safety is – and must always be – the basic principle behind everything the Volvo Group does." This quote is by Gustaf Larson, one of Volvo's founders. Right from the start, Volvo has had a solid reputation for safety. Over the years, the Volvo safety concept has evolved to encompass safety in an increasingly broad context. High safety standards are the basis of efficient transport.

Environmental care is one of Volvo's corporate values, along with quality and safety. As one of the world's largest manufacturers of heavy vehicles, the Volvo Group has a heavy responsibility for reducing its products' environmental impact. If the Group succeeds in this, it helps strengthen both its own and its customers' competitiveness, while at the same time contributing to positive social development.

Well-established, widespread organization

The Volvo Group applies an ISO 14001-certified environmental management system. As far as possible, the same methods are used for sustainability reporting as for financial reporting.

All the Group's business areas and business units have their own quality, safety and environmental managers. These issues are integrated into the daily routines and are a normal aspect of operational responsibility. The Volvo Group applies integrated routines for process improvement and product development. These routines include review meetings with clear goals for quality, safety and environmental performance, which must be achieved before product development projects can continue to the next stage.

At Group level, these efforts are coordinated by a council for each of the corporate values: Quality, Safety and Care for the Environment. These councils are made up of the Quality, Safety and Environmental managers from each business area and business unit. They support the executive management and Board of Directors in quality, safety and environmental matters and act as an advisory body in Group-wide issues.

The Group Executive Committee has ultimate responsibility for sustainability efforts. Jan-Eric Sundgren is the Group Executive Committee member responsible for these issues.

Quality-driven organization

The Volvo Group is a customer- and quality-driven organization. Its products are often crucial to its customers' success and must therefore meet the highest possible standards. The goal is to be the leader in the industry and to achieve the highest customer satisfaction.

The conditions for reliability and customer benefit are already established at the product design and development stage. The Group's quality concept is based on customer needs. By measuring customer satisfaction, the company ensures that it focuses on the right things, and the results are taken into account in the ongoing improvement efforts.

Everyone in the organization is responsible for day-to-day quality work. All units within the Group have action plans for continuous improvements. Most of the Volvo Group's employees work in operations covered by ISO 9001:2000 certified quality management systems.

The Volvo Group also imposes rigorous demands on its subcontractors, who are continuously evaluated. Among other elements,

Volvo Group supports UN's Global Compact

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

The Global Compact was instituted to promote responsible business enterprise worldwide. By supporting the Global Compact, the Volvo Group commits itself to implementing and integrating ten principles regarding human rights, working conditions and the environment in its operations. For more information, see www.unglobalcompact.org.

subcontractors must have an explicitly stated target of delivering faultless products and services as well as established quality management systems, a focus on continuous improvements and a holistic view of product life cycle.

Active dialog with stakeholders

The Volvo Group strives for an open dialog with stakeholders at many different levels and in many different contexts, and aims to communicate clearly and honestly with the surrounding world. Representatives of the Group participate in seminars, networks and conferences with the aim of facilitating dialogue with society as a whole.

The main points of contact with customers are the sales and service organizations, which deal with customers on a daily basis. The Group's partners and distributors also play an important role in this respect. Other important forums are customer satisfaction and quality surveys and focus groups with customers in areas such as product development.

The Volvo Group presents its interim reports and financial statements to the media, analysts and investors. In addition, representatives of the Group meet various financial market players during the year. Interest has increased in investing in Volvo's shares as well as in the Group's sustainability efforts – particularly from environmental and ethical funds. The Volvo Group has enjoyed high sustainability ratings in several surveys including the Dow Jones Sustainability Index and Global 100.

Dialog with employees primarily takes place during day-to-day work, but also within formalized structures such as individual performance appraisal interviews, department meetings and staff surveys. All Volvo employees can send questions directly to the Group CEO via the intranet.

The Volvo Group aims to maintain an open dialog to keep society informed about the Group's activities and future plans. The Group collaborates extensively with universities and colleges worldwide.

Qualified for the Dow Jones sustainability index for the fifth consecutive year

AB Volvo has qualified once again for the Dow Jones Sustainability World Index of globally leading companies in the area of long-term sustainable development. Volvo is one of the few Swedish companies to rank on both the Dow Jones Sustainability World Index (DJSI World) and the Dow Jones STOXX Sustainability Index (DJSI STOXX).

For the fifth consecutive year, AB Volvo has been included in DJSI World thanks to the Group's sustainability efforts in economic, environmental and social issues. This means that AB Volvo ranks among the top 10% of companies worldwide in terms of combining financial profit with environmental and social responsibility. AB Volvo gained particularly high ratings for environmental care and corporate governance. AB Volvo is one of only five Swedish companies listed on DJSI World.

For the third consecutive year, AB Volvo is also included in DJSI STOXX, an index of leading European companies in the area of long-term sustainable development.

Dow Jones Sustainability Indexes
Member 2006/07

Volvo Group noted for its environmental responsibility

The Volvo Group is top among Swedish companies with regard to responsibility for the environment, according to the Climate Index 2006 survey. For the tenth consecutive year, insurance company Folksam has collected information about the environmental and climate-related operations of major Swedish corporations. The survey encompasses emissions from production as well as the results of the company's pro-environmental work with regard to cargo transport, buildings and premises, product design and business travel. The index is a collation of the company's overall emissions, undertaken climate measures and the quality of the way it presents and publicizes its emissions. Some 270 Swedish stock exchange-listed companies were surveyed. Combined they account for 95 percent of the total carbon dioxide emissions in Sweden. The Volvo Group's total points give it a leading position in the "best in class" group in Climate Index 2006.

During 2007 windpower plants will be built adjacent to the Volvo Trucks plants in Gent and Göteborg.

Environmental responsibility

Environmental management is a cornerstone of the Volvo Group's sustainable development efforts. Environmental care is also one of the Group's corporate values. Volvo's environmental work is long-term and methodical and has two clear targets: reducing environmental impact from production, and reducing environmental impact from product use.

Environmental management system

Volvo's Group-wide environmental policy is one of the primary instruments for guiding Volvo's environmental efforts. This policy forms the basis for the Group's environmental management system, strategies and targets, reviews and measures.

The environmental policy states that the Volvo Group's environmental program shall be characterised by a holistic view, continuous improvement, technical development and efficient use of resources. The policy is in turn broken down into strategies and targets for the organization.

An environmental management system is a tool for monitoring an organization's specific environmental impact. The Volvo Group's first system was certified in 1995. There are also environmental management systems for other parts of the value chain, such as product development and marketing. At the end of 2006, 99% of the employees in the Group's production units were working according to certified environmental management systems, primarily ISO 14001:2004.

The environmental policy states a commitment to expanding the Group's environmental program to include collaboration partners, for instance suppliers and distributors. Environmental demands on suppliers were introduced in 1996 and are used as an integrated part of the evaluation of suppliers and for follow-up of various purchasing organizations.

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

Environmental targets

The Group's environmental targets are used for follow-up purposes throughout the organization and are closely linked to its business plans. The Volvo Group's environmental targets can be summarized in the following environmental challenges.

The challenges facing production are:

- 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.

Challenges regarding product use:

- Achieving high fuel efficiency and low emissions throughout product life cycles
- 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.

In production

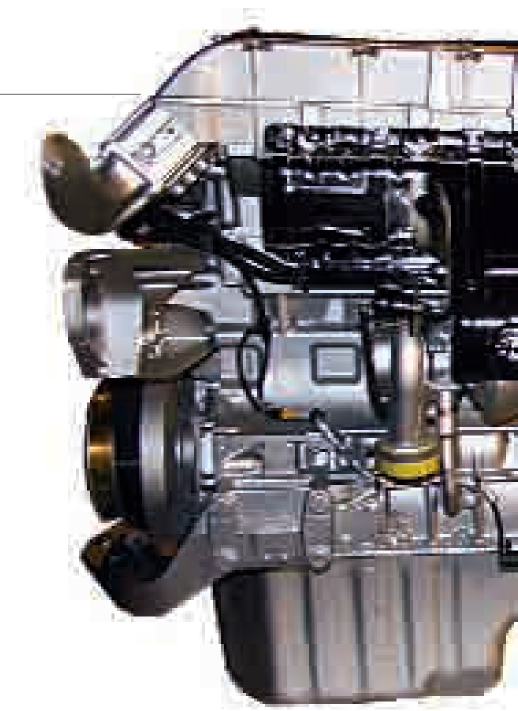
Volvo Group has production facilities on every continent, ranging from state-of-the-art, highly automated factories to small-scale production.

Regardless of size and location, all production units must meet the Group's minimum requirements for environmental performance. These requirements include guidelines for chemical use, energy consumption, air and water emissions, waste management, environmental organization and improvement efforts. If local laws and regulations are more comprehensive than the Group's requirements, they must be followed. Most factories meet the requirements by a wide margin and are showing constant improvement.

Regular environmental audits

Since 1989, Volvo has been carrying out environmental audits to ensure that all the plants comply with the Group's environmental policy.

The Volvo Group has insurance coverage for environmentally related damage to its immediate surroundings, for instance in the event of unexpected emissions. Newly acquired companies and properties are subjected to due diligence examinations which, in addition to financial and legal aspects, also examine environmental factors and risks.



Volvo's new diesel engines are leading in terms of fuel efficiency.

Activities requiring a permit

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 into the air, ground and water. One Swedish environmental permit was renewed in 2006, and four permits are due for renewal in 2007.

Environmental care right from the start

The Volvo Group manufactures a large number of products with varying environmental impact. Whatever the product, environmental care is considered right from the product development stage. Life cycle analyses provide a complete picture of the Group's products' environmental impact throughout their lifespan, from raw material to waste.

Life cycle analyses of the Group's products show that almost 90% of their total environmental impact from carbon-dioxide and other emissions from fossil fuel combustion occur during their use.

Environmental declarations are produced to describe the environmental impact from some of the Group's key products. These declarations consist of three parts: production, use and scrapping. The basic principle is that each new product must cause less environmental impact than the product it replaces, which sets rigorous environmental requirements for the development of new products.

The "Production" section describes aspects such as energy consumption, emissions and waste, while the "Use" section provides details of fuel consumption, emissions and the use of spare parts. The third section deals with scrapping. The Group's products are recoverable to a large extent. For instance, up to 95% of some trucks can be recovered. Recovered materials are also used in production.

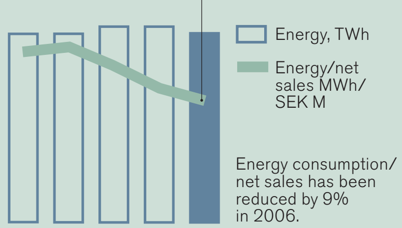
Environmentally adapted production

Environmental protection and responsible utilization of natural resources are obvious aspects of all production. During the year, Volvo Trucks decided to make its automotive facility in Gent carbon-dioxide neutral. Today, the facility is primarily heated with natural gas. Three windpower plants and a new biofuel plant, that will be carbon-dioxide neutral, will be built adjacent to the facility to provide it with electricity and heating. In 2005, Volvo Trucks launched its first carbon-dioxide neutral facility in Tuve, Göteborg. In Göteborg and in Gent long-term agreements on delivery have been made with the respective energy supplier, who will invest in the windpower plant. Volvo Trucks' facility in Umeå will also be made carbon-dioxide neutral, and the aim is for more production facilities to follow suit.

Volvo Construction Equipment decided to invest SEK 150 M in a new paintshop at its facility in Hallsberg. The new paintshop will lead to better quality, higher capacity, reduced costs and many environmental improvements. Solvent emissions will be halved, greenhouse emissions will be dramatically reduced through lower fuel consumption, and considerably less waste will be generated. The new paintshop will have its own treatment plant, which will more than halve the discharge of water to the municipal treatment plant despite increased production volume.

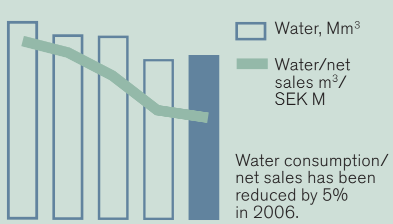
Volvo Trucks' cab factory in Umeå implemented further environmental initiatives during the year. For instance, plastic parts will be painted in a new paintshop to reduce the total environmental load. This initiative will cost SEK

Energy consumption



	02	03	04	05	06
Energy, TWh	2.6	2.6	2.7	2.7	2.6
Energy/net sales MWh/SEK M	14.5	14.9	13.4	11.6	10.5

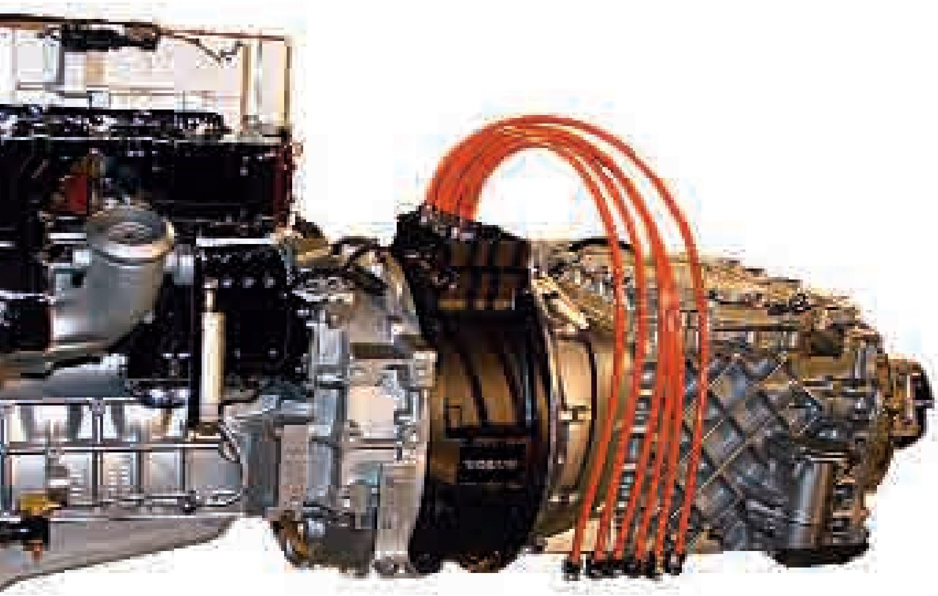
Water consumption



	02	03	04	05	06
Water, Mm^3	9.2	8.6	8.5	7.4	7.6
Water/net sales m^3/SEK M	52.0	49.1	42.2	32.1	30.6

Hazardous waste

	02	03	04	05	06
k ton	20.5	21.6	24.7	23.6	27.0
Waste/net sales kg/SEK M	116	124	123	102	109



138 M and is the second stage in a total investment of SEK 650 M in the paintshop. The investment will improve quality, cost and environmental performance.

The Volvo Group's activities generate transportation to and from production facilities. The Group's logistics managers regularly review these flows and continuously make improvements to considerably cut the amount of transportation and facilitate a significant reduction in total environmental impact. To assess the environmental impact, Volvo Logistics has developed a system for calculating environmental load.

The existence of polluted land on properties owned by the Volvo Group is cataloged every year. This pollution generally has historic origins. In 2006, cleaning-up activities were conducted on six properties.

During 2006 there were no significant environmental incidents and there were no environmental disputes.

For detailed environmental information about the Volvo Group's facilities, see page 161.

During use

The greatest environmental impact caused by the Volvo Group's products occurs during use.

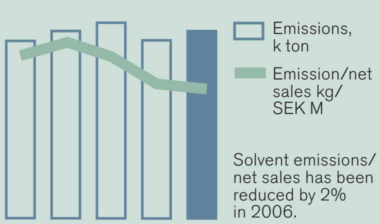
The Volvo Group primarily uses diesel engines in its products due to their high energy efficiency and low emissions. Improved fuel efficiency is a highly effective way of reducing carbon-dioxide emissions and cutting costs for customers.

In order to improve air quality, governments in many countries are making increasingly stringent demands for the reduction of emissions, primarily nitrogen oxides and particulates. New, stricter emission laws were introduced in the EU on October 1, 2006 and in the USA on January 1, 2007 for trucks and buses. Even stricter requirements will be introduced in a few years' time. To meet these requirements, the Volvo Group is continuously developing new engine technology to minimise fuel consumption and emissions. The primary focus of this development work is on diesel engines.

One of the most important environmental issues is climate change, which affects all aspects of society. The way in which climate issues are handled will impact strongly on global development. Rising carbon dioxide levels in the atmosphere are primarily caused by the combustion of fossil fuels from oil, coal and natural gas. The transport sector is responsible for roughly 25% of fossil fuel consumption, and for 25% of carbon dioxide emissions. Road traffic is responsible for approximately 15%.

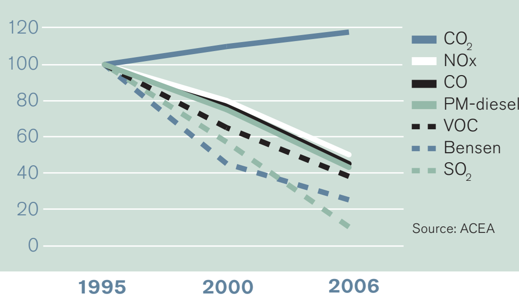
Climate change and access to energy sources may strongly affect the Volvo Group. It is therefore vital to prepare for the use of fuels

Solvent emission



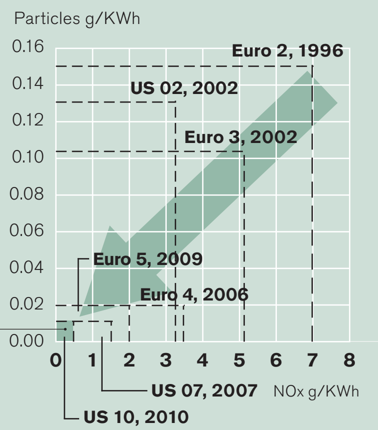
	02	03	04	05	06
Emissions, k ton	1.9	2.0	2.1	1.9	2.0
Emission/net sales kg/SEK M	10.7	11.2	10.3	8.5	8.3

Sharply reduced emissions



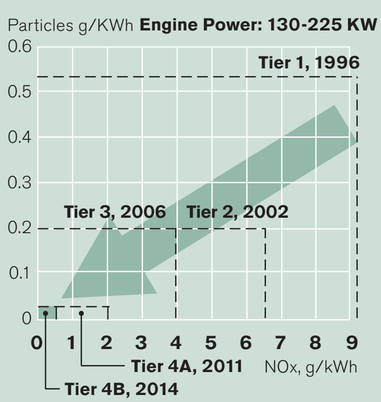
Emissions from highway transports in the EU.

Emission standards for trucks and buses



All heavy trucks and buses registered in EU countries from October 1, 2006, onwards must meet Euro 4 requirements. An engine that meets Euro 3 requirements differs significantly from a Euro 4-compliant engine in terms of its exhaust gas emissions. Emissions of nitrogen oxide (NOx) must be cut from 5 to 3.5 g/kWh, a decrease of 30%. Particulate emissions (PM) must drop from 0.1 to 0.02 g/kWh, a reduction of 80%. Euro 5, which takes effect on October1, 2009, will reduce NOx emission levels by half compared to Euro 4.

Emission standards for construction equipment



Nitrogen oxide and particulate emissions have fallen by about 60% since 1996. When Tier 3 was introduced, Volvo Construction Equipment launched products equipped with the new V-ACT technology (Volvo Advanced Combustion Technology), which minimizes emissions by adjusting the combustion process in the engine. Nitrogen oxide and particulate emissions will decline by a further 90% by 2014 compared with today's Tier 3 level.

other than crude oil. These efforts focus largely on the development of new drivelines, energy efficiency and alternative fuels.

Tomorrow's transport solutions

The Volvo Group is well prepared to meet future environmental and energy challenges. Significant resources are invested in ongoing efforts to improve the fuel efficiency of diesel engines and thereby cut fuel consumption. In addition to benefiting the environment, this also improves customers' profits since fuel represents a sizeable share of their costs.

> Both Europe and North America are introducing increasingly strict emissions laws.

Meanwhile, the Volvo Group must continue its work to adapt diesel engines for various alternative fuels and develop new drivelines, for instance through hybrid technology for heavy vehicles.

Increasingly efficient engines

Since 1980, the fuel consumption of Volvo's trucks has dropped by 30% at the same time as the engines have become cleaner. Over the past 30 years, diesel engines have seen a hundredfold reduction of regulated emissions.

Further important strides were taken in 2006. The Volvo Group presented a completely new engine family to meet the stricter environmental requirements introduced in North America on January 1, 2007. The Volvo Group was among the first truck manufacturers to have its engines approved according to US'07 by the US Environmental Protection Agency.

The US has a highly ambitious plan for reducing emissions from heavy traffic. Starting from 2007, the proportion of nitrogen oxide and particulates will be reduced by 50% and 90% respectively in new engines. Emission requirements in the US will become even stricter in 2010.

In Europe, the Group's heavy engines meet the stricter Euro 4 emission requirements that took effect on October 1, 2006. Meanwhile, Volvo has developed an engine that already meets the new requirements to take effect in 2009. Since April 2006, a refuse truck has been in use with a D13 engine that meets Euro 5 requirements – three years before these requirements come into force. This is the Group's first delivery of a Euro 5 product.

Alternative fuels

A diesel engine is a highly effective energy converter and can run on various fuels such as synthetic diesel and DME (dimethyl ether). Diesel engines provide the basis for various types of hybrids with electric motors, batteries and fuel cells. The Volvo Group is a leader of this development.

In 2006, the Swedish National Energy Administration awarded AB Volvo a grant of SEK 62 M for the development of third-generation DME engines for heavy vehicles between 2006 and 2010. The project will generate automotive technology for a major field test of DME-powered trucks, which is scheduled for 2009 and 2010. The Volvo Group is also investing heavily in the project.

Other interesting renewable fuels are biodiesel (FAME, Fatty Acid Methyl Esters) and biogas. FAME works splendidly in low-blends with conventional diesel fuel. Minor adjustments of the engines will make them run on 100 % biodiesel. Biogas emits minimal amounts of particulates, nitrogen oxides, carbon-dioxide and the level of noise in the vehicle is also lower. This makes biogas particularly suitable for vehicles in city traffic.

Hybrid technology for heavy vehicles

In March, the Volvo Group presented a hybrid solution capable of producing up to 35% energy savings in heavy vehicles. This solution offers the highest fuel savings in situations in which the driver frequently brakes and accelerates, for instance in urban bus transport, urban distribution operations, refuse-collection duties and construction operations. Furthermore, the vehicle's maintenance costs can be lowered through reduced wear on the brake system. The diesel engine in the hybrid solution can also be powered by biofuels to achieve carbon-dioxide neutral transport.

The Volvo Group is also involved in developing a new type of battery, Effpower, based on the proven lead-acid technology used in today's starter batteries. The new technology doubles the batteries' power output and their production cost can be considerably reduced compared with other available alternatives. Effpower can make electric hybrids even more cost-effective.

> The Volvo Group's engines are becoming increasingly fuel efficient.

Volvo's Environmental Prize awarded to three pioneers in marine ecosystems

Volvo's Environmental Prize for 2006 was awarded to three distinguished scientists for their research regarding human impact on global fishing waters and marine environments.

The researchers, Professor Ray Hilborn of the University of Washington in Seattle and Professors Daniel Pauly and Carl Walters of the University of British Columbia in Vancouver, won the prize for developing analysis tools that monitor the rapidly changing threats to marine ecosystems.

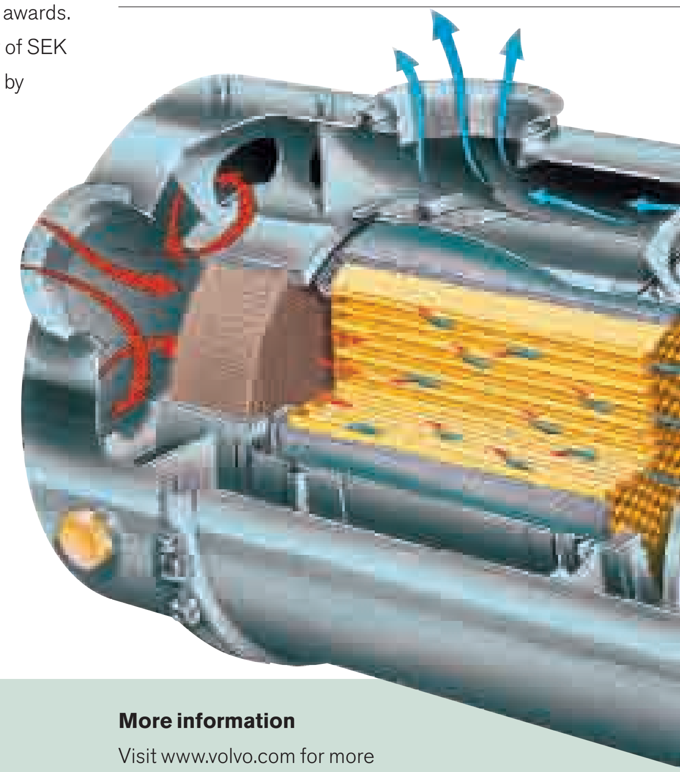
Volvo's Environmental Prize was introduced in 1988 to support and acknowledge environmental research and development, and has become one of the world's most prestigious environmental awards. The prize money of SEK 1.5 M is awarded by the Foundation of The Volvo Environmental Prize.

Internal Environmental Prize awarded to Volvo Trucks North America

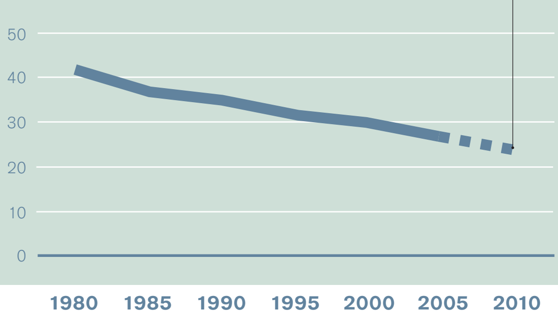
The Volvo Group's Internal Environmental Prize was awarded to a group of employees at Volvo Trucks North America for several environment-enhancing initiatives at the truck plant in New River Valley, Virginia.

The winning team comprised Stephen Pierett, Michael Kijak, Frank Stanley, Channon Maycock, Danny Arnold and Thomas Newcomb. Thanks to the team's efforts, the water used for testing operations was reduced by half between 2003 and 2005 and a system for recycling process water was installed. Through automatic lighting, automation and control of the building's heating and cooling system, energy con-

Cross-section of a particulate trap. Using particulate traps is one way of reducing emissions of particulates.



Decreased fuel consumption, l/100 km



Development of fuel consumption, Volvo truck model FH12, 40 tons.

Source: Volvo

More information

Visit www.volvo.com for more information about Volvo's environmental efforts: policies, environmental information on products and production, emission laws and educational material.

sumption per produced truck dropped by over 60% between 2001 and 2005. Through increased waste separation and a recycling program, the quantity of deposited waste was halved between 2000 and 2005, while recycling increased by over 75%. The investments in the project paid off in less than three years, and the long-term savings are estimated at around SEK 11 M per year.

Thanks to its dramatic reduction of greenhouse emissions, the New River Valley factory is among the leading vehicle factories in the so-called Climate Leader program instituted by the American EPA environmental agency to reduce carbon-dioxide emissions. Emissions dropped by 27% per produced truck in 2003–2004.

Environmental Prize awarded to Volvo Powertrain North America

Volvo Powertrain in Hagerstown, Maryland, in the US was awarded a prize by the organization Businesses for the Bay for outstanding environmental efforts. Volvo Powertrain in Hagerstown manufactures engines for Mack Trucks and Volvo Trucks in North America.

Businesses for the Bay works to protect and preserve the environment around Chesapeake Bay in Maryland on America's east coast. Volvo Powertrain has implemented several positive environmental measures at its factory and has won the prize for "Outstanding Achievement for Pollution Prevention at a Large Facility".

Volvo Powertrain has carried out numerous environmental initiatives for sustainable development. These include introducing a new, more efficient heating system that can operate on non-fossil fuels. All leakage water from production processes is cleaned and recycled at the factory, for instance as cooling water. The building's lighting and insulation systems have been upgraded to maximize energy efficiency.

Social responsibility

The Volvo Group aims to be a good citizen that complies with laws and regulations and generally acts responsibly and respectfully.

The Volvo Group promotes equal opportunities, fairness and diversity. Employees should be offered stimulating work in a healthy, safe environment.

Volvo as an employer

The Volvo Group's vision is to be regarded as a globally leading supplier of commercial transport solutions. The Group's employees and their knowledge and competence are a crucial prerequisite in achieving this vision. The Group aims to be the first-choice employer of both current and future employees.

The Group had 83,187 employees at the end of 2006. Each employee is part of a team and is expected to participate actively in the Group's development, change process and future. To support this aim, an environment characterized by energy, passion and respect for individuals is required.

> The Group's employees and their knowledge and competence are a crucial prerequisite in achieving the corporate vision.

Corporate culture a determining factor

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

The Volvo Group's values and culture are outlined in the book entitled "The Volvo Way", whose principles guide both managers and employees in their daily work.

The Volvo Way is based on the conviction that all employees have the ability and desire to improve operations and, by so doing, to develop their own skills. By putting words into action, focusing on implementation and carrying out necessary changes faster than the competition, the Volvo Group aims to secure long-term success.

The employees' working conditions

Achieving success on individual markets requires extensive knowledge of the conditions prevailing on that market. It takes a long time to build up this knowledge and experience, so it is vital that the composition of management and other employees throughout the world reflects the societies in which they operate. At all the larger facilities, the majority of the managers and employees are from the country or region in question.

All employees have access via the intranet to guidelines regarding HR policies, values, recruitment and employment, salaries and benefits, employee appraisal sessions and competence development.

The policy for wages, salaries and remunerations is based on the Group's basic values and principles as formulated in The Volvo Way. They support the Group's efforts to realize its visions and business goals.

Wages, salaries and remunerations should contribute to Volvo's image as an attractive company. Behavior in line with the Company's values is rewarded. Extra efforts, qualifications and responsible attitudes are valued highly. Other highly valued attributes are innovation, internal mobility, international work and, particularly, strong leadership. The principles governing wages, salaries and remunerations should be clear and familiar to everyone.

Wages and salaries should be individual and differentiated, and should be based on the same grounds for all employees. Wages and salaries should:

- reflect the task's level of difficulty and the employee's performance
- be clearly linked to the company's business and results
- stimulate a desire for competence development leading to new or broader duties
- encourage cooperation and knowledge sharing
- be market-linked.

Work environment

The Volvo Group works to promote a creative, healthy and energizing work environment without health hazards, a positive environment that helps make the company more profitable and attractive. Work environment efforts include examining, implementing and following up activities in order to prevent illness and accidents and achieve a healthy work environment. Improving the work environment should be a natural part of the daily routines.

As part of Volvo's work environment efforts, more and more of the Group's operations are being certified in accordance with OHSAS 18001, the international standard for work environment management systems. This system is a tool for checking work environment risks and making any necessary improvements, which in turn are subsequently followed up.

Preventative health care and rehabilitation

In recent years, increased emphasis has been placed on health and on sickness absenteeism. Reduced sickness absenteeism can improve the quality of life of the individuals concerned and also help cut costs for the Volvo Group.

These efforts encompass workplace ergonomics, health risks and how to prevent them, various support programs, health examinations and health issues in connection with work-related travel and stationing abroad.

> In recent years, the Volvo Group has placed increased emphasis on health and on sickness absenteeism.

Continuous competence development

Competence development is a continuous process that is supported by an internal training organization. This organization offers employees a wide range of courses and training programs in such areas as diversity and culture, leadership development, project work, business understanding, economics, technology, personal development, communication, IT and languages. All courses are designed to help achieve the Group's business targets.

It is the shared responsibility of managers and employees to ensure that each team has the necessary skills, expertise and resources to become successful. Each employee should attend an annual performance appraisal interview with his or her immediate supervisor.

Leaders throughout the organization are expected to involve their teams in the decision-making process and subsequently focus on execution. Customer focus, open dialog, feedback and personal commitment are key principles in The Volvo Way, aimed at aligning Group strategies and objectives with daily teamwork. Objectives and goals are established for each unit, department and work team and to a large extent also for employees themselves during the individual performance appraisal interviews.

Future leaders

A so-called Leadership Supply Process is used to secure access to future leaders. The aim is to identify, develop and retain employees with a talent for leadership in a systematic, transparent manner, in order to secure access to qualified, motivated leaders in key positions at all levels.

The Leadership Supply Process is linked to the Group's strategy process. Its starting point is the annual Performance Development Appraisal process, where leaders and employees meet to discuss the employee's performance during the year in relation to the agreed targets, personal competence, future potential and other issues. The appraisals also offer employees an opportunity to clarify and obtain feedback on their professional ambitions.

At the next stage, the leadership teams are used at all levels to link the discussion regarding strategy and business to the competence required to meet the company's business targets and to the employees' current competence. The employees' performance, future potential, competence development and career development are also discussed.

Volvo do Brasil voted best employer

For the consecutive year, Volvo do Brasil was voted the best employer in the Brazilian transport sector. The poll was conducted by business magazines Exame and Você S/A. Volvo also achieved the highest work enjoyment rating among major companies and was named the company with the best occupational health services. Volvo also ranked highly in the categories of Identity, which measures the company's values, products and visions, Personal Development, and Work Satisfaction and Motivation. 150 companies in 20 different industries participated in the survey.

Award for health-enhancing project

The ergonomics team at Mack's Macungie facility recently received the newly instituted Volvo Group Health and Wellbeing Award at a ceremony in Allentown PA, in the US. Craig Souders, Greg Mikols and Dave Peirson have been working since 2002 to improve ergonomics at the Macungie facility.

This work has lead to a dramatic reduction in the number of muscular strain injuries – from around 200 to just over 10 injuries. The team won first prize for "contributing to a substantial rise in the standard of ergonomics efforts, which may provide great inspiration to other companies in the Volvo family".

The Volvo Group Health and Well-being Award 2006 is a newly instituted award designed to recognize and reward health improvement projects in the Group.

Key figures

	2004	2005	**2006**
Number of employees at year-end	81,078	81,856	83,187
Share of women, %	16	17	17
Share of women, Board members, %	15	10	11
Share of women, Presidents and other senior executives, %	16	16	15
Absence due to illness in the Group's Swedish companies			
Total absence due to illness of regular working hours, %		5.2	4.7
of which continuous sick leave for 60 days or more, %		51.4	49.6
Absence due to illness (as percentage of regular working hours) by gender			
Men, %		4.9	4.4
Women, %		6.7	5.7
Absence due to illness (as percentage of regular working hours) by age			
29 years or younger, %		4.8	4.1
30–49 years, %		4.9	4.7
50 years or older, %		6.2	5.1

Greater diversity – a strategic goal

Among other items, the Volvo Group's Code of Conduct prescribes that the Group must support human rights and that no employee must be discriminated against on grounds of gender, race, religion, age, disability, sexual inclinations, nationality, political conviction, trade union membership, social or ethnic origin.

One of the Group's strategic goals is to raise awareness about and capitalize on the diversity that exists throughout the organization. For an international group with global operations, it is essential that the organization actively 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.

There are various diversity networks within the Volvo Group, and several units have diversity managers responsible for promoting ongoing improvement in this area.

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. The results of the survey are compiled and discussed within each team to identify key improvement areas.

The proportion of satisfied employees has steadily improved in recent years. In 2006, the

Fredrik Lindvall, assembling the RM12 engine at Volvo Aero in Trollhättan, Sweden.

share of satisfied employees was 84%, compared with 83% the year before, 81% in 2004 and 77% in 2003. 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.

Cooperation with trade union organizations

The right to be a trade union member and the right to negotiate collective agreements are respected throughout the Volvo Group. In Europe, the Volvo European Works Council was formed in 1996 to create a forum for dialog between the employer and employees. Volvo European Dialog is a forum in which employer and employee representatives meet once a year. The Chairman is the Volvo Group's President Leif Johansson. In addition to this forum, the employee representatives have two meetings per year. Representatives of various production units outside the EU are invited to attend one of these meetings every two years. About fifteen non-European employees attended such a meeting in Lyon in 2006.

The Volvo Group was not involved in any labor market conflicts in 2006.

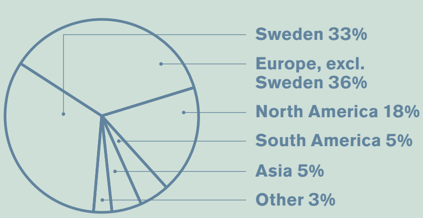
It sometimes becomes necessary to restructure parts of the Volvo Group's operations, for instance to meet market requirements. Restructuring is always carried out in compliance with the laws, rules and practices that apply in the relevant country.

> The Volvo Group aims to function as an active partner in society.

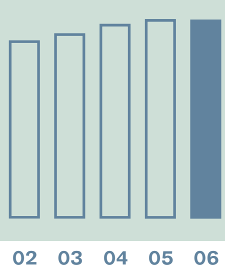
Sponsorship

Sport and culture have been the focus of the Volvo Group's sponsorship since the 1970s. The activities that the Volvo Group chooses to sponsor have points of reference with our customer groups. The aim of this sponsorship is to intensify our customer relations and strengthen the Volvo Group's brands. Volvo currently has six long-term sponsorship commitments: the Volvo Ocean Race, the Volvo Masters golf tournaments in Europe and Asia, Volvo China Open, the Göteborg Symphony Orchestra, the Göteborg Opera and the Nobel Museum in Stockholm. In addition, Renault Trucks sponsors the Olympique Lyonnais football team.

Geographic distribution of employees, %



Number of satisfied employees



Volvo Group in society

The Volvo Group is extensively involved in social issues, which are important because the Group is a major employer in many communities and is active in areas of considerable public interest.

The Group's social involvement is based on issues such as safety and environmental care. The Volvo Group aims to function as an active partner in society and to contribute in various ways to positive social development in cooperation with local authorities, voluntary organizations and private citizens.

The Volvo Group respects suppliers' and customers' right to integrity and privacy and follows prevailing laws, regulations and recognized industrial standards for marketing, PR and sponsorship. No known transgressions occurred in these areas during the year.

The Volvo Group does not contribute funds to political parties or religious organizations.

The Volvo Group has occasionally engaged in discussions about providing funding for various infrastructure projects. So far, the Group has decided against providing such funding.

Human rights

The Volvo Group's Code of Conduct regulates the company's views on human rights, which are based on the UN declarations. The Volvo Group tolerates no form of child labor or forced labor, and works for equal rights, fairness and diversity. The minimum age for employment is the age at which compulsory schooling ends. The Volvo Group's business partners are also expected to follow these principles, regardless of where in the world they operate.

Training on the Code of Conduct

The Volvo Group has well-established, strong, valuable brands. It is vitally important for the Volvo Group to familiarize all employees with the Group's Code of Conduct and ensure that they follow its principles.

The Volvo Group has approximately 6,500 managers worldwide. Of these, 5,358 have received training on the Code of Conduct. One of the steps involves online training, which is available in eleven languages. This online training was rated as good or excellent by 5,347 managers. The training also encompassed the Volvo Group's website and press articles. Some 88% of the managers responded that they had asked their staff to report behavior that violated the principles in the Code of Conduct. Further training will be organized for the approximately 1,300 people who have not yet reported how they work with the Code of Conduct. The managers are responsible for ensuring that the other employees are familiar with the Code of Conduct's content. A full 74% of employees report that they have received information on the Code of Conduct.

In November 2006, an online training program on corruption was launched for all managers, 5,491 of whom had completed the training by year-end. All salaried employees will receive this training in 2007.

Cooperation in trade associations

The Volvo Group is a member of several employers' organizations including the Confederation of Swedish Enterprise (Svenskt Näringsliv), and trade associations including the European Automobile Manufacturers Association (ACEA).

The Volvo Group also works together with the European Commission to improve legislation for the control of emissions from vehicles that are in use and are required to comply with the emission standards in Euro 4 and the coming Euro 5.

The Volvo Group is involved in various automotive research programs in Sweden, France, the US and other countries. One example is Green Car, an initiative for advanced automotive technology focusing on environment and growth for a sustainable society.

Collaboration with universities and colleges

Sharing knowledge with other stakeholders is one of the principal objectives of the Volvo Group's projects and partnerships, as exemplified by the Future Urban Transport Foundation, in which the company exchanges knowledge with universities and research insti-

tutes regarding future transport in urban areas. The Group also collaborates extensively with universities and colleges in many countries and has initiated several projects of social interest.

The Volvo Group participates in many different projects at local, national and global level, some of which are described on the Volvo Group's website, www.volvo.com.

Leaders in safety

The increasing number of vehicles on the roads, combined with increasingly high traffic speeds, raises safety requirements for both drivers and vehicles. For the Volvo Group, safety is about how its products are used in society. The company works consistently to minimize the risk and consequences of accidents, and to improve drivers' safety and work environment.

The program's first focal point is accident prevention. Human errors or misjudgements are decisive or strongly contributory causes of most traffic accidents, a fact that reflects the importance of preventative safety characteristics such as good visibility, driving qualities and brakes. The human factor is also the most common cause of accidents involving construction equipment.

The second focal point is injury prevention. The Volvo Group is a leader in designing vehicles that protect the driver and passengers in the event of a collision. Safety solutions include rollover-tested cabs and bodies, frontal collision protection, deformation zones, seat belts, deformable fittings and airbags. Seat belts are by far the most important safety feature.

From an early stage, the Volvo Group has worked on improving safety for other road-users. A large proportion of accidents between trucks and passenger cars involve frontal collisions. 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 trucks in the EU since 2001, and in 2003 the protection system became a legal requirement in EU countries. Accident investigations show that the Front Underrun Protection System substantially reduces injuries.

> The Volvo Group works consistently to minimise the risk and consequences of accidents.

The Volvo Accident Research Team

During the year, the Volvo Group and Volvo Car Corporation launched a joint Traffic Accident Research Center in China. Through on-site traffic accident research, Volvo builds knowledge to help develop safer vehicles and also hopes to contribute to better road traffic safety in the world's most populated country.

The Volvo Group has the automotive industry's most advanced traffic accident research. With a center in Göteborg since the early 1970 and local research activities in the US, the Group has built up a unique databank with detailed information about nearly 40,000 accidents involving over 50,000 drivers and passengers.

Many of the safety systems introduced in trucks and buses over the years originate from data collected from real accidents by the Traffic Accident Research Team. Some examples are the deformable steering column, the Front Underrun Protection System (FUPS) and the Electronic Stability Program (ESP). Volvo Buses aims to install ESP in tourist buses and seat belts in all its vehicles by 2010.

Seat belt reminder becomes standard in Volvo trucks

To further increase safety for truck drivers, Volvo Trucks is introducing an acoustic seat belt reminder as standard in all vehicles on the European market.

Statistics show that most drivers killed or injured in traffic accidents were not using seat belts. According to the research results compiled by Volvo Trucks' Traffic Accident Research Team, seat belts are highly effective in at least 60% of traffic accidents and could help save a great many lives each year if used correctly.

Volvo offers breathalyzer equipment for ferries stopping in Sweden

The Volvo Group offers shipping companies the opportunity to equip ferries stopping in Sweden with special breathalyzer equipment free of charge. The idea is to allow truck and bus drivers using the ferries to voluntarily check whether they are within Swedish alcohol limits.

Since October 1, 2006, all Stena Line ferries calling at Swedish ports have been equipped with breathalyzers.

Safer workplaces as Volvo Construction Equipment invests in safety helmets

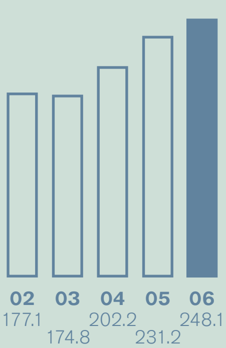
Construction sites are among the worksites with the highest accident rates. To address this problem, Volvo Construction Equipment initiated a campaign for improved construction site safety in 2006. Volvo Construction Equipment has developed a safety program in which safety problems are tackled at three levels: people, machinery and workplace. Volvo's protective helmets will be the most visible element of a broad initiative to improve health and safety for construction workers.

Board of Directors' Report

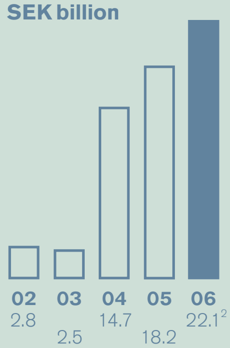
The Volvo Group 2006

The year 2006 was eventful, with extensive product launches and major changes in the industrial system, particularly toward the end of the year. Despite this, we posted the best year in history, in terms of sales and earnings.

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.

2 Excluding adjustment of goodwill.

In the Board of Directors' Report through page 85, Financial Services is reported in accordance with the equity method.

Significant events

"Nissan Diesel's products and know-how represent a valuable complement to the Group's truck business. Nissan Diesel holds a solid position in Japan and the rest of Asia where the Volvo Group foresees substantial growth potential."

