

**Volvo Group's
Sustainability Report 2007**



Development

VOLVO

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Creating Value

The Volvo Group's history and future rest on sustainable business development in which safety, quality and the environment are core features of operations. We believe that this approach creates long-term value for customers, society and shareholders.



The climate issue

The climate challenge is one of the most crucial issues of our time and thus one of the top-priority environmental issues associated with a number of global environmental and social challenges. The Volvo Group prioritizes the issue, focusing on enhanced energy efficiency in product development and production, and on alternative fuels.



Focus on efficient products

The Volvo Group is focused on creating products, services and logistics solutions that offer maximum value from a sustainability perspective. We deploy our combined resources to lead the development of the most efficient products. We adopt a holistic approach to sustainability – all the way from product development and production to product application.



The most attractive partner

Solid relationships are crucial for sustainable business development and profitable operations. Employees, suppliers and other stakeholders in society shall assess us and choose to work with us on the basis of the Volvo Group's vision, values, corporate culture and ethics.

Volvo Group in brief



Field tests using US' 10 trucks

During the year, Volvo Trucks in North America delivered five trucks to customers for field tests to confirm compliance with the very strict US' 10 emission requirements. Read more on page 16.



BRT - Bus Rapid Transit in Mexico

BRT offers numerous benefits. Environmental impact is reduced by removing less efficient buses and cars from traffic, raising traffic flows and time-savings amid an already hard-pressed infrastructure, plus lower fuel costs. Read more on page 19.



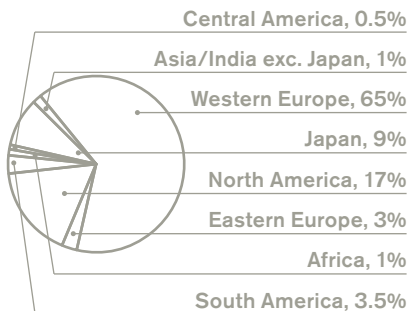
Focus on employ

Volvo conducts a survey each year. T...
fied workers is rising of the workforce ind... compared with 84%... page 29.

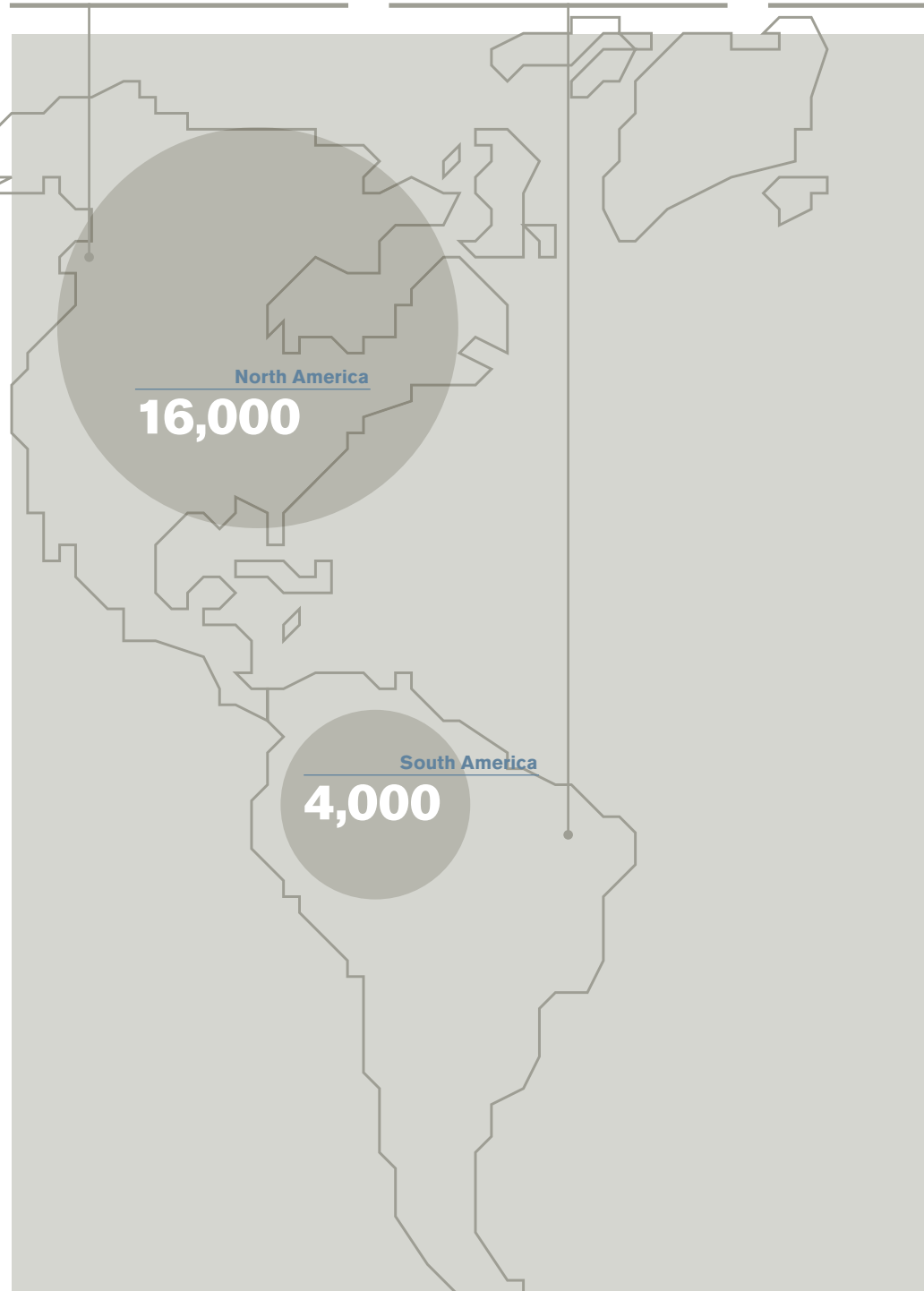
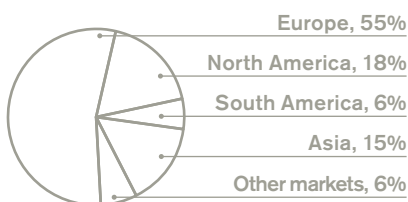
The aim of the Volvo Group is to be a leader in sustainable development, with the focus on people, the environment and economic development. The Volvo Group's customers are active in more than 180 countries worldwide, mainly in Europe, Asia and North America. Group sales of products and services are conducted through wholly owned and independent dealers. The global service network serves customer requirements for spare parts and other aftermarket services.

Volvo Group's sales in 2007 rose 10% to SEK 285.5 billion, with operating income advancing 9% to SEK 22.2 billion. The Group's workforce increased to some 102,000 employees, in 58 countries. Most of these are employed 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 2007, the Group increased its sales in Eastern Europe by 69%. In Asia, the Volvo Group completed investments in Japan, China and India that laid the basis for higher sales in the region and which are expected to contribute to the Group's long-term growth target.

Purchases by truck companies from suppliers, % by region



Net sales by market, %





Employee satisfaction
 Group-wide employee satisfaction survey results. The proportion of satisfied employees increased annually. In 2007, 86% of employees indicated their satisfaction with the company in 2006. Read more on page 24.



Climate Neutral Freight Transport
 During 2007, Volvo Trucks participated in a joint project with Preem, Schenker, the Swedish Road Administration and the Chalmers University of Technology to make a combined effort in halving the climate impact of goods transportation by 2020 compared with 2005. Read more on page 25.



New plant in India
 Volvo Buses opened a new bus body plant in Bangalore to meet the demand for efficient and sustainable urban transport solutions.



Carbon dioxide neutral transport
 The Volvo Group has pioneered the development of seven demonstrator trucks that can operate without producing any net addition of climate-impacting carbon dioxide. Read more on page 16.



Profitable growth

The Volvo Group's goal is to report a growth rate of at least 10% annually and an operating margin in industrial operations of more 7% over the business cycle.

10%

Climate impact

The Volvo Group works in various ways to reduce climate impact. The goal is that energy consumption per unit of output in 2008 will be 50% lower than in 2003. Parallel with this, the proportion of carbon dioxide (CO₂) neutral energy in production in 2008 is to be doubled compared with 2003.

50%

Fuel consumption

Since 1980, fuel consumption for Volvo trucks has declined 40%. Nitrogen oxide and particulate matter emissions are regulated by legislation. Since 1995, nitrogen oxide emissions have been halved and particulate matter emissions cut by 60% in EU road transport.

40%

Satisfied employees

Volvo conducts a Group-wide employee survey each year. The proportion of satisfied employees is rising continually. The 2007 survey indicates that 86% of employees are satisfied with their work situation.

86%

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.

Social citizenship

The Volvo Group's values also provide a solid foundation for the company's involvement as a social citizen, since the operational focus on quality, safety and environmental care is also valuable for society. Quality entails offering products and services on which customers and society can depend. Safety involves minimizing risks of accidents and limiting the results of any accidents. Environmental care expresses the Volvo Group's commitment to improved energy and efficiency and the reduction of emissions in industrial operations. Our commitment is also represented by products that have been developed and produced to be fuel-efficient, while also offering high quality and safety.

Our Code of Conduct

The Volvo Group's Code of Conduct highlights the principles governing relations with employees, partners and other interests in society, based on respect for international business principles and legislation, environmental issues, human rights, work environment issues, social issues and how we do business. The Code covers the entire Volvo Group and describes relations with our stakeholders.

Sustainable development - part of our business

Sustainable development is part of the Volvo Group's daily operations. Our business strategy includes long-term economic, environmental and social goals. We focus on issues for which we can offer the greatest benefit and on solutions that contribute to a sustainable society.

Environmental responsibility

Global warming and the resulting climate threat is one of the major problems of our time. As one of the world's leading vehicle manufacturers, we have a responsibility to reduce the environmental impact of our production and products. If we succeed in this respect, we will bolster our own competitiveness and that of our customers,

“Environmental issues are one of our top-priorities and – backed by our resources and expertise – we can and will be part of the solution.”

while also contributing to positive social development.

During 2007, we presented seven trucks that offer carbon dioxide neutral operation. We are also well ahead in the development of energy-efficient products, such as the development of hybrid technology and other innovations. We are

also focusing on reducing the impact of our production operations by, for example, reducing energy consumption. During the year we also presented the world's first carbon dioxide neutral automotive plant – Volvo Trucks' plant in Gent in Belgium. Our aim is to make all our plants carbon dioxide neutral.

Sustainability programs create competitiveness

We are keenly aware that our operations are part of the everyday life of numerous people worldwide, and thus we wish to be part of a positive force in societies in which we are active. In addition to key environmental issues, sustainable business enterprise also includes economic development and social responsibility. We view our corporate culture as one of our key competitive factors. The basic idea is that all individuals should be able to contribute their know-how, while simultaneously furthering their personal development. We view diversity as strength and a precondition for long-term success.

We are also extensively involved in social issues. Along with other players in society, we attempt in various ways to contribute to favorable social development. We have a lengthy tradition of responsible international enterprise and we plan to participate in and continue to lead future development. Also, we will continue to work with and support the principles of the UN's Global Compact. Active sustainability programs are an integral component of the Volvo Group's competitiveness and are crucial to our ability to create value for current customers and shareholders. But these efforts also contribute to a development that creates value for future generations.



Leif Johansson
President and CEO



Issues in focus

The Volvo Group believes that sustainable development is a prerequisite for long-term profitability and greater customer and shareholder value. Sustainability issues are integrated into the business plans of all our companies. This report aims at highlighting goals, results and key data relating to sustainable development and serve as the introduction to a more advanced dialogue with stakeholders.

The four primary areas of the report reflect what the Volvo Group believes are the more significant questions in the sustainability sphere. The Volvo Group has worked with these issues over a protracted period and they are also viewed as being the most relevant in the various dialogues that the Volvo Group pursues with different stakeholders – customers, suppliers, investors, employees, the public and other actors in society.

Detailed information on the Volvo Group's financial results and corporate governance is available in the 2007 Annual Report and at www.volvogroup.com

- 1. Create value** – A program permeated by the Volvo Group's corporate values and which entails that the Volvo Group, by creating customer value, also creates long-term value for its shareholders and for societies in which the Group is active.
- 2. Climate challenge** – is one of the key issues of our time and one that has top priority for the Volvo Group in its role as one of the world's leading suppliers of transport solutions. In this area the Group contributes in the form of development in the areas of technology, alternative fuels and more efficient transport.
- 3. Sustainable products** – The Volvo Group's product contribution from the perspective of development, production and users.
- 4. Being an attractive partner** – Responsibility to the Volvo Group's employees, suppliers and customers and the societies in which the group is active.

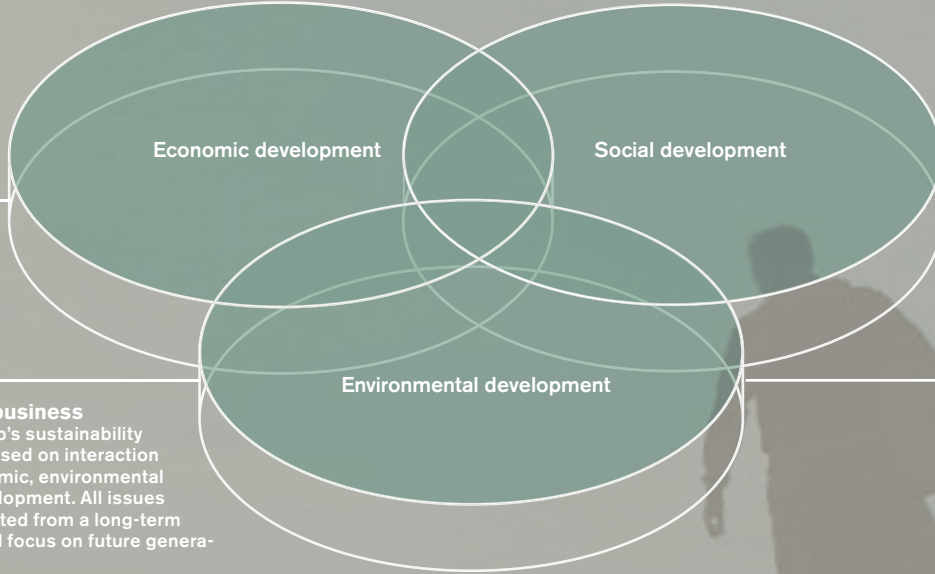


Active stakeholder dialogue

The Volvo Group seeks open communication and an active exchange of information with stakeholders at many different levels and in many varying contexts. Group representatives partake in various seminars, networks and conferences in an effort to promote a dialogue with society as a whole. One of the most important contact interfaces is the sales and service organization, which has daily contact with customers, business partners and distributors. Customer satisfaction and quality surveys as well as focus groups with customers in, for example, product develop-

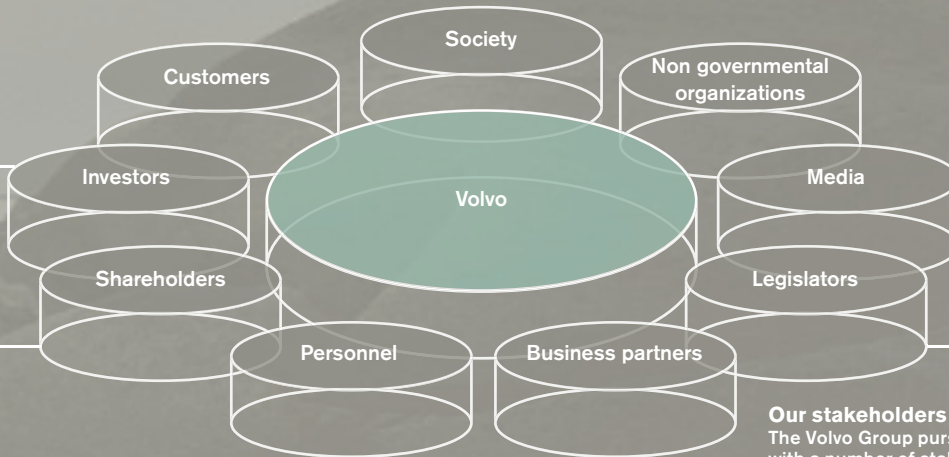
ment work are other key forums. Similar surveys are also conducted among suppliers.

The dialogue with employees is pursued primarily in day-to-day work but also in formalized structures such as development discussions, department meetings and employee surveys. All Group employees can pose questions directly to the Groups President via the intranet. The Volvo Group strives to maintain an open dialogue so that society remains informed of the Group's operations and future plans. The Volvo Group also participates in numerous cooperation projects with, for example, universities and colleges worldwide.



Sustainable business

The Volvo Group's sustainability activities are based on interaction between economic, environmental and social development. All issues must be integrated from a long-term perspective and focus on future generations.



Our stakeholders

The Volvo Group pursues continual dialogue with a number of stakeholders as part of efforts to drive and develop operations with due consideration for their viewpoints.

Interest in the Volvo Group as investment and in the Group's sustainability programs has increased, not least from environmentally focused funds and ethical funds. Several surveys have ranked the Volvo Group among the top companies that represent sustainable development. Read more on page 31.

Accounting principles

The Volvo Group's reporting in respect of sustainability issues seeks to be transparent, informative and clear, as well as attempting to create a

dialogue internally and externally that is centred on sustainability. This also contributes to our internal business development and further enhances our follow-up procedures. The report complies with the guidelines of the Global Reporting Initiative (GRI). It has not been audited by a third party. Information in this report is also supplemented with other information on the Volvo Group's work with sustainable development available at www.volvogroup.com. This is marked by  in the report.

Strong growth and favorable profitability

During 2007, the Volvo Group's sales rose 10% to SEK 285.4 billion, with operating income advancing 9% to SEK 22.2 billion.

The Volvo Group's net sales increased as a result of continuing economic growth in Europe, Asia and South America, combined with the contributions from the acquired companies Nissan Diesel, Lingong and Ingersoll Rand Road Development.

Operating margin was 7.8%. Demand for the Group's products in Europe, South America and parts of Asia was highly satisfactory, which, combined with competitive product programs, resulted in favorable prices. A superior product and market mix, plus higher sales in Europe, made a positive contribution to the Group's profitability, while dealer operations and products and services in the aftermarket business reported increased profitability.

Thanks to the Volvo Group's profitability in 2007, SEK 450 M of earnings for the year was allocated to the Group's employee profit sharing program.

Volvo Group's efforts in the area of sustainable development are pursued on the basis that they create business value for the Group itself and for the Group's customers and society. Tomorrow's winners will be those companies that manage to transform the demands expressed by society and other players for greater sustainable development into a business opportunity.

Investments in research and development plus a leading-edge product offering combine to create the conditions for profitability, both in the short and long term. During 2007, the Volvo Group invested SEK 11.1 billion in research and development, corresponding to 3.9% of net sales.

During 2007, official aid amounting to SEK 469 M was received primarily from the EU Commission, the Swedish Government and the Swedish Energy Agency.

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

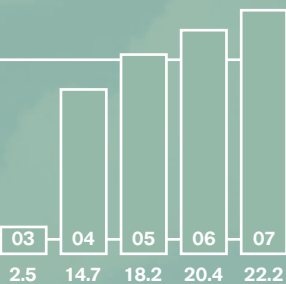
¹ 2006, a reversal was made of a valuation reserve attributable to a deferred tax receivable and an adjustment of goodwill. As a result, operating income for 2006 was adversely affected in the amount of SEK 1,712 M, while the tax expense declined by SEK 2,048 M. The aggregate impact on earnings for the period was positive and totaled SEK 336 M.

² Proposed dividend for 2007.

Volvo Group's net sales, SEK billion



Volvo Group's operating income, SEK billion



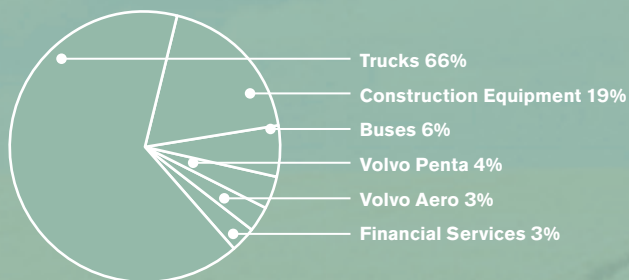
Number of employees, Thousands



Net sales by market



Net sales by business area



Organization

The Volvo Group is organized on the basis of nine product-related business areas and supporting business units. The organizational structure creates the conditions for working closely with customers while also making optimum use of Group-wide resources.



Environmentally enhanced products

The presentation below shows a selection of the Group's environmentally enhanced products.

Volvo Trucks

Volvo Trucks recently delivered five trucks for field-tests among customers, which meet the very stringent, US'10 emission requirements. US'10 will not come into force until 2010, and the vehicles delivered are equipped with both EGR (Exhaust Gas Recirculation) and SCR (Selective Catalytic Reduction). The new emission requirements entail that particulate matter and nitrogen oxide emissions are down at sustainable levels of 0.01 g/kWh and 0.5 g/kWh, respectively.



Renault Trucks

During 2006, Renault Trucks launched a new truck program that complies with the Euro 4 and Euro 5 emission requirements by equipping the engines with the SCR technology (Selective Catalytic Reduction). Deliveries of this new vehicle generation commenced in 2007 and confirmed that they met the required 5% fuel saving promised on its launch.