Leif Johansson

Cooperations and acquisitions

AB Volvo became major shareholder in Nissan Diesel

On February 20, 2007, Volvo made a public offer to acquire the Japanese truck manufacturer Nissan Diesel. The offer, which is supported by Nissan Diesel's Board of Directors, means that Volvo offers JPY 540 in cash per share and the total value of Volvo's offer amounts to SEK 7.5 billion. Volvo already owns a 19% holding in Nissan Diesel and preference shares which can be converted to an additional 27.5%, after full dilution.

Volvo's offer for Nissan Diesel represents a premium of 32% based on the average prices during the past three months. The offer is open through March 23 and is not conditional upon a lowest level of acceptance, but is dependent on the necessary approvals from the anti-trust authorities. Volvo anticipates that payment can be made for acquired shares on or about March 29, 2007. If the offer for Nissan Diesel is implemented, Volvo will have paid a total of SEK 13 billion for all shares, corresponding to JPY 469 per share.

In 2005, Nissan Diesel sold approximately 42,000 trucks and buses. In Japan, Nissan Diesel holds a market share of about 24% in heavy trucks and 15% in the medium-heavy segment.

Sales in 2005 amounted to about SEK 32.5 billion. The company has 8,900 employees.

The study of coordination possibilities carried out jointly by Volvo and Nissan Diesel identified synergies over five years of about EUR 200 M annually, slightly more than SEK 1.8 billion. The major portion of the integration gains is as a result of increased purchasing volumes, but positive effects also arise within product development, engines and drivelines. Other gains arise in that the companies have access to each other's dealer and service networks, primarily in Asia but also in other parts of the world.

Volvo assesses that the net interest-bearing debt in Nissan Diesel in accordance with IFRS amounts to about SEK 7.5 billion. Accordingly, at full consolidation Volvo's net financial position, including the purchase consideration, will decline by SEK 15 billion.

In March 2006, Volvo acquired 40 million shares in Nissan Diesel, corresponding to 13% of the votes and capital. In September of the same year, Volvo increased its ownership to 58.2 million shares corresponding to 19% of votes and capital. At the same time, Volvo purchased all 57.5 million preference shares in the company that through 2014 can be converted in stages and which in 2014, after full conversion, can provide Volvo with 46.5% of the votes and capital in the company, after full dilution.

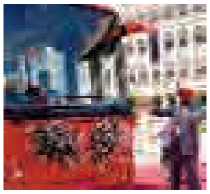
The acquisition strengthens the Volvo Group's Asian strategy and is intended to provide the Group with access to Nissan Diesel's dealer and service network in Japan and Southeast Asia, and create a further industrial cooperation with Nissan Diesel in such areas as engines and transmissions.

AB Volvo, Nissan Motor and Dongfeng Group, intend, together with Chinese authorities, to evaluate how to best develop Dongfeng Motor Co Ltd's commercial vehicle business. Dongfeng Motor Co. Ltd is jointly owned by Nissan Motor and Dongfeng Group.

Agreement between Renault Trucks and the GAZ Group

On June 19, Renault Trucks signed a framework agreement granting the GAZ Group of Russia to manufacture the Renault dCi 11 engine under license. The engines will be manufactured for the Russian market and the CIS states (Commonwealth of Independent States). GAZ Group is a Russian automotive group with operations that include the manufacturing of trucks, buses, construction equipment and cars, and the aim is to use Renault Trucks' engines in the various vehicles. The agreement includes the purchase of certain manufacturing machinery and the possibility of using the tooling as well as training.

Volvo plans bus body cooperation in India



Volvo Bus Corporation and the Indian company Jaico Automobiles have reached an agreement to start a joint company in India for production of bus bodies based on Volvo Buses' body technology. Volvo Buses will be the majority owner with a 70% stake in the new company, which plans to build a new plant with a capacity of 1,000 bus bodies per year. The bus bodies will primarily be used for Volvo buses and coaches in the Indian market, but the new company will also investigate possibilities to export buses to other Volvo markets. Jaico Automobiles is a company in the Azad Group, which carries out body building production in Bangalore and Jaipur.

Volvo Construction Equipment invests in China

In 2006, Volvo Construction Equipment (Volvo CE) signed an agreement covering an equity investment of 70% in Shandong Lingong Construction Machinery Co. China is the world's largest market for wheel loaders. The total market in 2005 was approximately 110,000 units. Lingong is the fourth largest producer of wheel loaders in China with a comprehensive dealer network throughout the country. In addition to 16 different models of wheel loaders, Lingong also has a smaller range of backhoe loaders, road rollers and excavators. Lingong has around 1,800 employees and in 2005 posted sales of SEK 2 billlion.

In January 2007, it was announced that all necessary regulatory approvals for the equity investment of 70% in Lingong were received and the deal is now closed. Volvo CE has invested RMB 328 M, corresponding to slightly more than SEK 300 M, in exchange for 70% of the equity in Lingong. In 2005 Lingong's operating income was RMB 10 M on revenue of RMB 2 billion. The deal has no material impact on Volvo's financial position.

Strategic decision on closure of Volvo Aero's operations in Bromma

In November, 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. In recent years, the volumes of the engines overhauled in Bromma, the JT8D and JT9D, have declined sharply. Among other actions, VAES has tried to offset the declining volumes through complementing operations with a third engine type, the PW4000, but volumes have not reached the levels required. The company has investigated other possibilities, but all attempts have failed.

VAES in Bromma employs 456 persons, 145 salaried employees and 311 skilled workers. In accordance with the strategic decision, the operations will be gradually phased out during 2007. Costs for a closure are estimated to SEK 258 M.

Dongfeng Motor Group, Nissan Motor and AB Volvo deepen discussions on possible future cooperation

In January 2007, it was announced that Dongfeng Motor Group Company Limited (DFG), Nissan Motor and AB Volvo is deepening discussions on a possible AB Volvo investment in the heavy and medium-duty commercial vehicle business currently included in Dongfeng Motor Co, Ltd (DFL) – the Chinese joint venture between DFG and Nissan Motor.

Nissan Motor will focus on passenger cars and light commercial vehicles and has divested its holding in Nissan Diesel to AB Volvo. Subsequently, DFG, Nissan Motor and AB Volvo initiated discussions at the end of 2006 with the Chinese authorities on the future possible cooperation of the parties. DFG intends to establish more competitive alliances with Nissan and AB Volvo respectively, in order for all parties to achieve the best development in their specialized field.

To move forward on this issue, DFG, Nissan Motor, DFL and AB Volvo also have signed a non-binding framework agreement with the intention of AB Volvo to invest in the heavy and medium-duty commercial vehicle business and future engine business, while Nissan Motor remains committed to the long-term cooperation with DFG regarding passenger vehicles and the light commercial business. Any future definitive agreement regarding such a transaction will be subject to approval by Chinese authorities.

Renault Trucks in agreement with Nissan Motor regarding distribution of light trucks

Renault Trucks announced in January 2007 that it had signed a distribution agreement covering the Renault Maxity light-duty vehicle with the manufacturer Nissan Motor. An agreement in principle was signed in February 2006. Renault Maxity is a cab-over-engine light-duty vehicle developed and produced for Renault Trucks by Nissan Motor. Sales by Renault Trucks' dealers will begin in March 2007. Renault Maxity complements Renault Trucks' existing range of light trucks, comprising Renault Master and Renault Mascott, and is produced in a range of weight classes from 2.8 to 4.5 tons, with three engine alternatives.

Company information

Annual General Meeting of AB Volvo

At the Annual General Meeting of AB Volvo held on April 5, 2006, the Board's proposal to pay a dividend to the shareholders of SEK 16.75 per share, a total of about SEK 6,775 M, was approved.

Per-Olof Eriksson, Tom Hedelius, Leif Johansson, Louis Schweitzer and Finn Johnsson were re-elected members of the Board of AB Volvo and Ying Yeh, Philippe Klein and Peter Bijur were newly elected. Finn Johnsson was elected Board Chairman.

The Meeting resolved to establish a share-based incentive program during the second quarter of 2006 for senior executives in the Volvo Group. The program mainly involves that a maximum of 518,000 Series B shares in the Company could be allotted to a maximum of 240 senior executives, including members of the Group Executive Committee, during the first six months of 2007. The allotment shall depend on the degree of fulfillment of certain financial goals for the 2006 fiscal year, which have been set by the Board. For more information on share-based incentive programs see note 34 pages 127 to 129.

Volvo Board decided on new financial targets

AB Volvo's Board of Directors has decided to adopt new financial targets for the company. The decision is based on the Board's assessment that Volvo today has a structurally higher profitability, stronger cash flow and a different risk profile. The Board focuses on three external financial targets covering growth, operating margin and capital structure.

The previous target for operating margin was 5-7% over a business cycle, including the operations within Volvo Financial Services. The new target for operating margin is more than 7% over a business cycle and includes all operations within the Group except Volvo Financial Services, which currently contributes approximately another 1 percentage point. The restricting ratio for net debt to equity has also been increased from 30% of shareholders' equity to 40% of shareholders' equity. With regard to the Group's growth target, the Board has chosen to retain the target of an annual growth of at least 10%.

Reversal of reserve for tax receivables yields positive earnings effect

AB Volvo has decided to reverse a valuation reserve for deferred tax receivables in the Mack Trucks Inc. subsidiary. The decision is 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 SEK 2,048 M. In accordance with prevailing accounting rules, Volvo is adjusting goodwill by SEK 1,712 M, which affects operating income adversely. The combined earnings effect for the third quarter was a positive SEK 336 M.

New products

Volvo Group premiered hybrid technology for heavy vehicles

In the beginning of March, Volvo Group presented a new, efficient hybrid solution for heavy vehicles. The Volvo Group's hybrid concept provides maximum fuel-saving effects on routes with frequent braking and accelerations, for example, city bus traffic, city distribution, refuse collection and construction work. Calculations indicate that fuel savings can amount to 35% in these applications.

Volvo Trucks launched new models for the North American market

In March, Volvo Trucks announced a broadening of its product program on the North American truck market with the launch of two models with new cab variants for the prestige segment, the Volvo VT830 and Volvo VN730. Both models are intended primarily for owner operators. The newly launched cab models offer the same interior roominess, and the lower roof provides better aerodynamics and correspondingly improved fuel economy for rigs with low trailers, such as tankers.

Volvo Trucks broadens its business with new, cleaner trucks for distribution

Volvo Trucks is aiming to reach a broader clientele outside of the heavy, long-haul segment. In May, Volvo Trucks presented two completely new distribution trucks – the Volvo FL and the Volvo FE. At the same time, a new business concept was introduced for distribution services in urban environments.

The Volvo FL and Volvo FE are cleaner, quieter and safer, which is important for distribution customers who operate primarily in urban areas. Both models meet the environmental requirements according to Euro 4 and Euro 5. The latter legal requirement does not take effect until 2009.

The Volvo FL and Volvo FE are intended for a wider category of customers who do not primarily have transport as their main line of business. For this reason, Volvo Trucks have developed an entirely new business concept that enables the customer to quickly and easily purchase a key-ready truck with a body, rear lift, and a number of support services, such as a service contract.

Launch of new versions of Renault Midlum and Renault Premium Distribution

Renault Trucks has launched new versions of the Renault Midlum and Renault Premium Distribution targeted for distribution applications. Among other features, the new vehicles are equipped with completely new cabs, chassis and drivelines.

Renault Trucks has placed heavy emphasis on reducing fuel consumption, and the new trucks are equipped with the new 5- and 7-liter (Renault Midlum) and 7- and 11-liter (Renault Premium Distribution) engines. The new generation of engines meets the Euro 4 emission standard that becomes effective October 1, 2006. Certain models are also prepared for the Euro 5 standard, which becomes effective in 2009.

World premiere for new Volvo 7700 city bus

In June, Volvo Buses premiered the new version of the Volvo 7700 city bus. The Volvo 7700 is available as a 12-meter bus for up to 95 passengers and as an 18-meter articulated bus with space for up to 150 passengers. An important feature is the shift from a 7-liter engine to Volvo's new 9-liter engine, available in diesel and gas versions, that meets the Euro 4 emission standard. Due to Volvo choosing SCR (Selective Catalytic Reduction) technology, the company can already offer its customers an engine that also meets the proposed Euro 5 emission standard that does not become effective until 2009.

Renault Trucks launches new version of lightweight truck

In January 2007, Renault Trucks announced the launch of a new version of Renault Mascott. The new Renault Mascott is equipped with a new gearbox, new driveshaft and new engine. Two engine alternatives are available, 130 hp or 150 hp, which meet the European Euro 4 emissions standard. In addition, the Renault Mascott features a new, effective brake system that provides the shortest braking distance in the lightweight truck segment. The Renault Mascott is one of Renault Trucks best sellers in its segment, with nearly 15,000 vehicles sold during 2006. Deliveries of the newest version are expected to start at mid-year 2007.

Mack Trucks launches new truck in construction segment

Mack Trucks, Inc. is launching a new truck model in the construction segment, the TerraPro Cabover. Mack holds a leading position in the US as a supplier of trucks in this segment. The model is a further development of Mack's popular MR series and is adapted specially for handling concrete pumping. The new model offers customers a new driver environment including an ergonomic seat, spacious driver cab, effective climate-control system, easily accessible instrument and control panel and substantial storage space. Major emphasis was placed on reducing noise levels and the vibrations that arise during work operations. TerraPro Cabover is equipped with an 11-liter MP7, available in the 325 to 405 hp classes, or the 13-liter MP8 engine, available in the 415 to 485 hp classes. Both engines are approved in accordance with EPA 07.

New wheel loader launched

During the fourth quarter Volvo CE launched its largest wheel loader ever, the new L350F replacing the 330E model. The L350F is equipped with Volvos 16 liter engine and with its improved performance it is a very good bundle with the biggest haulers A35 and A40.

Financial performance

2006 was a successful year, net sales rose 7% to SEK 248 billion, income for the period increased by 24% to SEK 16 billion and basic earnings per share rose to SEK 40.20 (32.22).

Net sales by business area

SEK M	2004	2005	**2006**	%[1]
Trucks	136,879	155,396	166,306	7
Buses	12,722	16,589	16,856	2
Construction Equipment	29,360	34,816	40,564	17
Volvo Penta	9,057	9,776	10,485	7
Volvo Aero	6,925	7,538	8,048	7
Other	7,228	7,076	5,876	(17)
Volvo Group[2]	**202,171**	**231,191**	**248,135**	**7**

1 Percentage change pertains to 2006/2005.
2 Adjusted for changes in currency rates, net sales increased by 8%.

Net sales by market area

SEK M	2004	2005	**2006**	%[1]
Western Europe	102,498	106,479	113,569	7
Eastern Europe	10,556	11,401	16,044	41
North America	52,426	67,233	73,657	10
South America	6,949	11,901	12,533	5
Asia	20,699	22,598	19,610	(13)
Other markets	9,043	11,579	12,722	10
Volvo Group	**202,171**	**231,191**	**248,135**	**7**

1 Percentage change pertains to 2006/2005.

Operating income (loss) by business area

SEK M	2004	2005	**2006**
Trucks	8,992	11,717	14,369
Buses	253	470	633
Construction Equipment	1,898	2,752	3,888
Volvo Penta	940	943	1,002
Volvo Aero	403	836	345
Financial Services	1,365	2,033	2,301
Other	8	(598)	(427)
Operating income[1]	**13,859**	**18,153**	**22,111**
Revaluation of shares	820	–	–
Goodwill adjustment	–	–	(1,712)
Operating income	**14,679**	**18,153**	**20,399**

1 Excluding revaluation of shares in Scania AB and Henlys Group Plc, 2004, and excluding goodwill adjustment in 2006.

Net sales

Net sales in 2006 amounted to SEK 248,135 M (231,191), an increase of 7% compared with a year earlier. Adjusted for changes in currency rates, net sales rose 8%.

Net sales for the Group's truck operations amounted to SEK 166,306 M, which adjusted for changed exchange rates corresponded to an increase of 7%. The increase was attributable to higher sales, primarily in North America, Europe and Other markets. Demand in North America was driven by the fact that customers chose to buy trucks before the new emission legislation came into force by January 1 2007 and also increased transport needs. In Europe, demand rose from an already historically high level. In all of Europe there is an increased need for transports and especially between the Western and Eastern parts of Europe, which means an increased need for heavy trucks. The strongest development is happening in Eastern Europe, where new member countries of the EU contribute substantially. Also countries outside the EU in Eastern Europe are developing favorably. In total, Volvo delivered 219,931 trucks in 2006, 3% more than in the preceding year.

Net sales within Buses rose 2% compared with 2005. Adjusted for currency effects the increase was 2%. As a result of a broadened production range and improved market shares in a rising world market, net sales in Construction Equipment increased by 17%. Adjusted for currency effects the increase was 17%. Volvo Penta succeeded in offsetting the reduction in deliveries of industrial engines to China through growing on other markets. Net sales rose 7% in 2006, or 8% adjusted for currency changes. The recovery in the aerospace industry affected Volvo Aero positively and net sales increased by 7%. Adjusted for changes in currency rates, the increase was 7%.

Operating net flow per currency

SEK M	2004	2005	**2006**
USD	13,100	18,300	17,700
EUR	6,700	9,300	14,100
GBP	4,200	5,200	5,700
CAD	2,800	3,300	2,700
Other currencies	9,300	11,100	10,800
Total	**36,100**	**47,200**	**51,000**

Strong economic growth combined with a major need to replace ageing fleets of trucks and construction equipment contributed to an increase of 10% in net sales in North America. Net sales in Europe was 10%, but growth rate varied substantially between the Eastern part of Europe, where net sales increased by 41%, and the Western part, where net sales increased by 7%. Net sales in South America were up 5% as a consequence of the increased sales of mainly trucks and construction equipment.

Operating income

Operating income in 2006 increased 12% to SEK 20,399 M (18,153). An adjustment of goodwill in the Trucks business area had a negative impact on operating income of SEK 1,712 M. Excluding the goodwill adjustment operating income rose by 22% compared to 2005. The improvement is the result mainly of improved product and market mix and higher prices on new products with increased customer value.

Operating income for Trucks improved and amounted to SEK 14,369 M (11,717), excluding adjustment of goodwill of a negative SEK 1,712 M. The increase was 23% compared to 2005. The improved result is attributable primarily to North America, where Mack Trucks and Volvo Trucks increased profitability through a favorable price realization and increased volumes. In Europe, Volvo Trucks continued to improve its earnings while profitability for Renault Trucks' operations in Europe declined somewhat.

Operating income in Buses continued to improve as a result of the restructuring implemented earlier. Operating income for full-year 2006 was SEK 633 M, an increase of 35%. Through strong cost control and increased volumes, Volvo Construction Equipment continued to improve its profitability. Operating income rose by 41% to SEK 3,888 M in 2006.

Volvo Penta maintained its high profitability during 2006 and at the same time implemented aggressive investments in product development and substantial marketing efforts to capitalize on the new and competitive product portfolio. Operating income increased by 6% and amounted to SEK 1,002 M.

As an effect of the recovery in the aerospace industry, volumes rose for Volvo Aero. In November, the decision was taken to phase out maintenance operations in Bromma, which had reported loss for many years. Earnings were negatively affected in an amount of SEK 258 M for discontinuation costs. Operating income for 2006 decreased to SEK 345 M compared to SEK 836 M for 2005.

The operating income includes a positive effect of SEK 357 M as a consequence of the Brazilian Supreme Court's decision to rule in AB Volvo's favor in an export credits dispute. In addition, costs of SEK 258 M relating to the decision in principle on closure of Volvo Aero's operations in Bromma, Sweden, SEK 100 M from capacity adjustments in North America and approximately SEK 1,100 M related to costs for the changeover in the industrial systems and production starts of new engines and trucks primarily in Renault Trucks. The operating income for 2005 included costs of approximately SEK 500 for product launches and production starts, costs amounting to SEK 653 M related to Volvo's holdings in Peach County Holding Inc. (bus manufacturer Blue Bird) and a capital gain from the sale of Celero Support amounting to approximately SEK 430 M.

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Consolidated income statements[1]

SEK M	2004	2005	**2006**
Net sales	202,171	231,191	248,135
Cost of sales	(158,453)	(180,823)	(192,242)
Gross income	**43,718**	**50,368**	**55,893**
Research and development expenses	(7,614)	(7,557)	(8,354)
Selling expenses	(18,317)	(19,616)	(19,999)
Administrative expenses	(5,310)	(6,147)	(6,352)
Other operating income and expenses	7	(397)	(3,292)
Income from Financial Services[1]	1,365	2,033	2,301
Income from investments in associated companies	2	(568)	61
Income from other investments	828	37	141
Operating income[2]	**14,679**	**18,153**	**20,399**
Interest income and similar credits	993	816	897
Interest expenses and similar charges	(1,426)	(1,134)	(816)
Other financial income and expenses[3]	(1,210)	181	(181)
Income after financial items	**13,036**	**18,016**	**20,299**
Income taxes	(3,129)	(4,908)	(3,981)
Income for the period[4]	**9,907**	**13,108**	**16,318**
[4] Attributable to:			
Equity holders of the parent company	9,867	13,054	16,268
Minority	40	54	50
	9,907	**13,108**	**16,318**
Earnings per share, SEK	**23.58**	**32.22**	**40.20**

1 Financial Services reported in accordance with the equity method.
2 2006 includes an adjustment of goodwill of SEK (1,712) M.
3 2004 includes a write-down relating to the holding in Henlys Group Plc of SEK 1,196 M.

Change in operating income

SEK bn	
Operating income 2005	**18.2**
Higher volumes and improvement of gross margins	5.8
Higher income from Financial Services	0.5
Changes in currency exchange rates	(1.0)
Lower capitalization of development costs	(0.6)
Higher research and development expenditures	(0.2)
Higher selling and administrative expenses	(0.6)
Adjustment of Goodwill in subsidiary Mack Trucks	(1.7)
Restructuring costs Volvo Aero, Bromma	(0.3)
Outcome of dispute regarding export credits in Brasil	0.4
Other	(0.1)
Operating income 2006	**20.4**

Operating margin

%	2004	2005	**2006**
Trucks	6.6	7.5	8.6
Buses	2.0	2.8	3.8
Construction Equipment	6.5	7.9	9.6
Volvo Penta	10.4	9.6	9.6
Volvo Aero	5.8	11.1	4.3
Volvo Group[1]	**6.9**	**7.9**	**8.9**
Volvo Group	**7.3**	**7.9**	**8.2**

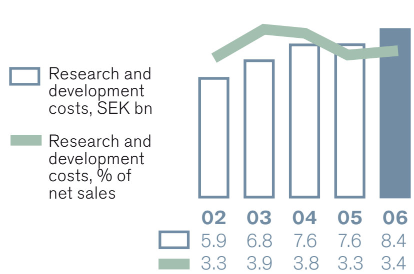
1 Excluding revaluation of shares in Scania AB and Henlys Group Plc, and excluding goodwill adjustment in 2006.

Impact of exchange rates on operating income

Compared with preceding year, SEK bn	
Net sales[1]	(0.1)
Cost of sales	(0.5)
Research and development expenses	0.0
Selling and administrative expenses	0.0
Other operating income and expenses	(0.4)
Income from investments in shares	0.0
Total effect of changes in exchange rates on operating income	**(1.0)**

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

Research and development costs[1]



1 Years 2004, 2005 and 2006 are reported in accordance with IFRS and 2002 and 2003 in accordance with Swedish GAAP. See Note 1 and 3.

Impact of exchange rates on operating income

The impact on operating income from currency movements was negative by approximately SEK 1 billion compared with 2005. The prime reason being the declining US dollar during 2006.

Financial net

The net interest income for 2006 amounted to SEK 81 M compared to a net interest expense of SEK 318 M for the preceding year. The improvement is primarily a result of higher short-term interest rates in Sweden and lower cost for the pension liability due to lower pension liabilities as a result of capital injections to the Group's pension foundations.

Other financial income and expenses were negatively impacted by marked-to-market revaluation of derivatives used for hedging of the customer finance portfolio. The negative revaluation impact was SEK 61 M during 2006 and was a result of declining long-term interest rates in the US and Canada during the second half of 2006. During 2005 the revaluation impact was positive amounting to SEK 251 M.

Income taxes

The income tax expense for 2006 was SEK 3,981 M corresponding to 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. During 2005 the income tax expense amounted to SEK 4,908 M and a tax rate of 27%.

Income for the period

Income for the period amounted to SEK 16,318 M (13,108) corresponding to a basic earnings per share of SEK 40.20 (32.22). The return on shareholders' equity was 19.6% (17.8%).

Financial position

The Board of Directors proposes an ordinary dividend of SEK 25 per share and an extraordinary payment through a 6:1 share split where the sixth share will be redeemed by AB Volvo for an amount of SEK 25 per share.

Balance sheet

Total assets in the Volvo Group amounted to SEK 258.4 billion at December 31, 2006, an increase of SEK 1.2 billion compared with year-end 2005. The Group's total goodwill amounted to SEK 8.8 billion, reported under intangible assets. This amount includes an adjustment of SEK 1.7 billion that was made in accordance with prevailing accounting rules in conjunction with the release by AB Volvo of a valuation reserve for deferred tax receivables of SEK 2.0 billion in the subsidiary Mack Trucks Inc. Investments in development costs amounted to SEK 2.9 billion in 2006, resulting in a net capitalization amounting to SEK 1.3 billion, the net value of development costs as of December 31, 2006 was to SEK 8.2 billion.

The Volvo Group's assets in operational leasing remained largely unchanged compared with December 31, 2005. Sales with buyback agreements are reported under this item in the balance sheet, resulting in revenues from a sale being allocated during the length of a contract as if it were a leasing agreement.

Shares and participations increased during the year by SEK 5.5 billion through AB Volvo's acquisition of shares in Nissan Diesel from Nissan Motor. In total, AB Volvo owns 19% of the shares in the company. In addition, AB Volvo has acquired all 57.5 million preferential shares in Nissan Diesel from Nissan Motor and Japanese banks. Combined, these items correspond, after conversion, to 46.5% of the shares in Nissan Diesel.

The net value of assets and liabilities related to pensions and similar obligations amounted to SEK 6.7 billion on December 31, 2006, a reduction of SEK 4.8 billion compared with the preceding year. Prepaid pensions amounted to SEK 2.0 billion, an increase of SEK 1.5 billion compared with year-end 2005, and were related to the Volvo Group's operations in the US and the UK. A reduction in Post-employment benefits was primarily the result of exchange-rate differences and payments towards pension plans made during the year. Post-employment benefits valued at SEK 2.9 billion were reported outside of AB Volvo's balance sheet, which remained largely unchanged compared with a year earlier.

The value of the Volvo Group's inventory remained largely unchanged on December 31, 2006, compared with the corresponding period in the preceding year. During the year, finished products declined by SEK 1.2 billion, while production and other materials rose by SEK 1.5 billion.

Change in net financial position, excl Financial Services

SEK bn		
December 31, 2005		**18.7**
Cash flow from operating activities	21.9	
Investments in fixed assets and leasing assets, net	(9.3)	
Operating cash flow,		**12.6**
Investments and divestments of shares, net		(5.8)
Acquired and divested operations		0.6
Change in provision for post-employment benefits		3.3
Dividend paid to AB Volvo's shareholders		(6.8)
Currency effect		1.0
Other		1.1
Total change		**6.0**
December 31, 2006		**24.7**

Consolidated balance sheets December 31

SEK M	Volvo Group, excl Financial Services[1] 2004	2005	**2006**	Financial Services 2004	2005	**2006**	Total Volvo Group 2004	2005	**2006**
Assets									
Intangible assets	17,570	20,348	19,054	42	73	62	17,612	20,421	19,117
Property, plant and equipment	27,260	31,330	30,493	3,891	3,738	3,886	31,151	35,068	34,379
Assets under operating leases	8,477	10,260	11,822	773	700	279	19,534	20,839	20,501
Shares and participations	10,116	10,357	16,565	193	28	29	2,003	751	6,890
Long-term customer-financing receivables	147	725	582	33,887	39,083	39,276	25,187	31,184	32,089
Long-term interest-bearing receivables	1,797	1,399	3,463	5	60	60	1,741	1,433	3,150
Other long-term receivables	6,492	7,242	7,723	212	271	393	6,100	7,026	7,913
Inventories	28,291	33,583	33,893	307	342	318	28,598	33,937	34,211
Short-term customer-financing receivables	83	652	611	29,531	38,907	36,979	26,006	33,282	32,653
Short-term interest-bearing receivables	10,330	6,292	9,751	0	0	0	1,643	464	966
Other short-term receivables	30,043	36,750	35,612	1,628	1,607	1,564	29,647	35,855	34,654
Non-current assets held for sale[2]	–	–	805	–	–	–	–	–	805
Marketable securities	25,839	28,662	20,324	116	172	18	25,955	28,834	20,342
Cash and cash equivalents	8,789	7,385	9,583	914	868	1,238	8,791	8,113	10,757
Total assets	**175,234**	**194,985**	**200,281**	**71,499**	**85,849**	**84,102**	**223,968**	**257,207**	**258,427**
Shareholders' equity and liabilities									
Shareholders' equity[3]	70,155	78,760	87,188	8,306	9,634	9,703	70,155	78,760	87,188
Provisions for post-employment benefits	14,677	11,966	8,661	26	20	31	14,703	11,986	8,692
Other provisions	14,115	17,164	19,385	845	1,264	1,321	14,993	18,556	20,970
Loans	13,968	13,097	9,779	57,860	69,993	67,991	61,807	74,885	66,957
Liabilities associated with assets held for sale[4]	–	–	280	–	–	–	–	–	280
Other liabilities	62,319	73,998	74,988	4,462	4,938	5,056	62,310	73,020	74,340
Shareholders' equity and liabilities	**175,234**	**194,985**	**200,281**	**71,499**	**85,849**	**84,102**	**223,968**	**257,207**	**258,427**
Shareholders' equity and minority interests as percentage of total assets	40.0	40.4	43.5	11.6	11.2	11.5	31.3	30.6	33.7

1 Financial Services reported in accordance with the equity method.
2 Of which, interest-bearing SEK 5 M (–; –).
3 Of which, minority interests SEK 284 M (260; 229).
4 Of which, interest-bearing SEK 7 M (–; –).

Marketable securities in real estate financial institutions fell by SEK 12.9 billion during 2006, which to some degree was offset by an increase of SEK 6.6 billion in placements in banks and financial institutions. In total, marketable securities fell by SEK 8.5 billion during 2006, among others the result of amortization of loans. During the same period, cash and cash equivalents increased by SEK 2.6 billion. Exchange-rate differences resulted in a decline in assets of SEK 14.5 billion, which primarily affected receivables in customer financing operations, inventories and other receivables.

Shareholders' equity at December 31, 2006 amounted to SEK 87.2 billion, corresponding to an equity ratio of 43.5%, excluding Financial Services. Changes in shareholders' equity for the period are specified on page 89. The Group's net financial assets at the same date amounted to SEK 24.7 billion, corresponding to 28.3% of shareholders' equity. Changes in net financial position are specified in the accompanying table.

The Volvo Group's loans fell during 2006 by SEK 7.9 billion. The decline was due to a reduction in bond loans and other loans.

Total contingent liabilities at December 31, 2006, amounted to SEK 7.7 billion, a reduction of SEK 0.2 billion compared with December 31, 2005.

Net financial position

SEK M	2004	2005	**2006**
Long-term interest-bearing receivables	1,797	1,399	3,463
Short-term interest bearing receivables	10,330	6,292	9,751
Non-current assets held for sale, interest-bearing	–	–	5
Marketable securities	25,839	28,662	20,324
Cash and bank	8,789	7,385	9,583
Total financial assets	**46,755**	**43,738**	**43,126**
Provision for post employment benefits	(14,677)	(11,966)	(8,661)
Loans	(13,968)	(13,097)	(9,779)
Liabilities associated with assets held for sale, interest-bearings	–	–	(7)
Total financial debt	**(28,645)**	**(25,063)**	**(18,447)**
Net financial position	**18,110**	**18,675**	**24,679**

Cash-flow statement

Operating cash flow, excluding Financial Services, increased to SEK 12.6 billion in 2006 compared with 6.8 billion in 2005. During the year, transfers were made to pension foundations of SEK 3.3 billion (4.4).

Cash flow

Operating cash flow, excluding Financial Services, amounted to SEK 12.6 billion. The positive development during 2006 was mainly related to an increase in earnings. During the year transfers were made to pension foundations, which is reported in the item ”Change in working capital”, in the amount of SEK 3.3 billion.

Operating cash flow within Financial Services was a negative SEK 1.8 billion in 2005 (negative 4.4) as a result of continued growth in the credit portfolio.

Investments

Investments in fixed assets during 2006, excluding Financial Services, amounted to SEK 9.7 billion (9.9). Capital expenditures in Trucks amounted to SEK 6.0 billion (6.7). The investments within Trucks were made in a new top coat line for cabs in Umeå, Sweden, increasing the number of Volvo Truck Centers (mainly in Europe), energy saving investments in the Macungie-plant in North America and development of production sites within Renault Trucks including the move from Villaverde to Bourg-en-Bresse. Trucks' capital expenditures also included investments related to the new emission standards Euro4 and US'07, the final stage of the modification in the Hagerstown plant for engines and transmissions in North America and also investments related to new products. Investments within Construction Equipment increased to SEK 1.7 billion from SEK 0.9 billion. The main part of the investments refer to capacity increases and a new generation of Excavators, the C-series. The investments within Volvo Aero increased during 2006 to SEK 1.0 billion from SEK 0.8 billion. A major part of those investments refers to entrance fees for phase two of the new GEnx engine in cooperation with General Electrics. In Trollhättan, Sweden, an extensive renewal of FMS cells has been completed. The investments in Buses remains at the level of SEK 0.3 billion and were mainly related to the new generation of engines, and a new product program. The level of investments remains in Volvo Penta with SEK 0.2 billion and consist mainly of capacity increasing investments and a new paint shop in the Vara plant in Sweden.

Approved future capital expenditures in property, plant and equipment amounted to SEK 6.8 billion (7.8).

Investments in leasing assets amounted to SEK 0.5 billion (0.3).

Condensed cash-flow statements, Financial Services

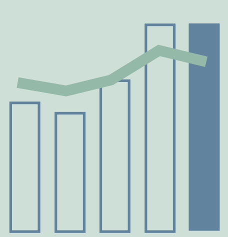
SEK bn	2004	2005	**2006**
Cash flow from operating activities	(2.5)	(4.2)	(1.4)
Net investments	(3.0)	(0.2)	(0.4)
Operating cash flow	(5.5)	(4.4)	(1.8)

Future capital expenditures, approved[1]

SEK bn	
Trucks	4.8
Buses	0.1
Construction Equipment	0.7
Volvo Penta	0.2
Volvo Aero	0.5
Other	0.5
Total	**6.8**

1 In property, plant and equipment.

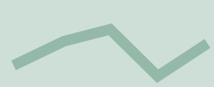
Capital expenditures[1], excluding Financial Services



1 Years 2004, 2005 and 2006 are reported in accordance with IFRS and 2002 and 2003 in accordance with Swedish GAAP. See Note 1 and 3.

02	03	04	05	06	
6.4	5.9	7.5	10.2	10.2	Capital expenditures, SEK bn
3.6	3.4	3.7	4.4	4.1	Capital expenditures, % of net sales

Self-financing ratio[1], excluding Financial Services, %



1 Years 2004, 2005 and 2006 are reported in accordance with IFRS and 2002 and 2003 in accordance with Swedish GAAP. See Note 1 and 3.

02	03	04	05	06
196	243	268	173	235

Acquisitions and divestments

In 2006 investments were made in Nissan Diesel and in Deutz. As a consequence investments in shares and participation had a negative impact on cashflow of SEK 5.8 billion (positive 0.3) in 2006.

Acquired and divested companies had a positive effect on cash flow SEK 0.5 billion (0.7).

Financing and dividend

Net borrowings decreased cash and cash equivalents by SEK 2.6 billion during 2006. The new borrowing during the year, mainly through the issue of bonds, contributed SEK 69.3 billion. Amortization for the year amounted to SEK 72.2 billion. In 2005, net borrowings increased cash and cash equivalents by SEK 3.6 billion.

An ordinary dividend amounting to SEK 6.8 billion, corresponding to SEK 16.75 per share, was paid to AB Volvo's shareholders during the year.

Change in liquid funds

The Group's liquid funds increased by SEK 2.6 billion during the year amounting to SEK 10.8 billion at December 31, 2006.

Consolidated cash-flow statements

SEK bn	2004	2005	**2006**
Operating income	13.3	16.1	18.1
Depreciation and amortization	7.1	7.3	10.0
Other non-cash items	(0.6)	0.2	0.6
Change in working capital	(1.4)	(5.6)	(3.1)
Financial items and income taxes paid	(0.2)	(1.9)	(3.7)
Cash flow from operating activities	**18.2**	**16.1**	**21.9**
Investing activities			
Investments in fixed assets	(7.2)	(9.9)	(9.7)
Investment in leasing assets	(0.3)	(0.3)	(0.5)
Disposals of fixed assets and leasing assets	0.7	0.9	0.9
Operating cash flow excluding Financial Services	**11.4**	**6.8**	**12.6**
Operating cash flow, Financial Services	**(5.5)**	**(4.4)**	**(1.8)**
Operating cash flow, Eliminations	**0.0**	**(0.6)**	**(0.7)**
Operating cash flow, Volvo Group total	**5.9**	**1.8**	**10.1**
Investments and divestments of shares, net	15.1	0.3	(5.8)
Acquired and divested operations, net	(0.1)	0.7	0.5
Interest-bearing receivables including marketable securities, net	(6.4)	(1.3)	7.7
Cash flow after net investments	**14.5**	**1.5**	**12.5**
Financing activities			
Change in other loans, net	(8.8)	3.6	(2.6)
Repurchase of own shares	(2.5)	(1.8)	–
Dividend to AB Volvo's shareholders	(3.4)	(5.1)	(6.8)
Other	0.0	0.0	0.0
Change in cash and cash equivalents excl translation differences	**(0.2)**	**(1.8)**	**3.1**
Translation differences on cash and cash equivalents	(0.2)	1.1	(0.5)
Change in cash and cash equivalents	**(0.4)**	**(0.7)**	**2.6**

Risk management
– an important part of our operation

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 effect 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.

We have chosen to classify the risks to which the Volvo Group is exposed into three main categories: External-related risk, Financial risk and Operational risk.

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. Economic trends in Europe and North America are particularly important for the Volvo Group, since a significant portion of the Group's net sales are generated in these markets.

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

To cope with the peaks and troughs in 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. Volvo's products face substantial competition, which may have a significant impact on the prices Volvo receives for its products and on the Group's future sales volume. Our major competitors are DaimlerChrysler, Paccar, Navistar, MAN, Scania, Caterpillar, Komatsu, Cummins and Brunswick. In recent years, new competitors have emerged in Asia, particularly in China. These new competitors are mainly active 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. For the Volvo Group, it is important that all brands in the Group are developed and supported. Strong brands combined with an attractive product portfolio make it possible for Volvo to be competitive.

Prices for commercial vehicles 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.

The commercial vehicles industry is subject to extensive government regulation

Regulations regarding exhaust emission levels, noise, safety and levels of pollutants from production plants are extensive within the industry. These regulations are subject to change, often making them more restrictive. The costs to comply with these regulations can be significant for the commercial vehicles 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, provided that they are not changed and the product development strategy is well tuned to the introduction of new regulations. The new regulations regarding product emissions are stringent, but our current assessment is that they are manageable for the Volvo Group.

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

Financial risk

In its operations, the Volvo Group is exposed to various types of financial risks. Groupwide policies, which are updated and decided upon annually, form the basis of each Group company's management of these risks. The objectives of the Group's policies for management of financial risks are to optimize the Group's capital costs by utilizing economies of scale, to minimize negative effects on income as a result of changes in currency or interest rates, to optimize risk exposure and to clarify areas of responsibility within the Group's finance and treasury activities. Monitoring and control that established policies are adhered to is conducted continuously centrally and at each Group company. Most of the Volvo Group's financial transactions are carried out through Volvo's 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 is described in detail in Notes 36 and 37 on pages 131-137. 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

Approximately 90% of the net sales of the Volvo Group are in countries other than Sweden. Changes in exchange rates have a direct impact on the Volvo Group's operating income, balance sheet and cash flow, as well as an indirect impact on Volvo's competitiveness, which over time affects the Group's earnings. Currency-associated risk as applies to 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 of exchange-rate fluctuations on the Group's earnings and financial position. The Volvo Group employs forward contracts and currency options to hedge the value of future payment flows in foreign currencies.

Interest-related risk

Interest-related risk include 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 rate swaps make it possible to loan 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 ensure interest rate levels for short-term loaning or investment.

Market risk from investments in shares or similar instruments

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

Credit-related risk

Volvo's extension of credit is governed by Group-wide policies and rules for classifying customers. Efforts are made to ensure that the credit portfolio is reasonably diversified among different customer categories and industries. Credit-associated risk is managed by actively monitoring credit, routines for follow up and in certain cases repossession of materials. 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 Goverment bonds and interest-bearing bonds issued by real estate financial 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 Volvo Group's profitability depends on successful new products

The Volvo Group's long-term profitability depends on the Company's ability to successfully launch and market its new products. Product life cycles continue to shorten, putting increased focus on the success of the Group's product development. It is highly important to meet and exceed customer expectations to be competitive in established markets and to be able to expand into additional markets and/or product segments.

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

The Volvo Group relies on suppliers

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

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

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

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

The Volvo Group's products are primarily sold under the brand names "Volvo", "Volvo Penta", "Volvo Aero", "Renault", "Mack", "Prévost" and "Nova Bus". AB Volvo owns or otherwise has rights to a number of patents and brands that refer to the products the Company manufactures. These patents and brands, acquired over a number of years, have been valuable as the Volvo Group's operations expanded and may continue to be valuable in the future. 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 Coporation 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. To protect these rights and avoid any weakening of the brand, AB Volvo and Volvo Personvagnar AB jointly introduced a control function to govern the use of the brand name and to prevent others from taking unfair advantage of it.

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

Complaints and legal actions by customers and other third parties

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

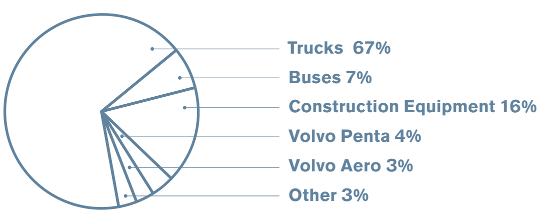
A decisive factor for the realization of the Volvo Group's vision is our employees and their knowledge and competence. Future development depends on the company's ability to maintain its position as an attractive employer. To this end, we strive for a work environment in which energy, passion and respect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

Business areas

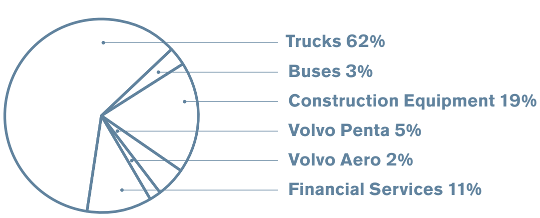
"We are now seeing increasingly distinct advantages of the Group being well structured, with effectively coordinated units in which we gain from the combined volumes within purchasing, manufacturing and business support functions. The year 2007 will be exciting, particularly since we will roll out the entire new product generation on the markets and take new steps in the expansion eastward."

Leif Johansson

Percentage of Group's net sales



Percentage of Group's operating income



During 2006, nearly one in every three heavy-duty construction trucks sold in the US carried the Mack Granite name, and more than 55,000 Granite trucks have been put to work in North America since its introduction in 2001.

Mack Trucks
– building America

While contributing to the creation of some noted US icons such as the Hoover Dam, the Empire State Building and the US highway system, Mack Trucks simultaneously built its reputation as a leading construction vehicle. The Mack Granite truck continues to bolster this reputation on a daily basis.

>>> During 2006, citizens in Clarksville, Maryland wanted to rescue a 130-year-old building from demolition by moving it to a new site. The relocation company commenced operations with the nighttime relocation of the 150-ton load through hilly terrain; however, during the move, the transport vehicle broke an axle while driving over the soft surface. Luckily, the company was able to deploy a newly acquired Mack Granite to complete the move without any problems.

This is a striking example of the Granite's capacity to exceed the high-quality performance set by its famous predecessors – and meet the ambitious expectations imposed by current Mack customers.

During the past five years since its introduction, the Mack Granite has become the most sold construction vehicle in the US. The Granite combines Mack's renowned strength and stamina with new features such as an operator-friendly cab, top-class maneuverability and cabin visibility as well as industry-leading electronics that can be readily tailored to suit customer requirements.

The Granite is now the primary choice for application areas ranging from snow plowing in British Columbia to the transport of cement for the rebuilding program along the US Gulf Coast following Hurricane Katrina, as well as thousands of other assignments. During 2006, nearly one in every three heavy-duty construction trucks sold in the US carried the Mack Granite name, and more than 55,000 Granite trucks have been put to work in North America since its introduction in 2001.

The new Granite MP series, which meets the stringent exhaust-emission requirements scheduled to come into effect in 2007 is hallmarked by the same customer satisfaction. The initial customer response to the new truck and its new Mack MP7 engine was highly positive. As one customer noted:

"We immediately put the new truck to work in transporting sand some 400 miles each day on highways and small roads. There were no problems whatsoever. I wouldn't hesitate to buy several more trucks like this."

Whether it involves the transport of sand, snow, cement or entire houses, the Granite continues to build Mack's legendary reputation in terms of toughness, reliability and high value.

Production

Manufacturing operations at the Macungie plant reached record levels in summer 2006, with output reaching 107 construction vehicles daily. Higher demand was partly due to purchases ahead of the introduction of emission regulations in January 2007. The production of Mack's long-distance trucks also increased at New River Valley, but manufacturing was negatively impacted by the capacity limits of suppliers in delivering key components.

Plans were announced in the fourth quarter to downsize the workforce in the North American production facilities. This move was part of preparations ahead of an anticipated decline in demand in conjunction with new emission regulations. The reduction of the workforce by 450 employees at the Macungie plant takes place during the fourth quarter of 2006 and first quarter of 2007.

Product introductions

In 2006, the most rapid and comprehensive product renewal in Mack's 106-year history continued, as the company brought to market its new highway application tractor, redesigned construction application offering, and new engine technology designed to meet the stringent US'07 emissions regulations.

The Pinnacle model highway tractor and the Granite model straight truck each feature entirely new driver environments based on extensive research of customer preferences and ergonomics – with more belly and leg room, easier-to-read instrument displays, and more storage among the improvements.

The new models are designed around the new MackPower (MP) engine technology, introduced in response to US'07 and featuring multiple displacements to match the varying demands of the Mack customer base. The MP 7 engine is an 11-liter offering with horsepower ranging from 325 to 405, which was introduced during 2006 and which met the emission regulations then in force. The 13-liter, 415–485 hp MP 8 engine – available only in a US'07 compliant version – was released to customers following the January 2007 implementation of the new emissions regulations.

Also in early 2007, Mack introduced the US'07 compliant version of its popular low-cab-over-engine models for the refuse and concrete industry.

Mack offered its concrete customers an important safety improvement in 2006 with the introduction of the Mack Road Stability Advantage (RSA) system for concrete mixers. Designed to reduce the potential for rollover incidents and enhance profitability, the full electronic stability system is the first of its kind in the vocational segment of the heavy-duty truck market in North America. In addition to making RSA available to concrete mixer customers, Mack also announced in 2006 that it was making the system standard on all of its highway tractors.

Aftermarket services

During 2006, a number of new product programs were launched through which Mack Trucks – in cooperation with transport companies – provides support and assistance regarding the availability of spare parts and service. These include MV Preferred and Mack Credit Card offerings, which simplify the purchase of spare parts and service repairs, while simultaneously providing customers with tools for reporting, monitoring and controlling costs.

Dealer network

In addition to the optimal development of in-house operations, the distribution network continues to be improved to be able to manage variations in economic conditions. Since 2001, Mack Trucks' independent dealers have jointly invested more than USD 50 M, or approximately SEK 370 M, in new facilities, modernization and extension of existing facilities and retraining programs for sales personnel. Combined with the extended offering of accessories and services, these improvements permit dealers to raise sales of aftermarket products and services and boost the level of absorption throughout the network. This will dampen the effects of the expected significant decline in sales of new trucks during the first half of 2007.

Number of trucks produced

Mack Trucks	2005	**2006**
Mack CH / CHN	3,786	3,880
Mack CL	364	584
Mack Vision	9,403	8,394
Mack Granite	16,568	17,019
Mack Pinnacle	–	1,076
Mack LE	1,238	937
Mack MR	3,325	3,901
Mack DM	365	1
Other	1,149	976
Total	**36,198**	**36,768**

Number of trucks delivered

Mack Trucks	2005	**2006**
North America	32,346	32,793
South America	2,503	2,628
Asia	121	75
Other markets	1,252	1,342
Total	**36,222**	**36,838**

Ambitions 2006

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

Outcome 2006

- Strong market acceptance of new Pinnacle and Granite models.
- Complete vehicle range prepared for change-over to new US'07-compliant engines.
- Hybrid Mack Granite model delivered to U.S. Air Force as part of joint development program.
- Strategic enhancement of dealer network – particularly in Western regions of the US – continued; dealers continued to invest in new and existing facilities.

Ambitions 2007

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

For Renault Trucks, being innovative means simplifying driving, simplifying transport operations and simplifying the work of its customers.

Renault Trucks
– committed to customer success

Renault Trucks maintains close relations with customers and has expert insight into their operations. The Renault truck brand is based on three core values: innovation, efficiency and customer care.

>>> Customer satisfaction, the development of services, growth and competitiveness are the cornerstones of Renault Trucks' strategic vision: its objectives include the continued deployment of quality transport solutions according to the key precepts of reliability, economy, comfort and innovation. Renault Trucks is one of the market leaders in Europe and its rapid international development is now opening up real opportunities for growth.

The Renault Trucks product range meets the needs of its customers by offering: reduced fuel consumption, constantly improved reliability, a wide range of services with firm commitments, easy maintenance products, operational mobility and safety in its trucks.

Renault Trucks is committed to the profitable growth of its business. For the wider community, Renault Trucks contributes a vital service to the whole economy: road transport. Striving to be a citizen-friendly brand, it is constantly launching products which are more environmentally friendly and which contribute to sustainable and responsible industrial development.

In the Volvo Group, Renault Trucks seeks to develop its market shares and profitability using proprietary values, products and services.

The phrase "Committed to customer success" expresses the moral contract between Renault Trucks and its customers, which reflects how the company's employees view their work and how they do it. They are proud of the added value they offer their customers everyday.

Renault Trucks focuses on attaining high quality throughout the service network. Product quality is unrivalled and maintained by means of consistent enhancement programs.

The advantages of the fully renewed range, a consolidated network and the development of services has been noted by customers and reflected in higher sales. The company also seeks to grow through partnerships and by building on these in an effort to attain competitive advantages and achieve sustainable profitability by adapting to changes in business conditions.

Renault Trucks' special brand shows clearly the products' features, their value and competitive advantages, as well as the corporate culture and personality. It ensures that Renault Trucks retains its unique identity in the Group. It helps the company to strengthen customer loyalty, as well as creating emotional sentiment and added value.

Innovation

Renault Trucks' solutions match the needs and the diverse expectations of professional users. In the transport, construction, environmental services, trade and self employed sectors, Renault Trucks can offer each and every customer a made-to-measure solution which is adapted to the specific requirements of their vehicle management.

Renault Trucks seek to apply innovatory technology to help people in their everyday activities with improvements made to help drivers and transport companies work better.

For Renault Trucks, being innovative means simplifying driving, simplifying transport operations and simplifying the work of its customers. Renault Trucks is committed to designing and proposing ever more reliable, more sober, safer, more aesthetic, more customer adapted, more environmentally-friendly and more comfortable – a substantial challenge which is met by the passionate dedication of Renault Trucks employees.

Product renewal

Renault Trucks is a high-profile specialist in four segments: City Distribution, Regional Distribution, Construction Transport and Long-Distance Transport. In 2006, Renault completed the renewal of all products, a program that met with enthusiastic customer response. This program commenced just three years ago with the Renault Master, and subsequently with the Mascott in 2004 (City Distribution), and then with Magnum and Premium Route (Long-Distance Transport) in 2005 and finally with Midlum, Premium Distribution (Distribution) as well as Lander and Kerax (Construction) during 2006.

The past year also marked the introduction of the Euro 4 standard and incentive for Euro 5,

while at the same time the sale of certain versions were terminated.

During early 2007, this was followed by the introduction of a completely new vehicle – Renault Maxity – as a complement to Renault Trucks' light truck range, as well as the new Mascott.

Customer service

Today, many transport businesses face the pressures of deadlines, and their profitability cannot tolerate either delays or unplanned standstills. The Renault Trucks' network and its Service Commitment ensure optimal mobility for the customers' vehicles. The mission is clearly-defined: making a diagnosis in under an hour, proposing a relay tractor and completion of works in under two hours once started.

In the event of breakdown on the road, the assistance program Renault Trucks 24/24 guarantees to dispatch a repairer in response to a simple phone call. The repairer's job is to help the driver to continue en route as quickly as possible.

Production

Renault Trucks' deliveries and productivity were affected negatively by extensive production changes in the industrial system in conjunction with the introduction of new truck models and engines. During the fourth quarter, phasing out of the Renault Kerax plant in Villaverde was completed. Assembly of Renault Trucks' heavy truck program was thus concentrated to the plant in Bourg-en-Bresse. The current focus is on improving productivity and ensuring delivery capacity to meet the strong demand. In January 2007, Renault Trucks signed an agreement with Nissan Motor regarding distribution of the light truck Renault Maxity, which will be manufactured by Nissan Motor.

Number of trucks produced

Renault Trucks	2005	**2006**
Renault Mascott	12,461	14,953
Renault Kerax	8,800	9,732
Renault Midlum	15,484	12,696
Renault Premium Distribution	6,663	6,473
Renault Premium Route	12,328	16,780
Renault Magnum	8,208	7,000
Total	**63,944**	**67,634**

Number of trucks delivered

Renault Trucks	2005	**2006**
Western Europe	55,526	58,063
Eastern Europe	5,462	7,126
North America	477	561
South America	1,022	1,078
Asia	7,907	5,241
Other markets	4,067	5,505
Total	**74,461**	**77,574**

Ambitions 2006

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

Outcome 2006

- Truck product offer completely renewed.
- Heavy-duty truck assembly transferred to Bourg-en-Bresse.
- Euro 4 engines were introduced during the year.
- A reduction cost program has been launched.
- The Service Quality improvement program is showing positive results.

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 successfully the new Renault Maxity.
- Develop soft products sales.
- Implement cost reduction plan.
- Secure the product cost-reduction plan.

Piet Visser works as a driver for flower export company Hilverda De Boer, which transports fresh flowers from flower auctions in Amsterdam to customers throughout Europe.

Volvo Trucks
– developing transport solutions

Every second, day and night, a truck arrives with its cargo. Transportation is one of the vital areas in today's society and a result of the needs of modern man. Volvo Trucks' objective is to meet these needs.

>>> A common cut flower has a "vase life" of about one week. This means that it loses around 15% in value in just one day. "It is important to be quick, real quick," says Piet Visser before jumping into the cab of his brand new Volvo FH.

Piet works as a driver for flower export company Hilverda De Boer, which transports fresh flowers from flower auctions in Amsterdam to customers throughout Europe.

Volvo Trucks supplies complete transportation solutions to professional and commercial customers in more than 130 countries worldwide. The largest markets are Europe and North America.

The company has a complete product offering of medium to heavy trucks with a strong global network of 3,000 service operations. In 2006, Volvo Trucks sold more than 105,000 trucks worldwide, which is a record amount in the company's history.

Driving progress within the area of transportation is a central and strategic goal. This includes everything from creating new concepts and ideas that are based on customers' requirements and benefits to society.

Trucks are not profitable. Drivers are. No one knows this better than Volvo Truck's customers. Around the clock, goods, reputation and profits are literally in the hands of the drivers.

Volvo Trucks has a very strong global position, particularly with regard to long-distance traffic. The trucks have a solid reputation as reliable, durable, safe and cost efficient – during their entire useful life.

Volvo's trucks are part of a very sensitive and refined chain of logistic events, in which unforeseen stops signify major problems. This applies to such everyday commodities as food and flowers but also for the transportation of, for example, coffee beans from plantations in Brazil.

"When we began transporting coffee two years ago, we invested in five brand new Volvo FH's," says Orley de Oliviera Souza, Transrodan in Brazil. Our customers demand just-in-time collection and delivery and we needed reliable vehicles. Stand stills and delays would be devastating."

Product renewal within Volvo Trucks has been intensive in recent years. Volvo Trucks has invested a total of more than SEK 9 billion in product renewal and product improvement over the past five years.

The 2006 fiscal year was characterized by continued launching of new products following an intensive 2005 when the new Volvo FH and Volvo FM were introduced in Europe, Volvo VT in North America and a modification of Volvo VM in Brazil.

First out in 2006 was an upgraded version of the flagship, Volvo FH16. It is equipped with a new 16-liter engine with up to 660 hp, which makes it the world's most powerful mass-produced truck.

The corresponding flagship for the US market is the Volvo VT series, which was launched in 2005. With its 625 hp, the Volvo VT is the most powerful truck in the US. During the year, the product program was further developed and the offering broadened to include more cab variations, such as a mid-roof cab, to satisfy more customer segments.

In terms of environment, Volvo Trucks is continuing developments within the truck sector. The new engine program not only complies with the new environmental legislation in Europe, but also has considerably lower fuel consumption than its predecessors.

On January 1, 2007, new emission regulations were introduced in the US. In order to meet these regulations, Volvo Trucks launched a completely new engine program for the North American market. Volvo I-Shift was also presented to US customers, which is the first automatic Volvo gearbox to be introduced in North America.

During 2006, the Volvo FL and Volvo FE were also introduced in Europe and are aimed at a broader category of distribution customers, for example, tradesmen, fruit traders and bakers. For the benefit of these customers, Volvo Trucks has developed a completely new business concept, which facilitates the rapid and simple purchase of key-in-hand trucks equipped with bodies, tail lift and all types of support services, for example, service contracts.

Production

In 2006 the number of trucks manufactured increased, compared with 2005, 106,884 (104,515). In Europe, 56,023 units (48,644) were manufactured, which was an increase of 15%.

In the US, manufacturing rose by 16% to 37,281 (32,256), while in Brazil there was a decline of 1% to 8,286 (8,330).

In conjunction with the introduction of the new Volvo FH and Volvo FM trucks in 2005, fewer trucks were manufactured at the beginning of 2006 due to change-over in production of the new trucks, which resulted in lower delivery rate, compared with 2005. However, the loss was recovered during the last few months of the year and total manufacturing was at the same level as in 2005.

In the US, manufacturing has been at a high level and in early 2007 Volvo vehicles and Mack highway vehicles built at the New River Valley plant were combined in the same production line.

In August 2006, the new plant was opened in Durban, South Africa, at which Volvo FM and Volvo FH trucks will be assembled.

In Umeå, 58,000 cabs were manufactured in 2006, which has nearly doubled since 1993 and was a new record.

In 2006 Volvo Trucks announced its intention to make all production units in Europe carbon-dioxide neutral. In 2005 Volvo presented the initiative to make the truck plant in Tuve, Göteborg, carbon-dioxide neutral. The investments also comprise energy deliveries from windpower plants.

Number of trucks produced

Volvo Trucks	2005	2006
Volvo FH	42,951	41,302
Volvo VN, VT and VHD	32,256	37,281
Volvo FM9, 10, and 12	20,102	20,704
Volvo FL	5,052	4,799
Volvo NH	2,312	556
Volvo VM	1,842	2,242
Total	**104,515**	**106,884**

Number of trucks delivered

Volvo Trucks	2005	2006
Western Europe	35,560	39,011
Eastern Europe	7,073	10,217
North America	32,151	37,145
South America	7,723	7,940
Asia	17,678	7,501
Other markets	3,511	3,705
Total	**103,696**	**105,519**

Ambitions 2006

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

Outcome 2006

- New products were well received in the market.
- Good fuel economy in the new engine program.
- Hybrid concept for heavy truck presented.
- Continued development of dealer network with twelve new workshops in Europe.

Ambitions 2007

- Manage the expected sharp decrease in demand in North America.
- Ensure production capacity for a continued strong European market.
- Continue developing customer relations in line with the implemented dealer strategy.
- Stronger focus on communicating the company's core values.

In all of Europe there is an increased need for transports and especially between the Western and Eastern parts of Europe, which means an increased need for heavy trucks.

Trucks
– strong demand in 2006

The global market for heavy trucks remained at a very high level in 2006 as a result of strong economic conditions that have favored road transport operations in recent years.

Total market

>>> The number of trucks sold reached record levels primarily in Europe and North America, exceeding the previous all-time-highs reported in 2005. Demand in Europe seems to be continuing on this positive trend. Particularly noteworthy in this respect is that the new EU members in Eastern Europe are reporting sharp increases in truck sales.

Developments in Asia in 2006 point to favorable economic growth in several markets, with major markets such as China and India reporting rising sales of heavy trucks.

In Brazil truck sales declined i.a. due to such factors as a strong domestic currency in relation to the USD, resulting in problems for key agricultural exports.

In 2006 the total market in Europe 27 increased by 7%, amounting to 295,038 (276,822) vehicles, whereof Western Europe grew by 4% and the new EU countries advancing a full 34%. Moreover, in Russia the number of imported trucks increased by approximately 90%.

In North America, the overall market for heavy trucks (class 8) in 2006 rose 13% to 348,866 (307,973), with the USA reporting growth of 12% to 284,008 vehicles (252,792).

The Brazilian market retreated 9% to 39,873 vehicles in 2006. Among the major markets in Asia, Japan grew 6%, China 29% and India 41%. In the Middle East, however, the overall market fell 50%, due largely to the decline in Iran, which fell by a full 94%.

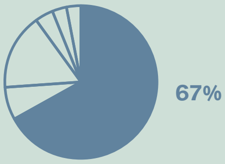
Market shares

In 2006, Volvo Trucks' market share in Europe 27 was 14.2% a decrease by 0.1 percentage point compared to 2005. The decline was mainly due to lower market shares in the UK, partly offset by an increase in Italy and France. Renault Trucks' market share in Europe was 10.6% for heavy trucks (10.7). In the medium heavy truck segment (10–16 tons) the market share was 15.3% (15.8) for Renault Trucks and 3.8% (5.3) for Volvo Trucks. The development in Volvo Trucks was mainly due to lower deliveries in conjunction with production change-over for the new distribution trucks.

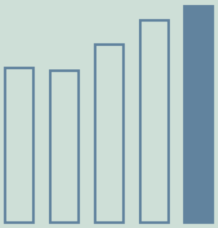
In Russia, Volvo Trucks' import share was 25.6%.

In North America Mack's market share declined by 0.4 percentage points to 9.2%, mainly due to a combination of factors related to product renewal activities, supply issues associated with record volumes and regional softening in certain market segments. Volvo Trucks' market share in North America rose 0.3 percentage points to 10.2%.

Net sales as percentage of Volvo Group's sales



Net sales[1], SEK bn



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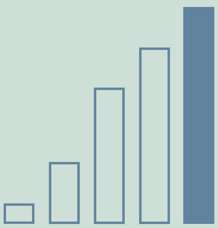
118.8 117.0 136.9 155.4 166.3

Operating income[1,2], SEK bn



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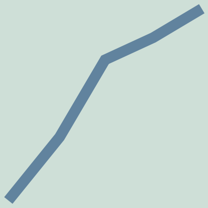
1.2 4.0 9.0 11.7 14.4

Operating margin[1,2], %



02 03 04 05 06
1.0 3.4 6.6 7.5 8.6

1 Years 2004, 2005 and 2006 are reported in accordance with IFRS and 2002 and 2003 in accordance with Swedish GAAP. See Note 1 and 3.

2 Excluding adjustment of goodwill.

During the same period in Brazil, Volvo Trucks' market share advanced 1.7 percentage points to 15.3%.

Earnings

Net sales for the Group's truck operations amounted to SEK 166,306 M, which adjusted for changed exchange rates corresponded to an increase of 7%. The increase was attributable to higher sales, primarily in Europe, North America and South America.

Demand in North America was driven by favourable market conditions in the US, which resulted in increased need for transports. In addition customers chose to buy trucks before the new emission legislation came into force by January 1, 2007. In all of Europe there is an increased need for transports and especially between the Western and Eastern parts of Europe, which means an increased need for heavy trucks. The strongest development is happening in Eastern Europe, where new member countries of the EU contribute substantially. Countries outside the EU in Eastern Europe are also developing favourably. Demand for transports in these countries, and thereby demand for heavy trucks, is expected to be continuously strong during 2007. In total, Volvo delivered 219,931 trucks in 2006, 3% more than in the preceding year.

Operating income for Trucks improved and amounted to SEK 14,369 M (11,717). Excluding an adjustment of goodwill of a negative SEK 1,712 M the increase was 23% compared to 2005. The improved result is attributable primarily to North America, where Mack Trucks and Volvo Trucks increased profitability through a favorable price realization and increased volumes. In Europe, Volvo Trucks continued to improve its earnings while profitability for Renault Trucks' operations in Europe declined somewhat.

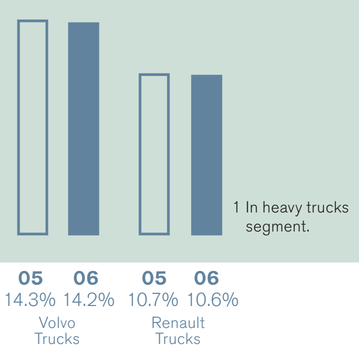
Net sales per market

	2004	2005	**2006**
Europe	77,431	79,706	88,323
North America	35,154	46,129	50,605
South America	5,223	7,657	9,213
Asia	12,378	13,551	8,975
Other markets	6,693	8,353	9,190
Total	**136,879**	**155,396**	**166,306**

Number of vehicles delivered

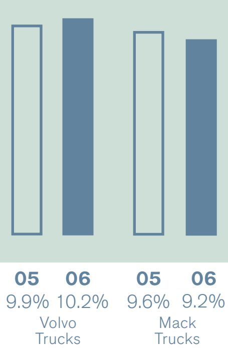
	2004	2005	**2006**
Western Europe	90,746	91,087	97,074
Eastern Europe	11,920	12,535	17,343
North America	49,273	64,974	70,499
South America	9,190	11,248	11,646
Asia	24,881	25,706	12,817
Other markets	7,209	8,829	10,552
Total	**193,219**	**214,379**	**219,931**

Market shares in Europe[1]



1 In heavy trucks segment.

Market shares in North America[1]



1 In heavy trucks segment (class 8).

New Volvo 9700 provides Volvo Buses' customers the conditions to improve productivity.

Buses
– new product program increases the customer's productivity

New modern design, new safety solutions and efficient drivelines with reduced fuel consumption. Volvo Buses renewed much of its product range in 2006, a product portfolio that helps customers to increase their productivity.

>>> With today's high fuel prices, Volvo Buses' customers' focus is on fuel consumption. Volvo has chosen the SCR (Selective Catalytic Reduction) technology to meet the new emissions standards, primarily because fuel consumption is then lower. Combined with improvements in gearboxes and drive shafts, fuel costs are reduced for customers.

Volvo Buses is a leader in environmentally sound engines. Already today, customers can purchase Volvo engines meeting emissions standards that are not proposed to become effective until 2009. In addition, a new gas engine with very low emission levels was released during the year, an engine that can operate on biogas from renewable energy sources.

In the coach segment, a stylish exterior and interior design of the bus is important for passenger satisfaction. During 2006, the Volvo 9700 and Volvo 9900 were launched with a new exterior design and with a broad range of interior design options. Volvo Bus was also first in the bus world to introduce front underrun protection that reduces the risk of injuries to drivers and passengers in an automobile in a frontal collision with a bus.

The 7700 city bus was also redesigned and equipped with a new 9-liter engine, which provides for more comfortable and efficient driving in city traffic.

During the year, Volvo Buses introduced its first city bus in India. The city of Bangalore purchased 50 modern, air-conditioned city buses with low entry.

Volvo Buses' subsidiary in Canada, Nova Bus, launched an articulated version of its city bus Nova LFS during the year.

Nearing peak of business cycle

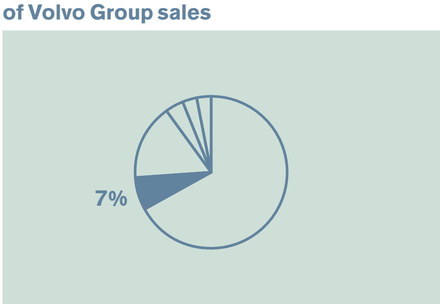
The total global bus market remained at a high level in most parts of the world in 2006, but there are signs that globally the business cycle in the bus industry is now nearing its peak and will soon turn downward. However, economic growth in Asia remains strong and bus sales continue to rise in many countries.

Calculating lifecycle costs

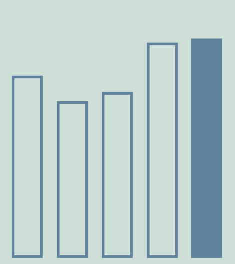
The trend toward larger bus operators continues. They are focusing increasingly on lifecycle costs. Which increases the demand for fuel economy, quality and aftermarket services.

Regional authorities place high demand with regard to the environmental impact of buses. As a result, an increasing number of bus manufacturers are conducting research and developing buses with alternative drivelines and for alternative fuels.

Net sales as percentage of Volvo Group sales



Net sales[1], SEK bn



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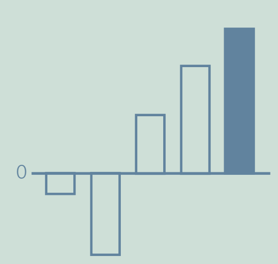
14.0 12.0 12.7 16.6 16.9

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



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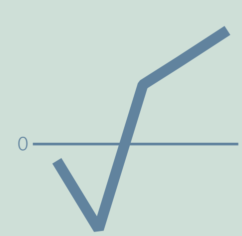
(94) (361) 253 470 633

Operating margin[1,2], %



02 03 04 05 06
(0.7) (3.0) 2.0 2.8 3.8

1 Years 2004, 2005 and 2006 are reported in accordance with IFRS and 2002 and 2003 in accordance with Swedish GAAP. See Note 1 and 3.

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

High deliveries in China

Volvo delivered 10,360 buses and bus chassis (10,675) in 2006. Higher sales were reported mainly in North America, South America and Asia. During the year, 1,300 of an order for 2,000 midi-buses were delivered to Shanghai in China.

Volvo Buses market shares were strengthened in, for example, Mexico, China and North America. In contrast, the business area lost market shares in Europe, due mostly to intense price competition. However, Volvo Buses is still the market leader in the Nordic region and the UK.

Improved earnings

Net sales in 2006 were largely unchanged compared with a year earlier, SEK 16,856 M (16,589).

Operating income rose from SEK 470 M to SEK 633 M . Among other factors, the stronger earnings are attributable to better product and market mixes and increased cost awareness resulting in more efficient production methods as well as increased use of components that are common with Volvo Trucks. Operating income included a positive effect of SEK 47 M following settlement of a dispute regarding export credits in Brazil.

New body plant in India

Volvo produced 10,440 buses and bus chassis (10,406) in 2006. The company decided during the year to start a joint-venture company in India that will build a plant in the country for production of bus bodies, primarily for the Indian market.

Number of vehicles delivered

	2004	2005	**2006**
Western Europe	3,073	3,385	3,246
Eastern Europe	344	338	324
North America	1,388	1,546	1,741
South America	624	2,297	1,170
Asia	2,341	2,554	3,349
Other markets	462	555	530
Total	**8,232**	**10,675**	**10,360**

Net sales per market

Mkr	2004	2005	**2006**
Europe	6,948	7,142	7,509
North America	2,960	4,247	4,910
South America	521	2,641	1,537
Asia	1,632	1,612	2,003
Other markets	661	947	897
Total	**12,722**	**16,589**	**16,856**

Ambitions 2006

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

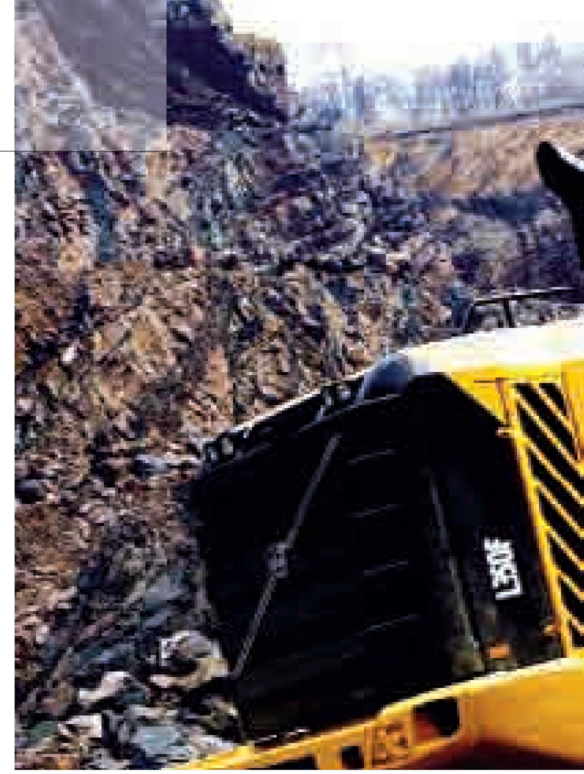
Outcome 2006

- The improvement program resulted in increases efficiency in sales and the industrial system globally.
- Production processes have been simplified and result in shorter production times.
- All new engines for Euro 4/Euro 5 are in production.
- Nearly 100 of Volvo Trucks' service centers in Europe were selected to also be able to provide service for the buses' bodies.

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.

The new L350F is Volvo's largest wheel loader so far.



Construction Equipment – increased sales and enhanced profitability

Volvo Construction Equipment has grown considerably in recent years. Customers from all parts of the world have shown their appreciation of Volvo CE's comprehensive investments in new products and the company can currently offer one of the most modern product ranges in the industry.

>>> In addition to the actual equipment, Volvo CE offers such services as financing, spare parts, used equipment, renovated spare parts and equipment, service agreements, tools and the opportunity to rent machinery and equipment.

As a result of the renewed and expanded product offering, new customer segments are reached. The recently launched excavators for demolition and forest work are excellent examples of how the company is approaching additional market segments.

Volvo CE's products and services are offered in more than 125 countries worldwide through proprietary or independent dealerships.

Rental is the segment of the industry that is growing fastest, and Volvo CE currently has nearly 135 rental outlets, primarily in North America and Europe.

Growing total market

Market conditions were once again favorable in 2006. The total market for Volvo CE's product segments rose by 10%. The market declined by 4% in North America and rose by 11% in Europe, while other markets rose by 21%. The growth was attributable to overall positive business conditions for the industry.

Public and private investments in infrastructural projects contributed to the sales increase for heavy construction machines. The North American market for heavy construction machines grew by 3%, while the European market increased by 15%. Other markets rose 22%.

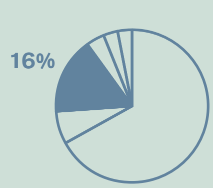
During 2006, the total market for compact construction equipment increased by 6%, compared with the preceding year. The North American market decreased by 8% while the European market rose by 9%, and other markets grew by 20%.

Industry trend

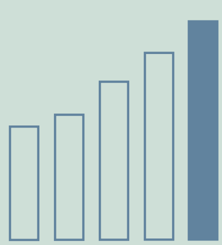
The trend in the global industry for construction equipment has been highly intensive in recent years. Suppliers, manufacturers and dealers are working hard to satisfy very high customer demands. In certain cases, this resulted in a shortage of components and raw materials, such as tires and steel, leading in turn to long delivery times.

More stringent rules regarding exhaust emissions and noise, combined with lower fuel consumption and reduced operating expenses, have forced the industry to invest more in research and development in these areas. For many types of machines, the cost of fuel accounts for one third of the annual operating expenses, although it can be as high as 50% for certain machines.

Net sales as percentage of Volvo Group sales

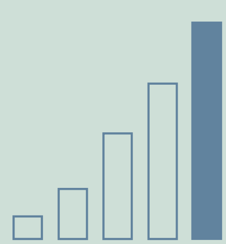


Net sales[1], SEK bn



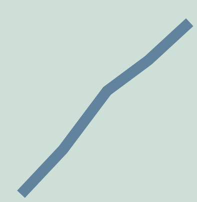
02	03	04	05	06
21.0	23.2	29.4	34.8	40.6

Operating income[1], SEK bn



02	03	04	05	06
0.4	0.9	1.9	2.8	3.9

Operating margin[1], %



02	03	04	05	06
1.9	3.9	6.5	7.9	9.6

1 Years 2004, 2005 and 2006 are reported in accordance with IFRS and 2002 and 2003 in accordance with prevailing Swedish GAAP. See Note 1 and 3.

Increased deliveries

Volvo Construction Equipment increased deliveries in 2006. For example, Volvo's deliveries of excavators rose by 20%. The high deliveries were the result of new products and improved distribution. The number of machines sold during 2006 increased by 11% to a record level of more than 37,000 units.

Strong earnings trend

Volvo CE's net sales rose by 17% to SEK 40,564 M (34,816). Adjusted for exchange-rate effects, the increase was 17%. The increase was attributable mainly to higher volumes, improved distribution and an advantageous product and market mix.

Operating income improved by 41% during the year to SEK 3,888 M (2,752), representing an operating margin of 9.6% (7.9). The earnings and margin improvements were due to the advantageous product and market mix, high capacity utilization and good control of selling and administrative expenses, as well as to active price management.

Acquisitions

In September 2006, Volvo CE announced its intention to acquire the equivalent of 70% of the shares in Shandong Lingong Construction Machinery CO (Lingong), a major Chinese manufacturer of construction equipment with an extensive network of dealers in China. The acquisition was finalized in January 2007.

China is the world's second largest market for construction equipment and the world's largest market for wheel loaders. The Chinese market is expected to grow additionally, and Volvo CE intends to participate actively in this growth.

Since Lingong was founded in 1972, the company has established a position as one of the leading players in a market subject to intense competition. Lingong, which had a share of 11% of the Chinese market for wheel loaders in 2005, is a technologically advanced company with very modern production plants.

Net sales per market

SEK M	2004	2005	**2006**
Europe	13,453	15,524	18,759
North America	8,601	10,337	11,280
South America	922	1,238	1,358
Asia	4,961	5,717	6,903
Other markets	1,423	2,000	2,264
Total	**29,360**	**34,816**	**40,564**

Products

Products launched in 2006 included the L350F, a new wheel loader. Equipped with a 16-liter Volvo diesel engine, the L350F is the largest wheel loader in Volvo's history, which means that the company can approach new customer segments.

Ambitions 2006

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

Outcome 2006

- Increased production volumes in Korea, China and Germany.
- Rental and after-market services increased by 111% and 13%, respectively.
- The cost of sales and administration was kept on a constant level in spite of increased activity level.
- All Volvo Construction Equipment dealers are participating in the "Partnership Development Program".
- Product launches in new segments, such as demolition and forest work.

Ambitions 2007

- Continued development of the 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.
- Growth within services.
- Continued focus on tools in order to reach new segments and customers.

With forward-facing propellers and steerable drive units, Volvo Penta IPS represents an entirely new concept in the marine industry.

Volvo Penta
– innovative tradition

Volvo Penta was founded in 1907 in conjunction with the production of the first marine engine, B1. Pentaverken soon became an established engine manufacturer, which in 1927 delivered the engine to Volvo's first passenger car. Volvo acquired Pentaverken in 1935 and Volvo Penta has been part of the Volvo Group since then.

>>> Volvo Penta has written marine history through a number of pioneering innovations, such as the Aquamatic drive and the counter-rotating Duoprop propellers, both of which are among the marine industry's most important innovations in history.

In recent years, Volvo Penta IPS, the drive system with forward-facing propellers, and the joystick, are recognized in the same fashion as radical innovations in the way to propel boats.

Creates competitive advantages

The IPS system is a clear example of how product development contributes to creating competitive advantages for Volvo Penta's customers, for example, such world-leading boat builders as Bavaria, Beneteau/Jeanneau, Cranchi, Sessa Marine, Azimut, Tiara, Four Winns, Mustang and Intermarine.

By installing the IPS system, boat builders can reduce installation times by up to 75 percent compared with traditional straight shafts, which facilitates more efficient production. At the same time, the boat builder can offer the end customer a quieter and cleaner boat, with up to 30 percent lower fuel consumption as well as significantly improved performance and maneuverability.

Volvo Penta works in the same fashion with its industrial engine customers. By creating customer benefits, such as shorter installation times, improved fuel economy, environmental features and performance backed by global service support, Volvo Penta contributes to enhanced competitiveness for customers, such as Kalmar Industries and Atlas Copco.

Strong market in Europe

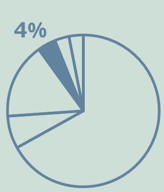
The total European market for marine as well as industrial engines was strong in 2006. The total market for marine engines weakened in North America, while demand for industrial engines was more stable. The total market in Asia remained weak, due primarily to the low demand for diesel gensets in China. In contrast, the development on markets in other parts of the world was positive, for example, Turkey and South Africa.

New market shares

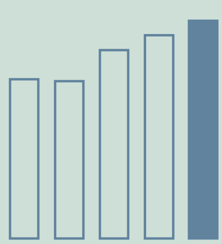
Volvo Penta continued to capture market shares in most areas of its operations, particularly the inboard market, in which the volumes for Volvo Penta IPS increased steadily. At year-end, there were slightly more than 100 boat models from the world's largest boat builders with the new drive system.

In the industrial engine segment, diesel-powered gensets are the predominantly most important product for Volvo Penta, which during the year strengthened its global market shares in this segment.

Net sales as percentage of Volvo Group sales

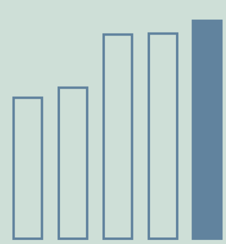


Net sales[1], SEK bn



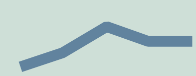
02	03	04	05	06
7.7	7.6	9.1	9.8	10.5

Operating income[1], SEK M



02	03	04	05	06
647	695	940	943	1,002

Operating margin[1], %



02	03	04	05	06
8.4	9.1	10.4	9.6	9.6

1 Years 2004, 2005 and 2006 are reported in accordance with IFRS and 2002 and 2003 in accordance with Swedish GAAP. See Note 1 and 3.

Financial development

Volvo Penta's financial development throughout the current decade is characterized by sales growth and high profitability. This trend continued in 2006. Sales of SEK 10,485 M and operating income of SEK 1,002 M are the highest ever in Volvo Penta's history. Operating margin for the full year amounted to 9.6% (9.6).

Capacity increase in Vara

To meet the increased demand for the own-developed D4 and D6 marine engines, SEK 100 M was invested in the Vara plant, which resulted in increased capacity to about 18,000 engines annually. During the past five years, Volvo Penta has invested about SEK 800 M in the Vara plant, which more than doubled production and the number of employees.

Electronics improves boating life

In recent years, Volvo Penta has moved to the forefront to introduce electronics into the marine industry. End customers benefit through customer value in the form of cleaner and quieter engines and better performance while at the same time boat builders can enhance the efficiency of their production.

Electronics also facilitate a new type of functionality, for example Volvo Penta's new joystick that makes docking of boats significantly easier and safer. Volvo Penta is the only company in the leisure boat industry that can currently offer this function.

Growth in industrial engines

Today, Volvo Penta sells about 20,000 engines annually for industrial applications and, consequently, contributes to substantial diesel engine synergies in the Volvo Group. Volvo Penta is now focusing on benefiting from the Group's new generation of diesel engines for further growth in the industrial engine business. This will occur partly through strong growth in the core segment, diesel-powered gensets, as well as through a broader customer base within various types of mobile applications, such as terminal forklifts, stone crushers and compressors.

Net sales per market

SEK M	2004	2005	**2006**
Europe	4,907	5,102	5,822
North America	2,500	2,832	2,815
South America	142	208	221
Asia	1,324	1,427	1,359
Other markets	184	207	268
Total	**9,057**	**9,776**	**10,485**

Ambitions 2006

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

Outcome 2006

- Successively shorter lead times. Decision on increased capacity in Vara plant.
- Improved operating income and strong operating margin.
- Strengthened market shares in inboard segment.

Ambitions 2007

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

Market fundamentals remained strong in 2006. World airline passenger traffic increased by 4.5% in 2006.

Volvo Aero
– skilled business partner

Volvo Aero offers its customers and partners responsibility for the development and manufacture of advanced engine components for aircraft and space rockets. Volvo Aero's technologies, including a world-leading role in lightweight structures which is an expertise that is increasingly in demand in the aerospace industry and which contributes to Volvo Aero's greater involvement in new aircraft engines.

Specialized competence

>>> Lightweight design is one of Volvo Aero's strengths and has a major impact on fuel consumption and, consequently, the environment, an aspect that is highly in focus in the aerospace industry today.

Through applying Volvo Aero's expertise in lightweight structures, simulation and newly patented production methods, engine manufacturers can reduce lead times for complete engine development, while at the same time engines becomes quieter and lighter. The results are reduced costs and lower weight, two decisive parameters for future aircraft engines. Reduced weight means lower fuel consumption and, consequently, the emission of carbon-dioxide and nitrogen oxide.

The technologies are based on successful synergies between the commercial and military businesses and with space, in which Volvo Aero plays an important role in the European space industry.

Many important milestones

Volvo Aero is in the midst of an expansive period with many new production start-ups for aircraft engine components. During 2006, some 20 new production starts were initiated, the largest number ever in a single year. The company has invested heavily in research and product development and in a modern machine park.

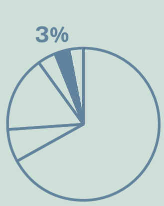
Development continued during the year on the GEnx engine, the single, largest investment in Volvo Aero's history. At the beginning of the year, it was clear that Volvo Aero would be producing six different components for the GEnx engine. The first ground tests of the engine were carried out in March, with successful results and on schedule.

Volvo Aero has also continued working with assuming a role in the new engine programs that in a few years will be installed on aircraft replacing the popular Airbus 320 and Boeing 737. It was also finalized during the year that Volvo Aero will be involved in demonstrating technology in the US engine manufacturer Pratt & Whitney's new geared turbofan engine. This new cooperation is a first strategic step toward positioning Volvo Aero for the future in this important market segment.

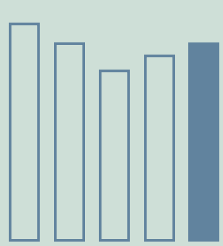
Through the acquisition of Aero-Craft, based in Newington, Connecticut, in December 2004, the specialized product portfolio was expanded with fan cases. A number of contracts for fan cases have been signed, for example for engines such as the GEnx, Trent 1000 and GE90. Building commenced in 2006 for the expansion of Aero-Craft's plant in Newington.

Volvo Aero Services signed a five-year agreement with Emirates Airlines that gives the company exclusive rights to sell Emirates entire surplus spare parts inventory for aircraft and aircraft engines. In conjunction with this, Volvo Aero Services will open a distribution center for spare parts in Dubai. Volvo Parts will handle the logistics service, as assigned by Volvo Aero Services.

Net sales as percentage of Volvo Group sales

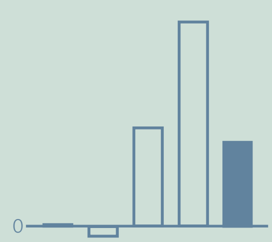


Net sales[1], SEK bn



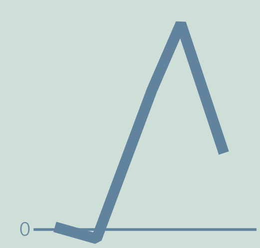
02	03	04	05	06
8.8	8.0	6.9	7.5	8.0

Operating income (loss)[1], SEK M



02	03	04	05	06
5	(44)	403	836	345

Operating margin[1], %



02	03	04	05	06
0.1	(0.5)	5.8	11.1	4.3

1 Years 2004, 2005 and 2006 are reported in accordance with IFRS and 2002 and 2003 in accordance with Swedish GAAP. See Note 1 and 3.

Market

Market fundamentals remained strong in 2006. World airline passenger traffic increased by 4.5% in 2006. Traffic growth varied between world regions, with airlines in Europe and the Asia-Pacific region experiencing the strongest rates of traffic growth during the year, followed by carriers in the US. The year 2006 was also another record-breaking load factor year.

The year 2007 is expected to be the first profitable year for the airline industry since 2000. However, the International Air Transport Association (IATA) states that airlines must continue keep load factors high by carefully managing capacity and by finding further efficiency gains to achieve the USD 2.5 billion industry profit projected for 2007.

Order bookings for large commercial jets reached record levels and the total number of orders at the end of December for new aircraft was 4,988, corresponding to more than five year's volumes at the current rate. The order intake at 1,882 large commercial aircraft in 2006 was a decrease of 12% compared to 2005, but still among the strongest in modern time. Airbus and Boeing have delivered 832 aircraft, up 25% compared with the year-earlier period. The current production up-cycle is expected to continue to rise driven by the sizable backlog and the anticipated return to airline industry profitability.

Earnings

Volvo Aero's net sales rose by 7% in 2006 to SEK 8,048 M (7,538). The sales increase is attributable mainly to higher volumes, primarily in the engine component production.

Operating income amounted to SEK 345 M (836). The decline in earnings is due among other reasons to continued profitability problems in the aftermarket business. This was also one of the reasons why Volvo Aero in November made the strategic decision to close the engine overhaul operations in Bromma, Sweden. Earnings were negatively affected to the extent of SEK 258 M for discontinuation costs.

Development in the engine component business remained strong, with increased production volumes and higher sales volumes for new spare parts. The positive trend was offset partly by many production start-ups of new engine components, which had a negative impact on capacity utilization in the production plants. Higher raw material prices also affected earnings negatively.