Nissan Diesel

Nissan Diesel Final Low Emission Diesel System (FLENDs) combines a fuel-injection system with extremely high pressure and SCR technology. Nissan Diesel was the first manufacturer worldwide to introduce this type of system into its products as the basic solution for attaining lower emissions. FLENDs reduces nitrogen oxides and particulate matter, as well as contributing to reduced fuel consumption.



Mack Trucks

In January, Mack Trucks presented a Granite truck equipped with the Group's unique hybrid technology - I-SAM (Integrated Starter Alternator Motor). The truck has been developed in close cooperation with the U.S. Air Force, which now has two similar trucks in service, in addition to a previous tanker prototype using hybrid operation. The fuel saving potential for commercial vehicles equipped with a hybrid driveline is up to 35% in operational cycles involving frequent starting and stopping.

Construction Equipment

Volvo Construction Equipment recently presented a prototype hybrid wheel loader. This diesel-electric hybrid drive system mounted on an L220F wheel loader is the first step in Volvo's continuing developing process. Reduced emissions and the approximately 10% fuel-saving potential point to the benefits that these hybrid systems offer from the environmental and economic perspectives.

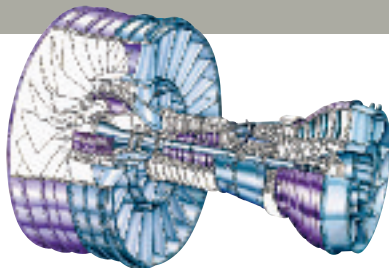


Buses

In a bid to meet today's and tomorrow's environmental requirements, Volvo Buses is using a new generation of diesel engines with SCR (Selective Catalytic Reduction), which, in addition to substantially reduced emission levels, also offers higher performance and lower fuel consumption. To contribute to lower environmental impact, an increasingly number of operators and decision-makers already use buses that comply with Euro 5, although this legal requirement does not come into effect until 2009. Volvo Buses also offers a number of models that meet the special EEV requirement (Enhanced Environmentally-friendly Vehicles).

Volvo Penta

Volvo Penta IPS (Inboard Performance System) is a new propulsion system for high-performance boats. Thanks to forward-facing propellers, fuel consumption can be cut by 30% and in certain cases up to 50% compared with conventional technologies. The new technology also makes the boat quieter, along with providing superior performance and maneuvering characteristics.



Volvo Aero

Volvo Aero is assuming ever-increasing responsibility in development work on new engines. The company's unique technologies - which include lightweight design - are increasingly popular in the aviation industry, since climate and environmental issues have come into focus. Lightweight structures have a major impact on fuel consumption and thus also on aircraft emissions. Lightweight structures, simulation and patented manufacturing methods cut development lead times, while simultaneously making engines quieter and reducing weight.

Scorecard 2007

	2005	2006	2007	Result	Page
Economic development					
Growth in net sales, %	14	7	10	↗	6
Operating margin, % Operating income divided by net sales	7.9	8.9	7.8	↘	6
Number of vehicles delivered Light, medium-heavy and heavy duty trucks, plus buses and bus chassis	225,350	230,291	246,272	↗	157 AR
Environmental development					
CO ₂ emissions from production plants, industrial operations, ton/SEK M	1.3	1.1	1.0	↘	23
Certified environmental management system, % Percentage of employees at production units working in line with the certified environmental systems, primarily ISO 14001:2004	96	99	96	↘	23
Social development					
Satisfied employees, %	83	84	86	↗	29
Women, %	17	17	17	→	26
Women in senior executive positions, %	15	15	15	→	26
Awareness of Code of Conduct, % Percentage of employees who indicate they have received information on the Code of Conduct	n a	74	81	↗	26
				AR = Annual Report	

Performance analysis

The Volvo Group's aim is to continue growing while focusing on profitability. The objective is to expand at an average rate of 10% annually over a business cycle. During the past five years, annual growth has averaged 9.2%, with an operating margin of 6.7%. In 2007, the margin was reduced by a weak trend in the US and substantial costs involved in integrating acquired companies.

The Group's targeted efforts to reduce carbon dioxide emissions from production units are providing favorable results. Emissions are declining in relation to sales. The percentage of employees working in line with the ISO 14001:2004 environmental system recently dipped slightly as a result of acquisitions. One of the demands imposed on new suppliers is that they are to be certified in line with ISO 14001:2004. However, there are a number of business partners that are not certified but with whom the Volvo Group commenced cooperation before this requirement was

imposed. These companies must now draw up action plans aimed at gaining certification.

The Group-wide employee survey, Volvo Group Attitude Survey (VGAS) offers all employees the opportunity to express their viewpoints regarding their work and propose improvements. The number of satisfied employees has risen steadily in recent years.

The Volvo Group believes that diversity is a factor that functions as catalyst for innovation and is a source of competitiveness and profitability. The Volvo Group focuses on two measurement figures in following up the trend in this area: percentage of female employees and percentage of female executives. The percentage of female employees and female executives is relatively stable.

The majority of the Group's employees state that they have received information regarding the Volvo Group's Code of Conduct. The aim is that all employees receive such information.

The climate challenge

In recent years, the climate threat has attracted considerable attention worldwide. Many believe that climate change induced by human activity is the single greatest challenge facing the world.



As a supplier of heavy duty vehicles and equipment, the Volvo Group is part of the climate change but also part of the solution. Because of its operations, the Volvo Group has a major impact on certain parts of society – in a positive sense through the Group's products being deployed to transport goods and people. The Group is also a major employer, in addition to creating job opportunities among a large number of sub-suppliers.

One of the greatest challenges of our time

The Kyoto Protocol stipulates that global greenhouse gases are to be reduced by 8% by 2012, based on 1990 emission levels. In 2007, the UN's Climate Panel, IPCC (Intergovernmental Panel on Climate Change) presented a report that implied that greenhouse gases must decline by 50-80% from 2000 to 2050, if the global temperature increase is to be limited to 2.5 degrees Celsius compared with the pre-industrial era. Carbon dioxide emissions vary sharply among countries, from more than 20 tons per capita annually to less than 1 ton per capita annually. To attain the IPCC's goals, carbon dioxide emissions per capita should be about 1 to 1.2 tons per year.

Reduction rate for greenhouse gases must increase

It is evident that if international climate goals are to be achieved, countries in the industrialized world must lead the way in reducing their consumption of fossil fuels. This is possible only through the efficiency enhancement of energy utilization. According to the much-noted Stern report from the British government, it is estimated that the costs of doing nothing about the effects of climate change is 5% of the world's aggregate GDP annually, forever. By reducing greenhouse gases, the costs of managing the effects could be cut to 1% of annual global GDP. The Volvo

Group supports joint international initiatives and regulations when they are competitively neutral. The transport sector accounts for about 25% of fossil fuel consumption. Some 14% of total global emissions of carbon dioxide derive from transport. Road transport alone accounts for 10%. The report does not distinguish the proportion attributable to goods transport but European conditions and data indicate that passenger cars accounts for 60% of carbon dioxide emissions from road transport, with goods transport accounting for the remaining 40%. This implies that the contribution of truck transport to global emissions of carbon dioxide is substantial. Alongside this, both EU and OECD statistics shows that goods transport is rising faster than GDP growth worldwide.

Efficient transport solutions

Transport is a key component of modern society and a prerequisite for welfare and growth. Consequently, the Volvo Group believes that the potential to develop effective transport solutions for the future must be highlighted. The Volvo Group's environmental programs focus on pro-environmental product development and production and on reducing the environmental impact.

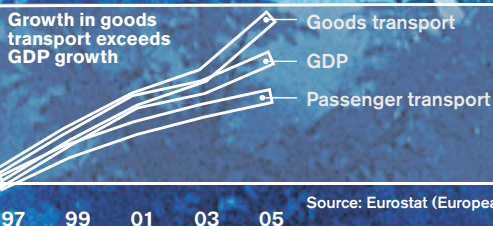
1 liter → **2.6** kg

DID YOU KNOW THAT?

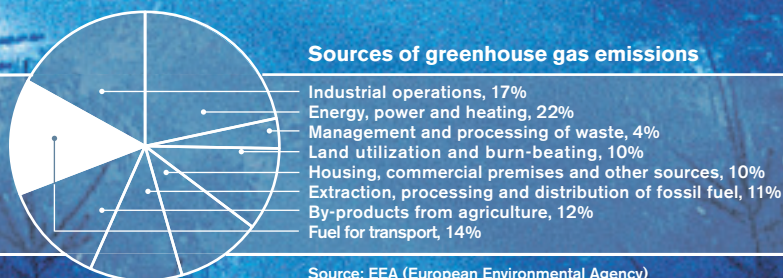
- Burning 1 liter of diesel generates about 2.6 kilos of CO₂
- Each European emits an average of some 11 tons of CO₂ annually, and to gain a more sustainable level of emissions, these should not exceed 1 – 1.2 tons of CO₂.

Source: EEA (European Environmental Agency) and IPCC

Transport volume and economic growth in EU25



Sources of greenhouse gas emissions

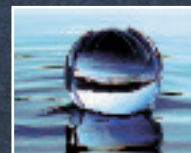


Bill Clinton's Climate Initiative supports Volvo's environmental alternative

Former US president Bill Clinton's Climate Initiative (CCI) selected the Volvo Group as a partner with regard to hybrid buses and efficient bus systems. Volvo's solution can contribute to the reduction in CO₂ emissions that 40 of the world's largest cities are now working on with Clinton's Climate Initiative. CCI has highlighted hybrid buses and Bus Rapid Transit (BRT) and it plans to use its expertise and contacts in the 40 major cities to demonstrate the considerable potential that hybrid technology and BRT can offer in reducing carbon dioxide emissions.

Volvo Environment Prize awarded energy pioneer

In 2007, the Volvo Environmental Prize foundation awarded the honor to Amory B Lovins, of the Rocky Mountain Institute in the US, for his outstanding landmark achievements in the energy area. During the past 30 years, he has contributed innovative theoretical and practical applications aimed at reducing energy consumption. When first presented, the Institute's findings were viewed as spectacular but later gained general acceptance and are now standard. Throughout his professional life, Amory Lovins has devoted his efforts to energy enhancement. As founder and chief researcher at the Rocky Mountain Institute, he has created a platform for research and cooperation that has meant a great deal for innovative approaches regarding the energy issue.



How we organize our environmental responsibility

Environmental care permeates everything we do. It is an integral feature of our business. Efforts in this respect are coordinated by a Group council consisting of managers from each business area and business unit. The issues are part of everyday operational responsibility.

The Volvo Group's environmental policy revolve around the following strategies:

- Holistic approach. The company's products are viewed in a broader context in which the endeavor is reduce the environmental impact of the Group's products and processes in all stages of the life cycle – all the way from concept to disassembly and waste. The chain also includes customers, society, dealers and sub-suppliers.
- Consistent improvement. Environmental programs must be integrated and monitored in all operations to ensure consistent improvement.
- Technological development. Environmental care requirements are to be met via active research and development in such areas as transport, legal requirements, reduction in product environmental impact, while also targeting a reduction in the use of environmentally hazardous materials.
- Efficient resource utilization. Due consideration must also be made of the entire life cycle in terms of products and processes to ensure efficient optimum resource utilization, while also facilitating waste management.



Volvo Group's environmental policy

One of the key features in the control of environmental issues in the Volvo Group is the decision to pursue a shared environmental policy for all parts of the Group. Environmental requirements for suppliers were introduced in 1996 and are used as an integral aspect of supplier assessment and follow-up by various purchasing organizations. The initial guidelines for the Volvo Group's environmental policy were adopted as early as 1983. A new environmental policy was adopted in 1989 and lays the basis for the Group's environmental management system, strategies and goals, audits and actions. The environmental policy was last updated in 2004. The same approach is applied to the Group's corporate values – quality, safety and environmental care.

The environmental policy entails the undertaking to widen the Group's environmental program to include business partners such as suppliers and dealers.

Environmental management system in place

The environmental management system is a tool used to control environmental programs. The first system in the Group was certified as early as 1995. At year-end 2007, some 96% of the workforce at production units worked in line with certified environmental management systems, primarily ISO 14001:2004. But even in other parts of the value chain – such as product development, logistics and marketing, environmental management systems are in place.

Responsibility for ensuring the production plants' responsibility for environmental work is part of regular operational responsibility. All production plants have environmental coordinators. The business areas' development departments and Group-wide development units deal with issues concerning product emission levels fuel consumption and materials selection. Each business area has an environmental manager. The Volvo Group also has in-house consultants with specialist expertise in, for example, chemicals, life-cycle analysis, environmental audits and environmental protection.

Environmentally adapted product development and utilization

In product development, the Volvo Group's environmental programs focus on raising energy efficiency, evolving existing technology, developing innovative technology and alternative fuels. Parallel with this, production, logistics, services, sales and recycling are marked by environmental care considerations.

The Volvo Group manufactures a large number of products with a varying impact on the environment. The basic principle is that each product should have a smaller environmental impact than that which it replaces, which imposes demanding requirements in terms of environmental considerations in the development of new products.

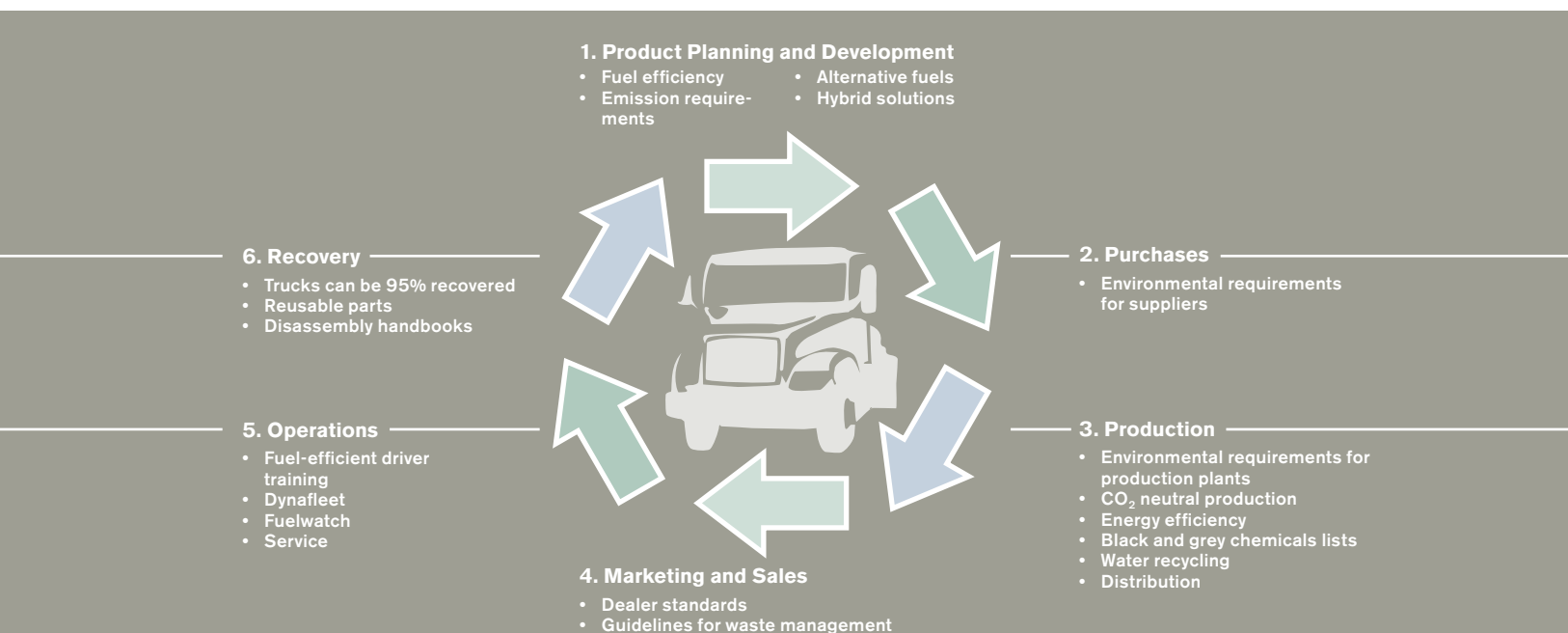
The greatest environmental impact of the Volvo Group's products arises in their utilization. Consequently, product development and follow up of product use are closely linked. The products use primarily diesel engines, since these offer high-energy efficiency and low emissions. The diesel engine is the most efficient energy converter to date. Thus, it is important to focus on fuel consumption and emissions as part of efforts to reduce the overall environmental impact of products. Nitrogen oxide and particulate matter emissions are regulated via legislation. Carbon dioxide emissions are proportional to the product's fuel consumption.

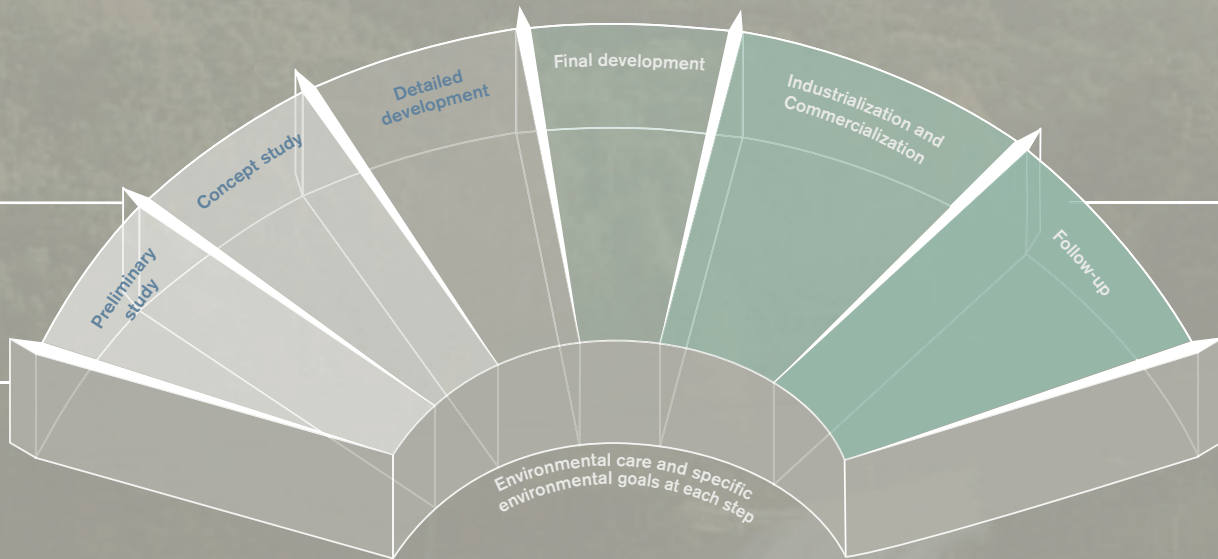
Environmental impact throughout the life cycle

Life-cycle analysis provides a profile of a product's environmental impact over its entire life – from raw material to waste product. The analyses indicate that up to 90% of the total environmental impact arises from product utilization.

The Volvo Group has developed a product that distinguishes six sub-stages: preliminary study, concept study, detailed development, final development, industrialization and commercialization, and follow-up. Each sub-stage includes definite environmental targets that must be met if the process is to continue. Here, the Group works using cross-discipline teams drawn from the various companies in a bid to attain optimal results.

The products are largely recoverable, since they consist almost 90% of metal, mainly iron and aluminum. By way of support in the recovery process, disassembly handbooks are available for almost all products to show how the materials are best recovered.



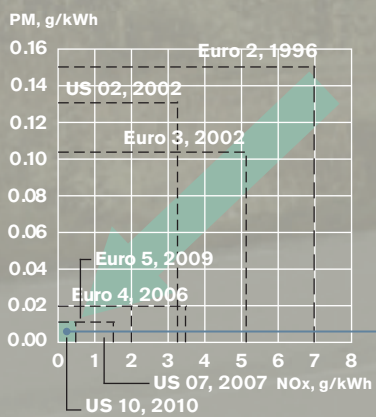


Environmental responsibility at each stage

The Volvo Group works with environmentally optimized product development throughout the product's development phase – from prestudies to follow-up. Life-cycle analysis (LCA) has been applied to a number of models and is conducted in pace with the development of new models for which LCA offers new insight. Each development stage is accompanied by environmental goals that must be attained in order to advance in the development process.

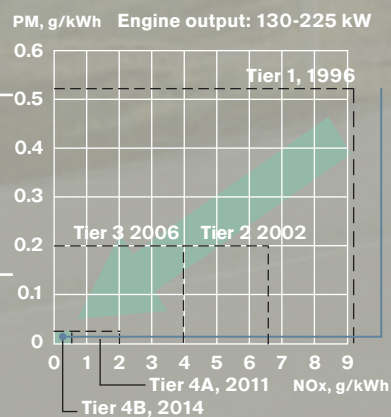


Emission standards for trucks and buses



Emissions legislation for trucks and buses regulates health-related emissions in the form of Euro classifications. In Euro 4, emissions of nitrogen oxides (NOx) are 30% lower than Euro 3. Particulate matter emissions (PM) are 80% lower.

Emission standards for construction equipment



Nitrogen oxide and particulate matter emissions for construction equipment have fallen by about 60% since 1996. By 2014, nitrogen oxide and particulate matter emissions must decline by a further 90% compared with today's Tier 3 level.

To limit and eventually phase out hazardous substances from products and production process, the Volvo Group has drawn up black and grey chemical lists. The black list indicates chemicals that may never be used and the grey list shows those whose use is to be restricted.