The operating margin decreased to 4.3% (11.1).

Net sales per market

SEK M	2004	2005	**2006**
Europe	3,179	3,406	3,613
North America	3,127	3,612	3,815
South America	138	168	173
Asia	400	284	356
Other markets	81	68	91
Total	**6,925**	**7,538**	**8,048**

Ambitions 2006

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

Outcome 2006

- The challenges were met, on time, technically and at budget.
- Delivery target fulfilled
- Ambition partially achieved, but continued dialog with politicians and authorities are required to come to a longer-term solution.
- Goal partially fulfilled, but profitability still unsatisfactory. This was one of the reasons why Volvo Aero decided to close the engine overhaul operations in Bromma.

Ambitions 2007

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

Ragnesands Bus company chooses Volvo Financial Services to fulfill its financing and service agreement needs.

Financial Services
– essential to the overall offering

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

>>> At its heart, a successful finance company is about relationships. Financial Services finds this to be true in each of its nearly 60 markets. Thus the year 2006 was characterized by intense efforts to align Financial Services more closely with its customers' operations. For example, new customer finance companies were started or approved in the emerging markets of China, Hungary and Slovakia. In Europe, a new regional structure to improve synergies, transparency and availability was introduced. The US sales organization was strengthened and restructured based on product categories.

At the end of 2006, management of the real estate and banking operations was transferred to AB Volvo, which meant that the business area is solely a financial service operation from 2007.

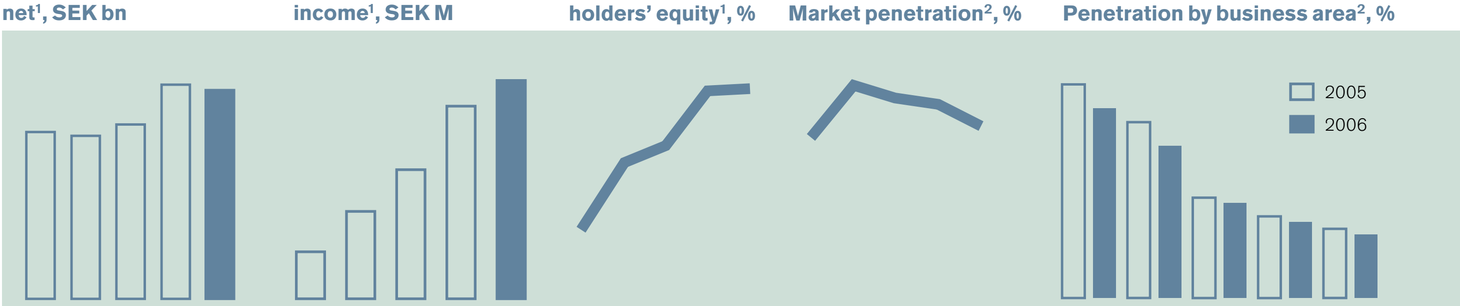
Market growth

Commercial Focus (CF), the strategic initiative launched in 2005, made it possible for Financial Services to better capitalize on existing growth possibilities. The CF initiative is a centralized business strategy that was formed to provide high quality financial solutions by utilizing knowledge and experience from local and international business teams. The goals are to integrate Financial Services' 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.

Within the Danafjord real estate unit, a number of projects were started aimed at meeting the Volvo Group's growing need for office premises and lighter duty properties. For example, investments were made in a new head office for Volvo 3P and Volvo Powertrain, both in Lundby, Göteborg. Non-strategic properties were divested or prepared for divestment during the year. The occupancy rate at the end of 2006 was 99.7% (99.9), and 49% (52) of the leases was to external tenants and 89% (81) of the leases extends for five years or more.

Volvo Treasury, the Group's internal bank, coordinates the Group's global funding strategy and financial infrastructure. It is also responsible for the management of all interest-bearing assets and liabilities and the execution of foreign exchange transactions. Volvo Treasury experienced strong earnings in 2006, with significant value creation in management of assets and in foreign exchange transactions.

Credit portfolio, net[1], SEK bn · **Operating income[1], SEK M** · **Return on shareholders' equity[1], %** · **Market penetration[2], %** · **Penetration by business area[2], %**



Credit portfolio, net[1], SEK bn

02	03	04	05	06
61.3	60.1	64.3	78.8	76.7

Operating income[1], SEK M

02	03	04	05	06
490	926	1,365	2,033	2,301

Return on shareholders' equity[1], %

02	03	04	05	06
4.8	9.8	11.1	15.3	15.5

Market penetration[2], %

02	03	04	05	06
18.8	23.6	22.4	21.7	19.7

Penetration by business area[2], %

	Volvo CE	Volvo Trucks	Renault Trucks	Buses	Mack Trucks
2005	34	28	16	13	11
2006	30	24	15	12	10

1 Years 2004, 2005 and 2006 are reported in accordance with IFRS and 2002 and 2003 in accordance with Swedish GAAP. See Note 1 and 3.

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

Strong results

Operating income amounted to SEK 2,301 M, an increase of 13% from SEK 2,033 M in 2005. Return on equity of 15.5% (15.3) and an equity ratio at year-end of 11.5% (11.2) is within the framework set for Financial Services. All regions within customer finance improved performance compared with the preceeding year. During the year, Financial Services efficiently handled risks in each individual product line while generating a reasonable return. Reduced interest margins caused by rising interest rates were dealt with successfully.

In 2006, the market was characterized by excess liquidity and strong competition from other creditors, which increased the challenge for Financial Services to achieve set goals in terms of volume and penetration targets. During 2006, the volume of new financing amounted to SEK 35.3 billion, which was an increase of more than SEK 2.2 billion, compared with 2005. On December 31, 2006, total assets amounted to SEK 84 billion (86), of which SEK 77 billion was attributable to the credit portfolio. Adjusted for the effects of foreign exchange movements, the credit portfolio increased by 5.3% (9.6) during the year.

Write-offs in 2006 amounted to SEK 259 M, corresponding to a record low level to an annualized ratio of 0.33% (0.40). On December 31, 2006, total credit reserves amounted to SEK 1,578 M (1,751), giving a credit-reserve ratio at year-end of 2.01% (2.17). In seeking growth, Financial Services will not compromize its underwriting criteria.

Condensed income statement

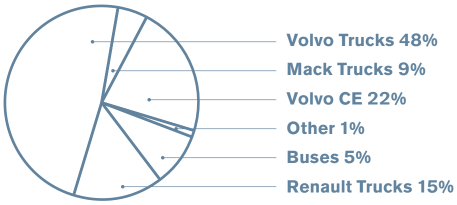
SEK M	2004	2005	**2006**
Net sales	9,598	7,549	8,969
Income after financial items	**1,365**	**2,033**	**2,301**
Income taxes	–430	–609	–756
Income for the period	**935**	**1,424**	**1,545**

Distribution of credit portfolio, net

%	2004	2005	**2006**
Operational leasing[1]	20	1	0
Financial leasing[1]	25	40	40
Installment contracts	38	41	42
Dealer financing	16	17	17
Other customer credits	1	1	1

1 The change in 2005 pertains to the impact of IFRS leasing classification.

Credit portfolio by business area, %



Ambitions 2006

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

Outcome 2006

- Opened finance company in China, Hungary and Slovakia.
- Focus on interest margins and risk management.
- Financing at very low cost and strong liquidity.

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.
- Continued to sharpen risk management activities.

Corporate Governance

During 2006, the Board focused specifically on issues pertaining to the Volvo Group's strategy with regard to Asia. The Board has also decided to renew the financial targets for the Volvo Group.

The Board at a visit to the Volvo Truck plant in Gent.

Corporate bodies in corporate governance

>>> The governance and control of the Volvo Group is carried out through a number of corporate bodies. At General Meetings, the shareholders exercise their voting rights with regard, for example, to the composition of the Board of Directors of AB Volvo and election of external auditors. An Election Committee proposes candidates to serve as Board members, Board Chairman and external auditors. The Board is responsible for the Group's long-term development and strategy as well as controlling and evaluating the company's 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 organs, the Group Executive Committee and the business areas Boards of Directors. The Group Executive Committee comprises those who report directly to the CEO. At 2006 year-end, there were 17 Group Executive Committee members including the CEO and comprised Presidents of the Group's eight business areas as well as President of Volvo Powertrain business unit, who is also the Technical Director for the Volvo Group. The Group Executive Committee also includes the Executive Vice President, who is also the Deputy CEO, 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, and supply information concerning the Group's performance. The CEO or the Deputy CEO is the Chairman of the Board for the Boards of all business areas and these comprise mainly of other members of the Group Executive Committee. The Boards of the business areas effect control and follow-ups of business areas' 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").

Between January 1, 2006 and December 31, 2006 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 member of the remuneration committe even though he is not, according to the Code, independent in relation to the company and the company management.

This corporate governance report has not been reviewed by the company's auditors. Nor have the company's auditors reviewed the Board's report concerning the organization of internal control with regard to financial reporting.

Election Committee

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

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

The Election Committee, which was appointed at Volvo's Annual General Meeting in 2006, comprised Volvo's Chairman Finn Johnsson, Eva Halvarsson, representing the Second Swedish National Pension Fund, Björn Lind, representing SEB Funds, Curt Källströmer, representing Svenska Handelsbanken and Thierry Moulonguet, representing Renault SA. The Election Committee internally selected Curt Källströmer as Chairman. The work of the Election Committee is governed by the instructions approved by the Volvo Annual General Meeting in 2006. In November, 2006 Lars Förberg representing Violet Partners LP, became member instead of Eva Halvarsson. Violet Partners LP replaced the Second Swedish National Pension Fund as the fourth largest shareholder, by votes, in Volvo. Eva Halvarsson was at the same time co-opted onto the Election Committee.

The Election Committee's proposal for the 2007 Annual General Meeting will be provided on Volvo's website.

The Board

In 2006, AB Volvo's Board of Directors consisted of eight members elected by the Annual General Meeting. In addition, the Board had three members and two deputy members appointed by employee organizations. The CEO, Leif Johansson, was a member of the Board.

During 2006, six regular meetings and two extraordinary meetings 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 when and how information required to evaluate the company's and Group's financial position should be reported to the Board as well as the distribution of duties between the Board and the President and in what circumstances the Executive Vice President and Deputy CEO is to substitute for the CEO.

The Annual General Meeting decides on the fees to be paid to the Board members elected by the shareholders. The Annual General Meeting held on April 5, 2006 approved a total fee to the Board, for the time until the end of the next Annual General Meeting, of SEK 4,775,000 to be distributed among the Board Members according to the following. The Chairman of the Board receives a fee of SEK 1,350,000 and the remaining members a total of SEK 2,700,000 to be distributed among the members as the Board decides. In addition, the Chairman of Audit Committee shall receive SEK 250,000 and the other two members of the Audit Committee SEK 125,000 each and the members of the Remuneration Committee SEK 75,000 each.

During the year, the Board reviewed the business plans and strategies for the various businesses in the Volvo Group. In addition thereto, the Board reviewed the financial positions of AB Volvo and the Volvo Group on a regular basis and acted in order to ascertain that there are efficient systems in order to follow-up and control the business and financial position of the Volvo Group. In connection therewith, the Audit Committee is responsible for preparing for the Board's work through quality assurance of the company's financial reporting through reviewing the interim reports and the annual report. The Board has met with the company's auditors during 2006. The Board has continuously evaluated the performance of the CEO.

During 2006, the Board focused specifically on issues pertaining to the Volvo Group's strategy with regard to Asia and thereby decided to acquire shares in Nissan Diesel Motor Co Ltd and on initiating discussions on the commercial operation Dongfeng Motor Co Ltd. During the year, the Board also discussed and decided to renew the financial goals for the Volvo Group. In addition, the Board also dealt regularly with matters involving other divestments, acquisitions and the establishment of new operations, and matters related to investments in product renewal and product development in the Group's business areas.

The Board's work is mainly performed through 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 and the years of membership on the Volvo Board is presented on pages 84 and 85.

During 2006, the Board performed its yearly evaluation of the Board's work. The Chairman has informed the Election Committee on the result of the evaluation.

The Board's composition and attendance at meetings January 1, 2006 to December 31, 2006.

	Board	Audit Committee	Remuneration Committee
Finn Johnsson	8		4
Per-Olof Eriksson	8	4	
Tom Hedelius	8		4
Leif Johansson	8		
Louis Schweitzer	7		4
Philippe Klein[1]	5		
Ying Yeh[1]	4	3	
Peter Bijur[1]	4	3	
Ken Whipple[2]	3	1	
Haruko Fukuda[2]	2	1	
Patrick Faure[2]	1		
Olle Ludvigsson, employee representative	8		
Johnny Rönnkvist, employee representative	8		
Martin Linder, employee representative	7		
Total number of meetings	**8**	**4**	**4**

1 Elected to the Board at the 2006 Annual General Meeting.

2 Resigned from the Board in conjunction with the 2006 Annual General Meeting.

Independence requirements

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

Code demands that a majority of the members in the Audit Committee shall be independent of the company and that at least one member shall be independent of the company's major shareholders. With regard to the Remuneration Committee, the Code sets the requirement that members of the Remuneration Committee, with the exception of the Board chairman if a member of the Remuneration Committee, shall be independent of the company and company management.

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 2006:

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

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

Tom Hedelius and Per-Olof Eriksson have been members of the Board of Volvo since January 19, 1994. Accordingly, they have 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 Volvo, these persons may not, pursuant to the Code, be considered as independent in relation to one of the company's major shareholders.

Audit Committee

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

Up to the 2006 Annual General Meeting, the Audit Committee comprised Board members Haruko Fakuda, Ken Whipple and Per-Olof Eriksson, Chairman. After the Annual General Meeting in 2006, the Audit Committee comprised Board members Peter Bijur, Ying Yeh and Per-Olof Eriksson, Chairman. During 2006 the Audit Committee held three regular meetings and one extraordinary meeting.

The Audit Committee met with the external auditors and Head of Internal Audit at the ordinary meetings. The Audit Committee has also met with the external auditors without the presence of the company management.

Remuneration Committee

In April 2003, the Board established a Remuneration Committee primarily for the purpose of preparing and deciding on issues relating to remuneration to senior 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 2006, the Remuneration Committee comprised Board members Tom Hedelius, Louis Schweitzer and Finn Johnsson, Chairman. The Remuneration Committee held four meetings during the year.

Group Executive Committee

An account of their respective age, education, Board memberships, ownership of shares in Volvo, and year of joining Volvo for the CEO and each member of the Group Executive Committee is presented on pages 82 and 83.

External auditing

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

The Auditors report their findings to the shareholders through the audit report, which they present to the Annual General Meeting of the shareholders. In addition, the auditors report detailed findings from their review to the Audit Committee and, once a year, to the full Board of Directors.

In addition to the audit, PwC also provides certain services to Volvo. In 2006 such services included advice on the company's extended procedures for testing and reporting of internal controls, in accordance with SOX, Section 404, which is mandatory for the first time in 2006. 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 of the notes to the consolidated financial statements.

The organization of the internal control over financial reporting

Volvo has had internal control processes for a long time.

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

Volvo has an internal audit function of which the main responsibility is to ensure adherence to the internal control system that the company applies. The Head of Internal Audit reports directly to the CEO and CFO and has a dotted reporting line to the Audit Committee of the Board of Directors.

During 2005 and 2006, Volvo continued its efforts that were initiated in 2004 in terms of reviewing and documenting relevant processes for the purpose of ensuring that the internal control of the financial reporting functioned satisfactorily and was well documented. In 2006, the work was finalized and the relevant processes were tested.

Since AB Volvo's Series B shares are registered with the Securities & Exchange Commission (SEC) in the US, Volvo must comply with Sarbanes-Oxley Act (SOX). SOX section 404 requires that Volvo submit a report from Volvo's CEO and CFO regarding Volvo's internal control over the financial reporting, in conjunction with the presentation of the US Annual Report, Form 20F, for 2006. The report, which is part of the Form 20F, will include a statement regarding the outcome of the company's evaluation of the effectiveness of the internal control over the financial reporting for the 2006 year-end. The report will also include a statement from the CEO and CFO on whether the internal control over the financial reporting is effective or not, and a statement on which internal control system that was used to evaluate the effectiveness. If any material weaknesses in the internal control of the financial reporting are identified these will be described in the report. PwC will submit an auditor's statement pertaining to the internal control of the financial reporting.

The intention is to publish the Form 20F in May 2007.

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.

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

The Annual General Meeting of 2006 decided upon principles for remuneration and other employment terms for the members of Volvo's Group Executive Committee ("Remuneration Policy") in accordance with Section 4.2.2 of the Code. The proposed principles for remuneration and other employment terms can be summarized as follows.

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

The Board at a visit to Volvo Construction Equipment in Shanghai.

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

At the 2007 Annual General Meeting, the Board has decided to propose renewed guidelines for remunerations to executives. The proposal will be available on Volvo's website.

Outstanding share- and share-price-related incentive programs

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

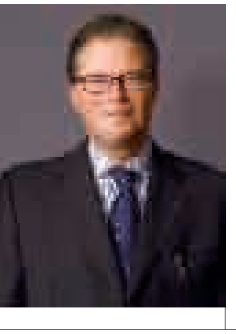
Group Management

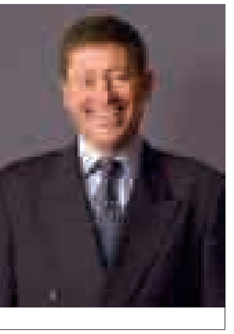
Leif Johansson
President and CEO

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 Volvo Board since 1997. **Holdings in Volvo, own and related parties:** 50,562 Volvo shares, including 43,538 Series B shares and 50,000 employee stock options.

Jorma Halonen
Executive Vice President and Deputy CEO

Born 1948. Bachelor of Science in Economics. Executive Vice President of AB Volvo and Deputy CEO of the Volvo Group since 2004. President of Volvo Truck Corporation 2001–2004. Prior to that various positions at Scania 1990–2001. Member of Group Executive Committee since 2002. With Volvo since 2001. **Vice Chairman:** Nissan Diesel. **Holdings in Volvo:** 4,000 Series B shares and 25,000 employee stock options.



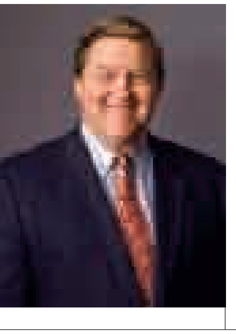


Paul Vikner
President of Mack Trucks, Inc.

Born 1949. Bachelor of Arts. President of Mack Trucks, Inc. since 2001. Executive Vice President of Sales and Marketing, Mack Trucks, Inc. 1996–2001. Previously at Iveco Trucks North America and Isuzu Trucks North America 1972–1994. Member of Group Executive Committee since 2004. With Volvo since 2001. **Holdings in Volvo:** 2,000 Series B shares.

Stefano Chmielewski
President of Renault Trucks

Born 1952. MA Master of Science Electronics/Automation. President of Renault Trucks since 2003. Member of 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 AB Volvo Penta 1998–2004. Member of Group Executive Committee since 1998. With Volvo since 1975. **Board member:** EBP AB. **Holdings in Volvo:** 4,208 shares, including 3,054 Series B shares.

Håkan Karlsson
President of Volvo Bus Corporation

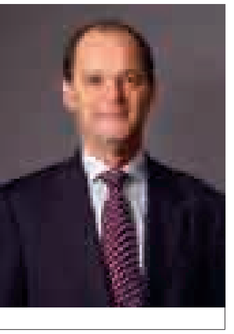
Born 1961. Master of Engineering. President of Volvo Bus Corporation and Member of Group Executive Committee since 2003. President of Volvo Logistics 2000–2003. With Volvo since 1986. **Holdings in Volvo:** 4,442 shares, including 4,175 Series B shares.

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 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 November 1, 2004. Has held various positions at Volvo Penta since 1991, head of Volvo Penta's European operations 1998–2004. Member of Group Executive Committee since 2004. With Volvo since 1991. **Holdings in Volvo:** 6,439 Series B shares.

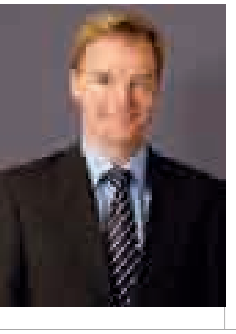


Olof Persson
President of Volvo Aero Corporation

Born 1964. Bachelor of Business Administration. President of Volvo Aero Corporation since 2006. Member of Group Executive Committee since July 1 2006. With Volvo since 2006. **Board member:** Bombardier Transportation Sweden AB. **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 Group Executive Committee since 2001. With Volvo since 1985. **Holdings in Volvo:** 1,003 American Depositary Receipts (ADRs).



Stefan Johnsson
Senior Vice President

Born 1959. Master of Business Administration. Senior Vice President of AB Volvo responsible for business units and human resources. Member of Group Executive Committee since 1998. Senior Vice President of AB Volvo and CFO for the Volvo Group, 1998–2005. President of Volvo Group Finance Sweden 1994–1998. With Volvo since 1987. **Board member:** Stiftelsen Chalmers Tekniska Högskola. **Holdings in Volvo:** 4,075 shares including 4,000 Series B shares.

Per Löjdquist
Senior Vice President

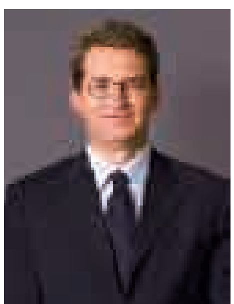
Born 1949. Senior Vice President of AB Volvo. Member of Group Executive Committee since 1997, responsible for Corporate Communications and Public Affairs. With Volvo since 1973. **Board member:** West Sweden Chamber of Commerce and Industry and Nilörngruppen AB. **Holdings in Volvo:** 8,463 shares, including 5,289 Series B shares.

Lars-Göran Moberg
President of Volvo Powertrain

Born 1943. Master of Engineering. President of Volvo Powertrain since 2001. Member of Group Executive Committee since 2001. With Volvo since 1995. **Holdings in Volvo:** 9,858 shares including 9,652 Series B shares and 25,000 employee stock options.

Eva Persson
Senior Vice President

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



Jan-Eric Sundgren
Senior Vice President

Born 1951. Master of Engineering, PhD in solid state Physics, Professor in materials science. Member of Group Executive Committee since August 1 2006, responsible for Public & Environmental Affairs. With Volvo since 2006. **Board member:** Lindholmen Science Park AB, Meritea AB. Member of the Royal Swedish Academy of Engineering Sciences. **Holdings in Volvo:** None.

Pär Östberg
Senior Vice President

Born 1962. Master of Business Administration. Senior Vice President of AB Volvo and CFO of the Volvo Group since 2005. Member of the Group Executive Committee since 2005, responsible for finance, strategy and business development. Pär Östberg has held various senior positions in the financial areas in the Volvo Group since 1990, most recently as Senior Vice President and CFO of Renault Trucks. **Holdings in Volvo:** 1,000 Series B shares.

Fred Bodin
Senior Vice President

Born 1947. Bachelor of Laws. President of Volvo Aero Corporation 1997–2006. General Counsel of Volvo Group 1988–1997. Member of Group Executive Committee since 1993. With Volvo since 1981. **Holdings in Volvo:** None.

Changes in Group Executive Committee

Michel Gigou, member of the Group Executive Committee since 2002, retired on April 30, 2006. Within the Group Executive Committee, Michel Gigou's responsibilities included Volvo's operations in China, a responsibility that was assumed by Jorma Halonen.

During 2006, Volvo's Group Executive Committee was expanded through the addition of **Jan-Eric Sundgren**, former President of Chalmers University of Technology. Jan-Eric Sundgren's responsibilities include contacts with public authorities, universities and colleges. He also focuses on technological and research-related matters within the Volvo Group and has Group-wide responsibility for environmental and safety issues.

Olof Persson became President of Volvo Aero on July 1, 2006. As from this date he is also a member of the Volvo Group Executive Committee. He succeeded **Fred Bodin**, who retired on February 20, 2007. Before he took on his position within the Volvo Group, Olof Persson was President of the Canadian aircraft and train manufacturer Bombardier's Mainline and Metro division for trains and subways.

Board of Directors and Auditors

Board members elected by the Annual General Meeting

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

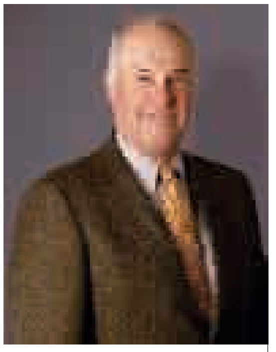
Born 1946, Master of Business Administration. **Board Chairman:** Luvata Oy, Thomas Concrete Group AB, Unomedical A/S, KappAhl AB and City Airline. **Board member:** Skanska AB and AB Industrivärden. Member of Volvo Board since 1998. Chairman since February 2004. **Holdings in Volvo:** 4,000 shares including 2,000 Series B shares.

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

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:** None.

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, Odlander, Fredriksson & Co and Cross Country Systems AB. **Board member:** Assa Abloy AB, Elkem AS, Investment AB Öresund, KTH Holding AB, 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:** 6,200 Series A shares.

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

Tom Hedelius
Member of the Remuneration Committee

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

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

Leif Johansson

Born 1951, Master of Engineering. President of AB Volvo and Chief Executive Officer of the Volvo Group since 1997. Member of Volvo Board since 1997. **Board member:** Bristol-Myers Squibb Company, Svenska Cellulosa Aktiebolaget SCA, Confederation of Swedish Enterprise and The Association of Swedish Engineering Industries. Member of the Royal Swedish Academy of Engineering Sciences. **Holdings in Volvo, own and related parties:** 50,562 shares, including 43,538 Series B shares and 50,000 employee stock options.

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

Philippe Klein

Born 1957. Senior Vice President, CEO's Office Renault S A and member of the Renault Management Committee. Member of the Volvo Board since 2006. **Holdings in Volvo:** None.

Principal work experience: Various positions within Renault (Engineer; Senior Manager, Engine Development and Tuning; Director, Process Quality Department in Vehicle Engineering; Vice President, Industrial System Performance Department); Vice President, CEO's Office at Nissan.

Louis Schweitzer
Member of the Remuneration Committee

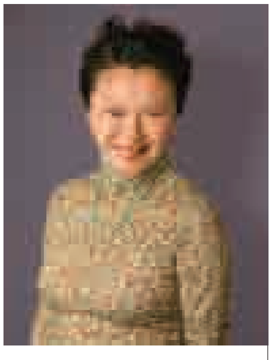
Born 1942. Bachelor of Laws. **Board Chairman:** Renault, AstraZeneca Plc. **Board member:** Electricité de France, BNP-Paribas, Véolia and L'Oréal. Member of Volvo Board since 2001. **Holdings in Volvo:** 2,000 Series B shares.

Principal work experience: Official at French Budget Department; Chief of Staff of Mr Laurent Fabius (Minister of Budget, then Minister for Industry and Research, and Prime Minister), 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).

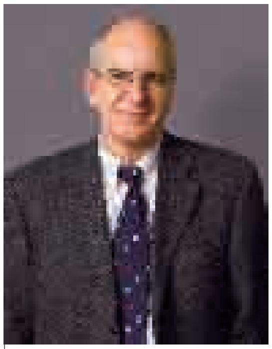
Ying Yeh
Member of the Audit Committee

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.



Board members and deputies appointed by employee organisations

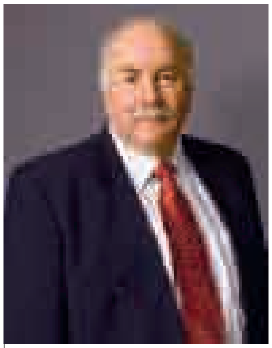


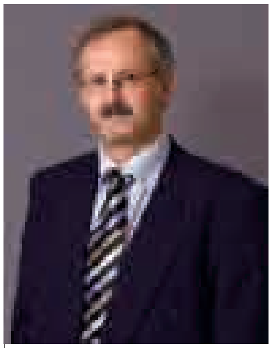
Martin Linder

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

Olle Ludvigsson

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





Johnny Rönnkvist

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

Berth Thulin

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

Margareta Öhlin

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

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: 500 shares, including 248 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 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 Pergo AB and Trelleborg AB.

Born 1949.

Financial information 2006

Consolidated income statements

SEK M		2004	2005	**2006**
Net sales	Note 7	211,076	240,559	**258,835**
Cost of sales		(164,170)	(186,662)	**(199,054)**
Gross income		46,906	53,897	**59,781**
Research and development expenses	Note 7	(7,614)	(7,557)	**(8,354)**
Selling expenses		(19,369)	(20,778)	**(21,213)**
Administrative expenses		(5,483)	(6,301)	**(6,551)**
Other operating income and expenses	Note 8	(618)	(588)	**(3,466)**
Income from investments in associated companies	Note 7, 9	27	(557)	**61**
Income from other investments	Note 10	830	37	**141**
Operating income	Note 7	14,679	18,153	**20,399**
Interest income and similar credits		821	654	**666**
Interest expenses and similar charges		(1,254)	(972)	**(585)**
Other financial income and expenses	Note 11	(1,210)	181	**(181)**
Income after financial items		13,036	18,016	**20,299**
Income taxes	Note 12	(3,129)	(4,908)	**(3,981)**
Income for the period		9,907	13,108	**16,318**
Attributable to:				
Equity holders of the parent company		9,867	13,054	**16,268**
Minority interests	Note 13	40	54	**50**
		9,907	13,108	**16,318**
Basic earnings per share, SEK	Note 23	23.58	32.22	**40.20**
Diluted earnings per share, SEK	Note 23	23.55	32.16	**40.17**

Consolidated balance sheets

SEK M		December 31, 2004		December 31, 2005		**December 31, 2006**	
Assets							
Non-current assets							
Intangible assets	Note 14		17,612		20,421		**19,117**
Tangible assets	Note 14						
Property, plant and equipment		29,764		33,997		**33,269**	
Investment property		1,387		1,071		**1,110**	
Assets under operating leases		19,534	50,685	20,839	55,907	**20,501**	**54,880**
Financial assets							
Associated companies	Note 15	913		195		**5,794**	
Other shares and participations	Note 15	1,090		556		**1,096**	
Long-term customer-financing receivables	Note 16	25,187		31,184		**32,089**	
Deferred tax assets	Note 12	5,078		5,332		**6,663**	
Other long-term receivables	Note 17	2,763	35,031	3,127	40,394	**4,400**	**50,042**
Total non-current assets			103,328		116,722		**124,039**
Current assets							
Inventories	Note 18		28,598		33,937		**34,211**
Short-term receivables							
Customer-financing receivables	Note 19	26,006		33,282		**32,653**	
Current tax assets		1,426		855		**1,221**	
Other receivables	Note 20	29,864	57,296	35,464	69,601	**34,399**	**68,273**
Non-current assets held for sale	Note 4		–		–		**805**
Marketable securities	Note 21		25,955		28,834		**20,342**
Cash and cash equivalents	Note 22		8,791		8,113		**10,757**
Total current assets			120,640		140,485		**134,388**
Total assets			223,968		257,207		**258,427**
Shareholders' equity and liabilities							
Shareholders' equity	Note 23						
Share capital		2,649		2,554		**2,554**	
Additional contributed capital		–		–		**-**	
Reserves		(71)		2,924		**1,664**	
Retained earnings		57,481		59,968		**66,418**	
Income for the period		9,867		13,054		**16,268**	
Equity attributable to the equity holders of the parent company		69,926		78,500		**86,904**	
Minority interests		229		260		**284**	
Total shareholders' equity			70,155		78,760		**87,188**
Non-current provisions							
Provisions for post-employment benefits	Note 24	14,703		11,986		**8,692**	
Provisions for deferred taxes	Note 12	515		2,265		**4,422**	
Other non-current provisions	Note 25	7,296	22,514	7,012	21,263	**6,750**	**19,864**
Non-current liabilities	Note 26						
Bond loans		27,612		27,570		**23,179**	
Other loans		12,799		15,985		**15,530**	
Other long-term liabilities		4,653	45,064	5,339	48,894	**6,748**	**45,457**
Current provisions	Note 25		7,182		9,279		**9,799**
Current liabilities	Note 27						
Loans		21,396		31,330		**28,247**	
Liabilities associated with assets held for sale	Note 4	–		–		**280**	
Trade payables		30,813		35,693		**38,080**	
Current tax liabilities		1,753		1,726		**1,801**	
Other current liabilities		25,091	79,053	30,262	99,011	**27,711**	**96,119**
Total shareholders' equity and liabilities			223,968		257,207		**258,427**
Assets pledged	Note 28		3,046		3,255		**1,960**
Contingent liabilities	Note 29		9,189		7,850		**7,726**

Changes in consolidated Shareholders' equity

		Shareholders' equity attributable to equity holders of the parent company						
SEK M		Share capital	Other reserves	Translation reserve	Retained earnings	**Total**	Minority interests	**Total equity**
Balance at January 1, 2004		**2,649**	**–**	**–**	**69,666**	**72,315**	**217**	**72,532**
Translation differences		–	–	(151)	–	(151)	(6)	(157)
Translation differences on hedge instruments of net investments in foreign operations		–	–	80	–	80	–	80
Net income recognised directly in equity		**–**	**–**	**(71)**	**–**	**(71)**	**(6)**	**(77)**
Income for the period		–	–	–	9,867	9,867	40	9,907
Total recognised income and expense for the period		**–**	**–**	**(71)**	**9,867**	**9,796**	**34**	**9,830**
Cash dividend		–	–	–	(3,356)	(3,356)	(9)	(3,365)
Distribution of shares in Ainax AB to shareholders		–	–	–	(6,310)	(6,310)	–	(6,310)
Repurchase own shares	Note 23	–	–	–	(2,532)	(2,532)	–	(2,532)
Share based payments	Note 34	–	–	–	14	14	–	14
Other changes		–	–	–	(1)	(1)	(13)	(14)
Balance at December 31, 2004		**2,649**	**–**	**(71)**	**67,348**	**69,926**	**229**	**70,155**
IFRS Transition effect IAS 39		–	1,007	–	(659)	348	–	348
IAS 39 Financial guarantees, IFRIC 4		–	–	–	(10)	(10)	–	(10)
Balance at January 1, 2005		**2,649**	**1,007**	**(71)**	**66,679**	**70,264**	**229**	**70,493**
Translation differences		–	24	3,543	–	3,567	24	3,591
Translation differences on hedge instruments of net investments in foreign operations		–	–	(220)	–	(220)	–	(220)
Available-for-sale investments:	Note 15, 23							
Valuation gains/(losses) taken to equity		–	83	–	–	83	–	83
Change in hedge reserve		–	(1,442)	–	–	(1,442)	–	(1,442)
Net income recognised directly in equity		**–**	**(1,335)**	**3,323**	**–**	**1,988**	**24**	**2,012**
Income for the period		–	–	–	13,054	13,054	54	13,108
Total recognised income and expense for the period		**–**	**(1,335)**	**3,323**	**13,054**	**15,042**	**78**	**15,120**
Cash dividend		–	–	–	(5,055)	(5,055)	(28)	(5,083)
Repurchase own shares	Note 23	–	–	–	(1,764)	(1,764)	–	(1,764)
Share based payments	Note 34	–	–	–	23	23	–	23
Decrease of share capital	Note 23	(95)	–	–	95	–	–	–
Other changes		–	–	–	(10)	(10)	(19)	(29)
Balance at December 31, 2005		**2,554**	**(328)**	**3,252**	**73,022**	**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 recognised 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 recognised 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**

Consolidated cash-flow statements

SEK M			2004		2005		**2006**
Operating activities							
Operating income			14,679		18,153		**20,399**
Depreciation and amortization	Note 14		10,003		9,894		**12,384**
Other items not affecting cash	Note 30		(30)		413		**652**
Changes in working capital:							
(Increase)/decrease in receivables			(4,017)		(1,253)		**(475)**
(Increase)/decrease in customer finance receivables	Note 30		(7,382)		(7,773)		**(5,188)**
(Increase)/decrease in inventories			(2,243)		(2,438)		**(3,111)**
Increase/(decrease) in liabilities and provisions			4,797		(983)		**1,106**
Interest and similar items received			1,047		2,430		**737**
Interest and similar items paid			(335)		(2,341)		**(585)**
Other financial items			(25)		(70)		**(29)**
Income taxes paid			(1,194)		(2,023)		**(4,388)**
Cash flow from operating activities			15,300		14,009		**21,502**
Investing activities							
Investments in fixed assets		(7,405)		(10,271)		**(9,969)**	
Investments in leasing assets		(4,360)		(4,549)		**(4,611)**	
Disposals of fixed assets and leasing assets		2,444		2,646		**3,240**	
Shares and participations, net	Note 30	15,064		336		**(5,817)**	
Acquired and divested subsidiaries and other business units, net	Note 4, 30	(141)		650		**510**	
Interest-bearing receivables including marketable securities		(6,413)	(811)	(1,359)	(12,547)	**7,650**	**(8,997)**
Cash flow after net investments			14,489		1,462		**12,505**
Financing activities							
Increase/(decrease) in bond loans and other loans	Note 30	(8,840)		3,564		**(2,609)**	
Cash dividend to AB Volvo shareholders'		(3,356)		(5,055)		**(6,775)**	
Repurchase of own shares		(2,532)		(1,764)		**-**	
Dividends to minority shareholders		(9)		(28)		**(7)**	
Other		38	(14,699)	15	(3,268)	**35**	**(9,356)**
Change in cash and cash equivalents, excluding translation differences			(210)		(1,806)		**3,149**
Translation difference on cash and cash equivalents			(205)		1,128		**(505)**
Change in cash and cash equivalents			(415)		(678)		**2,644**
Cash and cash equivalents, January 1	Note 22		9,206		8,791		**8,113**
Cash and cash equivalents, December 31	Note 22		8,791		8,113		**10,757**

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 years, 2005 and 2004.

Note 1 Accounting principles

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

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

Changes of accounting principles

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

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

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

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

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

New accounting principles in 2005

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

New accounting principles in 2006

As of 2006, applies the updated standard IAS 21, Effects of Changes in Foreign Exchange Rates, which does not have any significant effect on Volvo's financial position. With regard to application of IFRIC 4, Determining whether an arrangement contains a lease, and the supplement to IAS 39, Financial Instruments: Recognition and Measurement, pertaining to financial guarantee contracts, the comparison year is restated. The effect on Volvo's shareholders' equity amounts to a negative SEK 10 M on the opening balance for 2005 and a positive SEK 2 M for the income for the 2005 period. IFRIC 5 Rights to interests arising from Decommissioning, Restoration and Environmental Rehabilitation Funds, IFRIC 6 Liabilities arising from participating in a Specific Market – Waste Electrical and Electronic Equipment, have not affected Volvo's financial position significantly.

New accounting principles 2007

In preparing the consolidated accounts at December 31, 2006, a number of standards and interpretations were published but have as yet not become effective. The following is a preliminary assessment of the effect implementation of these standards and statements could have on the Volvo Group's financial statements.

IAS 1 supplement – Presentation of Financial statements: Information about capital

The supplement became effective on January 1, 2007. At this time, it is assessed that this supplement results in increased supplementary information, including definition of capital, capital structure and policies for management of capital.

IFRS 7 Financial Instruments: Disclosure

The standard became effective as of January 1, 2007. It is assessed that for the Volvo Group this standard requires further provision of supplementary disclosures in the form of risk analysis linked to the Group's financial instruments.

*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 7 Applying the Restatement Approach under IAS 29 Financial reporting in Hyperinflationary Economies

The interpretation became effective on March 1, 2006 and applies to fiscal years beginning after March 1, 2006. The Group currently does not have operations in any countries in which the transition to high-inflation accounting applies.

IFRIC 8 Scope of IFRS 2

The interpretation became effective on May 1, 2006 and applies to fiscal years beginning after May 1, 2006. In accordance with IFRS 8, the rules in IFRS 2 apply to goods and services received in exchange for own equity instruments even if these goods or services, partly or wholly, cannot be identified specifically, This statement is not expected to be applicable to the Group since transactions of this type does not occur.

IFRIC 9 Reassessment of Embedded Derivatives

The interpretation became effective on June 1, 2006 and applies to

*These standards/interpretations have not been adopted by the EU at this time.

Notes to consolidated financial statements

Exchange rates

Country	Currency	Average rate 2004	2005	2006	Year-end rate 2004	2005	2006
Brasil	BRL	2.5388	3.0947	3.3927	2.5125	3.4215	3.2190
Canada	CAD	5.6495	6.1864	6.5096	5.4635	6.8435	5.9235
Denmark	DKK	1.2285	1.2471	1.2420	1.2126	1.2651	1.2146
Euro	EUR	9.1408	9.2943	9.2649	9.0163	9.4393	9.0593
Great Britain	GBP	13.4515	13.5849	13.5822	12.7163	13.7388	13.4938
Japan	JPY	0.0680	0.0679	0.0635	0.0638	0.0679	0.0579
Norway	NOK	1.0926	1.1611	1.1516	1.0890	1.1770	1.0955
South Korea	KRW	0.0065	0.0073	0.0077	0.0064	0.0079	0.0074
United States	USD	7.3655	7.4791	7.3791	6.6138	7.9538	6.8738

fiscal years beginning after June 1, 2006. The statement is a clarification of IAS 39 regarding embedded derivatives, mainly with regard to assessment of embedded derivatives as a result of market conditions changing.

IFRIC 10 Interim Financial Reporting and Impairment
The interpretation became effective on November 1, 2006 and applies to fiscal years beginning after that date. The interpretation concludes that where an entity has recognized an impairment loss in an interim period, that impairment may not be reversed in subsequent interim financial statements or in annual financial statements. The Group will apply IFRIC 10 as of January 1, 2007, but this is not expected to have any impact on the Group's financial statements.

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.

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.

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

The accumulated translation 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 above.

Net sales and revenue recognition

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

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

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

Leasing – Volvo as the lessor

Leasing contracts are defined in two categories, operational and financial, depending on the contract's financial implications. Operational leasing contracts are reported as non-current assets in Assets in operational leases. Income from operational leasing is reported equally distributed over the leasing period. Straight-line depreciation is applied to these assets in accordance with the terms of the undertaking and the deprecation amount is adjusted to correspond to the estimated realizable value when the undertaking expires. Assessed impairments are charged in the income statement. The product's assessed realizable value at expiration of the undertaking is reviewed continually on an individual basis.

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

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

Investments in other companies

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

Reporting of financial assets and liabilities

Volvo reports marketable securities in accordance with IAS 39 based on classification of these assets into a category valued at fair value through profit and loss.

As of January 1, 2005, Volvo applies IAS 39, regarding the time that financial assets should be derecognized from the balance sheet. This occurs when substantially all risks and rewards have been transferred to an external party. Corresponding principles are applied regarding financial assets in Volvo's segment reporting. Under Swedish GAAP, for the 2004 comparison year, financial assets should be derecognized at settlement or if the ownership of the financial assets had been transferred to an external party.

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

Receivables

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

Hedge accounting

In accordance with IAS 39, which is applied by Volvo as of January 1, 2005, certain financial instruments shall be reported at fair value in the balance sheet. In order to apply hedge accounting, the following criteria must be met: the position being hedged is identified and exposed to market value movements, for instance related to exchange-rate or interest-rate movements, the purpose of the loan/instrument is to serve as a hedge and the hedging effectively pro-

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tects the underlying position against changes in the fair value. Financial instruments used for the purpose of hedging future currency flows are accounted for as hedges if the currency flows are considered highly probable to occur.

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

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

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

Research and development expenses

Volvo applies IAS 38, Intangible Assets, for reporting of research and development expenses. In accordance with this accounting recommendation, expenditures for development of new products, production systems and software shall be reported as intangible assets if such expenditures with a high degree of certainty will result in future financial benefits for the company. The acquisition value for such intangible assets shall be amortized over the estimated useful life of the assets. The rules means that high demands are established in order for these development expenditures to be reported as assets. For example, it must be possible to prove the technical functionality of a new product or software prior to this development being reported as an asset. In normal cases, this means that expenditures are capitalized only during the industrialization phase of a product development project. Other research and development expenses are charged to income as incurred.

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

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

Depreciation periods

Capitalized type-specific tools	2 to 8 years
Operational leases	3 to 5 years
Machinery	5 to 20 years
Buildings and Investment property	25 to 50 years
Land improvements	20 years
Product and software development	3 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 and amortized over 5 to 10 years.

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, so called finance lease, are in significant respects held by Volvo, 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 valued at fair value after deduction for selling expenses if impaired.

Inventories

Inventories are stated at the lower of cost, in accordance with the first-in, first-out method (FIFO), or net realizable value. The historical value is based on the standard cost method, including costs for all direct manufacturing expenses and the apportionable share of the capacity and other related manufacturing costs. The standard costs is tested regularly 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 the new share-based incentive program adopted at the Annual General Meetings in 2004, 2005 and 2006. IFRS 2 distinguishes "cash-settled" and "equity-settled", in Volvo case, shares, components of share-based payments. The Volvo program include both a cash-settled and an equity-settled part. The value of the equity-settled payments is determined at the grant-date, recognized as an expense during the vesting period and credited to equity. The fair value is calculated according to share price reduced by dividend connected to the share before the allotment. The additional social costs are reported as a liability, revalued at each balance sheet date in accordance with URA 46, issued by the Swedish Financial Accounting Standards Council's Emergency Issue Task Force. The cash settled payment is revalued at each balance sheet day and is reported as an expense during the vesting period and as a short term liability. An assessment whether the terms of payment will be fulfilled is made continuously. If the assessment changes, the expense will be adjusted. The equity-settled part was earlier accounted for at fair value and provided for as an accrued expense over the vesting period with a "true-up" each reporting date.

Pensions and similar obligations (Postemployment benefits)

Volvo applies IAS 19, Employee Benefits, for pensions and similar obligations. In accordance with IAS 19, actuarial calculations should be made for all defined-benefit plans in order to determine the present value of obligations for benefits vested by its current and former employees. The actuarial calculations are prepared annually and are based upon actuarial assumptions that are determined close to the balance sheet date each year. Changes in the present value of obligations due to revised actuarial assumptions are treated as actuarial gains or losses which are amortized over the employees' average remaining service period to the extent these exceed the corridor value for each plan. Deviations between expected return on plan assets and actual return are treated as actuarial gains or losses. Provisions for post-employment benefits in Volvo's balance sheet correspond to the present value of obligations at year-end, less fair value of plan assets, unrecognized actuarial gains or losses and unrecognized unvested past service costs.

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

For defined contribution plans premiums are expensed as incurred.

Provisions for residual value risks

Residual value risks are attributable to operational leasing contracts and sales transactions combined with buy-back agreements or residual value guarantees. Residual value risks are the risks that Volvo in the future would have to dispose used products at a loss if the price development of these products is worse than what was expected when the contracts were entered. Provisions for residual value risks are made on a continuing basis based upon estimations of the used products' future net realizable values. The estimations of future net realizable values are made with consideration of current prices, expected future price development, expected inventory turnover period and expected variable and fixed selling expenses. If the residual value risks are pertaining to products that are reported as tangible assets in Volvo's balance sheet, these risks are reflected by depreciation or write-down of the carrying value of these assets. If the residual value risks are pertaining to products, which are not reported as assets in Volvo's balance sheet, these risks are reflected under the line item short-term provisions.

Warranty expenses

Estimated costs for product warranties are charged to operating expenses when the products are sold. Estimated costs include both expected contractual warranty obligations as well as expected goodwill warranty obligations. Estimated costs are determined based upon historical statistics with consideration of known changes in product quality, repair costs or similar. Costs for campaigns in connection with specific quality problems are charged to operating expenses when the campaign is decided and announced.

Restructuring costs

Restructuring costs are reported as a separate line item in the income statement if they relate to a considerable change of the Group structure. Other restructuring costs are included in Other operating income and expenses. A provision for decided restructuring measures is reported when a detailed plan for the implementation of the measures is complete and when this plan is communicated to those who are affected.

Deferred taxes, allocations and untaxed reserves

Tax legislation in Sweden and other countries sometimes contains rules other than those identified with generally accepted accounting principles, and which pertain to the timing of taxation and measurement of certain commercial transactions. Deferred taxes are provided for on differences that arise between the taxable value and reported value of assets and liabilities (temporary differences) as well as on tax-loss carryforwards. However, with regards to the valuation of deferred tax assets, that is, the value of future tax reductions, these items are recognized provided that it is probable that the amounts can be utilized against future taxable income.

Deferred taxes on temporary differences on participations in subsidiaries and associated companies are only reported when it is probable that the difference will be recovered in the near future.

Tax laws in Sweden and certain other countries allow companies to defer payment of taxes through allocations to untaxed reserves. These items are treated as temporary differences in the consolidated balance sheet, that is, a split is made between deferred tax liability and equity capital (restricted reserves). In the consolidated income statement an allocation to, or withdrawal from, untaxed reserves is divided between deferred taxes and net income for the year.

Cash-flow statement

The cash-flow statement is prepared in accordance with IAS 7, Cash Flow Statement, indirect method. The cash-flow statements of foreign Group companies are translated at the average rate. Changes in Group structure, acquisitions and divestments, are reported net, excluding cash and cash equivalents, in the item Acquisition and divestment of subsidiaries and other business units and are included in Cash Flow from Investing Activities. The reported operating cash flow for 2005 was affected by the adoption of IAS 39. The adjusted opening value at January 1, 2005 was used in calculating cash flow.

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

Earnings per share

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

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Note 2 Key sources of estimation uncertainty

Key sources of estimation uncertainty

Volvo's significant accounting principles are set out in note 1, Accounting Principles and conform to IFRS as adopted by the EU. The preparation of Volvo's Consolidated Financial Statements requires the use of estimates, judgements and assumptions that affect the reported amounts of assets, liabilities and provisions at the date of the financial statements and the reported amounts of sales and expenses during the periods presented. In preparing these financial statements, Volvo's management has made its best estimates and judgements of certain amounts included in the financial statements, giving due consideration to materiality. The application of these accounting principles involves the exercise of judgement and use of assumptions as future uncertainties and, as a result, actual results could differ from these estimates. In accordance with IAS 1, preparers are required to provide additional disclosure of accounting principles in which estimates, judgments and assumptions are particularly sensitive and which, if actual results are different, may have a material impact on the financial statements. The accounting principles applied by Volvo that are deemed to meet these criteria are discussed below:

Impairment of goodwill, other intangible assets and other non-current assets

Property, plant and equipment, intangible assets, other than goodwill, and certain other non-current assets are amortized and depreciated over their useful lives. Useful lives are based on management's estimates of the period that the assets will generate revenue. If, at the date of the financial statements, there is any indication that a tangible or intangible non-current asset has been impaired, the recoverable amount of the asset should be estimated. The recoverable amount is the higher of the asset's net selling price and its value in use, estimated with reference to management's projections of future cash flows. If the recoverable amount of the asset is less than the carrying amount, an impairment loss is recognized and the carrying amount of the asset is reduced to the recoverable amount. Determination of the recoverable amount is based upon management's projections of future cash flows, which are generally made by use of internal business plans or forecasts. While management believes that estimates of future cash flows are reasonable, different assumptions regarding such cash flows could materially affect our valuations. Intangible and tangible non-current assets amounted to 73,997 whereof 8,849 represents goodwill. For Goodwill and certain other intangible assets with indefinite life-time an annual impairment review is performed at the year-end closing. Such an impairment review will require management to determine the fair value of Volvo's cash generating units, reporting units for US GAAP purposes, on the basis of projected cash flows and internal business plans and forecasts. Volvo has since 2002 performed a simliar impairment review in accordance with US GAAP. No impairment charges were required for the period 2002–2006.

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 residual value commitments is monitored individually on a continuing basis. In monitoring estimated net realizable value of each product under a residual value commitment, management makes consideration of current price-level of the used product model, value of options, mileage, condition, future price deterioration due to expected change of market conditions, alternative distribution channels, inventory lead-time, repair and reconditioning costs, handling costs and overhead costs in the used product divisions. Provisions for residual value risk amount to 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, 2006, a valuation allowance of 213 was established for the value of deferred tax assets. Net of this valuation allowance, deferred tax assets net of 10,069 were recognized in the Group's balance sheet.

Inventory obsolescence

Inventories are reported at the lower of historical cost, in accordance with the first-in, first-out method (FIFO), and net realizable value. The estimated net realizable value includes management consideration of out-dated articles, over-stocking, physical damages, inventory-lead-time, handling and other selling costs. If the estimated net realizable value is lower than historical cost, a valuation allowance is established for inventory obsolescence. The total inventory value, net from inventory obsolescence allowance, is per December 31, 2006, 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, 2006, the total credit loss reserves in Volvo Financial Services amounted to 2.01% of the total credit portfolio, SEK 77 billions.

Pensions and other post-employment benefits

Provisions and costs for post-employment benefits, i.e. mainly pensions and health-care benefits, are dependent on assumptions used by actuaries in calculating such amounts. The appropriate assumptions and actuarial calculations are made separately for each population in the respective countries of Volvo's operations. The assumptions include discount rates, health care cost trends rates, inflation, salary growth, long-term return on plan assets, retirement rates, mortality rates and other factors. Discount rate assumptions are based on long-term high quality corporate bond and government bond yields available at year-end. Health care cost trend assumptions are developed based on historical cost data, the near-term outlook, and an assessment of likely long-term trends. Inflation assumptions are based on an evaluation of external market indicators. The salary growth assumptions reflect the long-term actual experience, the near-term outlook and assumed inflation. Retirement and mortality rates are based primarily on officially available mortality statistics. We review our actuarial assumptions on an annual basis and make modifications to them when it is deemed appropriate to do so. Actual results that differ from management's assumptions are accumulated and amortized over future periods and, therefore, generally affect the recognized expense and recorded provisions in such future periods. See Note 24 for more information regarding costs and assumptions for post-employment benefits. At December 31, 2006 net provisions for post-employment benefits amounted to 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, 2006 warranty cost provisions amounted to 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

This note is included in the 2006 year's annual report for the readers convenience and describes the transition made in 2005 to IFRS.

Reporting in accordance with IFRS as from 2005

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

Restatements and transition effects

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

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

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

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Capitalization and amortization of development costs

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

Minority interests

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

Non-amortization of intangible assets with indefinite useful lives

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

Employee benefits

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

Investments in other companies

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

Fair value of derivative instruments

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

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

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

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

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

Derecognition of financial assets

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

Consolidation of temporary investments

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

IFRS 2 Share-based Payments

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

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

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

Other transition rules according to IFRS 1 and IFRS standards

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

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

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

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

Classification of leasing contracts in segment reporting of Financial Services

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

Cash-flow statement	According to previous presentation		Presentation according to IFRS	
SEK billion	2004	2005	2004	2005
Operating activities				
Operating income	14.7	18.2	14.7	18.2
Depreciation and amortization	10.0	9.9	10.0	9.9
Other non-cash items	(0.1)	0.4	(0.1)	0.4
Change in working capital	(1.4)	(4.7)	(1.4)	(4.7)
Customer Finance receivables, net			(7.4)	(7.8)
Financial items and income taxes	(0.5)	(2.0)	(0.5)	(2.0)
Cash flow from operating activities	**22.7**	**21.8**	**15.3**	**14.0**
Investing activities				
Investments in fixed assets	(7.4)	(10.3)	(7.4)	(10.3)
Investment in leasing vehicles	(4.4)	(4.5)	(4.4)	(4.5)
Disposal of fixed assets and leasing vehicles	2.4	2.6	2.4	2.6
Customer Finance receivables, net	(7.4)	(7.8)		
Operating cash flow	**5.9**	**1.8**	**5.9**	**1.8**

Notes to consolidated financial statements

Financial position December 31, 2004

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

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

1 Financial Services reported in accordance with the equity method.

2 The Volvo Group total column is presented in accordance with IFRS and equals the consolidated balance sheet presented on page 53. The two proceeding columns do not total the Volvo Group total due to (i) reclassification of lease contracts and (ii) eliminations of intra group balances. Certain lease contracts are accounted for as operating lease contracts in the Volvo Group total balance sheet where as they are accounted for as finance lease contracts in Financial Services stand alone.

Financial position January 1, 2005

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

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

1 Financial Services reported in accordance with the equity method.

2 The Volvo Group total column is presented in accordance with IFRS and equals the consolidated balance sheet presented on page 53. The two proceeding columns do not total the Volvo Group total due to (i) reclassification of lease contracts and (ii) eliminations of intra group balances. Certain lease contracts are accounted for as operating lease contracts in the Volvo Group total balance sheet where as they are accounted for as finance lease contracts in Financial Services stand alone.

Notes to consolidated financial statements

Consolidated income statements IFRS comparison 2004

VFS reported according to the equity method

SEK M unless otherwise specified	IFRS	Sw GAAP
Net sales	**202,171**	**201,496**
Cost of sales	(158,453)	(158,231)
Gross income	**43,718**	**43,265**
Research and development expenses	(7,614)	(7,233)
Selling expenses	(18,317)	(18,048)
Administrative expenses	(5,310)	(5,321)
Other operating income and expenses	7	(658)
Income from Financial Services	1,365	1,365
Income from investments in associated companies	2	2
Income from other investments	828	828
Operating income	**14,679**	**14,200**
Interest income and similar credits	993	993
Interest expenses and similar charges	(1,426)	(1,404)
Other financial income and expenses	(1,210)	(1,210)
Income after financial items	**13,036**	**12,579**
Minority interest	–	(40)
Income taxes	(3,129)	(3,184)
Income for the period	**9,907**	**9,355**
* Attributable to:		
Equity holders of the parent company	9,867	–
Minority interest	40	–
	9,907	**-**

Depreciation and amortization included above

Depreciation		
Industrial and Commercial	(5,540)	(5,540)
Financial Services	(3,066)	(3,066)
Total Depreciation	**(8,606)**	**(8,606)**
Amortization		
Industrial and Commercial	(1,333)	(1,635)
Financial Services	(63)	(63)
Total Amortization	**(1,396)**	**(1,698)**
Basic earnings per share, SEK	23.58	22.35
Diluted earnings per share, SEK	23.55	22.33
Average number of shares, million	418.5	418.5

Key operating ratios

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

Net sales

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

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

Operating income

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

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

Operating margins

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

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

Significant differences between Swedish GAAP and IFRS

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

Summarized reconciliation of shareholders' equity

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

Summarized reconciliation of net income

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

Summarized reconciliation of net financial position

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

Notes to consolidated financial statements

Note 4 Acquisition and divestments of shares in subsidiaries

AB Volvo's holding of shares in subsidiaries as of December 31, 2006 is shown in the table on pages 149–151, **AB Volvo's holding of shares.** Significant acquisitions, formations and divestments within the Group are listed below.

Shandong Lingong Construction Machinery Co.

Volvo Construction Equipment (Volvo CE) has made an equity investment of 70% in Shandong Lingong Construction Machinery Co. China is the world's largest market for wheel loaders. The total market for 2005 was approximately 110,000 units. Lingong is the fourth largest producer of wheel loaders in China with a comprehensive dealer network throughout the country. In addition to 16 different models of wheel loaders, Lingong also has a smaller range of backhoe loaders, road rollers and excavators.

In January 2007, it was announced that Volvo Construction Equipment (Volvo CE) had received all necessary regulatory approvals for an equity investment of 70% in Lingong and the deal is now closed. Volvo CE has invested RMB 328 M, corresponding to just over SEK 300 M, in exchange for 70% of the equity in Lingong. In 2005 Lingong's operating income was RMB 10 M on revenue of RMB 2 B and had around 1,800 employees. The deal has no material impact on Volvo's financial position.

Celero Support AB

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

Properties

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

L.B. Smith (SABA Holding Inc.)

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

Renault V.I. and Mack

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

Prévost Car Inc.

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

Axle manufacturing

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

The effects during 2006, 2005 and 2004 on the Volvo Group's balance sheet and cash flow statement in connection with the **acquisition of subsidiaries and other business units** are specified in the following table:

	2004	2005	2006
Intangible assets	(599)	20	0
Property, plant and equipment	300	124	73
Assets under operating lease	115	0	0
Shares and participations	(260)	(80)	5
Inventories	630	129	131
Current receivables	958	257	91
Cash and cash equivalents	180	42	8
Other assets	62	3	0
Minority interests	(20)	(45)	0
Provisions	(63)	(4)	(24)
Loans	(347)	(115)	(20)
Liabilities	(448)	(203)	(69)
Acquired net assets	**508**	**128**	**195**
Cash and cash equivalents paid	(508)	(60)	(167)
Cash and cash equivalents according to acquisition analysis	180	42	8
Effect on Group cash and cash equivalents	**(328)**	**(18)**	**(159)**

The effects during 2006, 2005 and 2004 includes wholly owned subsidiaries that previously were accounted for according to the equity method.

The effects during 2006, 2005 and 2004 on the Volvo Group's balance sheet and cash flow statement in connection with the **divestment of subsidiaries and other business units** are specified in the following table:

	2004	2005	2006
Intangible assets	–	–	(2)
Property, plant and equipment	(440)	(519)	(181)
Assets under operating lease	–	–	(369)
Inventories	(4)	(41)	(254)
Other receivables	181	(334)	(416)
Cash and cash equivalents	–	(114)	(128)
Provisions	94	(12)	84
Other liabilities	50	888	723
Divested net assets	**(119)**	**(132)**	**(543)**
Cash and cash equivalents received	187	782	797
Cash and cash equivalents, divested companies	–	(114)	(128)
Effect on Group cash and cash equivalents	**187**	**668**	**669**

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 decided. In November, 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. In recent years, the volumes of the engines overhauled in Bromma have declined sharply. In accordance with the strategic decision, the operations will be gradually phased out during 2007. Costs for a closure are estimated to 258. The assets and liabilities in the table adjoined are listed to a net realizable value.

Non-Current Assets Held for Sale[1]	2004	2005	2006
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 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, 2006	
Shares in Joint ventures	Holding percentage	Holding no of shares
Shanghai Sunwin Bus Corp., China	50	–
Xian Silver Bus Corp., China	50	–

Volvo's share of joint ventures' income statements	2004	2005	2006
Net sales	492	345	630
Operating income	(27)	(62)	(9)
Income after financial items	(32)	(71)	(17)
Income of the period	**(34)**	**(71)**	**(17)**

Volvo's share of joint ventures' balance sheets	2004	2005	2006
Non-current assets	100	117	99
Current assets	394	386	359
Total assets	**494**	**503**	**458**
Shareholders' equity	228	207	168
Provisions	6	1	2
Long-term liabilities	0	0	3
Current liabilities	260	295	285
Total shareholders' equity and liabilities	**494**	**503**	**458**

At the end of 2006 no guarantees were issued for the benefit of joint ventures, neither by Volvo alone or jointly with other venturers. At the same date Volvo's share of contingent liabilities issued by its joint ventures amounted to 0 (0; 6).

	2004		2005		2006	
Average number of employees	Number of employees	of which women, %	Number of employees	of which women, %	Number of employees	of which women, %
Shanghai Sunwin Bus Corp.	604	21	567	17	488	18
Xian Silver Bus Corp.	252	12	243	14	258	15
Total number of employees	**856**	**18**	**810**	**16**	**746**	**17**

Notes to consolidated financial statements

Note 6 Associated companies

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

Income statement data	2004	2005	2006 Nissan Diesel[1]	2006 Other	2006 Total
Net sales	5,750	7,133	15,488	7,245	22,733
Cost of operations	(5,575)	(6,914)	(14,874)	(7,167)	(22,041)
Financial income and expense	(10)	(16)	(22)	(21)	(43)
Income before taxes	**165**	**203**	**592**	**57**	**649**
Income taxes	(8)	(19)	(310)	(17)	(327)
Income of the period	**157**	**184**	**282**	**40**	**322**

Balance sheet data	Dec 31 2004	Dec 31 2005	Dec 31 2006	Dec 31 2006	Dec 31 2006
Property, plant and equipment, net	2,099	792	10,292	1,093	11,385
Other non-current assets	88	15	7,984	11	7,995
Current assets	9,637	9,270	10,666	7,494	18,160
Total Assets	**11,824**	**10,077**	**28,942**	**8,598**	**37,540**
Shareholders' equity	981	688	8,334	996	9,330
Provisions	87	55	591	47	638
Long-term liabilities	1,132	171	7,921	206	8,127
Current liabilities	9,624	9,163	12,096	7,349	19,445
Total Shareholders' equity and liabilities	**11,824**	**10,077**	**28,942**	**8,598**	**37,540**

1 Since the acquisition in March, the holding is reported as an associated company, since Volvo believes that substantial influence exists. Volvo reports its share in earnings of Nissan Diesel with a time-lag of one quarter. The table above refers to September 30, 2006, which is when Nissan Diesel was consolidated by Volvo. Nissan Diesel's fiscal year is April 1–March 31.

Note 7 Segment reporting

Reporting by business segment

The Volvo Group's operations are organized in eight business areas: Volvo Trucks, Renault Trucks, Mack Trucks, Buses, Construction Equipment, Volvo Penta, Volvo Aero and Financial Services. In addition to the eight business areas, there are other operations consisting mainly of business units that are designed to support the business areas' operations. The business units include Volvo Powertrain, Volvo 3P, Volvo IT, Volvo Logistics and Volvo Parts.

Each business area, except for Financial Services, has total responsibility for its operating income, operating capital and operating cash flow. The Financial Services business area has responsibility for its net income and total balance sheet within certain restrictions and principles that are established centrally. The supervision and coordination of treasury and tax matters is organized centrally to obtain the benefits of a Group-wide approach. The legal structure of the Volvo Group is based on optimal handling of treasury, tax and administrative matters and, accordingly, differs from the operating structure.

The business units are designated to support the business areas and are therefore not reportable business segments. In Volvo's external financial reporting, the financial results within the business units Powertrain and Parts are distributed to the respective business segments. As the three truck brands share product development, production and other activities in business units such as Volvo 3P and Volvo Powertrain and also share certain infrastructure in distribution such as dealers, the truck brands are reported as one business segment.

Net sales	2004	2005	2006
Trucks	136,879	155,396	166,306
Buses	12,722	16,589	16,856
Construction Equipment	29,360	34,816	40,564
Volvo Penta	9,057	9,776	10,485
Volvo Aero	6,925	7,538	8,048
Other and eliminations	7,228	7,076	5,876
Volvo Group excl Financial Services	**202,171**	**231,191**	**248,135**
Financial Services	9,598	7,549	8,969
Eliminations	(693)	1,819	1,731
Volvo Group total	**211,076**	**240,559**	**258,835**

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

Net sales to Group companies	2004	2005	2006
Trucks	690	752	933
Buses	377	102	96
Construction Equipment	162	127	134
Volvo Penta	27	42	24
Volvo Aero	43	82	86
Other	9,440	10,589	10,788
Eliminations	(10,739)	(11,694)	(12,061)
Total excl Financial Services	**0**	**0**	**0**
Financial Services	693	755	814
Eliminations	(693)	(755)	(814)
Total net sales to Group companies	**0**	**0**	**0**

Internal sales between business areas are generally made at standard cost of sales, including calculated interest and product improvement expenses. Internal sales from service companies are generally made at market prices.

Operating income	2004	2005	2006
Trucks	8,992	11,717	12,657
Buses	158	470	633
Construction Equipment	1,898	2,752	3,888
Volvo Penta	940	943	1,002
Volvo Aero	403	836	345
Financial Services	1,365	2,033	2,301
Other	923	(598)	(427)
Volvo Group total	**14,679**	**18,153**	**20,399**

Operating income in 2004 included reversal of write-down of shares in Scania AB of 915, which was reported in Other and write-down of shares in Henlys Group Plc of 95, which was reported in Buses. Operating income in 2006 includes adjustment of goodwill of (1,712), which was reported in Trucks.

Depreciation and amortization	2004	2005	2006
Trucks	5,306	5,307	7,820
Buses	219	249	281
Construction Equipment	627	658	802
Volvo Penta	122	224	205
Volvo Aero	391	366	363
Other	220	88	23
Total excl Financial Services	**6,885**	**6,892**	**9,494**
Financial Services	3,117	429	344
Reclassification Group versus segment Financial Services	–	2,573	2,545
Volvo Group total [1]	**10,002**	**9,894**	**12,383**

1 Of which write-down 80 (72; 244).

Research and development expenses	2004	2005	2006
Trucks	5,491	5,200	5,872
Buses	484	569	603
Construction Equipment	1,033	1,083	1,008
Volvo Penta	311	413	445
Volvo Aero	209	225	288
Other	86	67	138
Volvo Group total	**7,614**	**7,557**	**8,354**

Income from investments in associated companies	2004	2005	2006
Trucks	13	(6)	23
Buses	1	7	10
Construction Equipment	–	0	0
Volvo Penta	–	0	0
Volvo Aero	(1)	68	8
Other	(11)	(637)	19
Volvo Group excl Financial Services	**2**	**(568)**	**60**
Financial Services	25	11	1
Volvo Group total	**27**	**(557)**	**61**

Total assets	2004	2005	2006
Operating assets, excluding Financial Services: [1]			
Trucks	71,439	83,973	89,188
Buses	8,017	10,499	9,646
Construction Equipment	16,858	21,437	24,040
Volvo Penta	3,242	3,700	3,931
Volvo Aero	8,695	10,118	10,102
Other	3,881	2,938	644
Total operating assets excluding Financial Services	**112,132**	**132,665**	**137,551**
Interest-bearing financial assets	46,312	43,939	43,126
Tax receivables	6,259	5,986	7,476
Total assets in Financial Services	71,499	85,849	84,102
Other and eliminations	(12,234)	(11,232)	(13,828)
Volvo Group total	**223,968**	**257,207**	**258,427**

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

Total shareholders' equity and liabilities	2004	2005	2006
Operating liabilities, excluding Financial Services: [1]			
Trucks	55,105	62,743	65,586
Buses	3,324	4,728	4,565
Construction Equipment	6,602	9,350	11,177
Volvo Penta	1,620	1,820	2,111
Volvo Aero	3,695	4,622	4,186
Other	2,788	2,793	956
Total operating liabilities excluding Financial Services	**73,134**	**86,056**	**88,581**
Financial liabilities	28,402	24,670	18,446
Tax liabilities	1,608	2,578	4,624
Total liabilities in Financial Services	63,193	76,214	74,399
Other and eliminations	(12,524)	(11,071)	(14,811)
Total liabilities	**153,813**	**178,447**	**171,239**
Shareholders' equity	70,155	78,760	87,188
Volvo Group total	**223,968**	**257,207**	**258,427**

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

Notes to consolidated financial statements

Investments in associated companies	2004	2005	2006
Trucks	37	47	5,498
Buses	20	35	43
Construction Equipment	–	–	–
Volvo Penta	–	–	–
Volvo Aero	37	3	1
Financial Services	172	23	24
Other	647	87	228
Volvo Group total	**913**	**195**	**5,794**

Trucks 2006 includes investment in Nissan Diesel of SEK 5,445 M.

Capital expenditures	2004	2005	2006
Trucks	5,030	7,190	6,260
Buses	176	250	263
Construction Equipment	1,158	906	1,580
Volvo Penta	297	243	248
Volvo Aero	801	904	843
Other	237	762	402
Volvo Group excl Financial Services	**7,699**	**10,255**	**9,596**
Financial Services	4,784	386	999
Reclassification Group versus segment Financial Services	–	4,210	3,439
Volvo Group total	**12,483**	**14,851**	**14,034**

Reporting by geographical segment

Net sales	2004	2005	2006
Europe	119,077	124,023	138,342
North America	54,769	69,743	74,928
South America	7,338	12,479	13,159
Asia	20,789	22,699	19,655
Other markets	9,103	11,615	12,751
Volvo Group total*	**211,076**	**240,559**	**258,835**
*of which:			
Sweden	14,606	15,334	13,805
United States	45,926	59,254	61,793
France	26,900	27,610	31,155

Total assets	2004	2005	2006
Sweden	79,578	86,865	81,173
Europe excluding Sweden	77,909	86,530	91,163
North America	48,165	60,846	58,444
South America	6,526	10,131	10,766
Asia	7,757	9,460	11,512
Other markets	4,033	3,375	5,369
Volvo Group total	**223,968**	**257,207**	**258,427**

Capital expenditures	2004	2005	2006
Sweden	3,690	5,935	3,970
Europe excluding Sweden	6,305	5,770	7,395
North America	1,835	2,451	1,851
South America	247	296	280
Asia	362	259	421
Other markets	44	140	117
Volvo Group total	**12,483**	**14,851**	**14,034**

Note 8 Other operating income and expenses

	2004	2005	2006
Gains/losses on currency related forward and options contracts	828	(566)	481
Exchange rate differences on trade receivables and payables	(86)	481	(825)
Gains/losses on divestment of group companies	69	697	286
Change in allowances and write offs for doubtful receivables, customer financing	(545)	(460)	(189)
Change in allowances, and write offs for doubtful receivables, other	37	(133)	(273)
Expenses for industrial relocation of Renault Trucks Villaverde plant in Spain	(470)	–	–
Expenses for closing Volvo Buses Heilbronn plant in Germany	–	(95)	–
Expenses for closing Volvo operations in Bromma, Sweden	–	–	(258)
Volvo profit sharing program	(200)	(419)	(444)
Adjustment of goodwill in the subsidiary Mack Trucks	–	–	(1,712)
Other income and expenses	(250)	(93)	(532)
Total	**(618)**	**(588)**	**(3,466)**

Note 9 Income from investments in associated companies

Income from investments in associated companies are specified below:

Income/loss	2004	2005	2006
Nissan Diesel	–	–	39
JV Fonderie Venissieux	5	9	(12)
Aviation Lease Finance	27	6	–
Thomas Hardie Commercials Ltd	8	5	3
Merkavim Metal Works Ltd	1	4	10
Peach County Holdings	–	(103)	–
Other companies	(12)	(1)	15
Subtotal	**29**	**(80)**	**55**
Revaluation and write-down of shares			
Peach County Holding	–	(550)	–
Other companies	(2)	(2)	(2)
Subtotal	**(2)**	**(552)**	**(2)**
Gains (losses) on sale of shares in associated companies			
Aviation Lease Finance	–	71	–
Other companies	–	4	8
Subtotal	**0**	**75**	**8**
Total income (loss) from investments in associated companies	**27**	**(557)**	**61**

Note 10 Income from other investments

Dividends received	2004	2005	2006
Holdings of Volvo Technology Transfer[1]	–	11	–
Other	11	2	2
Subtotal	**11**	**13**	**2**
Revaluation and write downs of shares			
Scania AB	915	–	–
Henlys Group Plc	(95)	–	–
Holdings of Volvo Technology Transfer[1]	(13)	–	(7)
Smith Land & Improvement (SABA Holding)	(22)	–	–
Other	(8)	(2)	11
Subtotal	**777**	**(2)**	**4**
Gain (loss) on divestment of shares			
Holdings of Volvo Technology Transfer[1]	1	40	130
Bilia AB	24	–	–
Other	17	(14)	5
Subtotal	**42**	**26**	**135**
Total	**830**	**37**	**141**

1 A Volvo venture-capital company.

Note 11 Other financial income and expenses

SEK M	2004	2005	2006
Financial instruments at fair value through profit or loss	–	251	(61)
Exchange rate gains and losses on financial assets and liabilites	(1)	(20)	(52)
Financial income and expenses related to taxes	–	56	(22)
Write-down pertaining to the restructuring of Henleys Group Plc	(1,196)	–	–
Costs for Treasury function, credit facilities, etc	(13)	(106)	(46)
Total	**(1,210)**	**181**	**(181)**

Notes to consolidated financial statements

Note 12 Income taxes

Income taxes were distributed as follows:

	2004	2005	2006
Current taxes relating to the period	(1,854)	(2,568)	(4,559)
Adjustment of current taxes for prior periods	288	147	176
Deferred taxes originated or reversed during the period	(1,662)	(2,933)	(2,116)
Recognition and derecognition of deferred tax assets	99	446	2,518
Total income taxes	**(3,129)**	**(4,908)**	**(3,981)**

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 of approximately 983 (695; 1,433) were reported as contingent liabilities.

Deferred taxes relate to income taxes payable or recoverable in future periods in respect of taxable temporary differences, deductible temporary differences, unused tax loss carryforwards or unused tax credit carryforwards. Deferred tax assets are recognized to the extent that it is probable that the amount can be utilized against future taxable income. At December 31, 2006, 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 213 (2,972; 2,592).

Deferred taxes of 265 (negative 129; -) have at December 31, 2006, been accounted for as a direct reduction of equity. It is related to fair value of derivative instruments

At year-end 2006, the Group had unused tax loss carryforwards of about 5,900 (6,100; 10,100). These loss carryforwards expire according to the table below.

Due date	2004	2005	2006
Within 1 year	200	400	500
Within 2 years	700	500	100
Within 3 years	600	100	100
Within 4 years	300	300	0
Within 5 years	200	100	200
After 6 years	8,100	4,700	5,000
Total	**10,100**	**6,100**	**5,900**

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.

	2004, %	2005, %	2006, %
Swedish corporate income tax rates	28	28	28
Difference in tax rate in various countries	3	3	2
Capital gains	(3)	(1)	0
Other non-taxable income	(3)	(1)	(1)
Other non-deductible expenses	2	1	4
Adjustment of current taxes for prior years	(2)	(1)	(1)
Recognition and derecognition of deferred tax assets	(1)	(2)	(12)
Other, net	0	0	0
Income tax rate for the Group	**24**	**27**	**20**

Reversal of reserve for deferred tax receivables

During the third quarter, 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 was a positive 336.

Most of the valuation reserve for deferred tax receivables that was reported in Mack Trucks was attributable to the time of the acquisition of Renault Trucks and Mack Trucks. In accordance with IAS 12, a reversal of valuation reserves attributable to an acquisition was adjusted against the earlier reported goodwill. In an acquisition, the acquired company's assets and liabilities are valued at fair value. In the case that the purchase consideration exceeds the revalued net assets, goodwill is reported. Normally, a so-called acquisition balance sheet is preliminary for 12 months during which period it may be changed in the case that another assessment is made in the net value of the assets. If a change occurs, a corresponding adjustment is made in goodwill. Changed assessments arising later are adjusted in the income statement but do not affect the goodwill value. An exception to this main rule is the case that a valuation reserve has been reported for deferred tax receivables. If such a valuation reserve is reversed at a later date, regardless of when in time, such a reversal shall be reported as if the deferred tax receivables value was reported at the time of the acquisition and that this value was included in the acquired company's net assets. Consequently, this affects the original goodwill calculation. This means that in the item Other operating income and expenses, Volvo has reported an expense in the truck operations for the third quarter for adjustment of goodwill of 1,712. The Volvo Group's earnings for the period were affected positively by 336.

Specification of deferred tax assets and tax liabilities	2004	2005	2006
Deferred tax assets:			
Unused tax loss carryforwards	3,223	2,125	1,935
Other unused tax credits	259	295	248
Intercompany profit in inventories	294	544	526
Valuation allowance for doubtful receivables	587	644	463
Provisions for warranties	966	1,449	1,357
Provision for residual value risks	544	576	398
Provisions for post-employment benefits	4,366	4,541	2,701
Provisions for restructuring measures	220	120	17
Fair value of derivative instruments: Change of hedge reserves	–	224	3
Other deductible temporary differences	2,347	2,670	2,634
Deferred tax assets before deduction for valuation allowance	**12,806**	**13,188**	**10,282**
Valuation allowance	(2,592)	(2,972)	(213)
Deferred tax assets after deduction for valuation allowance	**10,214**	**10,216**	**10,069**

Deferred tax liabilities:	2004	2005	2006
Accelerated depreciation on property, plant and equipment	2,047	2,347	2,514
Accelerated depreciation on leasing assets	815	1,297	1,226
LIFO valuation of inventories	160	217	182
Capitalized product and software development	1,445	1,970	2,113
Untaxed reserves	126	112	635
Fair value of derivative instruments: Change of hedge reserves	–	95	268
Other taxable temporary differences	1,058	1,111	890
Deferred tax liabilities	**5,651**	**7,149**	**7,828**
Deferred tax assets, net[1]	**4,563**	**3,067**	**2,241**

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

The cumulative amount of undistributed earnings in foreign subsidiaries, which Volvo currently intends to indefinitely reinvest outside of Sweden and upon which deferred income taxes have not been provided is approximately 29 billion (17; 12) 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 AS (22%), in Wuxi da Hao Power Co, Ltd (30%) and in Berliet Maroc S.A (30%).

Note 14 Intangible and tangible assets

Intangible assets, acquisition costs	Goodwill[1]	Entrances fees, aircraft engine programs	Product and software development	Other intangible assets	**Total intangible assets**
Value in balance sheet 2004	10,321	2,758	8,585	1,734	**23,398**
Value in balance sheet 2005	11,072	2,971	11,817	1,784	**27,644**
Capital expenditures	–	121	2,917	28	**3,066**
Adjustment of goodwill	(1,712)	–	–	–	**(1,712)**
Sales/scrapping	0	(11)	(203)	(13)	**(227)**
Acquired and divested operations[3]	0	0	0	(6)	**(6)**
Translation differences	(420)	0	(257)	(108)	**(785)**
Reclassifications and other	(91)	(168)	14	327	**82**
Value in balance sheet 2006	**8,849**	**2,913**	**14,288**	**2,012**	**28,062**

Accumulated depreciation and amortization	Goodwill	Entrances fees, aircraft engine programs	Product and software development	Other intangible assets	**Total intangible assets**
Value in balance sheet 2004	–	1,386	3,413	987	**5,786**
Value in balance sheet 2005	–	1,437	4,690	1,096	**7,223**
Depreciation and amortization	–	128	1,584	138	**1,850**
Write-downs	–	–	80	–	**80**
Sales/scrapping	–	0	(160)	(12)	**(172)**
Acquired and divested operations[3]	–	0	–	(4)	**(4)**
Translation differences	–	0	(72)	(49)	**(121)**
Reclassifications and other	–	164	(17)	(58)	**89**
Value in balance sheet 2006	**-**	**1,729**	**6,105**	**1,111**	**8,945**
Net carrying value in balance sheet 2006[4]	**8,849**	**1,184**	**8,183**	**901**	**19,117**

Notes to consolidated financial statements

Tangible assets, acquisition costs	Buildings	Land and land improvements	Machinery and equipment 2	Construction in progress, including advance payments	**Total property, plant and equipment**	Assets under operating leases	**Total tangible assets**
Value in balance sheet 2004	16,928	3,988	39,530	2,435	**62,881**	30,999	**93,880**
Value in balance sheet 2005	18,547	4,624	45,252	3,067	**71,490**	31,999	**103,489**
Capital expenditures	1,031	175	3,941	1,210	**6,357**	4,611	**10,968**
Sales/scrapping	(483)	(106)	(2,618)	4	**(3,203)**	(5,686)	**(8,889)**
Acquired and divested operations 3	(164)	(3)	(218)	–	**(385)**	(593)	**(978)**
Translation differences	(808)	(201)	(1,889)	(164)	**(3,062)**	(1,202)	**(4,264)**
Reclassifications and other	461	(42)	226	(1,049)	**(404)**	1,026	**622**
Value in balance sheet 2006	**18,584**	**4,447**	**44,694**	**3,068**	**70,793**	**30,155**	**100,948**

Accumulated depreciation and amortization	Buildings	Land and land improvements	Machinery and equipment 2	Construction in progress, including advance payments	**Total property, plant and equipment**	Assets under operating leases	**Total tangible assets**
Value in balance sheet 2004	6,732	441	24,557	–	**31,730**	11,465	**43,195**
Value in balance sheet 2005	7,814	521	28,087	–	**36,422**	11,160	**47,582**
Depreciation and amortization 5	704	46	3,744	–	**4,494**	4,247	**8,741**
Sales/scrapping	(498)	(8)	(1,976)	–	**(2,482)**	(3,223)	**(5,705)**
Acquired and divested operations 3	(130)	(9)	(138)	–	**(277)**	(224)	**(501)**
Translation differences	(321)	(31)	(1,132)	–	**(1,484)**	168	**(1,316)**
Reclassifications and other	23	8	(290)	–	**(259)**	(2,474)	**(2,733)**
Value in balance sheet 2006	**7,592**	**527**	**28,295**	**-**	**36,414**	**9,654**	**46,068**
Net carrying value in balance sheet 2006 4	**10,992**	**3,920**	**16,399**	**3,068**	**34,379**	**20,501**	**54,880**

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 is write-down 80 (72, 244).

"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.

Depreciation and amortization by type of asset	2004	2005	2006
Intangible assets	1,396	1,409	1,930
Property, plant and equipment	4,182	4,370	4,494
Assets under operating leases	4,425	4,115	4,247
Depreciations excluding adjustment of goodwill	**10,003**	**9,894**	**10,671**
Adjustment of goodwill	–	–	1,712
Total	**10,003**	**9,894**	**12,383**

Capital expenditures by type of asset	2004	2005	2006
Intangible assets	2,287	3,473	3,066
Property, plant and equipment	5,790	6,829	6,357
Assets under operating leases	4,406	4,549	4,611
Total	**12,483**	**14,851**	**14,034**

Capital expenditures for property, plant and equipment approved but not yet implemented at December 31, 2006, amounted to SEK 6.8 billion (7.8).

Goodwill

AB Volvo decided during the third quarter 2006 to reverse a valuation allowance for deferred tax receivables in the Mack Trucks subsidiary. The decision is 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. The adjustment decreases book value of goodwill for the three truck brands with the same share that was used in the original allotment. The remaining deviation in book value compared to the previous year mainly consists of revaluation effects caused by differences in currency rates.

Annually, in connection with the annual closing, or more frequently if required, Volvo's operations are evaluated and compared with its carrying value in order to identify any impairment of goodwill assets. Volvo's evaluation model is based on a discounted cash-flow model, 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 2006.

During 2006, the value of Volvo's operations has exceeded the carrying value of goodwill for all operational areas, and accordingly, no impairment was recognized. For the specified cash generating units Volvo has evaluated the value of goodwill with reasonable changed assumptions, negatively adjusted with one percentage point, where of no adjustment, individually, would have such a big effect that there would be an impairment.

Goodwill per Business Area	2005	2006
Volvo Trucks	4,096	3,129
Renault Trucks	2,007	1,391
Mack Trucks	982	592
Buses	1,134	1,055
Construction Equipment	2,480	2,329
Other	373	353
Total goodwill value	**11,072**	**8,849**

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 1,633 (1,534; 1,859) at year-end. Capital expenditures during 2006 amounted to 81 (15; 20). Accumulated depreciation was 523 (463; 472) at year-end, whereof 55 (53; 68) during 2005. The estimated fair value of investment property was SEK 1,9 billion (1,9; 2,2) at year-end, based on the yield. The required return is based on current property market conditions for comparable properties in comparable locations. All investment properties were leased out during the year. Net income for the year was affected by 281 (272; 332) in rental income from investment properties and 50 (45; 66) in direct costs.

Notes to consolidated financial statements

Note 15 Shares and participations

Group holdings of shares and participations in non-Group companies	Registration number	Percentage holding	Dec 31, 2004 Carrying value SEK M	Dec 31, 2005 Carrying value SEK M	Dec 31, 2006 Carrying value SEK M
Shares in associated companies, equity method of accounting					
Nissan Diesel	–	19	–	–	5,445
Blue Chip Jet II HB, Sweden	969717–2105	50	–	–	148
Blue Chip Jet HB, Sweden	969639–1011	40	90	85	81
Merkavim Metal Works Ltd, Israel	–	27	20	26	34
Diamond Finance Ltd, Great Britain	–	40	–	23	24
Thomas Hardie Commercials Ltd, Great Britain	–	24	10	14	14
Fonderie Venissieu, France	–	49	15	21	23
Quingdao Sunwin Bus Corp, China		21	–	9	9
Arabian Vehicle & Truck Industry Ltd, Saudi Arabia	–	25	9	9	9
Peach County Holdings Inc, USA	–	43	556	0	–
Aviation Lease Finance, USA	–	49	172	–	–
Småföretagarinvest AB (previously Arbustum Invest AB), Sweden	–	–	35	–	–
Other holdings			6	8	7
Total shares and participations in associated companies in accordance with Group Balance Sheet[1]			**913**	**195**	**5,794**
Shares and participations in other companies					
Deutz AG, Germany[2]	–	7	670	253	740
Småföretagarinvest AB (previously Arbustum Invest AB), Sweden	556543–4247	17	–	32	14
Other holdings			420	271	342
Total shares and participations in other companies in accordance with Group Balance Sheet			**1,090**	**556**	**1,096**
Total value of Group holdings of shares and participations in non-group companies			**2,003**	**751**	**6,890**

1 Volvo's share of shareholders' equity in associated companies (incl. equity in untaxed reserves) amounted to 5.794 (195; 913). Excess values amounted to 549 (0; 0).

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

The market values of Volvo's holdings of shares and participations in listed companies as of December 31, 2006 are shown in the table below. As from 2005 shares in listed companies would be revaluated to current market value. The revaluation is booked to Equity and amounts to 392 (83; –).

	Carrying value	Market value
Nissan Diesel, common shares	1,952	1,341
Nissan Diesel, preference shares	3,493	–
Total holding in listed associated companies	**5,445**	**1,341**
Holding in non-listed associated companies	349	–
Total holding in associated companies	**5,794**	**1,341**

	Carrying value	Market value
Deutz AG	740	740
Total holdings in listed companies	**740**	**740**
Holdings in non-listed companies[1]	356	–
Total shares and participations in other companies	**1,096**	**740**

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.

Nissan Diesel

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 on Nissan Motor's remaining 6% within four years. During the third quarter, AB Volvo exercised its option to purchase an additional 6% of the shares in Nissan Diesel from Nissan Motor 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 SEK 5.445 M at December 2006.

The holding is reported as an associated company, since Volvo believes that substantial influence exists. Executive Vice President of AB Volvo and Deputy CEO of the Volvo Group, Jorma Halonen, was appointed Vice Chairman of the Board of Directors of Nissan Diesel on June 28.