The Volvo Group observes the precautionary principle, meaning if there is any uncertainty surrounding the substance's hazardous environmental impact, it should be viewed as being hazardous and be replaced by a superior alternative in the development of products and production operations.

Environmental Product Declaration

Environmental product declarations are prepared as part of efforts to describe a product's environmental impact throughout its life cycle. The declarations comprise three sections: production, use and scrapping. The "Production" section describes such aspects as energy consumption, emissions and waste. The "Use" section presents fuel consumption, emissions and spare part utilization. The third section deals with scrapping.

Strict legal requirements

In their efforts to improve air quality, the official authorities in various countries are imposing ever-stricter requirements designed to reduce emissions from road transport, especially emissions of nitrogen oxide and particulate matter. In the EU, the latest emission regulations were introduced on October 1, 2006 (Euro 4) and in the US on January 1, 2007 (US'07) for trucks and buses. The requirements will be further tightened further in just a few years time.

Meeting future requirements

To meet these requirements, the Volvo Group is continually evolving new engine technology designed to cut energy consumption and emissions. The primary focus in development is on the diesel engine. The Volvo Group applies three parallel approaches to meet stricter environmental demands and reduce the need for fossil fuels.

- Attain high fuel efficiency and low emissions throughout the life cycle
- Develop alternatives that complement the diesel engine, such as hybrid drivelines offering the potential for energy storage
- Develop and identify alternative fuels. Optimizing the diesel engine for operation with alternative fuels is not a major problem. Instead, the real challenge is producing and distributing sufficiently large volumes of these fuels

Fuel-efficient driving and Fuelwatch

Combined with technological progress and alternative fuels, fuel-efficient driving and various systems for following-up driver behavior offer considerable potential to cut fuel consumption. Fuelwatch is Volvo Trucks' general concept covering several measures that a transport company can implement to reduce fuel consumption, and, thus, its costs. Measures included in Fuelwatch include, for example, tire pressure monitoring, which continually monitors tire pressure and provides a warning in the event of any deviations, and aerodynamic equipment for trucks, which reduces air resistance by 10 to 20%. The Fuelwatch framework also includes fuel saving, maintenance and upgrades, the Dynafleet operator information system, and the Fuel Management Service consulting program. Customers can save an average of 2–10% fuel, thereby reducing emissions and costs for transport companies. Changes in truck drivers' driving methods account for the largest share of savings.

A number of the Volvo Group's business areas have similar solutions. Renault Trucks, for example, uses the Optifuel concept for a range of complementing products and services aimed at gaining further fuel savings.

Increasingly efficient engines

Since 1980 fuel consumption in Volvo trucks has dropped by 40% while emissions of nitrogen oxides and particulate matter have fallen sharply.

The Volvo Group has developed engines that already meet the requirements that are set to apply in Europe from 2009. As early as April 2006, a refuse truck was driven with a Euro-5 engine – three years ahead of the implementation of the European legal requirements.

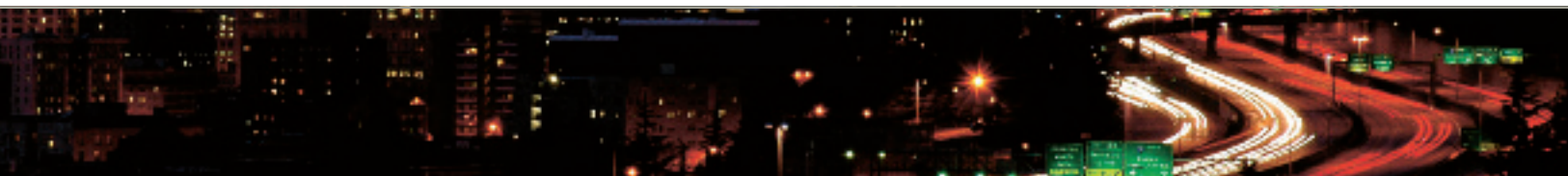
Technology prize for the most advanced engine program

The Volvo Group has the world's most advanced program for heavy duty diesel engines. Developed work was completed in-house and the resulting product was rewarded in the form of the Volvo Technology Prize for 2007. These are now being manufactured for trucks, buses, and construction equipment as well as

for marine and industrial applications. Using combustion optimization and intelligent control systems, engines are being designed with the potential to meet today's and tomorrow's known requirements that will gradually come into effect up to 2014. The prize was presented to the four project leaders, namely, Philippe Gaillard, Patrick Odelberg, Douglas Nakano and Chris Smith.

A number of countries in Europe have elected to subsidize, by various means, the purchase of buses and trucks that meet the Euro 5 requirements. During 2007, some 50% of the 53,752 trucks supplied by Volvo Trucks in the EU's 27 members and Norway and Switzerland were equipped with Euro 5 engines. Of the total of 69,075 trucks delivered by Renault Trucks in Europe, 12,619 were equipped with Euro-5 engines.

greenhouse gases in the atmosphere. More than 99% of all energy used in the transport industry derives from crude oil. The growing demand for crude oil, combined with limited supply, will lead to continually higher prices. The raw material base available for the production of renewable fuel will be limited for a long time ahead. We must invest in alternatives that offer maximum energy efficiency and optimal land utilization in an



Field tests for US'10

During the year, Volvo Trucks in North America supplied five trucks that meet the very exacting emission requirements of US'10 to customers for field tests. US'10 will come into effect in 2010 and the vehicles delivered are equipped with both EGR (Exhaust Gas Recirculation) and SCR (Selective Catalytic Reduction). The technology used to comply with the requirements is based on EGR, in which nitrogen oxides in exhaust gases are cut by returning part of the exhaust gases to the engine for combustion, along with the use of particulate filters and SCR. SCR is an efficient and well-proven method for reducing the amount of nitrogen oxides in diesel exhaust gases by injecting a mixture of urea and water into the exhaust gases. The heat from the exhaust system transforms urea into ammonia, which reacts with the nitrogen oxides in a catalytic converter, where they are transformed into nitrogen gas and water vapor. The Volvo Group's experience of SCR in Europe – where it has to date delivered more than 100,000 vehicles equipped with SCR – indicates that it is the best technology for providing very low emissions of nitrogen oxides and excellent fuel economy.

Carbon dioxide neutral transport

The Volvo Group has pioneered the development of seven different demonstrator vehicles that can be operated without any net emission to the atmosphere of climate-impacting carbon dioxide. The trucks were presented for the first time in August 2007 and are equipped with diesel and gasoline engines developed to be operated using seven types of renewable fuels, both liquid and gas form. Since all of these fuels are manufactured from renewable raw materials, their combustion does not result in any net addition of carbon dioxide to the ecocycle and thus does not affect the climate.

Renewable fuels

There are convincing reasons to replace the use of fossil fuels – such as oil, coal and natural gas – since they contribute to raising the levels of

effort to manage the scarce raw material base and avoid competition with food production. As regards the choice of fuel for the future, the Volvo Group supports the holistic approach of “from well-to-wheel” and gives priority to energy efficiency and low emissions of greenhouse gases. The Volvo Group seeks consistently to improve fuel efficiency, irrespective of other particular fuel. These fuels are optimal from various perspectives, depending on current conditions. The assessment of the various fuels is based on seven criteria:

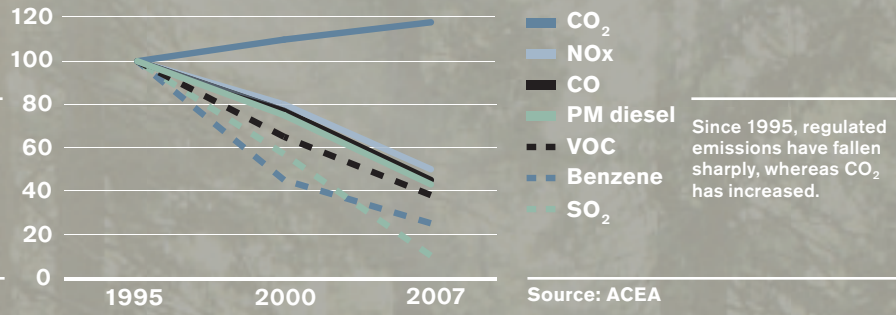
1. Climate impact, reduction of carbon dioxide emissions compared with conventional diesel
2. Energy efficiency, the fuel's efficiency ratio
3. Land use efficiency, driving distance per hectare/year
4. Fuel potential, efficiency in the manufacturing process and final use
5. Vehicle adjustment – how technically complex is the adjustment process required to match the fuel
6. Fuel cost, production cost for the fuel from raw material to the fuel tank
7. Fuel infrastructure, management and distribution of the fuel

All renewable fuels have the potential to reduce climate impact of the transport industry. As shown in the table on page 17, all renewable fuels have their pros and cons. In the short term, the addition of biofuel to fossil fuel is the optimal solution, since the availability of and infrastructure for the distribution of renewable fuels is limited. Read more at www.volvogroup.com

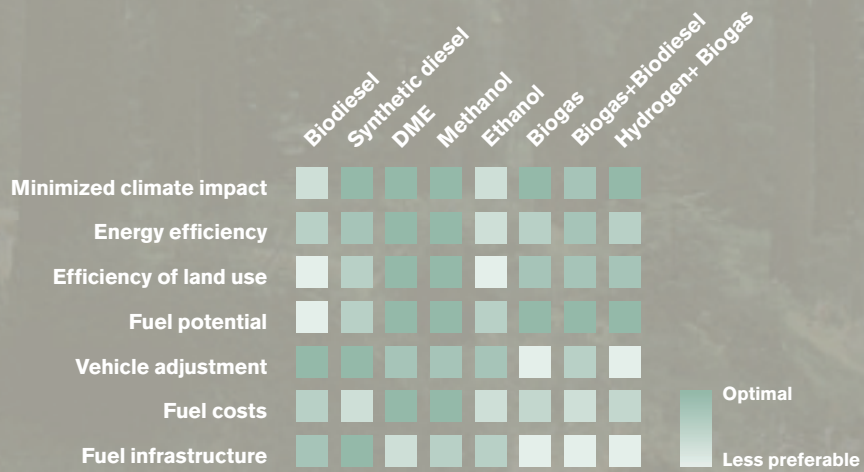
Leading player in hybrid technology

The Volvo Group is the leading player in hybrid operation for heavy duty vehicles such as trucks and buses, and has a unique hybrid solution that offers considerable potential for commercial success. During the past 20 years, the Volvo Group has worked with research and development in basic hybrid technology. The Group's own tests and simulations confirm that hybrid operation for heavy duty vehicles is best for vehicles that are compelled to make numerous stops and starts during operation, such as buses, distribution trucks and refuse vehicles.