Volvo reports its share in earnings of Nissan Diesel with a time-lag of one quarter.

Please find further information under Significant events, page 47, regarding Volvo making a public offer for Nissan Diesel.

Deutz

During 2006 Volvo has invested additionaly 95 in Deutz AG.

Peach County Holdings Inc

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

Småföretagarinvest AB (previously Arbustum Invest AB)

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

Changes in the Volvo Group's holdings of shares and participations:	2004	2005	2006
Balance sheet, December 31, preceding year	22,206	2,003	751
IFRS transition effect	–	(494)	–
Acquisitions and divestments, net	(20,740)	(268)	5,809
Net of write-downs/revaluations	772	(552)	(72)
New issue of shares and shareholders' contributions	45	28	45
Share of income in associated companies	29	(80)	55
Change in Group structure	(280)	(90)	0
Fair value of shares	–	83	392
Translation differences	(29)	159	(30)
Dividends	0	(2)	(3)
Other	0	(36)	(57)
Balance sheet, December 31	**2,003**	**751**	**6,890**

Note 16 Long-term customer-financing receivables

	2004	2005	2006
Installment credits	14,726	17,865	17,475
Financial leasing	10,334	12,737	13,980
Other receivables	127	582	634
Total	**25,187**	**31,184**	**32,089**

Effective interest rate for Long-term customer finance receivables was 6.82% as per December 31, 2006.

Long-term customer finance receivables maturities	
2008	14,205
2009	9,631
2010	5,402
2011	1,944
2012 or later	907
Total	**32,089**

Notes to consolidated financial statements

Note 17 Other long-term receivables

	2004	2005	2006
Other loans to external parties	720	348	300
Prepaid pensions	364	524	2,041
Other financial receivables	672	1,514	1,394
Other receivables	1,007	741	665
Total	**2,763**	**3,127**	**4,400**

Note 18 Inventories

	2004	2005	2006
Finished products	17,861	21,617	20,396
Production materials, etc.	10,737	12,320	13,815
Total	**28,598**	**33,937**	**34,211**

Inventories recognised as cost of sale during the period, 185,616 (172,567; 150,800).

Increase (decrease) in allowance for inventory obsolescence	2004	2005	2006
Balance sheet, December 31, preceding year	2,246	2,124	2,401
Increase in allowance for inventory obsolescence charged to income	244	333	186
Scrapping	(226)	(276)	(169)
Translation differences	(85)	177	(130)
Reclassifications, etc.	(55)	43	(273)
Balance sheet, December 31	**2,124**	**2,401**	**2,015**

Note 19 Short-term customer-financing receivables

	2004	2005	2006
Installment credits	10,382	13,174	12,034
Financial leasing	5,488	7,132	7,493
Dealer financing	8,850	12,067	11,703
Other receivables	1,286	909	1,423
Total	**26,006**	**33,282**	**32,653**

Effective interest rate for Short-term customer finance receivables was 6.59% as per December 31, 2006.

Note 20 Other short-term receivables

	2004	2005	2006
Accounts receivable	20,137	24,784	23,251
Prepaid expenses and accrued income	2,514	2,502	2,263
VAT receivables	1,561	1,933	2,280
Loans to external parties	1,350	345	537
Other financial receivables [1]	981	1,671	2,344
Other receivables	3,321	4,229	3,724
Total, after deduction of valuation allowances for doubtful accounts receivable	**29,864**	**35,464**	**34,399**

1 Market value financial derivatives.

Change of valuation allowances for doubtful accounts receivable	2004	2005	2006
Balance sheet, December 31, preceding year	932	837	906
Change of valuation allowance charged to income	(30)	2	144
Utilization of valuation allowance related to actual losses	(174)	(90)	(108)
Acquired and divested operations	1	9	45
Translation differences	17	95	(39)
Reclassifications, etc.	91	53	(9)
Balance sheet, December 31	**837**	**906**	**939**

Note 21 Marketable securities

Marketable securities consist mainly of interest-bearing securities, distributed as shown below:

	2004	2005	2006
Government securities	6,354	4,226	2,169
Banks and financial institutions	371	464	7,101
Real estate financial institutions	19,220	24,020	11,072
Other	10	124	–
Total	**25,955**	**28,834**	**20,342**

Note 22 Cash and cash equivalents

	2004	2005	2006
Cash in banks	5,787	5,652	6,702
Time deposits in banks	3,004	2,461	4,055
Total	**8,791**	**8,113**	**10,757**

Note 23 Shareholders' equity

The share capital of the Parent Company is divided into two series of shares: A and B. Both series carry the same rights, except that each Series A share carries the right to one vote and each Series B share carries the right to one tenth of a vote. The shares quota value is SEK 6.00.

Total share capital by year end 2004 amounted to 2,649 and was based on 441,520,885 registered shares. During 2005 share capital was reduced by 95 through cancellation without repayment of 3,084,619 Series A shares and 12,752,222 Series B shares. After reduction share capital amounts to 2,554 and is based on 425,684,044 registered shares.

Cash dividend decided by the Annual General Meeting 2006 was SEK 16.75 (12.50; 8.00) per share or total 6,775 (5,055; 3,356).

Unrestricted equity in the Parent Company at December 31, 2006 amounted to 39,345 (41,220; 44,075).

Notes to consolidated financial statements

Information regarding shares	2004	2005	2006
Own Series A shares	7,075,246	4,145,627	4,145,627
Own Series B shares	24,315,797	17,074,908	16,739,827
Total own shares	**31,391,043**	**21,220,535**	**20,885,454**
Own shares in % of total registered shares	7,1	5,0	4,9
Outstanding Series A shares	131,529,699	131,374,699	131,374,699
Outstanding Series B shares	278,600,143	273,088,810	273,423,891
Total outstanding shares	**410,129,842**	**404,463,509**	**404,798,590**
Total registered Series A shares	138,604,945	135,520,326	135,520,326
Total registered Series B shares	302,915,940	290,163,718	290,163,718
Total registered shares	**441,520,885**	**425,684,044**	**425,684,044**
Average number of outstanding shares	418,528,078	405,242,037	404,663,051

Changes in outstanding Volvo shares	
Balance December 31, 2005	404,463,509
Share-based incentive program	335,081
	404,798,590

Change in other reserves	Hedgereserve	Available for sale-reserve	Total
Balance at January 1, 2006	(411)	83	(328)
Fair value gains in year	2,583	–	2,583
Tax on fair value gains	(723)	–	(723)
Transfers to income	(1,122)	–	(1,122)
Tax on transfers to income statement	314	–	314
Change in fair value of commodity contracts	(53)	–	(53)
Fair value adjustments regarding holding in Deutz	–	392	392
Fair value adjustments regarding holding in Nissan Diesel	–	(9)	(9)
Other	(67)	–	(67)
Balance at December 31, 2006	**521**	**466**	**987**

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. To the extent that employee stock options are not fully earned, the average price of the share is adjusted.

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.

	2005	2006
Number of shares, December 31, in millions	404.5	404.8
Average number of shares before dilution in millions	405.2	404.7
Average number of shares after dilution in millions	405.9	405.0
Average share price, SEK	319,11	391,94
Net income attributable to Parent Company shareholders	13,054	16,268
Basic earnings per share	32.22	40.20
Diluted earnings per share	32.16	40.17
Dilution effect, number of shares		
Share-based incentive program	166,250	72,583
Employee stock option program	459,241	242,900
Number of potential shares, December 31	625,491	315,483

The share-based incentive program is implemented if certain non-market based financial goals are fulfilled partly or wholly. The requirement for 2006 was met and creates a dilution effect amounting to 72,583 shares. The employee stock option program create a dilution effect amounting to 242,900 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. No other transactions have occurred that affected, or will have an effect on, the compilation of the reported share capital.

Note 24 Provisions for post-employment benefits

Post-employment benefits, such as pensions, healthcare and other benefits are mainly settled by means of regular payments to independent authorities or bodies that assume pension obligations and administer pensions through defined contribution plans. The remaining post-employment benefits are defined benefit plans; that is, the obligations remain within the Volvo Group or are secured by own pension foundations. Costs and the obligations at the end of period for defined benefit plans are calculated based on actuarial assumptions and measured on a discounted basis. The Volvo Group defined 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	2004	2005	2006
Obligations	30,646	36,521	34,740
Fair value of plan assets	15,139	22,278	25,227
Funded status	**(15,507)**	**(14,243)**	**(9,513)**
Unrecognized actuarial (gains) and losses	1,258	2,867	2,958
Unrecognized past service costs	(83)	(86)	(96)
Net provisions for post-employment benefits	**(14,332)**	**(11,462)**	**(6,651)**

Assumptions applied for actuarial calculations	2004 Dec 31	2005 Dec 31	2006 Dec 31
Sweden			
Discount rate	5.00	4.00	4.00
Expected return on plan assets [1]	6.00	6.00	6.00
Expected salary increases	3.20	3.20	3.20
Inflation	2.00	1.50	1.50
United States			
Discount rate	5.75	5.75	5.50
Expected return on plan assets [1]	7.65	7.65	7.65
Expected salary increases	3.50	3.50	3.50
Inflation	2.50	2.50	2.50
France			
Discount rate	4.75	4.00	4.25
Expected salary increases	3.00	3.00	3.00
Inflation	2.00	2.00	2.00
Great Britain			
Discount rate	5.25	4.80	5.00
Expected return on plan assets [1]	6.25	5.20–6.50	5.00–5.80
Expected salary increases	3.50	3.80–4.00	4.00–4.60
Inflation	2.50	2.75	3.00

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.

Notes to consolidated financial statements

Pension costs	2004	2005	2006
Current year service costs	616	788	870
Interest costs	1,306	1,315	1,285
Expected return on plan assets	(931)	(1,133)	(1,359)
Actuarial gains and losses [1]	(17)	(107)	48
Past service costs			
– Unvested	7	(4)	(56)
– Vested	38	(20)	0
Curtailments and settlements	(28)	(362)	(28)
Termination benefits	729	124	135
Pension costs for defined benefit plans	**1,720**	**601**	**895**
Pension costs for defined contribution plans	2,681	3,135	2,844
Total pension costs	**4,401**	**3,736**	**3,739**

1 For each plan, actuarial gains and losses are reported as income or expenses, when the accumulated amount exceeds the so called corridor. The income or expenses are then recognized over the expected average remaining service period of the employees.

Costs for post-employment benefits other than pensions	2004	2005	2006
Current year service costs	196	188	132
Interest costs	349	323	348
Expected return on plan assets	(12)	(15)	(4)
Actuarial gains and losses [1]	6	1	1
Past service costs			
– Unvested	(1)	(1)	(9)
– Vested	5	4	(17)
Curtailments and settlements	–	–	3
Termination benefits	47	24	8
Total costs for post-employment benefits other than pensions	**590**	**524**	**462**

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, 2006 by approximately 193, and the post-employment benefit expense by approximately 18. A decrease of one percentage point would decrease the accumulated value of obligations by about 164 and reduce costs by approximately 15. Calculations made as of December 31, 2006 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, 2004	**5,332**	**10,707**	**2,333**	**2,986**	**6,278**	**1,595**	**29,231**
Acquisitions, divestments and other changes	140	–	(85)	138	–	–	**193**
Current year service costs	176	206	19	82	193	136	**812**
Interest costs	280	668	115	172	348	72	**1,655**
Unvested past service costs	–	3	(66)	–	–	–	**(63)**
Vested past service costs	(46)	66	–	–	–	22	**42**
Termination benefits	88	–	205	–	–	483	**776**
Curtailments and settlements	(35)	(5)	–	–	–	35	**(5)**
Employee contributions	–	–	–	30	–	1	**31**
Actuarial (gains) and losses	573	683	74	215	364	39	**1,948**
Exchange rate translation	–	(1,103)	(19)	(76)	(576)	29	**(1,745)**
Benefits paid	(271)	(704)	(497)	(101)	(532)	(124)	**(2,229)**
Obligations at December 31, 2004	**6,237**	**10,521**	**2,079**	**3,446**	**6,075**	**2,288**	**30,646**

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	(125)	81	–	–	6	(1)	**(39)**
Current year service costs	203	304	37	80	184	169	**977**
Interest costs	303	637	97	195	321	83	**1,636**
Unvested past service costs	–	3	–	(12)	–	–	**(9)**
Vested past service costs	(72)	44	–	–	1	11	**(16)**
Termination benefits	104	–	–	–	–	44	**148**
Curtailments and settlements	(371)	–	–	–	–	–	**(371)**
Employee contributions	–	–	–	34	–	(2)	**32**
Actuarial (gains) and losses	810	281	(12)	714	(66)	151	**1,878**
Exchange rate translation	–	2,171	92	287	1,222	238	**4,010**
Benefits paid	(248)	(763)	(435)	(109)	(592)	(224)	**(2,371)**
Obligations at December 31, 2005	**6,841**	**13,279**	**1,858**	**4,635**	**7,151**	**2,757**	**36,521**
of which							
Funded defined benefit plans	6,342	12,962	–	4,135	3,772	1,744	**28,955**
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**
Unvested past service costs	–	6	2	–	(8)	–	**-**
Vested past service costs	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**

Fair value of plan assets in funded plans	Sweden Pensions	United States Pensions	France Pensions	Great Britain Pensions	US Other benefits	Other plans	Total
Plan assets at January 1, 2004	**3,592**	**6,727**	**-**	**2,254**	**111**	**1,062**	**13,746**
Acquisitions, divestments and other changes	129	15	–	114	–	18	**276**
Expected return on plan assets	217	517	–	151	12	46	**943**
Actuarial gains and (losses)	141	174	-	73	(10)	5	**383**
Employer contributions	–	1,153	–	83	106	105	**1,447**
Employee contributions	–	–	–	30	–	1	**31**
Exchange rate translation	–	(730)	–	(55)	(20)	1	**(804)**
Benefits paid	–	(693)	–	(98)	–	(92)	**(883)**
Plan assets at December 31, 2004	**4,079**	**7,163**	**-**	**2,552**	**199**	**1,146**	**15,139**
Acquisitions, divestments and other changes	(97)	(35)	–	(13)	–	4	**(141)**
Expected return on plan assets	294	604	–	166	15	69	**1,148**
Actuarial gains and (losses)	461	(65)	-	271	(9)	15	**673**
Employer contributions	1,188	2,225	–	906	18	103	**4,440**
Employee contributions	–	–	–	78	–	8	**86**
Exchange rate translation	–	1,577	–	220	37	147	**1,981**
Benefits paid	–	(741)	–	(108)	(70)	(129)	**(1,048)**
Plan assets at December 31, 2005	**5,925**	**10,728**	**-**	**4,072**	**190**	**1,363**	**22,278**

Notes to consolidated financial statements

Fair value of plan assets in funded plans	Sweden Pensions	United States Pensions	France Pensions	Great Britain Pensions	US Other benefits	Other plans	Total
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**

Net provisions for post-employment benefits	Sweden Pensions	United States Pensions	France Pensions	Great Britain Pensions	US Other benefits	Other plans	Total
Funded status at December 31, 2004	**(2,158)**	**(3,358)**	**(2,079)**	**(894)**	**(5,876)**	**(1,142)**	**(15,507)**
Unrecognized actuarial (gains) and losses	456	277	69	162	240	54	**1,258**
Unrecognized past service costs	–	2	(66)	(3)	(9)	(7)	**(83)**
Net provisions for post-employment benefits at December 31, 2004	**(1,702)**	**(3,079)**	**(2,076)**	**(735)**	**(5,645)**	**(1,095)**	**(14,332)**
whereof reported as							
Prepaid pensions and other assets	2	166	–	–	133	70	**371**
Provisions for post-employment benefits	(1,704)	(3,245)	(2,076)	(735)	(5,778)	(1,165)	**(14,703)**
Funded status at December 31, 2005	**(916)**	**(2,551)**	**(1,858)**	**(563)**	**(6,961)**	**(1,394)**	**(14,243)**
Unrecognized actuarial (gains) and losses	755	770	223	592	326	201	**2,867**
Unrecognized past service costs	–	3	(67)	(12)	(12)	2	**(86)**
Net provisions for post-employment benefits at December 31, 2005	**(161)**	**(1,778)**	**(1,702)**	**17**	**(6,647)**	**(1,191)**	**(11,462)**
whereof reported as							
Prepaid pensions and other assets	–	145	–	35	253	91	**524**
Provisions for post-employment benefits	(161)	(1,923)	(1,702)	(18)	(6,900)	(1,282)	**(11,986)**
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)**

Plan assets by category	2006	%
Shares and participation, Volvo	51	0
Shares and participations, other	12,709	51
Bonds	10,076	40
Property	313	1
Liquid funds etc.	2,078	8
	25,227	**100**

Actuarial gains and losses	2006
Experience-based adjustments in obligation	(530)
Experience-based adjustments in plan assets	717
Effects of changes in actuarial assumptions	(448)
Actuarial gains and (losses), net	**(261)**

Volvo's pension foundation in Sweden was formed in 1996 to secure obligations relating to retirement pensions for salaried employees in Sweden in accordance with the ITP plan (a Swedish individual pension plan). Plan assets amounting to 2,456 was contributed to the foundation at its formation, corresponding to the value of the pension obligations at that time. Since its formation, net contributions of 1,420, whereof 0 during 2006, have been made to the foundation. The plan assets in Volvo's Swedish pension foundation are invested in Swedish and foreign shares and mutual funds, and in interest-bearing securities, in accordance with a distribution that is determined by the foundation's Board of Directors. At December 31, 2006, the fair value of the foundation's plan assets amounted to 6,394 (5,925; 4,079), of which 45% (58; 55) was invested in shares or mutual funds. At the same date, retirement pension obligations attributable to the ITP plan amounted to 6,560 (6,342; 5,366). Swedish companies can secure new pension obligations through balance sheet provisions or pension fund contributions. Furthermore, a credit insurance must be taken out for the value of the obligations. In addition to benefits relating to retirement pensions, the ITP plan also includes, for example, a collective family pension, which Volvo finances through insurance with the Alecta insurance company. According to an interpretation from the Swedish Financial Accounting Standards Council's interpretations committee, this is a multi-employer defined benefit plan. For fiscal year 2006, Volvo did not have access to information from Alecta that would have enabled this plan to be reported as a defined benefit plan. Accordingly, the plan has been reported as a defined contribution plan. Alecta's funding ratio is 143.1% (128.5; 128.0).

Volvo's subsidiaries in the United States mainly secure their pension obligations through transfer of funds to pension plans. At the end of 2006, the total value of pension obligations secured by pension plans of this type amounted to 11,830 (12,962; 10,287). At the same point in time, the total value of the plan assets in these plans amounted to 12,226 (10,728; 7,163), of which 60% (60; 64) was invested in shares or mutual funds. The regulations for securing pension obligations stipulate certain minimum levels concerning the ratio between the value of the plan assets and the value of the obligations. During 2006, Volvo contributed 2,858 (2,225; 1,153) to the pension plans in order to optimize Volvo's capital structure.

During 2006 Volvo has made extra contributions to the pension-plans in Great Britain in the amount of 646 (906; 83).

In 2007, Volvo estimate to transfer an amount of not more than 1 billion Swedish kronor to pension plans.

Note 25 Other provisions

	Value in balance sheet 2004	Value in balance sheet 2005	Provisions and reversals	Utilization	Acquired and divested companies	Translation differences	Reclassifications	Value in balance sheet 2006	Whereof due within 12 months	Whereof due after 12 months
Warranties	6,742	8,163	6,262	(5,789)	(13)	(530)	318	8,411	4,746	3,665
Provisions in insurance operations	312	388	(26)	–	–	–	–	362	–	362
Restructuring measures	571	372	174	(100)	–	(16)	(1)	429	375	54
Provisions for residual value risks	987	931	9	20	(22)	(84)	(73)	781	539	242
Provisions for service contracts	1,512	1,623	394	(324)	4	(51)	31	1,677	928	749
Other provisions	4,354	4,814	3,554	(3,588)	(42)	(382)	533	4,889	3,211	1,678
Total	**14,478**	**16,291**	**10,367**	**(9,781)**	**(73)**	**(1,063)**	**808**	**16,549**	**9,799**	**6,750**

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, 2006. Volvo hedges foreign-exchange and interest-rate risks using derivative instruments. See Note 36.

Bond loans	Actual interest rate, %	Effective interest, rate, Dec 31, 2006, %	2004	2005	2006
GBP 2004/2006	5.18	–	1,905	–	–
SEK 1999–2006/2008–2011	2.50–5.20	3.77–7.27	4,798	4,931	8,973
JPY 2001–2005/2008–2011	0.42–1.50	0.85–1.34	542	475	231
CZK 2003–2005/2008–2010	2.69–4.50	2.88–3.19	380	400	389
USD 1998–2006/2008	5.00–5.98	4.97–5.33	2,150	1,788	1,614
EUR 1997–2006/2008–2011	3.56–6.12	2.49–4.10	17,546	19,928	11,623
NOK 2006/2008	3.59	4.40	–	–	329
Other bond loans			291	48	20
Total			**27,612**	**27,570**	**23,179**

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Other loans	Actual interest rate, day of closing, %	Effective interest, rate, Dec 31, 2006, %	2004	2005	2006
USD 1999–2005/2008–2011	4.07–5.75	4.98–5.23	5,360	6,193	4,466
EUR 2003–2006/2008–2010	3.85–3.99	3.98–4.00	2,596	2,735	3,238
GBP 2005–2006/2008–2010	5.62–5.67	5.43–5.47	1,269	1,859	1,048
CAD 2002–2006/2008–2012	4.58–5.03	4.11–4.16	1,557	1,950	2,281
MXN 2005/2010	7.54–7.91	7.37–7.38	–	835	693
JPY 2006/2013	0.80	1.54	–	–	654
CHF 2006/2009–2011	2.22–2.24	2.63–2.80	–	–	1,127
Other loans	2.80-15.69		2,017	2,413	2,023
Total other long-term loans [1]			**12,799**	**15,985**	**15,530**
Deferred leasing income			1,377	1,689	2,201
Residual value liability			3,122	2,931	4,187
Other long-term financial liabilities			-	476	123
Other long-term liabilities			154	243	237
Total			**45,064**	**48,894**	**45,457**

1 Whereof financial derivatives 93 (394; 243).

Of the above long-term loans, 657 (1,501; 1,422) was secured.

Long-term loans mature as follows:	
2008	18,303
2009	8,980
2010	5,604
2011	4,470
2012	628
2013 or later	724
Total	**38,709**

Of other long-term liabilities the majority will mature within five years.

At year-end 2006, credit facilities granted but not utilized and which can be used without restrictions amounted to approximately SEK 23,2 billion (20,9; 19,1). 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:

	2004	2005	2006
Bank loans	4,267	5,204	4,475
Other loans [1]	17,129	26,126	23,772
Total	**21,396**	**31,330**	**28,247**

1 Whereof financial derivatives 147 (1,009; 612).

Bank loans include current maturities, 1,442 (2,243; 2,259), of long-term loans. Other loans include current maturities of long-term loans, 18,967 (18,983; 13,324), and commercial paper, 4,043 (5,413; 2,667).

Non-interest-bearing liabilities accounted for 67,591 (67,681; 57,657), or 70% (68; 73) of the Group's total current liabilities.

Balance sheet amounts for Other current liabilities were as follows:

	2004	2005	2006
Advances from customers	2,298	2,460	2,538
Wages, salaries and withholding taxes	4,987	5,680	5,745
VAT liabilities	1,193	1,351	1,292
Accrued expenses and prepaid income	9,094	11,201	10,929
Deferred leasing income	1,141	1,406	1,546
Residual value liability	1,873	1,840	1,594
Other financial liabilities	642	1,762	814
Other liabilities	3,863	4,562	3,253
Total	**25,091**	**30,262**	**27,711**

Secured bank loans at year-end 2006 amounted to 157 (186; 194). The corresponding amount for other current liabilities was 1,294 (1,685; 1,578).

Note 28 Assets pledged

	2004	2005	2006
Property, plant and equipment – mortgages	205	593	310
Assets under operating leases	1,665	1,700	609
Chattel mortgages	374	350	367
Receivables	319	360	576
Inventories	13	16	–
Cash, marketable securities	470	230	98
Other assets pledged	–	6	–
Total	**3,046**	**3,255**	**1,960**

The liabilities for which the above assets were pledged amounted at year-end to 2,108 (3,372; 3,194).

Note 29 Contingent liabilities

	2004	2005	2006
Credit guarantees			
– issued for associated companies	110	13	–
– issued for customers and others	2,471	1,267	1,109
Tax claims	1,433	695	983
Other contingent liabilities	5,175	5,875	5,634
Total	**9,189**	**7,850**	**7,726**

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 3,650 (4,479; 5,135).

Tax claims pertain to charges against the Volvo Group for which provisions are not considered necessary. Other contingent liabilities pertain mainly to residual value guarantees.

Legal proceedings

In March 1999, an FH 12 Volvo truck was involved in a fire in the Mont Blanc tunnel. The tunnel suffered considerable damage from the fire, which continued for 50 hours. 39 people lost their lives in the fire, and 34 vehicles were trapped in the tunnel. The Mont Blanc tunnel was re-opened for traffic in 2002. An expert group was appointed by the Commercial Court in Nanterre, France, to investigate the cause of the fire and the losses it caused. At present, it is not possible to anticipate the result of this on-going investigation or the result of other French legal actions in progress regarding the fire. Following the closure in October 2003 of an investigation for potential criminal liability for the fire, the trial for unintentional manslaughter started in Bonneville (France) on 31st January, 2005 and lasted until late April 2005. The judgment was given on 27th July, 2005. Volvo Truck Corporation was one of 16 parties tried for unintentional manslaughter. Volvo Truck Corporation was acquitted and not required to pay any civil damages to the plaintiffs. Volvo Truck Corporation's acquittal with regards to criminal charges is final. Some of the plaintiffs have appealed the award of civil damages and those proceedings, hence, are ongoing. A claim was filed with the Commercial Court in Nanterre by the insurance company employed by the French tunnel operating company against certain Volvo Group companies and the trailer manufacturer in which compensation for the losses claimed to have been incurred by the tunnel operating company was demanded. The claimant requested that the Court postpone its decision until the expert group has submitted its report. The Court of Nanterre has since then declined jurisdiction in favor of the civil Court of Bonneville before which several other claims had been filed in connection with this matter. As a result, the Court of Bonneville is likely ultimately to rule on all civil liability claims filed in France against Volvo Group companies in connection with the Mont-Blanc tunnel fire. Volvo Group companies are also involved in proceedings regarding this matter before courts in Aosta and Turin (Italy) and Brussels (Belgium). Although the aggregate amount claimed is substantial, Volvo is unable presently to determine the ultimate outcome of the legal proceedings mentioned above, the only exception being the criminal charges mentioned above from which Volvo Truck Corporation has now been acquitted.

Between 1985 and 1995, Volvo Aero Norway A/S ("VAN") and Snecma entered into several agreements relating to the supply by VAN of components for the Snecma CFM56 engine. These aircraft engine programs are long term agreements, with an expected term of not less than thirty years. In 2005, Snecma filed a request for arbitration against VAN, requesting a declaratory award stating that Snecma is entitled to calculate VAN's compensation under the agreements in other ways than the common and undisputed interpretation of the agreements during nearly twenty years of performance. An award in Snecma's favour would mean that the compensation would be significantly reduced. It is difficult to assess the magnitude of such a reduction of the concession levels since, instead of fixed levels of payment, the levels of payment to VAN would be affected by the actual payments received by Snecma from its customers. VAN has no access to the commercial information needed to calculate the payment levels in such case. VAN has rejected Snecma's claims. Arbitral hearings are expected to be finalized during the first half of 2007.

Volvo has received a document subpoena from the United States Securities and Exchange Commission (the "SEC") in connection with the SEC's investigation into the United Nations Oil For Food Program. Volvo is cooperating with this investigation. Volvo is also aware that the Swedish and French authorities are also separately investigating the Oil for Food program.

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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 be, in the aggregate, material to the financial condition of the Volvo Group.

Note 30 Cash-flow

Other items not affecting cash pertain to risk provisions and losses related to doubtful receivables and customer-financing receivables, 476 (602; 551), capital gains/losses on the sale of subsidiaries and other business units neg. 281 (neg. 717; pos. 95), unrealized exchange rate gains/losses on trade receivables and payables 143 (neg. 41; pos. 39), incentive program 258 write-down of shares in Peach County Holdings Inc in 2005 and in 2004 revaluation of shares in Scania AB and Henlys Group Plc amounting to – (550; neg. 820), provision for industrial relocation and contractual pension – (–; 530), IFRS transition effect – (–; neg. 177) and other 56 (21; neg. 58).

Net investments in customer-financing receivables resulted in 2006 in a negative cash-flow of SEK 5.2 billion (7.8; 7.4). In this respect, liquid funds were reduced by SEK 26.0 billion (23.4; 19.4) pertaining to new investments in financial leasing contracts and installment contracts.

Investments of shares and participations, net in 2006 amounted to a negativ cash-flow of SEK 5.8 billion (positive 0.3; positive 15.1), mainly related to the investment in Nissan Diesel. The net investments in 2004 are mainly related to the sale of Volvo's holding of B-shares in Scania.

Acquired and divested subsidiaries and other business units, net in 2006 amounted to SEK 0.5 billion (0.6; negative 0.1).

During 2006 interest-bearing receivables including marketable securities, net increased liquid funds by SEK 7.7 billion (decrease 1.3; decrease 6.4).

The change during the year in bonds and other loans decreased liquid funds by SEK 2.6 billion (increase 3.6; decrease 8.8). New borrowing during the year, mainly the issue of bond loans, provided SEK 69.3 billion (41.6; 19.1). Amortization during the year amounted to SEK 72.2 billion (33.4; 28.9).

Note 31 Leasing

Volvo as a leaseholder

At December 31, 2006, future rental income from noncancellable financial and operating leases (minimum leasing fees) amounted to 31,808 (34,406; 25,181). Future rental income is distributed as follows:

	Financial leases	Operating leases
2007	8,725	3,900
2008–2011	15,338	6,091
2012 or later	281	344
Total	**24,344**	**10,335**
Allowance for uncollectible future rental income	(425)	
Unearned rental income	(2,446)	
Present value of future rental income related to noncancellable leases	21,473	

Volvo as a lessee

At December 31, 2006, future rental payments (minimum leasing fees) related to noncancellable leases amounted to 3,234 (4,396; 4,142).

Future rental payments are distributed as follows:

	Financial leases	Operating leases
2007	165	841
2008–2011	186	1,508
2012 or later	6	528
Total	**357**	**2,877**

Rental expenses amounted to:

	2004	2005	2006
Financial leases:			
Contingent rents	(30)	0	0
Operating leases:			
Contingent rents	(27)	(34)	(38)
Rental payments	(910)	(1,000)	(1,468)
Sublease payments	28	23	15
Total	**(939)**	**(1,011)**	**(1,491)**

Book value of assets subject to finance lease:

	2004	2005	2006
Acquisition costs:			
Buildings	526	459	151
Land and land improvements	66	75	72
Machinery and equipment	236	198	114
Assets under operating lease	1,065	875	888
Total	**1,893**	**1,607**	**1,225**

Accumulated depreciation:

	2004	2005	2006
Buildings	(56)	(79)	(49)
Land and land improvements	–	–	–
Machinery and equipment	(46)	(39)	(35)
Assets under operating lease	(518)	(470)	(609)
Total	**(620)**	**(588)**	**(693)**

Book value:

	2004	2005	2006
Buildings	470	380	102
Land and land improvements	66	75	72
Machinery and equipment	190	159	79
Assets under operating lease	547	405	279
Total	**1,273**	**1,019**	**532**

Note 32 Transactions with related parties

The Volvo Group has transactions with some of its associated companies. The transactions consist mainly of sales of vehicles to dealers. Commercial terms and market prices apply for the supply of goods and services to/from associated companies.

	2004	2005	2006
Sales to associated companies	279	381	156
Purchase from associated companies	73	296	288
Receivables from associated companies, Dec 31	174	206	40
Liabilities to associated companies, Dec 31	70	65	39

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 336 (182; 277) and 4,031 (3,493; 3,242). Amounts due from and due to Renault SA amounted to 97 (57; 81) and 1,176 (762; 554) respectively, at December 31, 2006. The sales were mainly from Renault Trucks to Renault SA and consisted of components and spare parts. The purchases were mainly made by Renault Trucks from Renault SA and consisted mainly of light trucks. Renault Trucks has a license from Renault SA for the use of the trademark "Renault". During 2005, Renault Trucks received EUR 500,000 from Renault SA as compensation for a common development project.

During 2005, AB Volvo sold properties to market price to members in group management for an amount of 17. No similar transactions took place during 2006.

Note 33 Government grants

During 2006, government grants amounting to 216 (173; 165) have been received, of which 141 (143; 137) has been accounted for in the income statement. The grants were mainly received from the European Commission and the Swedish government..

Note 34 Personnel

In accordance with a resolution adopted at the Annual General Meeting 2006, the fee paid to the Board of Directors was set at SEK 4,775,000, to be distributed among the members as follows: SEK 1,350,000 to the Chairman and a total of SEK 2,700,000 to the other 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.

Remuneration to senior executives, SEK	Fixed salary	Variable salary	Other benefits[1]	Pension[4]
Board Chairman	1,425,000	–	–	–
CEO	11,354,968	5,527,560	2,067,434	14,625,220
Other members of GEC [2]	49,834,705	19,890,289	64,558,513	43,768,764
Total remuneration and benefits	**62,614,673**	**25,417,849**	**66,625,947**	**58,393,984**
Total costs[3]	**80,243,527**	**32,494,979**	**85,581,958**	**70,140,948**

1 Other benefits for the President and CEO includes SEK 1,460,000 related to allotted shares during 2006 and for other members of the GEC SEK 6,935,000 related to allotted shares and SEK 2,882,809 pertaining cash payments, for the GEC members not residing in Sweden, linked to the share-based incentive program. For GEC additional 49,432,538 is included for exercised employee stock options.

2 In addition to the CEO, the Group Executive Committee (GEC) comprised of 16 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 60 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 20.8 M of this amount was reported as a cost in 2005, the remaining SEK 13.2 M is included above. For the time in 2006 after Leif Johansson's became 55 years old have payments amounting to 1,425,220 for pension premiums been made.

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Terms of employment of the CEO

The President and Chief Executive Officer, Leif Johansson, is entitled to a fixed annual salary. In addition, he may receive a variable salary based on operating income and cash flow up to a maximum of 50% of his fixed annual salary. In 2006, the variable salary corresponded to 48.7% of the fixed annual salary. Leif Johansson also participates in the Volvo Group long-term incentive program. In 2006, Leif Johansson received 4,000 shares, since the financial goals for 2005 were achieved.

Leif Johansson's pension benefits are a defined-contribution pension, meaning that Leif Johansson's pension will equal the sum of all premiums paid with the addition of possible return. A defined time for retirement does not exist. The pensionable salary consists of the current monthly salary times 12, Volvo's internal value for company car, together with the average of the outcome of the variable salary, maximized to 50% of the salary, for the previous five years. See point 4 above for premiums paid in 2006.

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. A variable salary may amount to a maximum of 50% of the fixed annual salary.

Severance payments

The employment contracts for members of the Group Executive Committee and certain other senior executives contain rules governing severance payments when the company terminates the employment. The rules provide that, when the company terminates the employment, an employee is entitled to severance pay equal to the employee's monthly salary for a period of 12 or 24 month, depending on age at date of severance.

In agreements concluded after the spring of 1993, severance pay is reduced, in the event the employee gains employment during the severance period, in an amount equal to 75% of the income from new employment. In agreements concluded after the spring of 2004, severance pay is reduced by the full income from the new employment. Furthermore, age limit at date of notice of termination is removed and an employee is, with few exceptions, entitled to severance pay for a period of 12 months.

Pensions

Previous pension agreements for certain senior executives stipulated that early retirement could be obtained from the age of 60. The defined pension benefits are vested and earned gradually over the years up to the employee's retirement age and are fully earned at age 60. During the period between ages of 60 and 65 the employee receives a pension equal to 70% of the pensionable salary.

Agreements for retirement at age 60 are no longer signed, and are instead replaced by a defined-contribution plan without a definite time for retirement. The premium constitutes 10% of the pensionable salary.

Earlier defined-benefit pension plans, which entitled the employee to 50% of the pensionable salary after normal retirement age, have also been replaced by a defined-contribution plan. The premium constitutes of SEK 30,000 plus 20% of the pensionable salary over 30 income base amounts.

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 2007).

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 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 SEK 70 M, where of SEK 21 M during 2006 and SEK 49 M during 2005 and pertains to the costs for payments in shares and in cash. The Annual General Meeting in 2006 decided on a similar program for allotment in 2007. Allotment will be made in 2007 as certain financial goals determined by the Board for fiscal year 2005 have been fulfilled by the company. The cost for Volvo for the incentive program including social fees will be approximately SEK 248 M, since the price of the Volvo B shares at the grant date, excluding dividend of SEK 16.75 for 2006 and for 2007, was SEK 341.50 and the share price at December 31, 2006, was 471.50. 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 2007 financial year. The structure of the program corresponds to the programs approved by the Annual General Meetings in 2006. Accordingly, the program will result in the number of eligible senior executives (including members of Group Management) amounting to not more than to 240 persons and the maximum number of Volvo shares that may be allotted to 518,000, of which CEO Leif Johansson may receive a maximum of 8,000 shares and the other participants a maximum of 2,000–4,000 shares each. The number of shares to be allotted is proposed to depend upon the fulfillment of certain financial goals for the company, determined by the Board for the 2007 financial year. Assuming the said goals are fulfilled in full and that the Volvo share price is SEK 567 at implementation of the program, Volvo's costs for the program, including social fees, will be about SEK 317 M. 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.

If the Annual General Meeting decides in accordance with the Board's proposal of a 6-for-1 share split and an automatic redemption procedure, the number of shares must be multiplied by five. Those shareholders not residing in Sweden at the time of allotment of shares shall in lieu of shares receive a cash payment corresponding to the market value of the shares at the allotment date.

Financial instruments and shares	2003/2008 employee stock options number	Shares[1]
Board Chairman	–	–
CEO	50,000	8,000
Other members of GEC	55,000	60,667
Other senior executives	159,750	415,333
Total	**264,750**	**484,000**

1 The table shows payments in cash with the corresponding value in shares. Of the total 484,000 shares, 267,667 shares and a cash-settlement corresponding to 216,333 shares will be granted.

Summary of option programs	Alloment date	Total number of outstanding options Dec 31, 2004	Dec 31, 2005	Dec 31 2006	Excercise price	Excercise period	Value/ options	Vesting, years
1998, call options[1]	April 28, 2000	101,830	–	–	302.12	Apr 28, 2000– Apr 27, 2005	55.75	n/a
2002, employee stock options[2]	May 2, 2003	945,000	938,750	264,750	156.19	May 2, 2006– May 1, 2008	32.00	3

1 The options gives the holder the right to acquire one Series B Volvo share for each option held from a third party. The price of the options is based on market valuation by UBS Warburg. The options were financed 50% by the company and 50% from the option holder's variable salary.

2 In January 2000, a decision was made to implement a new incentive program for senior executives within the Volvo Group in the form of so-called employee stock options. The decision covers allotment of options for 2000, 2001 and 2002. The executives have not made any payment for the options. The employee stock options gives the holders the right to exercise their options or alternatively receive the difference between the actual price at that time and the exercise price determined at allotment. The theoretical value of the options at allotment was set using the Black & Scholes pricing model for options. For the options allotted in 2003, the Annual General Meeting has decided that Volvo's own shares may be used for the program. Recalculation has taken place of the exercise price and the number of shares each options 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. The new exercise price is SEK 156.19 per share and each option entitles the option holder to acquire 1.04363 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 for the employee stock option program amounted to SEK 58 M. The cost for the share-based incentive program 2005/2006 was SEK 21 M and for the share-based incentive program 2006/2007 SEK 166 M. Total cost for the three programs was SEK 245 M for 2006 (192, 66). The cost for the incentive program includes both cash payments and costs for remuneration in shares, including social costs. At December 31, 2006, provision related to the employee stock option program and share-based incentive program amounted to SEK 219 M (277, 128).

Change in number of options per program

Number of options	Program 2000	2002
Dec 31, 2003	96,245	1,050,000
Alloted	–	–
Cancelled	–	(105,000)
Exercised	(96,245)	–
Dec 31, 2004	–	945,000
Alloted		–
Cancelled		(6,250)
Exercised		–
Dec 31, 2005		938,750
Alloted		–
Cancelled		(5,000)
Exercised		(669,000)
Dec 31, 2006		264,750

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Average number of employees	2004 Number of employees	2004 of which women, %	2005 Number of employees	2005 of which women, %	2006 Number of employees	2006 of which women, %
AB Volvo						
Sweden	136	54	144	50	160	51
Subsidiaries						
Sweden	27,034	18	27,699	19	26,722	19
Western Europe	26,325	14	25,894	14	26,380	15
Eastern Europe	2,731	16	3,481	15	4,225	16
North America	13,057	19	13,778	20	14,609	20
South America	3,040	12	3,656	14	3,874	13
Asia	4,114	16	4,273	15	4,075	15
Other countries	1,759	11	2,259	12	2,255	12
Group total	**78,196**	**16**	**81,184**	**17**	**82,300**	**17**

Board members and chief officers	2004 Number at year-end	2004 of which women, %	2005 Number at year-end	2005 of which women, %	2006 Number at year end	2006 of which women, %
AB Volvo						
Board members	11	9	11	9	11	9
CEO and GEC	17	6	17	6	17	6
Volvo Group						
Board members	1,017	15	1,010	10	939	11
Presidents and other senior executives	1,276	16	1,305	16	1,422	15

Wages, salaries and other remuneration, SEK M	2004 Board and Presidents[1]	2004 of which variable salaries	2004 Other employees	2005 Board and Presidents[1]	2005 of which variable salaries	2005 Other employees	2006 Board and Presidents[1]	2006 of which variable salaries	2006 Other employees
AB Volvo									
Sweden	33.4	11.6	106.3	42.8	9.8	97.9	33.4	11.2	170.8
Subsidaries									
Sweden	79.3	15.5	9,041.7	84.6	15.6	9,475.6	93.1	29.3	9,760.8
Western Europe	442.3	10.9	8,905.3	436.0	6.3	9,267.6	442.0	8.0	9,380.7
Eastern Europe	14.5	0.2	367.0	25.2	2.0	472.9	37.6	2.9	521.8
North America	209.1	10.2	5,292.7	199.4	17.9	5,965.5	187.5	6.8	6,537.0
South America	7.2	0.0	363.9	9.3	0.0	529.4	22.1	4.1	617.9
Asia	49.9	0.7	724.9	58.9	1.0	957.2	56.7	1.7	1,053.7
Other countries	12.7	0.0	394.5	26.7	0.0	467.5	28.6	0.9	481.7
Group total	**848.4**	**49.1**	**25,196.3**	**882.9**	**52.6**	**27,233.6**	**901.0**	**64.9**	**28,524.4**

Wages, salaries, other remuneration and social costs, SEK M	2004 Wages, salaries, remunerations	2004 Social costs	2004 of which pens. costs	2005 Wages, salaries, remunerations	2005 Social costs	2005 of which pens. costs	2006 Wages, salaries, remunerations	2006 Social costs	2006 of which pens. costs
AB Volvo[2]	139.7	80.7	48.7	140.7	78.6	46.7	204.2	141.6	104.9
Subsidiaries	25,905.0	10,964.8	4,365.2	27,975.9	10,392.1	3,688.9	29,221.3	10,047.2	3.634,2
Group total[3]	**26,044.7**	**11,045.5**	**4,413.9**	**28,116.6**	**10,470.7**	**3,735.6**	**29,425.5**	**10,188.8**	**3,739.1**

1 Including current and former Board members, Presidents and Executive Vice Presidents.

2 The **Parent Company's** pension costs, pertaining to Board members and Presidents are disclosed in Note 22 in the Parent Company.

3 Of the **Group's** pension costs, 181.7 (125.5; 157.8) pertain to Board members and Presidents. The Group's outstanding pension obligations to these individuals amount to 461.2 (573.8; 838.3).

The cost for non-monetary benefits in the **Group** amounted to 1,247.0 (1.055,9) of which 43.7 (47.6) to Board members and presidents.

The cost for non-monetary benefits in the **Parent company** amount to 10.1 (14.6) of which 1.3 (3.7) to Board members and presidents.

Note 35 Fees to the auditors

Audit fees	2004	2005	2006
Audit fees to PricewaterhouseCoopers	78	78	130
Audit fees to other audit firms	2	1	1
Total	**80**	**79**	**131**
Other fees to PricewaterhouseCoopers			
Fees for audit related services	20	28	20
Fees for tax services	16	17	14
Total	**36**	**45**	**34**
Fees and other remuneration to external auditors total	**116**	**124**	**165**

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.

Not 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. 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 2006, the degree of such matching was 100%. At year-end 2006, 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, 2006, after taking derivatives into account, the average interest on these assets was 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 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 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, 2006, over a 12-month period, all other variables remaining unchanged, Volvo's net interest income would be favorably impacted by 236. Assuming that the market interest rates for all currencies fell in a similar manner by one percentage point (100 interest-rate points) over the interest-rate level on December 31, 2006, over a 12-month period, all other variables remaining unchanged, 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	314.9
USD	(1.0)
EUR	(17.1)
CAD	(9.2)
JPY	(8.8)
KRW	13.1

It should be noted that the above sensitivity analysis is based on assumptions that rarely occur in reality. In reality, market interest rates usually do not rise or fall at any 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.

Notes to consolidated financial statements

The following table shows the reported values of the financial assets as they mature. In all cases, these assets are exposed to an interest-rate risk.

SEK M	Assets with fixed interest	Assets with variable interest	**Total financial assets**
2007	13,804	25,655	**39,459**
2008–2009	75	1,523	**1,598**
2010 and later	32	–	**32**
	13,911	27,178	**41,089**

Excluding net receivable for pensions, SEK 2.032 M and interest-bearing assets held for sale, SEK 5 M.

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. According to the Group's currency policy, for each currency, 50–80% of the forecast net flow in the next six months is hedged and 30–60% for months seven to 12, while contracted flows after 12 months should normally not be hedged. A decision concerning changes in the Group's currency policy has been made, effective 2007. For each currency, 75% of the forecast net flows for the coming six months are to be hedged and 50% for months seven to 12, while contracted flows after 12 months should normally be hedged. The nominal amount of all outstanding forward and option contracts amounted to SEK 57.2 billion at December 31, 2006. On the same date, the fair value of these contracts was positive in an amount of 764 (negative 732).

Assuming that at a certain time the Swedish krona appreciated by 10% against all foreign currencies, the fair value of outstanding contracts would amount to 3,252. If, instead, at a certain time the Swedish krona was devalued by 10%, the fair value of outstanding contracts would be negative in an amount of 1,724. 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 above sensitivity analysis.

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 2006 to SEK 43.6 bn (33.7). Of this amount, SEK 3.6 bn (0.8) was currency-hedged through loans in foreign currencies. Out of the loans used as hedging instruments SEK 2.8 billion are due in 2010 and the remaining SEK 0.8 bllion in 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 uncertain receivables.

The credit portfolio of Volvo's customer-financing operations amounted at December 31, 2006, to approximately SEK 77 bn. The credit risk of this portfolio is distributed over a large number of retail customers and dealers. Collateral 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. With future, counterparty risk exposure 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, 2006, to 1,158 (891), 2,621 (2,468), 78 (51) and 25 (54).

Over and above the credit risk of derivatives, there is also credit risk in accounts receivable and receivables within Volvo's sale financing 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.

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
- claims under a loan and receivables
- investments held to maturity and
- 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 market 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.
- 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 2006 Volvo did not have any financial instruments classified in this category.

Claims under a loan and 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 receivable 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 presented mainly receivables related to installment purchases and financial 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, financial 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

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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 cost (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 2006, SEK 10 M 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.

Information regarding reported and fair values

In the table below, carrying values are compared with fair values of financial instruments.

	31 dec, 2004		31 dec, 2005		31 dec, 2006	
Assets	Carying value	Fair value	Carying value	Fair value	Carying value	Fair value
Financial assets at fair value through profit and loss						
The Volvo Group's outstanding currency risk contract – commercial exposure	–	–	560	560	1,074	1,074
The Volvo Group's outstanding raw materials contract	–	–	54	54	25	25
The Volvo Group's outstanding interest risk contract – financial exposure	–	–	2,823	2,823	2,661	2,661
	–	–	3,437	3,437	3,760	3,760
Investments held to maturity	–	–	–	–	–	–
Loan receivables and accounts receivables						
Customer financing receivables	51,193	51,948	64,466	65,365	64,742	64,832
Loans to external parties and other interest-bearing receivables	2,098	2,126	680	643	840	840
	53,291	54,074	65,146	66,008	65,582	65,672
Financial assets available for sale						
Shares and participations for which:						
a market value can be calculated [1]	670	169	253	253	740	740
a market value cannot be calculated [2]	420	–	303	–	356	–
	1,090	169	556	253	1,096	740
Total	**54,381**	**54,243**	**69,139**	**69,698**	**70,438**	**70,172**
Liabilities						
Financial liabilities at fair value through profit and loss						
The Volvo Group's outstanding currency risk contract – commercial exposure	–	–	1,292	1,292	310	310
The Volvo Group's outstanding raw materials contract	–	–	11	11	47	47
The Volvo Group's outstanding interest risk contract - financial exposure	–	–	2,675	2,675	820	820
	–	–	3,978	3,978	1,177	1,177
Financial liabilities valued at amortized cost						
Long-term bond loans and other loans	40,411	41,441	43,626	43,944	38,818	40,575
Short-term bank loans and other loans	21,396	20,360	30,321	30,463	28,100	27,032
	61,807	61,801	73,947	74,407	66,918	67,607
Total	**61,807**	**61,801**	**77,925**	**78,385**	**68,095**	**68,784**
Derivative instruments [3]						
The Volvo Group's outstanding currency risk contract – commercial exposure	176	1,371	–	–	–	–
The Volvo Group's outstanding raw materials contract	–	–25	–	–	–	–
The Volvo Group's outstanding interest risk contract – financial exposure	252	924	–	–	–	–

1 Refers to Volvo's ownership of Deutz AG valued to market value.
2 Unlisted for which a reliable fair value can not be determined, are reported at a historic cost. No single block of shares represents a significant amount.
3 Effective 2005, fair value for derivative instruments is reported in accordance with IAS39. Fair values are in agreement with book values for these instruments.
4 Fair value for financial instruments has been estimated in regards to interest risk.

Notes to consolidated financial statements

Various categories of financial instruments are treated separately as specified in the notes above. Below is an accounting of derivative instruments and options.

Financial assets at fair value through profit and loss

Outstanding derivative instruments for dealing with currency and interest-rate risks related to financial assets and liabilities to which hedge accounting is not applied

	31 dec, 2004			31 dec, 2005			31 dec, 2006		
	Notional amount	Carrying value	Fair value	Notional amount	Carrying value	Fair value	Notional amount	Carrying value	Fair value
Interest-rate swaps									
– receivable position	76,667	1,659	2,919	101,483	2,348	2,348	92,651	2,412	2,412
– payable position	68,018	(1,585)	(2,144)	116,824	(2,222)	(2,222)	30,578	(598)	(598)
Forwards and futures									
– receivable position	47,156	168	168	29,090	120	120	114,886	209	209
– payable position	30,872	(182)	(182)	27,001	(112)	(112)	80,331	(197)	(197)
Foreign exchange derivative contracts									
– receivable position	17,120	286	286	18,619	355	355	8,077	124	124
– payable position	8,273	(82)	(107)	14,474	(331)	(331)	18,423	(124)	(124)
Options purchased									
– receivable position	–	–	–	–	0	0	–	21	21
– payable position	200	–	(4)	502	(5)	(5)	200	(4)	(4)
Options written									
– receivable position	133	0	0	0	0	0	603	3	3
– payable position	1,946	(12)	(12)	822	(5)	(5)	442	(5)	(5)
Total		**252**	**924**		**148**	**148**		**1,841**	**1,841**

Changes in market value on the above instruments are reported in net financial income, see Note 11, Other financial income and expenses.

Outstanding forward contracts and option contracts for hedging of commercial currency risk, to which hedge accounting is applied

	31 dec, 2004			31 dec, 2005			31 dec, 2006		
	Notional amount	Carrying value	Fair value	Notional amount	Carrying value	Fair value	Notional amount	Carrying value	Fair value
Foreign exchange derivative contracts									
– receivable position	26,203	264	1,775	37,754	536	536	28,930	1,034	1,034
– payable position	9,982	(88)	(511)	36,980	(1,272)	(1,272)	18,494	(304)	(304)
Options purchased									
– receivable position	2,831	–	112	4,769	51	51	5,423	54	54
– payable position	–	–	–	3	(3)	(3)	–	–	–
Options written									
– receivable position	233	–	0	–	–	–	–	–	–
– payable position	2,729	–	(5)	4,142	(44)	(44)	4,394	(20)	(20)
Subtotal		176	1,371		(732)	(732)		764	764
Raw materials derivative contract									
– receivable position	(10)	–	7	394	54	54	94	25	25
– payable position	243	–	(32)	71	(11)	(11)	(510)	(47)	(47)
Total		**176**	**1,346**		**(689)**	**(689)**		**742**	**742**

Out of the financial instruments disclosed in the table above, contracts with a fair value of 754 has been used for hedge accounting.

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

			Currencies		Other currencies	Fair value
Millions		USD	GBP	EUR	Net SEK	
Due date 2007	amount	1,748	253	790	5,944	
Due date 2008	amount	184	–	–	–	
Due date 2009	amount	51	–	–	–	
Total		**1,983**	**253**	**790**	**5,944**	
Average contract rate		7.29	13.43	9.15		
Fair value of outstanding forward contracts		**598**	**7**	**39**	**120**	**764**

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 2006, Volvo reported 10 (neg. 3) 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 2006.

Hedging of currency and interest rate risks on loans
In regards to derivative financial instruments used to hedge currency and interest rate risks on loans, Volvo has chosen, under the more complex rules in IAS 39, to not utilize hedge accounting. Unrealized profits and losses through the maturity date of the financial instruments have been charged to net financial income for these derivatives.

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 63 in shareholders' equity relating to hedging of net investments in foreign operations was reported in 2006. An amount of 37 was reported in earnings relating to concluded hedges.

Parent Company AB Volvo

Corporate registration number 556012-5790.

Board of Directors' report

During the year, AB Volvo acquired 58.2 million shares, corresponding to 19% of the shares, in the Japanese truck manufacturer Nissan Diesel. The investment amounted to approximately SEK 2.0 billion. In addition, AB Volvo has acquired all 57.5 million preference shares in Nissan Diesel for a total amount of approximately SEK 3.5 billion.

Income from investments in Group companies includes dividends amounting to 399 (9,161; 101), Group contributions and transfer price adjustments, net of 8,721 (5,360; 5,673) and write-downs of shareholdings of 192 (8,420; 1,364). The redemption of all preference shares in VNA Holding resulted in a capital loss of 363 for the parent company.

The carrying value of shares and participations in Group companies amounted to 40,419 (40,812; 40,393), of which 39,870 (40,298; 39,878) pertained to shares in wholly owned subsidiaries. The corresponding shareholders' equity in the subsidiaries (including equity in untaxed reserves but excluding minority interests) amounted to 76,232 (67,804; 55,831).

Shares and participations in Non-Group companies included 5,642 (0; 0) in associated companies that are reported in accordance with the equity method in the consolidated accounts. The portion of shareholders' equity in associated companies accruing to AB Volvo totaled 180 (85; 90). Shares and participations in associated companies include 19% of the shares in Nissan Diesel with a carrying value of 2,001. The market price of these shares amounted to 1,341 at year-end. Preference shares in Nissan Diesel with a carrying value of 3,493 are also included. Shares and participations in non-Group companies include listed shares in Deutz AG with a carrying value of 740, corresponding to the quoted market price at year-end. The holding in Deutz AG is reported at market value as of January 1, 2005 in accordance with the application of the new accounting principle, IAS 39 Financial Instruments, from the same date. See also Note 1 Accounting principles.

Financial net debt amounted to 3,589 (assets 6,052; assets 5,541).

AB Volvo's risk capital (shareholders' equity plus untaxed reserves) amounted to 51,240 corresponding to 89% of total assets. The comparable figure at year-end 2005 was 92%.

Income statements

SEK M		2004	2005	**2006**
Net sales		531	663	**764**
Cost of sales		(531)	(663)	**(764)**
Gross income		0	0	**0**
Selling expenses		–	(56)	**(16)**
Administrative expenses	Note 2	(471)	(955)	**(621)**
Other operating income and expenses	Note 3	5	7	**5**
Income from investments in Group companies	Note 4	4,409	6,620	**8,565**
Income from investments in associated companies	Note 5	(1)	0	**7**
Income from other investments	Note 6	851	(1)	**0**
Operating income		4,793	5,615	**7,940**
Interest income and similar credits	Note 7	294	114	**56**
Interest expenses and similar charges	Note 7	(238)	(31)	**(67)**
Other financial income and expenses	Note 8	111	(108)	**126**
Income after financial items		4,960	5,590	**8,055**
Allocations	Note 9	1,524	0	**(2,000)**
Income taxes	Note 10	(1,338)	(1,230)	**(1,706)**
Income for the period		5,146	4,360	**4,349**

Balance sheets

SEK M		December 31, 2004		December 31, 2005		**December 31, 2006**	
Assets							
Non-current assets							
Rights	Note 11		0		0		**0**
Property, plant and equipment	Note 11		21		16		**16**
Financial assets							
Shares and participations in Group companies	Note 12	40,393		40,812		**40,419**	
Other shares and participations	Note 12	691		271		**6,400**	
Deferred tax assets	Note 10	987		198		**197**	
Other long-term receivables		12	42,083	11	41,292	**11**	**47,027**
Total non-current assets			42,104		41,308		**47,043**
Current assets							
Short-term receivables from Group companies			7,274		7,186		**10,541**
Other short-term receivables	Note 13		1,143		114		**89**
Short-term investments in Group companies	Note 14		6,558		7,047		**-**
Cash and bank accounts			50		0		**29**
Total current assets			15,025		14,347		**10,659**
Total assets			57,129		55,655		**57,702**
Shareholders' equity and liabilities							
Shareholders' equity							
Restricted equity							
Share capital (425,684,044 shares, quota value SEK 6)		2,649		2,554		**2,554**	
Statutory reserve		7,241	9,890	7,337	9,891	**7,337**	**9,891**
Unrestricted equity							
Non restricted reserves		–		83		**515**	
Retained earnings		38,929		36,777		**34,481**	
Income for the period		5,146	44,075	4,360	41,220	**4,349**	**39,345**
Total shareholders' equity			53,965		51,111		**49,236**
Untaxed reserves	Note 15		4		4		**2,004**
Provisions							
Provisions for pensions	Note 16	419		200		**185**	
Other provisions		2	421	71	271	**31**	**216**
Non-current liabilities	Note 17						
Liabilities to Group companies			6		6		**6**
Current liabilities							
Loans from Group companies		1,627		795		**-**	
Trade payables		58		64		**72**	
Other liabilities to Group companies		749		2,505		**5,757**	
Current tax liabilities	Note 18	–		441		**50**	
Other current liabilities		299	2,733	458	4,263	**361**	**6,240**
Total shareholders' equity and liabilities			57,129		55,655		**57,702**
Assets pledged			–		–		**-**
Contingent liabilities	Note 19		120,738		133,595		**126,276**

Changes in Shareholders' equity

	Restricted equity		Unrestricted equity				
SEK M	Share capital	Statutory reserve	Share premium reserve	Fair value reserve	Retained earnings	Total	Total shareholders' equity
Balance at December 31, 2003	**2,649**	**7,241**	**-**	**-**	**50,878**	**50,878**	**60,768**
Effect due to change of accounting principle	–	–	–	–	235	235	235
Balance at January 1, 2004	**2,649**	**7,241**	**-**	**-**	**51,113**	**51,113**	**61,003**
Cash dividend	–	–	–	–	(3,356)	(3,356)	(3,356)
Distribution of shares in Ainax AB to shareholders	–	–	–	–	(6,310)	(6,310)	(6,310)
Repurchase of own shares	–	–	–	–	(2,532)	(2,532)	(2,532)
Share based payments	–	–	–	–	14	14	14
Income for the period	–	–	–	–	5,146	5,146	5,146
Balance at December 31, 2004	**2,649**	**7,241**	**-**	**-**	**44,075**	**44,075**	**53,965**
Effect due to change of accounting principle	–	–	–	–	(501)	(501)	(501)
Balance at January 1, 2005	**2,649**	**7,241**	**-**	**-**	**43,574**	**43,574**	**53,464**
Decrease of share capital	(95)	–	–	–	–	–	(95)
Transfer to statutory reserve	–	95	–	–	–	–	95
Cash dividend	–	–	–	–	(5,055)	(5,055)	(5,055)
Repurchase of own shares	–	–	–	–	(1,764)	(1,764)	(1,764)
Share based payments	–	1	–	–	22	22	23
Revaluation of shares in listed companies	–	–	–	83	–	83	83
Income for the period	–	–	–	–	4,360	4,360	4,360
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**

The distribution of share capital by class of shares is shown in Note 23 to the consolidated financial statements. As of January 1, 2005, the Parent Company applies the Swedish Financial Accounting Standards Council's RR 32 Accounting for legal entities, with retroactive restatement from January 1, 2004. See Note 1 Accounting principles and note 3 Impact of IFRS for more information regarding the effects.

Cash-flow statements

SEK M			2004		2005		**2006**
Operating activities							
Operating income			4,793		5,615		**7,940**
Depreciation and amortization			1		1		**1**
Other items not affecting cash	Note 20		(4,726)		1,222		**(2,676)**
Changes in working capital:							
(Increase)/decrease in receivables			111		13		**(155)**
Increase/(decrease) in liabilities and provisions			(20)		(40)		**(163)**
Interest and similar items received			282		272		**325**
Interest and similar items paid			(210)		(220)		**(314)**
Other financial items			32		26		**21**
Income taxes paid/received			75		–		**(2,066)**
Cash flow from operating activities			338		6,889		**2,913**
Investing activities							
Investments in fixed assets		(2)		0		**0**	
Disposals of fixed assets		4		7		**-**	
Shares and participations in Group companies, net	Note 20	(670)		348		**(162)**	
Shares and participations in non-Group companies, net	Note 20	15,082		1		**(5,737)**	
Interest-bearing receivables including marketable securities, net	Note 20	0	14,414	988	1,344	**-**	**(5,899)**
Cash flow after net investments			14,752		8,233		**(2,986)**
Financing activities							
Increase/(decrease) in loans	Note 20	(3,180)		(975)		**2,743**	
Cash dividend to AB Volvo shareholders		(3,356)		(5,055)		**(6,775)**	
Repurchase of own shares		(2,532)	(9,068)	(1,764)	(7,794)	**-**	**(4,032)**
Change in liquid funds			5,684		439		**(7,018)**
Liquid funds, January 1			924		6,608		**7,047**
Liquid funds, December 31			6,608		7,047		**29**

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, 664 (567; 426) pertained to Group companies while purchases from Group companies amounted to 380 (356; 126).

Fees to auditors
Fees and other remunerations paid to external auditors for the fiscal year of 2006 totaled 28 (31; 26), of which 20 (10; 13) for auditing, distributed between PricewaterhouseCoopers, 20 (10; 13) and others, 0 (0; 0), and 8 (21; 13) related to non-audit services from PricewaterhouseCoopers.

Note 1 Accounting principles

The accounting principles applied by Volvo are described in Note 1 to the consolidated financial statements.

As of January 1, 2005, the Parent Company applies the Swedish Financial Accounting Standards Council's RR 32:05 Accounting for legal entities, with retroactive restatement from January 1, 2004. The Standard means that legal entities whose securities on the closing date are listed on a Swedish stock exchange or other authorized marketplace as main rule shall apply the IFRS/IAS as applied in the consolidated accounts. Comparison figures for 2004, in tables and the notes, were restated where applicable in the Annual report of 2005. IAS 39 Financial Instruments is applied by the Parent Company as of January 1, 2005. The Parent Company also applies RR 32:06 with reference to 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 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.

For the Parent Company the most important impact of RR 32:05 has been in the following three areas:

Hedge accounting
Hedge accounting in a legal entity of net investments in foreign operations is not permitted according to RR 32:05. The Parent Company has in previous years used a loan to hedge shares in a foreign subsidiary in the corresponding currency. This loan has been reported at historical rate and not been revaluated. According to IAS 21 loans in foreign currencies shall be reported at closing rate. The transition effect on January 1, 2004, is reported in the shareholders' equity whereas revaluation as of 2004 is recognized in the income statement.

Share-based Payments
The share-based incentive programs adopted at the Annual General Meeting as from 2004 are covered by IFRS 2 Share-based payments.

Investments in other companies
In accordance with IAS 39, all investments in companies, except if these investments are classified as associated companies, should be reported in the balance sheet at fair value. The transition effect on January 1, 2005, attributable to this accounting change is related to Volvo's investment in Deutz AG.

A further description of the most important changes for the Parent Company by the application of RR 32:05 is found below in the tables of reconciliation of shareholders' equity and net income.

Summarized reconciliation of shareholders' equity

SEK M	040101	041231	050101
Shareholders' equity according to the Annual report of 2004	**60,768**	**53,668**	**53,668**
Revaluation of loans	235	283	283
Share-based payments	–	14	14
Investments in listed companies	–	–	(501)
Shareholders' equity after change of accounting principle	**61,003**	**53,965**	**53,464**

Summarized reconciliation of net income

SEK M	2004
Income for the period according to the Annual report of 2004	**5,098**
Revaluation of loans	66
Deferred taxes	(18)
Income for the period after change of accounting principle	**5,146**

Note 2 Administrative expenses

Administrative expenses include depreciation of 1 (1; 1) of which 1 (1; 1) pertain to machinery and equipment and 0 (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 2 (1; 0).

Note 4 Income from investments in Group companies

Of the income reported, 399 (9,161; 101) pertain to dividends from Group companies. Of the dividends, 300 pertain to anticipated dividend from Volvo Financial Services AB. The shares in Volvo Information Technology AB have been written down by 32 and the shares in Kommersiella Fordon Europa AB have been written down by 160. In 2005, the shares in Volvo Global Trucks AB were written down by 8,420.

Transfer price adjustments and Group contributions total a net of 8,721 (5,360; 5,673). The redemption of the preference shares in VNA Holdning Inc has resulted in a capital loss of 363. In 2005, the sale of total shares in Celero Support AB resulted in a capital gain of 518.

Note 5 Income from investments in associated companies

Income from associated companies that are reported in the Group accounts in accordance with the equity method amounted to 7 and pertains to a dividend from Nissan Diesel. The participation in Blue Chip Jet HB amounts to 0 (0; neg. 1).

Note 6 Income from other investments

In 2004 revaluation of shareholdings amounted to 820, whereof reversal of previous year's write-down of Scania AB, 915 and write-down of Henlys Group Plc, 95. Divestment of total shares in Bilia AB resulted in a capital gain of 28.

Note 7 Interest income and expenses

Interest income and similar credits amounting to 56 (114; 294), included interest in the amount of 56 (112; 289) from subsidiaries and interest expenses and similar charges totaling 67 (31; 238), included interest of 61 (31; 213) to subsidiaries.

In 2004 interest-rate swaps were included in interest income with 53 and in interest expenses with 112. As from 2005 these are disclosed net and are included in interest expenses with 1 (3).

Note 8 Other financial income and expenses

Other financial income and expenses include exchange rate differences on loans, guarantee commissions from subsidiaries, costs for confirmed credit facilities as well as costs of having Volvo shares registered on various stock exchanges. In 2004 repayment of interest and residual taxes regarding a judgement in the Administrative court of appeal and expenses for distribution of the shares in Ainax AB to Volvo's shareholders are included. Exchange differences on loans have been recounted for year 2004 due to new accounting principles. See Note 1 Accounting principles for more information.

Note 9 Allocations

	2004	2005	2006
Allocation to additional depreciation	(1)	0	0
Tax allocation reserves	1,525	–	(2,000)
Total	**1,524**	**0**	**(2,000)**

Notes to financial statements

Note 10 Income taxes

	2004	2005	2006
Current taxes	92	(331)	(1,075)
Deferred taxes	(1,430)	(899)	(1)
Total income taxes	**(1,338)**	**(1,230)**	**(1,706)**

Current taxes were distributed as follows:

Current taxes	2004	2005	2006
Current taxes for the period	–	(331)	(1,740)
Adjustment of current taxes for prior periods	92	–	35
Total current taxes	**92**	**(331)**	**(1,705)**

Claims as a consequence of tax audit carried out previously for which provisions are not deemed necessary amount to – (–; 135). The amount is included in contingent liabilities.

Deferred taxes relate to estimated tax on the change in tax-loss carryforwards and temporary differences. Deferred tax assets are reported to the extent that it is probable that the amount can be utilized against future taxable income.

Deferred taxes related to change in tax-loss carryforwards amount to – (neg. 942; neg. 1,427) and to changes in other temporary differences to neg. 1 (43; neg. 3). Income taxes of 110 regarding prior periods have been debited directly to equity in connection with change of accounting principle on January 1, 2004.

The table below shows the principal reasons for the difference between the corporate income tax (28%) and the tax for the period.

	2004	2005	2006
Income before taxes	6,484	5,590	6,055
Income tax according to applicable tax rate (28%)	**(1,815)**	**(1,565)**	**(1,695)**
Capital gains	184	149	(102)
Non-taxable dividends	46	2,565	114
Non-taxable revaluations of shareholdings	(153)	(2,358)	(54)
Other non-deductible expenses	26	(24)	(15)
Other non-taxable income	282	3	11
Adjustment of current taxes for prior periods	92	–	35
Income taxes for the period	**(1,338)**	**(1,230)**	**(1,706)**

Specification of deferred tax assets	2004	2005	2006
Tax-loss carryforwards	942	–	–
Valuation allowance for doubtful receivables	1	1	1
Provision for post-employment benefits	154	177	196
Other deductible temporary differences	0	20	–
Other taxable temporary differences	(110)	–	–
Deferred tax assets	**987**	**198**	**197**

Note 11 Intangible and tangible assets

Acquisition cost	Value in balance sheet 2004	Value in balance sheet 2005	Capital expenditures	Sales/ scrapping	Value in balance sheet 2006
Rights	52	52	–	–	52
Total intangible assets	**52**	**52**	**-**	**-**	**52**
Buildings	9	6	–	0	6
Land and land improvements	4	3	–	–	3
Machinery and equipment	49	48	0	0	48
Total tangible assets	**62**	**57**	**0**	**0**	**57**

Accumulated depreciation	Value in balance sheet 2004 [2]	Value in balance sheet 2005 [2]	Depreciation [1]	Sales/ scrapping	Value in balance sheet 2006 [2]	Net carryng value in balance sheet 2006 [3]
Rights	52	52	–	–	52	0
Total intangible assets	**52**	**52**	**-**	**-**	**52**	**0**
Buildings	1	1	0	0	1	5
Land and land improvements	–	0	0	–	0	3
Machinery and equipment	40	40	1	(1)	40	8
Total tangible assets	**41**	**41**	**1**	**(1)**	**41**	**16**

1 Including write-downs.
2 Including accumulated write-downs.
3 Acquisition value, less accumulated depreciation, amortization and write-downs.

The assessed value of buildings was 3 (3; 5) and of land 2 (1; 2). Capital expenditures in tangible assets amounted to 0 (0; 2). Capital expenditures approved but not yet implemented at year-end 2006 amounted to 3 (0; 0).

Note 12 Investments in shares and participations

Holdings of shares and participations are specified in AB Volvo's holding of shares (pages 149–151). Changes in holdings of shares and participations are shown below.

	Group companies			Non-Group companies		
	2004	2005	2006	2004	2005	2006
Balance December 31, previous year	41,329	40,393	40,812	813	691	271
Transition effect on shares in listed companies	–	–	–	–	(501)	–
Acquisitions/New issue of shares/Dividends	133	8,682	491	–	–	5,737
Divestments	(81)	(26)	(1,053)	(25)	(2)	–
Shareholder contributions	376	183	361	–	–	–
Write-downs	(1,364)	(8,420)	(192)	(97)	0	–
Revaluation of shares in listed companies	–	–		–	83	392
Balance, December 31	**40,393**	**40,812**	**40,419**	**691**	**271**	**6,400**

Shares and participations in Group companies

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 activites 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.

2005: All shares in Volvo Lastvagnar AB, 8,678, were received as dividend from Volvo Global Trucks AB, after which the shares in Volvo Global Trucks AB were written down by 8,420 and sold inter-company for book value.

The holding in the service company Celero Support AB with a book value of 25 was sold.

Shareholders' contribution was made with 183 to Volvo Financial Services AB.

2004: The remaining 2% of the shares in Kommersiella Fordon Europa AB was acquired for 28 by compulsory acquisition. The acquisition costs of the stockholding increased with 4 and at year-end the holding was written down by 643.

25% of the shares in VFS Servizi Financiari Spa was acquired inter-company for 101.

The holdings in seven dormant Group companies with a total book value of 82 were transferred internally within the Group.

Shareholders' contributions were made to Alviva AB, 2 and to Celero Support AB, 10, whereupon the shareholdings were written down by the corresponding amounts.

Shareholders' contributions were also made to Volvo Bussar AB, 18, to Volvo Global Trucks AB, 1 and to Volvo Financial Services AB, 345.

Write-downs were carried out at year-end on the holdings in Sotrof AB, 600, Volvo China Investment Co Ltd, 99 and Volvo Penta UK, 10.

Shares and participations in non-Group companies

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 is reported as an associated company, since Volvo believes that substantial influence exists.

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. AB Volvo now owns a total of 19% of the shares in Nissan Diesel. In addition, AB Volvo has 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 has been added to the value and is reported as investments in associated companies. The preference shares that Volvo has acquired may during the period 2008–2014 be converted to shares in installments. It is the intention of Volvo to convert the preference shares. After full conversion, the preference shares will represent 165.1 million shares that combined with the current holding of 19% will correspond to 46.5% of the votes and capital in Nissan Diesel. The total purchase consideration for 46.5% of the shares and votes in Nissan Diesel amounts to 5,494.

During the year, the newly-formed partnership Blue Chip Jet II HB has been capitalized with 148.

Henlys Group Plc has been liquidated during 2006. The holding has been fully written down since 2004.

As of January 1, 2005, the Parent Company applies IAS 39 Financial Instruments: Recognition and Measurement, and accordingly all investments in listed companies, except if these investments are classified as associated companies, should be reported in the balance sheet at fair value. The revaluation of AB Volvo's ownership in the listed company Deutz AG has increased the value by 392 during 2006. In addition, the holding has increased by 95 through conversion into shares.

2005: AB Volvo's investment in Deutz AG was valuated to market value. The effect of this transition at January 1, 2005, amounted to negative 501, after which the value increased by 83 during the year. Also see Note 1 Accounting principles.

2004: Volvo's holding of Scania B shares was sold to Deutsche Bank for an amount of 14,905. As a consequence of the divestment, the Scania holding was written down in the fourth quarter of 2003. The transaction was carried out as part of Volvo's commitment to the European Commission to divest the Scania shares not later than April 23, 2004. After the sale Volvo owned 27.3 million A shares in Scania AB. The holding was revaluated to market value on April 15, resulting in an income of 915 in 2004. At the Annual General Meeting on April 16, 2004, the Board's proposal to transfer all A shares in Scania to Ainax and thereafter to distribute the shares in Ainax to Volvo's shareholders was approved. The value of the distribution of Ainax was 6,310. The shares in Ainax were distributed to Volvo's shareholders on June 8, 2004.

During 2004 Volvo's holding in Henlys Group Plc was fully written down and a write-down of 95 was thereby charged to the income statement.

The holding in Bilia AB with a book value of 25 was sold.

The participations in Blue Chip Jet HB were written down by 1.

Notes to financial statements

Note 13 Other short-term receivables

	2004	2005	2006
Accounts receivable	14	14	17
Prepaid expenses and accrued income	135	72	35
Other receivables	994	28	37
Total	**1,143**	**114**	**89**

The valuation allowance for doubtful receivables amounted to 5 (5; 5) at the end of the year.

Of other receivables in 2004, 979 pertained to a receivable from Renault SA. AB Volvo and Renault SA signed a settlement agreement regarding the disagreement the companies have had since 2001 pertaining to Volvo's acqusition of Renault V.I. According to this settlement, Renault SA transferred EUR 108 M to AB Volvo on January 26, 2005.

Note 14 Short-term investments in Group companies

Short-term investments in Group companies comprise deposits of – (7,047; 6,558) in Volvo Treasury.

Note 15 Untaxed reserves

The composition of, and changes in, untaxed reserves	Value in balance sheet 2004	Allocations 2005	Value in balance sheet 2005	Allocations 2006	Value in balance sheet 2006
Tax allocation reserve	–	–	–	2,000	2,000
Accumulated additional depreciation					
Land	3	–	3	–	3
Machinery and equipment	1	0	1	0	1
Total	**4**	**0**	**4**	**2,000**	**2,004**

Note 16 Provisions for pensions

Provisions for pensions and similar benefits correspond to the actuarially calculated value of obligations not insured with third parties or secured through transfers of funds to pension foundations. The amount of pensions falling due within one year is included. AB Volvo has insured the pension obligations with third parties. Of the amount reported, 0 (0; 26) pertains to contractual obligations within the framework of the PRI (Pension Registration Institute) system. The exchange in 2005 of defined-benefit pension plans by defined-contribution plans for certain senior executives has resulted in a decrease of provisions for pensions. For further information see Note 34 to the consolidated financial statements.

The Volvo Pension Foundation was formed in 1996. Plan assets amounting to 224 were contributed to the foundation at its formation, corresponding to the value of the pension obligations at that time. Since its formation, net contributions of 25 have been made to the foundation.

AB Volvo's pension costs amounted to 90 (93; 79).

The accumulated benefit obligation of all AB Volvo's pension obligations at year-end 2006 amounted to 576, 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 71 higher than corresponding pension obligations.

Note 17 Non-current liabilities

Long-term debt matures as follows:	
2012 or later	6
Total	**6**

Note 18 Other current liabilities

	2004	2005	2006
Wages, salaries and withholding taxes	53	59	72
Other liabilities	156	279	136
Accrued expenses and prepaid income	90	120	153
Total	**299**	**458**	**361**

No collateral is provided for current liabilities. Other liabilities have been recalculated for year 2004 due to new accounting principles. See Note 1 Accounting principles for more information.

Note 19 Contingent liabilities

Of the contingent liabilities amounting to 126,276 (133,595; 120,738), 126,244 (133,462; 120,591) pertained to Group companies.

Guarantees for various credit programs are included in amounts corresponding to the credit limits. These guarantees amount to 120,612 (127,987; 115,266), of which guarantees on behalf of Group companies totaled 120,587 (127,982; 115,261).

At the end of each year, the utilized portion amounted to 62,194 (67,908; 53,142) including 62,162 (67,776; 53,130) pertaining to Group companies.

Note 20 Cash flow

Other items not affecting cash	2004	2005	2006
Revaluation of shareholdings	545	8,421	192
Dividends, transfer price adjustments and Group contributions	(5,273)	(6,940)	(3,296)
Gain on sale of shares	(27)	(519)	363
Other	29	260	65
Total	**(4,726)**	**1,222**	**(2,676)**

Further information is provided in Notes 4, 5 and 6.

Shares and participations in Group companies, net			
Investments	(703)	(197)	(853)
Disposals	33	545	691
Net investments in shares and participations in Group companies	**(670)**	**348**	**(162)**

Investments and sales of shares in Group companies are shown in Note 12.

Shares and participations in non-Group companies, net	2004	2005	2006
Investments	–	–	(5,737)
Disposals	15,082	1	0
Net investments in shares and participations in non-Group companies	**15,082**	**1**	**(5,737)**

Sales of shares in Scania AB resulted 2004 in a positive cash flow of 15,029.

Other investments and sales of shares in Non-Group companies are presented in Note 12.

Interest-bearing receivables including marketable securities, net			
New loans granted	0	–	–
Amortization received	–	988	–
Change in interest-bearing receivables, net	**0**	**988**	**-**

Increase/decrease in loans			
New loans	–	–	3,433
Amortization	(3,180)	(975)	(690)
Change in loans, net	**(3,180)**	**(975)**	**2,743**

Notes to financial statements

Note 21 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 2007 and 2009. During 2004 AB Volvo has used forward exchange contracts for hedging of short-term receivable and liability regarding the amount of the settlement agreement between AB Volvo and Renault SA (See note 13). Maturities of theese contracts were on January 26, 2005.

Outstanding derivative instruments for hedging of financial currency risks and interest rate risks related to financial assets and liabilities

	December 31, 2004			December 31, 2005			December 31, 2006		
	Notional amount	Carrying value	Fair value	Notional amount	Carrying value	Fair value	Notional amount	Carrying value	Fair value
Interest-rate swaps									
– payable position	4,563	(17)	(17)	–	–	–	5,430	(4)	(4)
– receivable position	–	–	–	6,284	13	13	–	–	–
Foreign exchange contracts									
– receivable position	1,942	13	13	–	–	–	–	–	–

Note 22 Personnel

Wages, salaries and other remunerations amounted to 204 (141; 140). Social costs amounted to 142 (125; 111) of which pension costs, 105 (93; 79). Of these 32 (4; 53) pertained to Board members and Presidents. The Company's outstanding pension obligations to these individuals amounted to 141 (211; 400).

The number of employees at year-end was 176 (144; 144). Information on the average number of employees, wages, salaries and other remunerations including option programs as well as Board members and senior executives by gender is shown in Note 34 to the consolidated financial statements.

Absence due to illness	2004	2005	2006
Total absence due to illness in percentage of regular working hours	2.2	2.1	1.4
of which, continuous sick leave for 60 days or more, %	70.9	64.6	44.0
Absence due to illness in percentage of regular working hours			
Men, %	0.8	1.2	0.8
Women, %	3.6	3.0	2.1
29 years or younger, %	0.9	0.4	0.7
30–49 years, %	1.2	2.3	0.9
50 years or older, %	3.6	2.2	2.4

AB Volvo's holding of shares

AB Volvo's holding of shares and participations in non-Group companies	Registration number	Percentage holding	Dec 31, 2005 Carrying value, SEK M	Dec 31, 2006 Carrying value, SEK M
Nissan Diesel, Japan	–	19	–	5,494
Deutz AG, Germany	–	7	253	740
Blue Chip Jet II HB, Sweden	969717-2105	50	–	148
Blue Chip Jet I HB, Sweden	969639-1011	40	0	0
Other investments			18	18
Total carrying value, Non-Group companies			**271**	**6,400**

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, 2005 Carrying value, SEK M	Dec 31, 2006 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 Europe Finance NV, Belgium	–	100	–	–
Volvo Europa Truck NV, Belgium	–	100	–	–
VTC Holland NV, The Netherlands	–	100	–	–
Volvo Otomotiv Turk Ltd STI, Turkey	–	100	–	–
Volvo Trucks de Mexico, Mexico	–	100	–	–
Volvo India Ltd, India	–	100	–	–
Volvo Commercial Vehicles Australia Pty, Australia	–	100	–	–
Volvo Holding Sverige AB, Sweden	556539-9853	100	7,634	7,634
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, Brasil	–	100	–	–
Banco Volvo (Brasil) SA, Brasil	–	100	–	–
Laponia Sudeste Ltda, Brasil	–	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	–	–

AB Volvo's holding of shares participations in major Group companies (cont.)	Registration number	Percentage holding	Dec 31, 2005 Carrying value, SEK M	Dec 31, 2006 Carrying value, SEK M
Renault Trucks, France	–	100	–	–
Renault Trucks UK Ltd, Great Britain	–	100	–	–
Renault Trucks Deutschland GmbH, Germany	–	100	–	–
Renault VI España SA, Spain	–	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	–	–
Mack Trucks Australia Pty Ltd, Australia	–	100	–	–
Volvo Bussar AB, Sweden	556197-3826	100	1,877	1,877
Volvo Bussar Säffle AB, Sweden	556058-3485	100	–	–
Volvo Bus Finland Oy, Finland	–	100	–	–
Prévost Car Inc, Canada	–	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	–	–
Volvo Compact Equipment GmbH & Co KG, Germany	–	100	–	–
Volvo Motor Graders, Ltd, Canada	–	100	–	–
AB Volvo Penta, Sweden	556034-1330	100	421	421
Volvo Aero AB, Sweden	556029-0347	100	2,885	2,885
Volvo Aero Engine Services AB, Sweden	556328-9171	100	–	–
Volvo Aero Norge AS, Norway	–	78	–	–
VNA Holding Inc., USA	–	100	3,510	2,456
Volvo Group North America Inc, USA	–	100	–	–
Volvo Trucks Canada Inc., Canada	–	100	–	–
Arrow Truck Sales Inc., USA	–	100	–	–
Volvo Construction Equipment North America Inc., USA	–	100	–	–
Volvo Penta of The Americas Inc., USA	–	100	–	–
Volvo Aero Services LP, USA	–	100	–	–
Volvo Commercial Finance LLC The Americas, USA	–	100	–	–
VFS US LLC, USA	–	100	–	–
Volvo Treasury North America, USA	–	100	–	–
Volvo Treasury Canada Inc., Canada	–	100	–	–

AB Volvo's holding of shares participations in major Group companies (cont.)	Registration number	Percentage holding	Dec 31, 2005 Carrying value, SEK M	Dec 31, 2006 Carrying value, SEK M
Volvo Financial Services AB, Sweden	556000-5406	100	1,413	1,413
VFS International AB, Sweden	556316-6064	100	–	–
VFS Financial Services BV, The Netherlands	–	100	–	–
VFS Financial Services (UK) Ltd, Great Britain	–	100	–	–
VFS Deutschland GmbH, Germany	–	100	–	–
VFS Financial Services Spain EFC, SA Spain	–	100	–	–
VFS Canada Inc, Canada	–	100	–	–
Volvo Treasury AB, Sweden	556135-4449	100	3,044	3,044
Volvo Treasury Asia Ltd, Singapore	–	100	–	–
Sotrof AB, Sweden	556519-4494	100	1,388	1,388
Volvo Logistics AB, Sweden	556197-9732	100	–	–
Danafjord 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	–	–
Volvo Automotive Finance (China) Ltd, China	–	100	–	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 Technology AB, Sverige	556542-4321	100	–	–
Volvo Powertrain AB, Sweden	556000-0753	100	348	348
Volvo Information Technology AB, Sweden	556103-2698	100	8	276
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	101
Kommersiella Fordon Europa AB, Sweden	556049-3388	100	249	89
Volvo Norge AS, Norway	–	100	56	56
Volvo Malaysia Sdn, Malaysia	–	100	48	48
ZAO Volvo Vostok, Russia [4]	–	100	0	34
Volvo Italia Spa, Italy	–	100	0	27
Rossareds Fastighets AB, Sweden	556009-1190	100	26	26
Volvo Penta UK Ltd, Great Britain	–	100	16	16
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	8
Total carrying value Group companies[5]			**40,812**	**40,419**

1 Total holding by VTC Holding and AB Volvo is 100%.
2 Joint ventures, reported in accordance with the proportionate consolidation method in Volvo's consolidated accounts.
3 Total holding by Volvo Italia and AB Volvo is 100%.
4 Total holding by Volvo Trucks Deutschland and AB Volvo is 100%.
5 AB Volvo's share of shareholders' equity in subsidiaries (including equity in untaxed reserves) was 76,232 (67,804).

Proposed disposition of unappropriated earnings

AB Volvo	SEK M
Retained earnings	34,997
Income for the period	4,349
Total	**39,345**

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 25.00 per share	10,120
To be carried forward	29,225
Total	**39,345**

In view of the Board of Director's proposal to the Annual General Meeting to be held 4 April 2007 to decide on the distribution of an ordinary dividend of SEK 25 and on an automatic redemption of shares, including a reduction of the share capital, and a reduction of retained earnings, for repayment to the shareholders in amount corresponding to SEK 25 per share, according to the Chapter 18 Section 4 and Chapter 20 Section 8 of the Swedish Company Act, the Board hereby makes the following statement.[1]

The proposed ordinary dividend and the proposed reduction of the share capital for repayment to the shareholders reduces the Company's solvency from 85.3 percent to 77.4 percent and the Group's, excluding Financial Services, solvency from 43.5 percent to 37.2 percent, calculated as per year end 2006. 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 ordinary dividend and the proposed reduction of the share capital for repayment to the shareholders 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 ordinary dividend and the proposed reduction of the share capital for repayment to the shareholders 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 ordinary dividend and the proposed reduction of the share capital for repayment to the shareholders.

If the Annual General Meeting resolves in accordance with the Board of Directors' proposals regarding ordinary dividend, reduction of the share capital for repayment to the shareholders and bonus issue, SEK 18,680 M will remain of the Company's non-restricted equity, calculated as per year end 2006.

The Board of Directors has the view that the Company's and the Group's shareholders' equity will, after the proposed ordinary dividend and the proposed reduction of the share capital with repayment to the shareholders, 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 475,922,222 less.

1 The Board members Martin Linder, Olle Ludvigsson and Johnny Rönnkvist opposed the Board of Directors' proposals concerning dividends and redemption of shares due to their view that the proposed amounts were too high because the Company would need the capital for acquisitions and other investments an to secure the development of the Company in future downturns in the economy.

We hereby certify that, to the best of our knowledge, that
- the annual accounts have been prepared in accordance with good accounting practices for a stock market company;
- the information is, an all material respects, consistent with the actual conditions; and
- nothing of material importance has been omitted that could affect the financial position of the company as presented in the annual report.[2]

2 This certification, which has been provided in accordance with Section 3.6.2 of the Swedish Code of Corporate Governance, does not mean that the board of directors and the President of the Company assumes any further responsibility than what follows from the Swedish Companies Act (2005:551).