Sharp reductions in emissions in the EU



Assessment of various fuels for internal combustion engines*



*The result can vary for a particular fuel depending on the production process used. Read more at www.volvogroup.com

The Volvo Group's hybrid concept, I-SAM (Integrated Starter Alternator Motor), offers fuel savings of up to 35%, depending on the application area and driving conditions. Also, the vehicle's maintenance costs can be reduced through a reduction in brake system wear. The Volvo Group is pursuing hybrid projects for distribution and refuse trucks, including a construction truck from Mack Trucks – a Mack Granite – equipped with a hybrid driveline, which has been developed for the US Air Force. In a joint project, a prototype tanker truck has also been developed using hybrid technology.

Volvo Buses' hybrid venture will see the first field tests using double-decker buses in London in summer 2008. All these vehicles can function on diesel or biodiesel/FAME (Fatty Acid Methyl Ester). The first vehicle is expected to come into production in 2009.

The Volvo Group is also developing hybrid technology for construction equipment, such as wheel loaders, in which the potential fuel saving is up to 50%.

Volvo Group in international cooperation

The Volvo Group participates as a business partner in an environmental program that has been developed between the US and Swedish governments. The program is aimed at reducing the use of fossil fuels by working with projects in the areas of energy and automotive development. For the Volvo Group, this involves developing drivelines for heavy duty vehicles adapted to use alternative fuels.

This cooperation venture is the result of a research and development agreement that was concluded in June 2006 between the Swedish and US governments. The Volvo Group is acting as a business partner in a number of projects within the framework of this agreement. The project is aimed at enhancing fuel economy and reducing of greenhouse gas emissions and includes the development of hybrid technology for heavy duty vehicles and an analysis of the effect of various biofuels on the diesel engine.

Among others, Mack Trucks is participating in the project, which is financed by the Volvo Group as well as by the Swedish and US governments.



“ We think it is extremely stimulating to be part of this unique joint project, says Jan-Eric Sundgren, a member of Volvo's Group Executive Committee, and in charge of public and environmental issues. It permits us to conduct a number of projects in the environmental area that would otherwise have been impossible. We hope our participation can lead to additional cooperation projects in sustainable development.

Efficient urban transport and reduced emissions with BRT

The global population is becoming increasingly urbanized. Urbanization is occurring at an ever-faster rate, leading to an untenable situation with congestion, inferior air quality, a poor traffic environment and a falling quality of life. Consequently, city managers worldwide are seeking more efficient, safer and environmentally enhanced public transport that can attract more people and induce them to leave their cars at home. Bus Rapid Transit – the BRT system – is an increasingly popular solution.



How much public transport do you get for USD 1 billion

250 km



10 km of subway lines



50 km of streetcar lines



250 km of BRT

The BRT system frequently includes separate bus lanes, high frequency service, efficient ticket systems, modern, high-capacity buses, and bus-stops designed to ensure prompt passenger entry/exit. Overall, these features offer rapid and comfortable bus travel comparable with rail-operated traffic but at a considerably lower cost. BRT provides several benefits: at the same time as the environmental impact is reduced, less efficient buses – as well as cars – can be removed from the streets, leading to improved traffic flows and time savings amid an already hard-pressed infrastructure. Moreover, costs are reduced, thanks primarily to reduce fuel consumption.

Volvo has initiated and manages projects in Europe, South America and Africa. Volvo Buses is the global leader in the delivery of buses for modern BRT systems. The first large-scale system was established in

BRT MEXICO CITY

- 100 buses
- 250,000 passengers daily
- Reduction in CO₂ emissions of 45,000 tons per year, corresponding to the CO₂ emissions of 15,000 passenger cars annually

Curitiba in Brazil in the 1970s. Since then, Volvo has supplied buses for BRT systems in cities such as Bogota in Columbia, Leon and Mexico City in Mexico, and to Santiago in Chile. Mexico City has the world's heaviest trafficked BRT line. This comprises 100 buses used daily by 250,000 passengers. Thanks to its BRT system, Mexico City has reduced carbon-dioxide emissions by 45,000 tons annually – corresponding to the emissions of 15,000 passenger cars annually. With their Euro 3 or Euro 4 engines, the buses have contributed to a 75% reduction in nitrogen oxides and particulate matter.

The emission of carbon dioxide is reduced because the stretched buses can cope with more passengers, do not need to brake and accelerate in dense traffic, drive dedicated routes and are frequently full. Parallel with this, the social gains are substantial at the individual and overall metropolitan levels.

Focusing on fuel consumption

Since 1980 fuel consumption by a Volvo truck has been cut by some 40%. The illustration below describes an example of the additional fuel savings potential using current technology. If the vehicle is equipped with a hybrid driveline, fuel savings may be up to 35%.

25,25 meter

With a vehicle length of 25,25 meters instead of the current 18 meters in the EU, three truck-trailer sets can be replaced by two.

-15%



Low weight

Thanks to a weight-optimized design, each vehicle can carry higher loads.

-5%

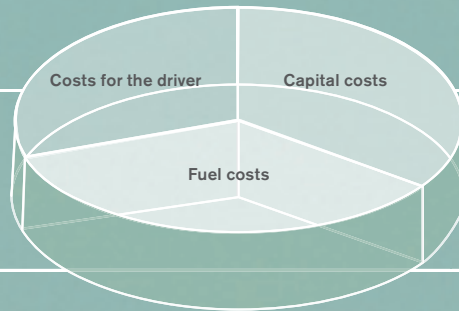
Less fuel consumption, 1/100 km
 Fuel consumption trend for a Volvo truck in Europe.

Source: Volvo



1980	1990	1993	1998	2001	2006
44	35	33	31	30	28,5

A transport company's costs



A transport company's costs are approximately equally divided among costs for the drivers, fuels costs and capital costs. The fuel savings potential for trucks with hybrid operation are up to 35%, making hybrid solutions even more attractive for heavy vehicles than for passenger cars.

Design

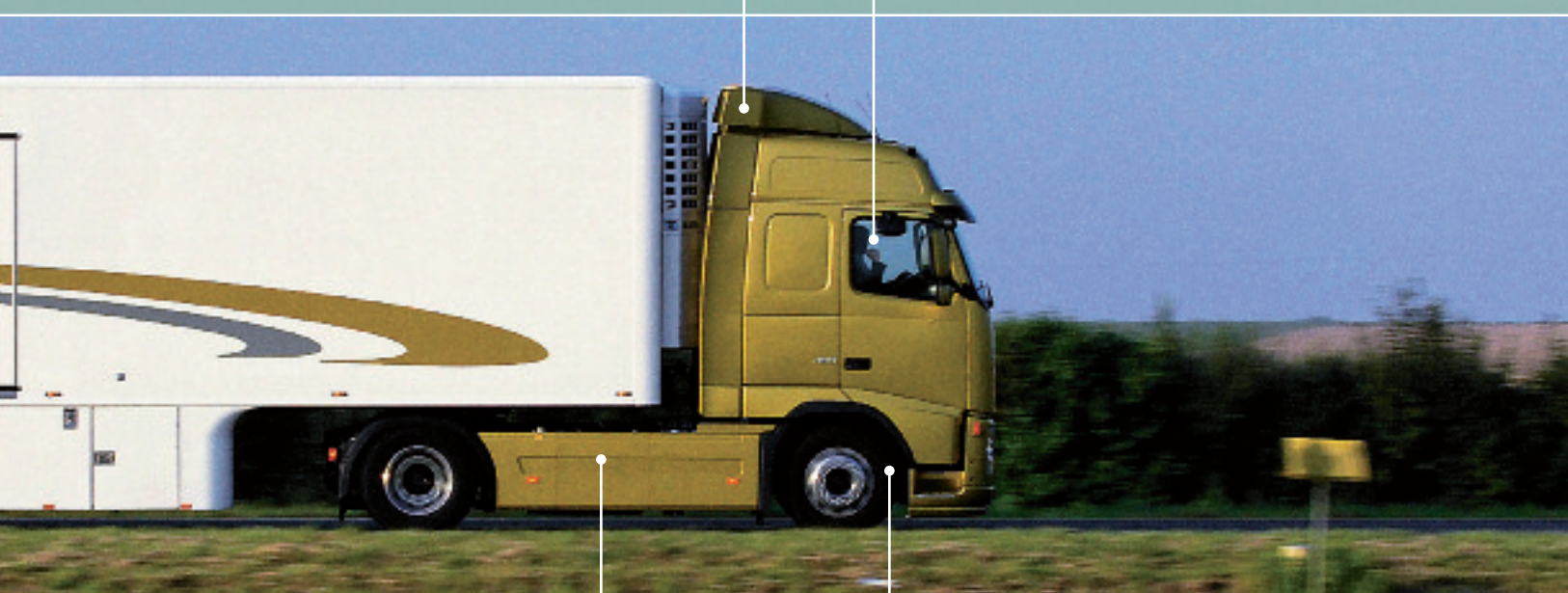
Efficient design reduces air resistance by between 5-10%.

-5%

Fuel-efficient driving

Thanks to fuel-efficient driving, the driver can influence fuel consumption by between 5 and 10%.

-5%



Side spoilers

Contribute to reducing air resistance.

-5%

Tires

Contribute to low rolling resistance and noise levels.

-5%

Driver training for the environment, safety and profitability

Ever-rising fuel prices and stricter demands on drivers have made driver training more important than ever. A number of Volvo Group companies offer driver training programs. The programs contribute to raising driver skills, and focus on environmental issues and fuel-efficient driving and safety.

Drivers who have undergone driver-training programs operate their vehicle with lower fuel consumption and higher safety. Thus, they create the conditions for higher profitability among transport companies, as the drivers are more efficient and trucks are utilized optimally.

The Volvo Group's driver-training programs are aimed at contributing to:

- Reducing day-to-day risks and enhancing personal safety
- Improving the daily work environment and reducing stress and physical strain
- Improving professional skills and thus contributing to personal development
- Increasing knowledge of the vehicle
- Improving load safety and fuel efficiency

During the second half of 2007, Volvo Trucks launched a new course in safe driving for the European market. The course focuses on reducing accidents involving personal injuries and fatalities, as well as reducing damage to vehicles and goods. The training course includes load safety.

The significance of well-trained drivers is becoming increasingly evident. From 2009, the EU will require that professional drivers are trained in compliance with the "Driver Directive." The Directive affects professional transport on EU roads and means that all new drivers must have a basic training on top of the driving license and all drivers are to be trained in line with the regulations in each country.

Traffic accident research contributes to continuing development

Whenever there is news of an accident in the Gothenburg region involving a Volvo truck or bus, Volvo's Accident Research Team is alerted. All key factors surrounding the accident can be studied on site. The team has scrutinized more than 1,500 accidents. Other serious accidents have been studied subsequently by investing the vehicle at workshops and by means of reports from the police, rescue services and hospitals.

The Volvo accident research program is the most advanced in the automotive industry and has a detailed databank with information covering some 40,000 accidents. This research is highly valuable for the Volvo Group's product development and in shaping driver training.

The primary factors underlying accidents are excessive speed, limited visibility and a lack of attention by the driver. Volvo has seen the incidence of accidents decline by 40-60% following the completion of driver safety training.

Product safety

Safety issues as well as environmental aspects are a key feature of development work. The Group works with minimizing risks for and the consequences of accidents as well as improving safety and the work environment for drivers. The human factor is either decisive or highly contributory factor in most accidents, confirming the importance of characteristics such as good visibility, driving characteristics and good brakes. The Group is far ahead in terms of designing vehicles that protect the driver and passengers in the event of a collision. Solutions include well-tested cabs and chassis, frontal collision protection, deformation zones, safety belts, deformable fittings and airbags.

The Group also works on improving safety for other road users. For example, as early as 1996, the Group introduced the front underrun protection system that prevents passenger cars from being wedged under the truck in frontal collisions. Since 2001, this system is standard on Volvo's trucks in the EU and in 2003 this protection became a legal requirement in the EU.



Environmentally optimized production and logistics

To reduce the overall environmental impact of the Volvo Group's operations, far-ranging programs are in progress at our production facilities and in our logistics system. These encompass such areas as energy-saving programs and the curtailment of certain chemicals in production. Considerable investments during the year led to a reduction in environmental impact.

Three distinct environmental objectives for production

The Group's environmental objectives are used to follow up the entire organization and are an integral part of the business plans of the business areas and units. The environmental objectives can be summarized in the form of a number of challenges. In production, these involve:

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

Demands imposed on plants are monitored

The Volvo Group has 58 production plants in 19 countries worldwide. The plants vary from the most modern units with their advanced automation to small-scale production units. All production units must meet the Group's minimum demands in terms of environmental performance and pursue improvement programs. The requirements include that energy consumption, waste volumes and emissions to air are to be monitored, along with the specification of maximum emission levels to air and water. The production units must also follow the guidelines relating to chemical utilization as specified in the black and grey lists. The rules for waste management are also included in requirements. If local legislation and regulations are more far reaching than the Group's requirements, then these must be met. Most plants meet requirements by a good margin and also show steady improvements. Since 1989, recurring

environmental audits are conducted to ensure that plants observe the environmental policy. In 2007, 96% of employees worked at production plants operating in line with ISO 14001:2004. In connection with the Group launching its first environmental goal in 1987, requirements were formulated for waste management at the plants. The total amount of waste from the Volvo Group's plants in 2007 was 275.8 kilo tons. 63% of this waste was recovered. The Volvo Group has its own packaging system featuring boxes and pallets in an effort to cut packaging waste.

Carbon dioxide neutral plants

In September, the Volvo Group presented the world's first carbon dioxide neutral automotive plant, namely, the plant in Gent Belgium. The facility has a workforce of 2,500 employees, with annual output of some 35,000 trucks. As early as 2005 it was decided to transform the Volvo Trucks' plant in Tuve, Sweden, into carbon dioxide neutral automotive plant. The ultimate aim is to make all the Group's plants carbon dioxide neutral. In the case of Gent, investments in wind power and a biofuel plant provide electricity and heat that does not result in any carbon dioxide emissions to the atmosphere. As a result of the measures at the Gent plant, emissions of carbon dioxide to the atmosphere have declined by 14,000 tons annually.

Plant energy-savings program

Our plants in the US have affiliated to the US Environmental Protection Agency's Climate Leaders Program and, thus, have pledged to reduce

Environmental performance of the Volvo Group's production plants

Absolute values related to net sales	2003	2004	2005	2006	2007 ¹⁾
Energy consumption (GWh; MWh/SEK M)	2,607; 14.9	2,695; 13.3	2,683; 11.6	2,612; 10.5	2,426; 9.6
CO ₂ emissions (1,000 tons; tons/SEK M)	298; 1.7	293; 1.5	292; 1.3	282; 1.1	242; 1.0
Water consumption (1,000 m ³ ; m ³ /SEK M)	8,587; 49.1	8,495; 42.2	7,419; 32.1	7,596; 30.6	7,067; 27.9
Nitrogen oxide emissions (tons; kilos/SEK M)	570; 3.3	645; 3.2	672; 2.9	606; 2.4	542; 2.1
Solvent emissions (tons; kilos/SEK M)	1,965; 11.2	2,085; 10.3	1,960; 8.5	2,048; 8.3	1,979; 7.8
Sulfur dioxide emissions (tons; kilos/SEK M)	200; 1.1	184; 0.9	209; 0.9	69; 0.3	58; 0.2
Hazardous waste (tons; kg/SEK M)	21,613; 124	24,675; 122	23,590; 102	26,987; 109	27,120; 107
Net sales, SEK bn	174.8	202.1	231.2	248.1	253.2

1) Excluding Nissan Diesel and Ingersoll Rand's division for road construction equipment.

The Group has compiled environmental data since 1990. Environmental data reports are available at www.volvogroup.com/environment

emissions of greenhouse gases. In 2007, the facility at New River Valley managed to reduce its emission of greenhouse gases by 40% compared with 2003. The Hagerstown plant has upgraded equipment to provide energy savings. In 2003, 2.25 MWh was required to produce an engine or gearbox, but by 2006 this figure was reduced to 1 MWh. The Macungie plant managed to reduce emissions of greenhouse gases by 50% between 2003 and 2006 by adding to the efficiency of production processes and by using alternative fuels. During the same period, energy consumption fell 22%.

Risk management

The Volvo Group has a wide-ranging risk assessment method aimed for foreseeing potential damages, emissions and production stoppages at its plants. The Group has insurance cover for environmentally related damage in the surrounding area in the event of accidental emissions, for example. During 2007 no major environmental incidents occurred and no environmental disputes are in progress.

The production plants have the required permits. In Sweden, 16 facilities require permits that cover waste, noise and emissions to land, air and water. Four Swedish permits were renewed in 2007 and three need to be renewed in 2008. Each year, an inventory is made of the incidence of polluted land on the Group's properties. Pollution incidents at plants can generally be traced to historical sources. During 2007, remedial operations were conducted at six plants.

In conjunction with the acquisition of companies and real estate, a review is made of the company – referred to as due diligence – which, in addition to financial and legal aspects, also take into account environmental factors and environmental risks. In connection with acquisitions, information always is provided that to provide a basis for an action plan to ensure that the acquired company can attain the Volvo Group's minimum requirements.

Pro-environmental investments

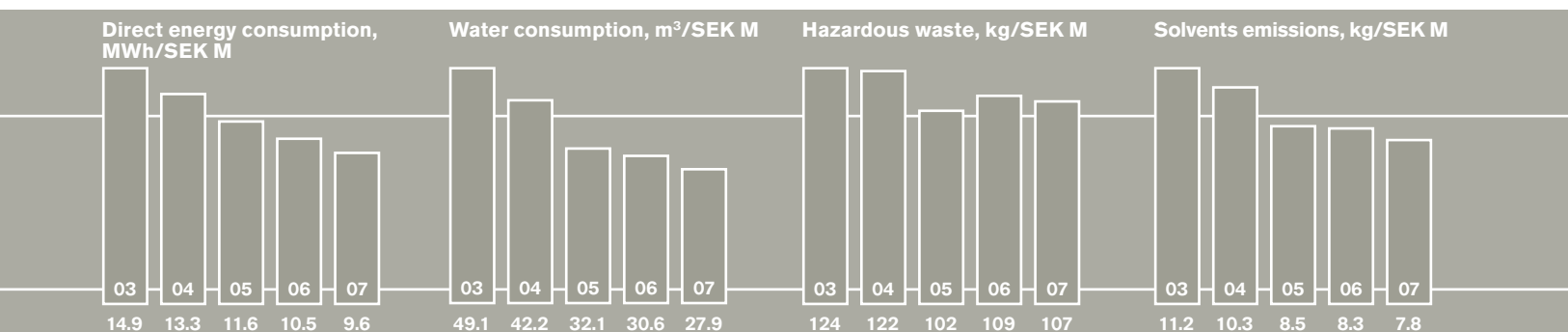
The Volvo Group continually makes pro-environmental investments. In April 2007, AB Volvo's Board decided to invest SEK 530 M in Renault Trucks Cab plant in Blainville, France. These investments are designed to raise capacity in the plant and encompass assembly and paintshop operations. The cab plant builds cabs for Renault Trucks' various truck models. As a result of the investment in the paintshop Renault Trucks can also shift to water-based lacquers, which are a more environmentally positive alternative compared with current solvent-based lacquers. The changes in the plant are expected to be completed by 2009.

Since 2003, a number of investment projects have been completed to improve and optimize energy consumption in production.

Volvo Group is investing about SEK 1 billion in the foundry at its Skövde facility in Sweden – which encompasses an additional foundry – making the unit essentially self-sufficient in heating energy. A large share of the Volvo Group's production development costs relate to environmental improvement programs for the vehicles.

Biodiversity

Volvo Group does not pursue activities in areas listed as sensitive or protected in respect of biodiversity. We have 14 parameters in our environmental data to measure emissions to water and the recipients are inventoried. In Belgium and Sweden, the Volvo Group participates in water and air care programs.



Volvo Logistics - developing more efficient transport solutions

Volvo Logistics' task is to develop logistics solutions for the entire Volvo Group. The unit has long worked with reducing environmental impact from its own transport operations, focusing on reduced emissions, alternative fuels, energy efficiency and development of expertise. Volvo Logistics' overall carbon dioxide goal is to reduce carbon dioxide emissions from transport in Europe by 20% between 2005 and 2010 and by 50% by the year 2020.



"We are prepared to take on the demanding challenge implied by a 20% CO₂ reduction by 2010," says Åke Niklasson, President, Volvo Logistics.



"I would like to see all transport companies that deliver to and from our main plants in Europe cutting their CO₂ emissions 20% by 2010. This is part of our climate strategy," notes Staffan Jufors, President, Volvo Truck Corporation.

Cooperation with suppliers

Volvo Logistics works consistently with assessing existing logistics configurations in a bid to identify more efficient and less environmentally impacting solutions. These requirements have been stated as part of the procurement of transport facilities in the Volvo Group's Global Carrier Survey, which imposes requirements on the environmental management system of transport companies and emissions, plus continual improvements. These demands are also followed up by means of recurring random checks. Some 68% of Volvo Logistics' suppliers are certified in line with ISO 14001:2004. The average truck fleet corresponds to the requirement set in Euro 3.

In early 2008, Volvo Logistics signed the Clean Shipping Criteria, which is a cooperative project among the major buyers of maritime transport in Sweden. The purpose is to impose shared requirements on reducing emissions and other environmental impacts from maritime transport.