Göteborg, February 21, 2007

Finn Johnsson

Peter Bijur

Per-Olof Eriksson

Tom Hedelius

Leif Johansson

Philippe Klein

Louis Schweitzer

Ying Yeh

Martin Linder

Olle Ludvigsson

Johnny Rönnkvist

Our audit report was issued on February 21, 2007

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 2006. The annual accounts and the consolidated accounts of the Company is included on pages 46–47 and 86–152 of this document. The Board of Directors and the President are responsible for these accounts and the administration of the Company as well as for the application of the Annual Accounts Act when preparing the annual accounts and the application of international financial reporting standards IFRSs as adopted by the EU and the Annual Accounts Act when preparing the consolidated accounts. Our responsibility is to express an opinion on the annual accounts, the consolidated accounts and the administration, based on our audit.

We conducted our audit in accordance with generally accepted auditing standards in Sweden. Those standards require that we plan and perform the audit to obtain reasonable assurance that the annual accounts and the consolidated accounts are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the accounts. An audit also includes assessing the accounting principles used and their application by the Board of Directors and the President, and significant estimates made by the Board of Directors and the President when preparing the annual accounts and consolidated accounts, as well as evaluating the overall presentation of information in the annual accounts and consolidated accounts. As a basis for our opinion concerning discharge from liability, we examined significant decisions, actions taken and circumstances of the Company in order to be able to determine the liability, if any, to the Company of any Board member, or the President. We also examined whether any Board member or the President has, in any other way, acted in contravention of the Companies Act, the Annual Accounts Act, or the Company's Articles of Association. We believe that our audit provides a reasonable basis for our opinion set out below.

The annual accounts and consolidated accounts have been prepared in accordance with the Annual Accounts Act and give a true and fair view of the Company's financial position and results of operations in accordance with generally accepted accounting principles in Sweden. The consolidated accounts have been prepared in accordance with international financial reporting standards IFRSs as adopted by the EU and the Annual Accounts Act and give a true and fair view of the Group's financial position and results of operations. The Board of Directors' Report is consistent with the other parts of the annual accounts and the consolidated accounts.

We recommend to the general meeting of shareholders that the income statements and balance sheets of the Parent Company and the Group be adopted, that the profit of the Parent Company be dealt with in accordance with the proposal in the Board of Directors' Report, and that the members of the Board of Directors and the President be discharged from liability for the financial year.

Göteborg, February 21, 2007

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.

Consolidated income statements

SEK M	1996	1997	1998	1999	2000	2001	2002	2003	2004	2005	2006
Net sales	**156,060**	**183,625**	**212,936**	**125,019**	**130,070**	**189,280**	**186,198**	**183,291**	**211,076**	**240,559**	**258,835**
Cost of sales	(121,249)	(138,990)	(163,876)	(99,501)	(104,548)	(155,592)	(151,569)	(146,879)	(164,170)	(186,662)	(199,054)
Gross income	**34,811**	**44,635**	**49,060**	**25,518**	**25,522**	**33,688**	**34,629**	**36,412**	**46,906**	**53,897**	**59,781**
Research and development expenses	(8,271)	(8,659)	(10,104)	(4,525)	(4,876)	(5,391)	(5,869)	(6,829)	(7,614)	(7,557)	(8,354)
Selling expenses	(14,895)	(17,160)	(19,042)	(8,865)	(10,140)	(15,766)	(16,604)	(16,866)	(19,369)	(20,778)	(21,213)
Administrative expenses	(6,685)	(7,018)	(8,091)	(4,791)	(4,974)	(6,709)	(5,658)	(5,467)	(5,483)	(6,301)	(6,551)
Other operating income and expenses	(1,087)	(3,141)	(2,634)	(611)	622	(4,096)	(4,152)	(1,367)	(618)	(588)	(3,466)
Income (loss) from investments in associated companies	314	2,929	444	567	444	50	182	200	27	(557)	61
Income from other investments	9,007	1,168	4,526	170	70	1,410	309	(3,579)	830	37	141
Income from divestment of subsidiaries	–	–	–	26,695	–	–	–	–	–	–	–
Restructuring costs	–	–	(2,331)	–	–	(3,862)	–	–	–	–	–
Operating income (loss)	**13,194**	**12,754**	**11,828**	**34,158**	**6,668**	**(676)**	**2,837**	**2,504**	**14,679**	**18,153**	**20,399**
Interest income and similar credits	4,530	3,197	1,268	1,812	1,588	1,275	1,217	1,096	821	654	666
Interest expenses and similar charges	(3,114)	(2,699)	(1,315)	(1,505)	(1,845)	(2,274)	(1,840)	(1,888)	(1,254)	(972)	(585)
Other financial income and expenses	(407)	(76)	(162)	131	(165)	(191)	(201)	(55)	(1,210)	181	(181)
Income (loss) after financial items	**14,203**	**13,176**	**11,619**	**34,596**	**6,246**	**(1,866)**	**2,013**	**1,657**	**13,036**	**18,016**	**20,299**
Income taxes	(1,825)	(2,583)	(3,140)	(2,270)	(1,510)	326	(590)	(1,334)	(3,129)	(4,908)	(3,981)
Income (loss) for the period	**12,378**	**10,593**	**8,479**	**32,326**	**4,736**	**(1,540)**	**1,423**	**323**	**9,907**	**13,108**	**16,318**
Attributable to											
Equity holders of the parent company	12,477	10,481	8,437	32,222	4,709	(1,467)	1,393	298	9,867	13,054	16,268
Minority interest	(99)	112	42	104	27	(73)	30	25	40	54	50
	12,378	**10,593**	**8,479**	**32,326**	**4,736**	**(1,540)**	**1,423**	**323**	**9,907**	**13,108**	**16,318**

Consolidated income statements with Financial Services reported in accordance with the equity method

SEK M	1996	1997	1998	1999	2000	2001	2002	2003	2004	2005	2006
Net sales	**150,425**	**178,531**	**205,712**	**116,382**	**120,392**	**180,615**	**177,080**	**174,768**	**202,171**	**231,191**	**248,135**
Cost of sales		(135,027)	(158,077)	(92,772)	(97,131)	(149,477)	(145,453)	(141,256)	(158,453)	(180,823)	(192,242)
Gross income		**43,504**	**47,635**	**23,610**	**23,261**	**31,138**	**31,627**	**33,512**	**43,718**	**50,368**	**55,893**
Research and development expenses		(8,659)	(10,104)	(4,525)	(4,876)	(5,391)	(5,869)	(6,829)	(7,614)	(7,557)	(8,354)
Selling expenses		(16,763)	(18,468)	(8,117)	(9,285)	(14,663)	(15,393)	(15,891)	(18,317)	(19,616)	(19,999)
Administrative expenses		(6,889)	(7,950)	(4,632)	(4,651)	(6,474)	(5,464)	(5,259)	(5,310)	(6,147)	(6,352)
Other operating income and expenses		(3,015)	(2,515)	(587)	309	(3,071)	(2,989)	(540)	7	(397)	(3,292)
Income from Financial Services		375	681	1,066	1,499	325	490	926	1,365	2,033	2,301
Income (loss) from investments in associated companies		3,033	354	478	341	(86)	126	166	2	(568)	61
Income from other investments		1,168	4,526	170	70	1,408	309	(3,581)	828	37	141
Income from divestment of subsidiaries		–	–	26,695	–	–	–	–	–	–	–
Restructuring costs		–	(2,331)	–	–	(3,862)	–	–	–	–	–
Operating income (loss)	**13,194**	**12,754**	**11,828**	**34,158**	**6,668**	**(676)**	**2,837**	**2,504**	**14,679**	**18,153**	**20,399**

Consolidated balance sheets

SEK M	1996	1997	1998	1999	2000	2001	2002	2003	2004	2005	2006
Intangible assets	2,277	3,284	5,778	6,618	6,925	17,525	17,045	16,756	17,612	20,421	19,117
Property, plant and equipment	26,458	30,793	36,207	19,788	22,231	33,234	30,799	30,640	31,151	35,068	34,379
Assets under operating leases	4,968	13,501	22,285	12,337	14,216	27,101	23,525	21,201	19,534	20,839	20,501
Shares and participations	12,412	4,583	3,393	29,213	30,481	27,798	27,492	22,206	2,003	751	6,890
Inventories	23,148	27,993	32,128	21,438	23,551	31,075	28,305	26,459	28,598	33,937	34,211
Customer financing receivables	15,552	32,304	46,798	34,313	41,791	48,784	46,998	46,002	51,193	64,466	64,742
Interest-bearing receivables	4,080	4,667	4,735	18,617	19,228	8,079	5,490	6,632	3,384	1,897	4,116
Other receivables	25,603	27,087	34,197	24,019	26,352	39,946	33,990	32,621	35,747	42,881	42,567
Non-current assets held for sale	–	–	–	–	–	–	–	–	–	–	805
Liquid funds	26,661	20,603	20,224	29,269	15,968	27,383	25,578	28,735	34,746	36,947	31,099
Assets	**141,159**	**164,815**	**205,745**	**195,612**	**200,743**	**260,925**	**239,222**	**231,252**	**223,968**	**257,207**	**258,427**
Shareholders' equity [1]	58,380	62,850	70,235	98,236	88,931	85,576	78,525	72,636	70,155	78,760	87,188
Provision for post employment benefits	3,150	3,296	2,936	2,130	2,632	14,647	16,236	15,288	14,703	11,986	8,692
Other provisions	14,988	19,657	25,187	14,832	14,941	18,427	16,721	15,048	14,993	18,556	20,970
Loans	31,886	41,217	64,230	53,345	66,233	81,568	72,437	74,092	61,807	74,885	66,957
Liabilities associated with assets held for sale	–	–	–	–	–	–	–	–	–	–	280
Other liabilities	32,755	37,795	43,157	27,069	28,006	60,707	55,303	54,188	62,310	73,020	74,340
Shareholders' equity and liabilities	**141,159**	**164,815**	**205,745**	**195,612**	**200,743**	**260,925**	**239,222**	**231,252**	**223,968**	**257,207**	**258,427**
[1] of which minority interests	504	899	860	544	593	391	247	216	229	260	284
Assets pledged	6,503	6,743	5,388	3,930	2,990	3,737	3,610	3,809	3,046	3,255	1,960
Contingent liabilities	6,188	5,406	6,737	6,666	6,789	10,441	9,334	9,611	9,189	7,850	7,726

Consolidated balance sheets with Financial Services reported in accordance with the equity method

SEK M	1996	1997	1998	1999	2000	2001	2002	2003	2004	2005	2006
Intangible assets	2,258	3,262	5,692	6,518	6,781	17,366	16,919	16,662	17,570	20,348	19,054
Property, plant and equipment	24,720	28,755	33,944	17,318	19,652	30,370	27,789	27,248	27,260	31,330	30,493
Assets under operating leases	49	1,366	1,817	1,611	4,245	15,020	11,155	8,976	8,477	10,260	11,822
Shares and participations	16,359	9,894	11,744	35,296	37,366	35,145	34,750	30,022	10,116	10,357	16,565
Inventories	23,042	27,756	31,883	21,053	22,998	30,557	27,564	25,848	28,291	33,583	33,893
Customer financing receivables	0	227	384	9	15	114	99	118	230	1,377	1,193
Interest bearing receivables	4,060	4,664	4,715	18,617	19,286	12,426	8,495	9,413	12,127	7,691	13,214
Other receivables	24,312	25,802	31,398	21,075	24,882	38,815	34,256	33,079	36,535	43,992	43,335
Non-current assets held for sale	–	–	–	–	–	–	–	–	–	–	805
Liquid funds	23,170	16,605	15,439	24,465	10,958	24,874	24,154	28,102	34,628	36,047	29,907
Assets	**117,970**	**118,331**	**137,016**	**145,962**	**146,183**	**204,687**	**185,181**	**179,468**	**175,234**	**194,985**	**200,281**
Shareholders' equity	58,324	62,810	70,179	98,236	88,931	85,576	78,525	72,636	70,155	78,760	87,188
Provision for post-employment benefits	3,126	3,266	2,904	2,118	2,619	14,632	16,218	15,264	14,677	11,966	8,661
Other provisions	12,618	15,962	19,435	9,861	8,277	14,085	13,893	12,792	14,115	17,164	19,385
Loans	13,432	1,047	5,018	12,206	18,233	29,710	22,494	24,677	13,968	13,097	9,779
Liabilities associated with assets held for sale	–	–	–	–	–	–	–	–	–	–	280
Other liabilities	30,470	35,246	39,480	23,541	28,123	60,684	54,051	54,099	62,319	73,998	74,988
Shareholders' equity and liabilities	**117,970**	**118,331**	**137,016**	**145,962**	**146,183**	**204,687**	**185,181**	**179,468**	**175,234**	**194,985**	**200,281**

Eleven-year summary

Consolidated cash-flow statements

SEK bn	1996	1997	1998	1999	2000	2001	2002	2003	2004	2005	2006
Operating income[1]	13.2	12.8	11.8	7.5	6.7	(0.7)	2.8	2.5	14.7	18.2	20.4
Depreciation and amortization	5.4	6.8	9.6	5.2	6.3	10.0	10.8	10.2	10.0	9.9	12.4
Other items not affecting cash[2]		(3.5)	(4.9)	(0.3)	(0.4)	0.5	2.0	4.9	(0.1)	0.4	0.7
Change in working capital[2]	(11.2)	4.7	1.5	(1.0)	(3.3)	6.4	1.0	0.4	(1.4)	(4.7)	(2.5)
Customer financing receivables, net	(4.8)	(15.5)	(12.8)	(7.1)	(4.5)	(3.7)	(5.7)	(4.3)	(7.4)	(7.8)	(5.2)
Financial items and income tax[2]		(0.4)	(2.0)	(1.7)	(1.3)	(2.1)	(1.3)	(0.9)	(0.5)	(2.0)	(4.3)
Cash flow from operating activities	**2.6**	**4.9**	**3.2**	**2.6**	**3.5**	**10.4**	**9.6**	**12.8**	**15.3**	**14.0**	**21.5**
Investments in fixed assets	(8.2)	(9.9)	(10.5)	(4.9)	(5.4)	(8.1)	(6.7)	(6.0)	(7.4)	(10.3)	(10.0)
Investments in leasing assets	(3.9)	(9.8)	(12.7)	(5.6)	(5.7)	(5.8)	(5.2)	(5.3)	(4.4)	(4.5)	(4.6)
Disposals of fixed assets and leasing assets	2.0	1.8	2.6	1.6	2.1	2.6	3.2	2.9	2.4	2.6	3.2
Shares and participations, net	14.1	10.7	5.5	(25.9)	(1.6)	3.9	(0.1)	(0.1)	15.1	0.3	(5.8)
Acquired and divested subsidiaries and other business units, net	(0.9)	(1.3)	(5.6)	31.0	0.0	13.0	(0.2)	0.0	(0.1)	0.7	0.5
Interest-bearing receivables including marketable securities	(7.7)	10.1	3.5	(16.9)	11.7	(3.7)	(1.5)	(2.0)	(6.4)	(1.3)	7.7
Cash flow after net investments	**(2.0)**	**6.5**	**(14.0)**	**(18.1)**	**4.6**	**12.3**	**(0.9)**	**2.3**	**14.5**	**1.5**	**12.5**
Increase (decrease) in loans	6.8	5.6	19.5	16.3	8.1	6.2	(0.1)	1.9	(8.8)	3.6	(2.6)
Repurchase of own shares	–	–	–	–	(11.8)	(8.3)	–	–	(2.5)	(1.8)	–
Cash dividend to AB Volvo's shareholders	(1.9)	(2.0)	(2.2)	(2.6)	(3.1)	(3.4)	(3.4)	(3.4)	(3.4)	(5.1)	(6.8)
Other	(5.0)	(5.9)	(0.2)	(0.1)	0.0	0.1	0.1	0.1	0.0	0.0	0.0
Change in cash and cash equivalents excluding translation differences	**(2.1)**	**4.2**	**3.1**	**(4.5)**	**(2.2)**	**6.9**	**(4.3)**	**0.9**	**(0.2)**	**(1.8)**	**3.1**
Translation differences on cash and cash equivalents	(0.3)	0.3	0.3	(0.2)	0.3	0.6	(0.7)	(0.6)	(0.2)	1.1	(0.5)
Change in cash and cash equivalents	**(2.4)**	**4.5**	**3.4**	**(4.7)**	**(1.9)**	**7.5**	**(5.0)**	**0.3**	**(0.4)**	**(0.7)**	**2.6**

1 1999, excluding gain on sale of Volvo Cars of SEK 26.7 billion.
2 Reported on a single line in 1996.

Operating cash flow excluding Financial Services

SEK bn	1996	1997	1998	1999	2000	2001	2002	2003	2004	2005	2006
Operating income	12.8	12.4	11.1	6.4	5.2	(1.0)	2.3	1.6	13.3	16.1	18.1
Depreciation and amortization	4.4	5.0	6.4	3.1	3.8	7.0	7.8	7.2	7.1	7.3	10.0
Other items not affecting cash		(4.0)	(5.5)	(0.5)	(1.6)	0.0	1.0	4.1	(0.6)	0.2	0.6
Change in working capital	(11.1)	3.7	0.4	(1.6)	(3.0)	6.8	0.4	0.7	(1.4)	(5.6)	(3.1)
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)
Cash flow from operating activities	**6.1**	**16.6**	**10.1**	**5.7**	**3.6**	**10.5**	**10.4**	**12.9**	**18.2**	**16.1**	**21.9**
Investments in fixed assets	(8.0)	(9.5)	(10.2)	(4.7)	(5.1)	(7.7)	(6.3)	(5.8)	(7.2)	(9.9)	(9.7)
Investments in leasing assets	(0.8)	(0.5)	(0.9)	(0.5)	(0.6)	(0.5)	(0.1)	(0.1)	(0.3)	(0.3)	(0.5)
Disposals of fixed assets and leasing assets	1.8	1.0	1.5	0.8	0.7	1.1	1.1	0.6	0.7	0.9	0.9
Operating cash flow	**(0.9)**	**7.6**	**0.5**	**1.3**	**(1.4)**	**3.4**	**5.1**	**7.6**	**11.4**	**6.8**	**12.6**

Exports from Sweden

SEK M	1996	1997	1998	1999	2000	2001	2002	2003	2004	2005	2006
Volvo Group, total	54,589	58,569	64,401	52,719	46,251	50,394	52,730	49,300	62,653	71,133	80,517

Key ratios

	1996	1997	1998	1999	2000	2001	2002	2003	2004	2005	2006
Gross margin %[1]	22.3	24.4	23.2	20.3	19.3	17.2	17.9	19.2	21.6	21.8	22.5
Research and development expenses as percentage of net sales[1]	5.3	4.9	4.9	3.9	4.1	3.0	3.3	3.9	3.8	3.3	3.4
Selling expenses as percent of net sales[1]	9.5	9.4	9.0	7.0	7.7	8.1	8.7	9.1	9.1	8.5	8.1
Administration expenses as percentage of net sales[1]	4.3	3.9	3.9	4.0	3.9	3.6	3.1	3.0	2.6	2.7	2.6
Return on shareholders' equity, %	23.7	17.2	13.0	34.9	5.0	neg	1.7	0.4	13.9	17.8	19.6
Interest coverage, times[1s]	5.5	5.8	9.6	23.1	4.5	neg	2.2	1.9	11.0	16.7	26.1
Self-financing ratio, %	26	27	16	29	39	92	110	152	163	116	189
Self-financing ratio excluding Financial Services, %	87	184	105	130	72	148	196	243	268	173	235
Net financial position, SEK M	10,672	16,956	12,232	28,758	9,392	(7,042)	(6,063)	(2,426)	18,110	18,675	24,679
Net financial position as percentage of shareholders' equity and minority interests	18.3	27.0	17.4	29.3	10.6	(8.2)	(7.7)	(3.3)	25.8	23.7	28.3
Shareholders' equity as percentage of total assets	41.4	38.1	34.1	50.2	44.3	32.8	32.8	31.4	31.3	30.6	33.7
Shareholders' equity as percentage of total assets, excluding Financial Services	49.4	53.1	51.2	67.3	60.8	41.8	42.4	40.5	40.0	40.4	43.5
Shareholders' equity excluding minority interest as percentage of total assets	41.0	37.6	33.7	49.9	44.0	32.6	32.7	31.3	31.2	30.5	33.6

1 1996 including Financial Services. As from 1997 Financial Services is accounted by the equity method.

Eleven-year summary

Volvo share statistics

Data per share (adjusted for issues and splits)[1]

	1996	1997	1998	1999	2000	2001	2002	2003	2004	2005	2006
Basic earnings, SEK[1]	26.90	23.20	19.10	73.00	11.20	(3.50)	3.32	0.71	23.58	32.22	40.20
Cash dividend, SEK	4.30	5.00	6.00	7.00	8.00	8.00	8.00	8.00	12.50	16.75	25.00[9]
Share price at year-end, SEK (B share)	151	213	186	220	156.50	176	142	220	263.50	374.50	471.50
Direct return, % (B share)[2]	2.9	2.3	3.2	3.2	5.1	4.5	5.6	10.5[8]	4.7	4.5	5.3
Effective return, % (B share)[3]	30	46	(10)	22	(23)	17.6	(14.8)	71.2	25.5	48.5	39.2
Price/earnings ratio (B share)[4]	6	9	9	3	14	neg	43	310	11.2	11.6	11.7
EBIT multiple[5]	16	9	11	10	10	25	23	14	9.2	9.3	9.8
Payout ratio, %[6]	16	22	31	10	71	neg	242	1,143	53	52	62
Shareholders' equity, SEK[7]	125	140	157	221	222	203	187	173	170	194	215
Return on shareholders' equity	23.7	17.2	13.0	34.9	5.0	neg	1.7	0.4	13.9	17.8	19.6

Other share data

	1996	1997	1998	1999	2000	2001	2002	2003	2004	2005	2006
Number of shareholders at year-end	176,800	225,500	210,600	238,000	230,000	214,000	211,000	208,500	202,300	195,442	183,735
Number of Series A shares outstanding at year-end, millions	142.2	138.6	138.6	138.6	124.7	131.7	131.7	131.7	131.5	131.4	131.4
Number of Series B shares outstanding at year-end, millions	321.4	302.9	302.9	302.9	272.6	287.8	287.8	287.8	278.6	273.1	273.4
Average number of outstanding shares, millions	463.6	452.5	441.5	441.5	421.7	422.4	419.4	419.4	418.5	405.2	404.7
Number of Series A shares traded in Stockholm during the year, millions	23.7	23.7	34.5	27.0	42.4	40.3	27.3	31.4	42.0	39.3	56.4
Number of Series B shares traded in Stockholm during the year, millions	316.4	362.7	371.3	479.6	391.2	344.4	349.4	404.8	498.0	518.7	617.0
Number of shares traded in ADR, NASDAQ during the year, millions	83.0	51.8	50.5	54.9	16.0	15.0	11.0	10.4	24.0	19.8	14.1

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 proposed share split 6:1 in which the sixth share will be redeemed by AB Volvo for an amount of SEK 25.00 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 15.05 per Volvo share in 2004.
9 Proposed by the Board of Directors.

The largest shareholders in AB Volvo, December 31, 2006[1]

	Number of shares	% of total votes[2]	Share capital, %[2]
Renault SA	88,304,177	20.5	20.7
AMF Pension and Funds	17,874,900	4.1	4.2
Swedbank Robur fonder (savings funds)	11,098,720	2.7	2.6
Svenska Handelsbanken[3]	10,458,864	6.3	2.5
SEB fonder (savings funds)/ Trygg Försäkring	10,245,452	5.3	2.4
Second Swedish National Pension Fund (AP2)	9,862,055	4.8	2.3
Violet Partners LP	8,340,336	5.1	2.0
Alecta (pension funds)	7,715,000	3.3	1.8
Svenska Handelsbanken/ SPP fonder	7,442,092	1.1	1.7
AFA Försäkring	5,414,494	2.0	1.3
Total	**176,756,000**	**55.3**	**41.5**

Distribution of shares, December 31, 2006

Volvo shareholders	Number of shareholders	% of total votes[2]	Share of capital, %[2]
1–1,000 shares	174,038	5.5	6.3
1,001–10,000 shares	8,722	3.9	4.9
10,001–100,000 shares	704	3.4	5.0
100,001–	271	87.2	83.8
Total	**183,735**	**100.0**	**100.0**

1 Following the repurchase of its own shares, AB Volvo held 4.9% of the Company´s shares on Dec. 31, 2006.
2 Based on all registered shares.
3 Svenska Handelsbanken comprises shares held by Svenska Handelsbanken, Svenska Handelsbanken Pension Fund, Svenska Handelsbanken Personnel Foundation, Svenska Handelsbanken pensionskassa and Oktogonen.

Business area statistics

Net sales[1]

SEK M		1996	1997	1998	1999	2000	2001	2002	2003	2004	2005	2006
Trucks	Western Europe	21,244	22,280	27,837	30,006	30,415	60,841	61,406	63,097	68,664	70,567	75,157
	Eastern Europe	1,721	2,274	3,089	2,265	3,158	5,526	6,424	7,004	8,767	9,139	13,166
	North America	8,510	12,206	17,659	22,303	17,048	33,630	33,721	28,151	35,154	46,129	50,605
	South America	2,759	3,832	3,777	2,190	3,111	3,993	3,277	3,464	5,223	7,657	9,213
	Asia	2,577	2,410	2,047	2,010	3,432	4,659	5,919	9,206	12,378	13,551	8,975
	Other markets	1,443	1,503	1,267	1,492	1,911	7,919	8,005	6,047	6,693	8,353	9,190
	Total	**38,254**	**44,505**	**55,676**	**60,266**	**59,075**	**116,568**	**118,752**	**116,969**	**136,879**	**155,396**	**166,306**
Buses	Western Europe	4,660	5,082	5,528	5,735	6,767	6,263	6,695	6,153	6,422	6,564	6,975
	Eastern Europe	80	190	366	226	182	373	409	381	526	578	534
	North America	1,575	2,314	5,574	6,871	7,723	6,847	3,838	2,984	2,960	4,247	4,910
	South America	853	1,002	910	469	732	757	366	329	521	2,641	1,537
	Asia	1,112	1,562	1,519	943	1,269	1,839	2,022	1,447	1,632	1,612	2,003
	Other markets	247	432	389	469	514	596	705	684	661	947	897
	Total	**8,527**	**10,582**	**14,286**	**14,713**	**17,187**	**16,675**	**14,035**	**11,978**	**12,722**	**16,589**	**16,856**
Construction Equipment	Western Europe	7,163	7,836	9,557	9,901	10,029	10,326	10,383	11,576	12,443	14,213	16,871
	Eastern Europe	93	263	336	193	255	341	454	772	1,010	1,311	1,888
	North America	3,385	5,680	6,548	5,725	5,823	6,145	5,667	5,428	8,601	10,337	11,280
	South America	598	991	957	498	776	847	709	636	922	1,238	1,358
	Asia	937	1,036	1,092	1,903	2,484	2,773	3,048	3,707	4,961	5,717	6,903
	Other markets	628	847	882	662	626	703	751	1,035	1,423	2,000	2,264
	Total	**12,804**	**16,653**	**19,372**	**18,882**	**19,993**	**21,135**	**21,012**	**23,154**	**29,360**	**34,816**	**40,564**
Volvo Penta	Western Europe	2,048	2,219	2,725	2,986	3,204	3,789	3,846	4,081	4,723	4,845	5,459
	Eastern Europe	2	34	23	26	30	38	99	108	184	257	363
	North America	1,142	1,332	1,412	1,770	2,257	2,175	2,261	2,109	2,500	2,832	2,815
	South America	109	136	153	134	160	213	127	146	142	208	221
	Asia	486	643	476	692	794	988	1,141	947	1,324	1,427	1,359
	Other markets	98	102	142	153	154	177	195	205	184	207	268
	Total	**3,885**	**4,466**	**4,931**	**5,761**	**6,599**	**7,380**	**7,669**	**7,596**	**9,057**	**9,776**	**10,485**
Volvo Aero	Western Europe	2,950	3,682	4,231	4,560	4,651	4,788	3,422	3,951	3,130	3,346	3,489
	Eastern Europe	8	6	47	16	42	87	28	49	49	60	124
	North America	1,071	3,066	3,502	4,557	5,040	5,841	4,573	3,301	3,127	3,612	3,815
	South America	4	257	284	193	134	187	177	152	138	168	173
	Asia	89	264	336	491	701	708	497	428	400	284	356
	Other markets	21	201	184	136	145	173	140	149	81	68	91
	Total	**4,143**	**7,476**	**8,584**	**9,953**	**10,713**	**11,784**	**8,837**	**8,030**	**6,925**	**7,538**	**8,048**
	Other and eliminations	2,669	3,436	4,781	6,807	6,825	7,073	6,775	7,041	7,228	7,076	5,876
Net sales excl Financial Services		**70,282**	**87,118**	**107,630**	**116,382**	**120,392**	**180,615**	**177,080**	**174,768**	**202,171**	**231,191**	**248,135**
Financial Services	Western Europe	5,384	4,461	5,465	6,300	6,240	5,314	5,573	5,604	6,114	4,213	7,091
	Eastern Europe	0	0	86	185	257	360	424	474	499	584	379
	North America	54	509	1,152	1,620	2,626	3,216	3,344	2,542	2,432	2,036	799
	South America	153	72	297	455	452	451	403	358	396	570	617
	Asia	0	0	0	1	0	24	49	65	90	101	45
	Other markets	44	52	224	76	103	130	132	110	67	45	38
	Total	**5,635**	**5,094**	**7,224**	**8,637**	**9,678**	**9,495**	**9,925**	**9,153**	**9,598**	**7,549**	**8,969**
	Eliminations	–	–	–	–	–	(830)	(807)	(630)	(693)	1,819	1,731
Volvo Group excluding divested operations		**75,917**	**92,212**	**114,854**	**125,019**	**130,070**	**189,280**	**186,198**	**183,291**	**211,076**	**240,559**	**258,835**
Cars		83,589	96,453	103,798	–	–	–	–	–	–	–	–
Other divested operations and eliminations		(3,446)	(5,040)	(5,716)	–	–	–	–	–	–	–	–
Volvo Group total		**156,060**	**183,625**	**212,936**	**125,019**	**130,070**	**189,280**	**186,198**	**183,291**	**211,076**	**240,559**	**258,835**

Effective in 1997, the Volvo Group's accounting per market area reflects geographical definitions, based on an ISO standard. The figures for 1996 have been adjusted to conform with the new principle.

1 Net sales 1996–2001 have been restated in accordance with new organization effective from 2002.

Eleven-year summary

Operating income

SEK M	1996[8]	1997[7]	1998[6]	1999[5]	2000	2001[4]	2002	2003[3]	2004[2]	2005	2006[1]
Trucks[9]	783	1,707	2,769	3,247	1,414	(2,066)	1,189	3,951	8,992	11,717	12,657
Buses	331	550	(37)	224	440	(916)	(94)	(790)	158	470	633
Construction Equipment	1,162	1,436	626	1,709	1,594	527	406	908	1,898	2,752	3,888
Volvo Penta	(27)	181	(63)	314	484	658	647	695	940	943	1,002
Volvo Aero	153	472	527	584	621	653	5	(44)	403	836	345
Financial Services	244	375	681	1,066	1,499	325	490	926	1,365	2,033	2,301
Other	9,377	3,624	3,950	319	616	143	194	(3,142)	923	(598)	(427)
Volvo Group excluding divested operations	**12,023**	**8,345**	**8,453**	**7,463**	**6,668**	**(676)**	**2,837**	**2,504**	**14,679**	**18,153**	**20,399**
Cars	1,080	4,409	3,375	26,695	–	–	–	–	–	–	–
Other divested operations	91	–	–	–	–	–	–	–	–	–	–
Operating income (loss) Volvo Group	**13,194**	**12,754**	**11,828**	**34,158**	**6,668**	**(676)**	**2,837**	**2,504**	**14,679**	**18,153**	**20,399**

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 Operating income in 1996 included a capital gain from the sale of shares in Pharmacia UpJohn amounting to 7,766.
9 Refers to Volvo Trucks for 1996–2000.

Operating margin

%	1996	1997	1998	1999	2000	2001	2002	2003	2004	2005	2006
Trucks	2.0	3.8	5.0	5.4	2.4	(1.8)	1.0	3.4	6.6	7.5	7.6
Buses	3.9	5.2	(0.3)	1.5	2.6	(5.5)	(0.7)	(6.6)	1.2	2.8	3.8
Construction Equipment	9.1	8.6	3.2	9.1	8.0	2.5	1.9	3.9	6.5	7.9	9.6
Volvo Penta	(0.7)	4.1	(1.3)	5.5	7.3	8.9	8.4	9.1	10.4	9.6	9.6
Volvo Aero	3.7	6.3	6.1	5.9	5.8	5.5	0.1	(0.5)	5.8	11.1	4.3
Volvo Group excluding divested operations	**17.1**	**9.6**	**7.9**	**6.4**	**5.5**	**(0.4)**	**1.6**	**1.4**	**7.3**	**7.9**	**8.2**
Operating margin, total	**8.8**	**7.1**	**5.7**	**29.3**	**5.5**	**(0.4)**	**1.6**	**1.4**	**7.3**	**7.9**	**8.2**

Number of employees at year-end

Number	1996	1997	1998	1999	2000	2001	2002	2003	2004	2005	2006
Trucks	20,860	22,090	22,560	23,330	24,320	44,180	43,470	46,900	49,450	50,240	49,900
Buses	3,750	4,220	8,690	8,860	9,060	6,230	6,660	6,680	7,700	7,710	7,760
Construction Equipment	7,300	8,550	9,680	8,900	8,830	7,780	8,410	9,280	9,930	10,290	11,050
Volvo Penta	1,420	1,400	1,490	1,400	1,480	1,370	1,410	1,440	1,580	1,560	1,650
Volvo Aero	3,740	4,170	3,990	4,550	4,240	4,040	3,660	3,440	3,350	3,460	3,510
Financial Services	560	710	860	1,160	1,220	1,080	1,060	1,060	1,100	1,070	1,140
Other	3,090	3,840	5,190	5,270	5,120	6,240	6,490	6,940	7,970	7,530	8,180
Volvo Group, excluding divested operations	**40,720**	**44,980**	**52,460**	**53,470**	**54,270**	**70,920**	**71,160**	**75,740**	**81,080**	**81,860**	**83,190**
Cars	29,600	27,920	27,360	–	–	–	–	–	–	–	–
Other divested operations	10	–	–	–	–	–	–	–	–	–	–
Volvo Group, total	**70,330**	**72,900**	**79,820**	**53,470**	**54,270**	**70,920**	**71,160**	**75,740**	**81,080**	**81,860**	**83,190**

Employees

Number	1996	1997	1998	1999	2000	2001	2002	2003	2004	2005	2006
Sweden	43,330	43,650	43,900	24,840	25,030	24,350	25,420	26,380	28,530	27,070	27,830
Europe, excluding Sweden	15,290	16,100	17,880	11,900	12,320	27,800	27,130	29,120	28,930	29,650	30,070
North America	6,900	8,450	12,100	11,880	11,410	12,670	12,440	12,270	14,620	15,140	14,820
South America	2,130	2,000	1,980	1,930	2,100	2,090	2,020	2,640	3,110	3,690	3,890
Asia	2,260	1,720	3,340	2,480	2,570	2,550	2,590	3,710	4,130	4,210	4,420
Other markets	420	980	620	440	840	1,460	1,560	1,620	1,760	2,100	2,160
Volvo Group total	**70,330**	**72,900**	**79,820**	**53,470**	**54,270**	**70,920**	**71,160**	**75,740**	**81,080**	**81,860**	**83,190**

Delivered units

Number	1996	1997	1998	1999	2000	2001	2002	2003	2004	2005	2006
Heavy trucks (>16 tons)	59,100	63,930	78,690	81,240	76,470	117,180	120,200	120,920	152,300	172,242	179,089
Medium-heavy trucks (7–15.9 tons)	4,580	5,050	4,590	3,850	5,360	17,310	16,220	15,870	18,800	18,643	14,695
Light trucks (<7 tons)						20,820	20,710	19,200	22,120	23,494	26,147
Total trucks	**63,680**	**68,980**	**83,280**	**85,090**	**81,830**	**155,310**	**157,130**	**155,990**	**193,220**	**214,379**	**219,931**
Buses and bus chassis	**7,410**	**8,730**	**10,200**	**9,500**	**11,015**	**9,953**	**9,059**	**7,817**	**8,232**	**10,675**	**10,360**

Number		1996	1997	1998	1999	2000	2001	2002	2003	2004	2005	2006
Trucks	Total Europe	34,970	34,470	42,350	42,530	46,140	98,040	96,290	92,080	102,670	103,622	114,417
	Western Europe	32,310	31,040	37,810	39,630	42,050	90,460	87,490	82,670	90,750	91,087	97,074
	Eastern Europe	2,660	3,430	4,540	2,900	4,090	7,580	8,800	9,410	11,920	12,535	17,343
	North America	16,850	20,900	29,310	34,300	23,610	34,650	36,510	34,760	49,270	64,974	70,499
	South America	4,980	6,970	6,020	3,900	4,530	5,790	5,360	5,980	9,190	11,248	11,646
	Asia	4,850	4,710	3,760	2,720	5,560	6,600	9,140	16,290	24,880	25,706	12,817
	Other markets	2,030	1,930	1,840	1,640	1,990	10,230	9,830	6,880	7,210	8,829	10,552
	Total	**63,680**	**68,980**	**83,280**	**85,090**	**81,830**	**155,310**	**157,130**	**155,990**	**193,220**	**214,379**	**219,931**
Buses	Total Europe	3,840	4,190	3,860	3,630	3,994	3,115	3,413	3,087	3,417	3,723	3,570
	Western Europe	3,770	4,030	3,580	3,430	3,870	2,899	3,076	2,782	3,073	3,385	3,246
	Eastern Europe	70	160	280	200	124	216	337	305	344	338	324
	North America	750	1,110	2,730	3,640	3,869	3,128	1,945	1,553	1,388	1,546	1,741
	South America	1,460	1,350	1,510	710	980	1,009	495	369	624	2,297	1,170
	Asia	1,060	1,410	1,650	1,000	1,659	2,209	2,639	2,227	2,341	2,554	3,349
	Other markets	300	670	450	520	513	492	567	581	462	555	530
	Total	**7,410**	**8,730**	**10,200**	**9,500**	**11,015**	**9,953**	**9,059**	**7,817**	**8,232**	**10,675**	**10,360**

Effective in 1997, The Volvo Group's accounting per market area reflects geographical definitions based on an ISO standard. The accounting for the year 1996 has been adjusted to conform with the new principle.

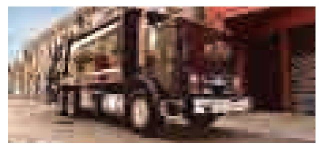
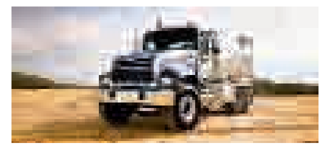
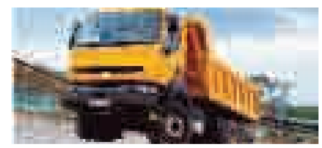
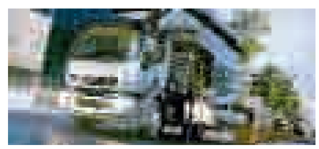
Environmental performance of Volvo production plants

Absolute values related to net sales	2002	2003	2004	2005	2006
Energy consumption (GWh; MWh/SEK M)	2,564; 14.5	2,607; 14.9	2,695; 13.3	2,683; 11.6	2,612; 10.5
CO_2 emissions (1,000 tons; tons/SEK M)	307; 1.7	298; 1.7	293; 1.5	292; 1.3	282; 11.4
Water consumption (1,000 m^3; m^3/SEK M)	9,202; 52.0	8,587; 49.1	8,495; 42.0	7,419; 32.1	7,596; 30.6
NOx emissions (tons; kilos/SEK M)	726; 4.1	570; 3.3	645; 3.2	672; 2.9	606; 2.4
Solvent emissions (tons; kilos/SEK M)	1,896; 10.7	1,965; 11.2	2,085; 10.3	1,960; 8.5	2,048; 8.3
Sulphur dioxide emissions (tons; kilos/SEK M)	173; 1.0	200; 1.1	184; 0.9	209; 0.9	69; 0.3
Hazardous waste (tons; kg/SEK M)	20,531; 116	21,613; 124	24,675; 122.1	23,590; 102	26,987; 108.8
Net sales, SEK bn	177.1	174.8	202.1	231.2	248.1

Customer offering

Trucks

All three brands in the Volvo Group's truck operations have a unique and distinct brand-specific character and compete in certain markets. Mack Trucks, Renault Trucks and Volvo Trucks offer customers a broad range of products and services for efficient and economic transports.

	Long-haul	Regional distribution	City distribution	Construction
Mack Trucks				
Renault Trucks				
Volvo Trucks				

Buses

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

City buses

Intercity buses

Coaches

Chassis

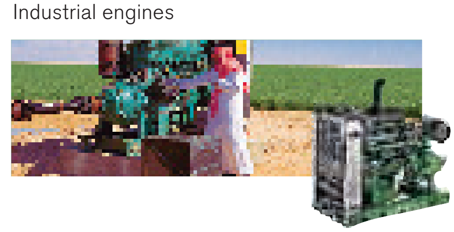
Marine and industrial applications

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

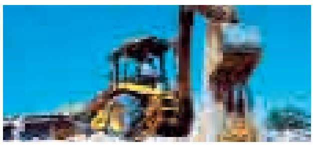


Construction equipment

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, motor graders and a wide range of compact equipment.

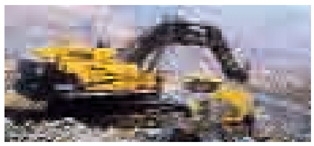
Compact construction equipment






Heavy construction equipment





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 after-market.

Engine components

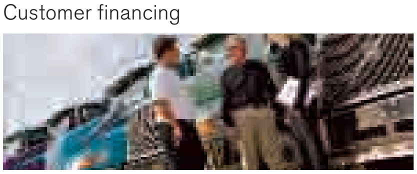
Engine overhaul

Space

Financial services

Financial Services contributes to create shareholder value through its customer and dealer financing activities, plus its treasury and real estate operations. Providing cost effective and attractive financing solutions is essential in retaining existing customers and attracting new ones to the Volvo Group.

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. Net debt in Financial Services is not included since the interest expense on these liabilities is charged against operating income and does not affect consolidated interest net.

Operating margin
Operating income divided by net sales.

Return on shareholders' equity
Income for the period divided by average shareholders' equity.

Self-financing ratio
Cash-flow from operating activities (see Cash-flow statement) divided by net investments in fixed assets and leasing assets as defined in the cash-flow statement.

Annual General Meeting, April 4, 2007

The Annual General Meeting of AB Volvo will be held in Göteborg in Lisebergshallen (entrance from Örgrytevägen) Wednesday April 4, 2007, at 3:00 p.m.

Notice

Shareholders who wish to participate must:
be recorded in the share register maintained by VPC AB (Swedish Central Securities Depository) not later than March 29, 2007, give notice of intention to attend not later than 12:00, Thursday, March 29, 2007.

- 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.volvo.com

When giving notice, shareholders should state their:
- name
- personal number (registration number)
- address and telephone number
- name and personal number (registration number) of the proxy, if any
- name(s) of any accompaning assistant(s)

Shareholders whose shares are held in the trust department of a bank or by a brokerage firm should request the shares to be temporarily registered in the shareholder's name several banking days prior to March 29, 2007.

April 11, 2007 has been proposed as the record date for dividends, which are expected to be distributed on April 16, 2007.

Volvo's Election Committee

The following persons are members of Volvo's Election Committee:

Curt Källströmer	Chairman of the Election Committee, Svenska Handelsbanken
Finn Johnsson	Chairman of the Board
Thierry Moulonguet	Renault SA
Björn Lind	SEB funds
Lars Förberg	Violet Partners LP
Eva Halvarsson[1]	Second Swedish National Pension Fund

1 Co-opted to the Election Committee

The Election Committee is responsible for submitting to the Annual General Meeting the names of candidates to serve as members of the Board of Directors and as auditors. The Committee also proposes the amount of the fees to be paid to the holders of these positions.

Preliminary publication dates

Form 20-F US GAAP 2006	May, 2007
Three months ended March 31, 2007	April 25, 2007
Six months ended June 30, 2007	July 25, 2007
Nine months ended September 30, 2007	October 24, 2007
Report on 2007 operations	February, 2008
Annual Report 2007	March, 2008

The reports are available on www.volvo.com on date of publication and are also sent directly to all shareholders who have advised Volvo that they wish to receive financial information.

Historical and current time series reflecting the Volvo Group's market information and share data are published regularly on www.volvo.com.

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