Volvo Logistics offers considerable potential to assist customers in being more efficient and having a smaller environmental footprint in their operations. A review of overall transport requirements for one of Volvo Logistics customers in 2005 provided superior, smarter and more flexible logistics flows. Shared cargoes, higher load levels and superior utilization of various transport modes, including a higher share of maritime transport provided

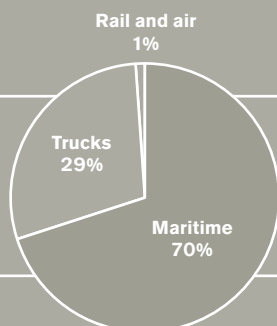
the solution. Thanks to the new configuration, the emission of carbon dioxide was reduced by almost 425 tons annually – a 50% reduction from previous arrangements. Nitrogen oxide emissions fell by some 100 kilos annually. The review led also to substantial cost savings for the customer.

Volvo Logistics has seven priority areas as regards traffic safety: appropriate speed, use of safety belts, driving and rest periods, securing of loads, alcohol and drugs, and hazardous goods. Thanks to regular random checks and cooperation with the police, traffic safety is checked in conjunction with transport operations.

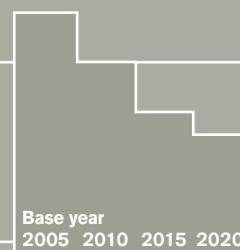
Volvo Trucks is seeking a rapid decline in carbon dioxide emissions

Via Volvo Logistics, Volvo Trucks challenges its transport companies to reduce carbon dioxide emissions by 20%.

Volvo Trucks advertised its challenge in connection with the seminar "Climate Neutral Freight Transport." The seminar was arranged with Schenker, Preem, the Swedish Road Administration and the Chalmers University of Technology in Sweden, in cooperation with the Swedish Infrastructure Minister, Åsa Torstensson. The players have a joint objective of halving their climate impact from goods transport by 2020 compared with 2005. The long-term vision is to make road goods transport completely carbon dioxide neutral.



Maritime transport dominates
Volvo Logistics uses all transport modes, but maritime transport dominates with its 70% of the number of transported ton-kilometers, while trucks account for 29% and rail/air represent a combined 1%.



Volvo Logistics
"Our aim is to reduce CO₂ emissions from our transport operations by 50%."

The most attractive employer

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 and safe environment.

Corporate culture a distinguishing factor


The ability to develop a competitive corporate culture is a crucial factor in long-term profitability. Unlike technologies, strategies, structures and business models, a corporate culture is unique and difficult for competitors to emulate, and it will be an increasingly significant competitive factor.

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

Volvo Group's Code of Conduct

The Volvo Group strives to pursue responsible business based on its Code of Conduct, corporate values and other established guidelines. The Volvo Group's Code of Conduct was adopted in 2003 and establishes the principles that govern relationships with employees, business partners and other stakeholders. The Code applies to all employees and to the Board of Directors. Failure to observe the regulations may lead to disciplinary measures. Suppliers, dealers, consultants and other business partners are also encouraged to follow the Code's principles.

The Code of Conduct covers three areas: business principles, environmental principles, and human rights and working conditions, and con-

tains 13 principles based on the UN's Global Compact. The principles established in the Code of Conduct represent a minimum level for action required for a responsible enterprise, which, among other things, means that we do not accept any form of child or forced labor. 

Implementation and follow-up

Volvo Group executives are responsible for presenting and providing information about the content and spirit of the Code within their organization. A web-based training module has been developed that is based on the ethical dilemmas attached to the principles of the Code. The purpose of this training course is that employees should reflect on how they act in various situations and subsequently gain an immediate reference. The results are registered in a database that highlights the principles in the Code that require greater attention in a bid to increase compliance. Implementation is also followed up in the employee survey, Volvo Group Attitude Survey (VGAS). In the VGAS for 2007, 81% of employees stated they had received information on the Code of Conduct and 80% believe their work team operates in line with the Code.

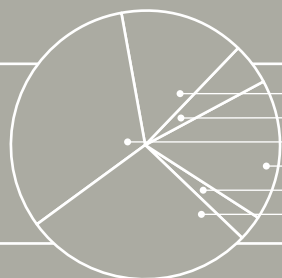
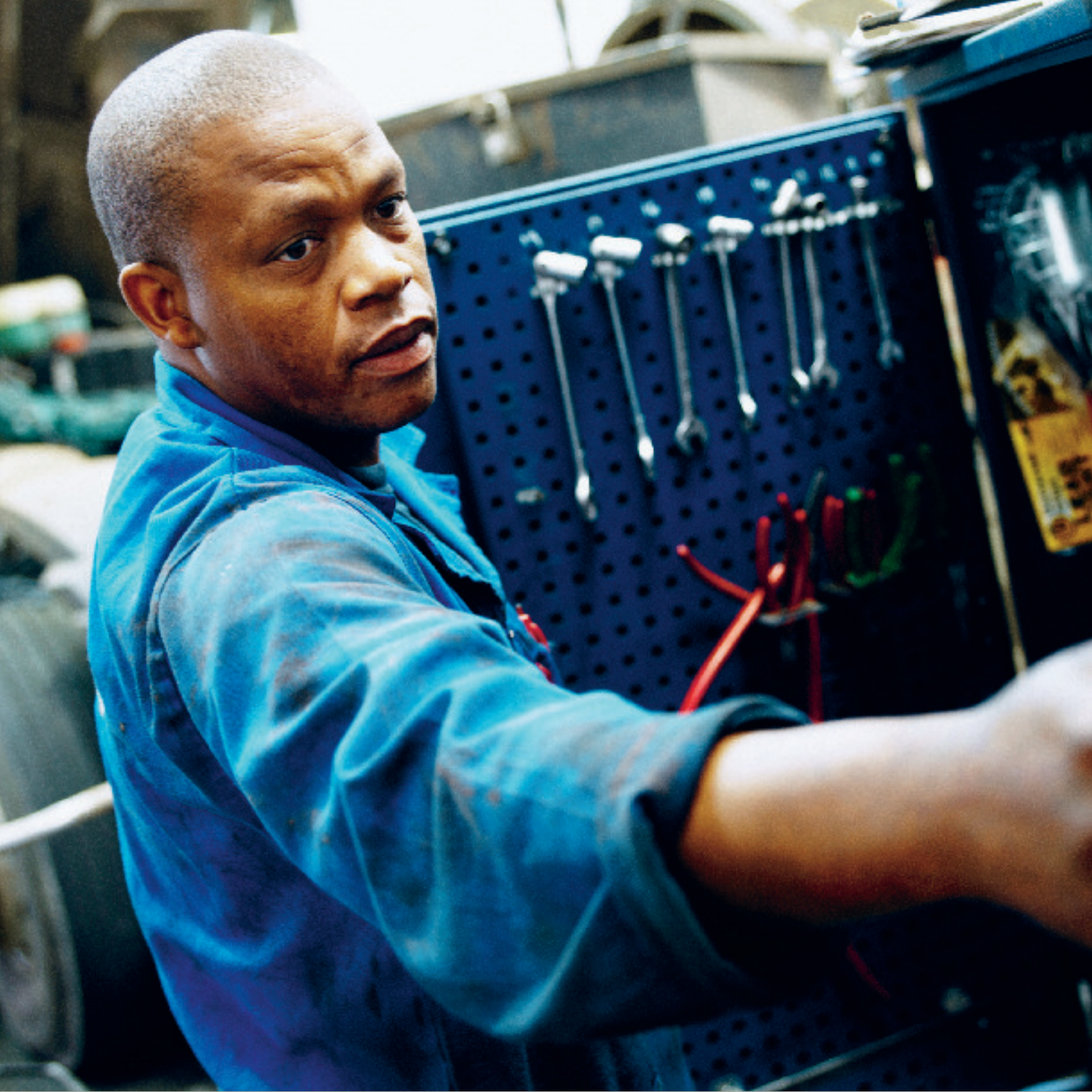
Any suspected fraud or non-compliance with the Code of Conduct may be reported to the Volvo Group's Audit Committee.

Employees' working conditions

Achieving success on individual markets requires extensive knowledge of the conditions market prevailing. At all the larger facilities, the majority of executives and employees are from the particular country or region.

Key figures

	2006	2007
Number of employees at year-end	83,187	101,698
Share of women, %	17	17
Share of women, Board members, %	11	11
Share of women, Presidents and other senior executives, %	15	15
Sickness absenteeism in the Group's Swedish companies		
Total sickness absenteeism, regular working hours, %	4.7	5.1
of which continuous sick leave for 60 days or more, %	49.6	46.2
Sickness absenteeism (as percentage of regular working hours) by gender		
Men, %	4.4	4.8
Women, %	5.7	6.3
Sickness absenteeism (as percentage of regular working hours) by age		
29 years or younger, %	4.1	4.6
30-49 years, %	4.7	5.1
50 years or older, %	5.1	5.5



North America, 15%
South America, 5%
Europe, excl. Sweden, 32%
Asia, 17%
Other countries, 3%
Sweden, 28%



Global Compact

The Volvo Group supports the UN's Global Compact, which was instituted to promote responsible business enterprise worldwide, and pledges to realize and integrate ten principles in respect of human rights, working conditions and environment in its operations.

Geographic distribution of employees
The Volvo Group has employees in 58 countries. The majority of the Group's employees work in Sweden, France and the US.

The policy for wages, salaries and remuneration 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 Group's image as an attractive company. The principles governing wages, salaries and remuneration should be clear and familiar to everyone. Wages and salaries should be individual and differentiated, and must be based on the same grounds for all employees.

Work environment and preventative health care

The Volvo Group works to promote a creative, healthy and energizing work environment without health hazards. Work environment programs should be a natural part of daily activities. As part of Volvo's work environment efforts, an ever-greater number of operations of the Group's operations are being certified in line with OHSAS 18001 (Occupational Health and Safety Assessment Scheme). This system is a tool for checking work environment risks and making any necessary improvements, which in turn are followed up.

In recent years, greater attention has been devoted to health and 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, along with various support programs, medical examinations and health issues in connection with work-related travel and stationing abroad.

Safer workplaces

Construction sites are among the most accident-prone workplaces. To address this problem, Volvo Construction Equipment initiated a campaign for improved construction site safety in 2006. The campaign was presented at major exhibitions and conferences, and in connection with machinery sales. Volvo Construction Equipment's program tackles the problem at three levels: people, machinery and the workplace. The program includes brochures, a DVD and a safety helmet. The safety helmet is the most visible element of a broad initiative to improve health and safety for construction workers.

Continuous competence development

In their business plans, Volvo Group companies indicate the competence that need to be secured and developed so that companies and thus also the Group can attain their long-term goals. In their business plans the companies also describe how they intend to meet future competence requirements. By this means, companies channel their investments in competence supply to areas deemed to offer the greatest strategic significance. An in-house training orga-

nization supports each company's development and that of employees. It offers a range of training programs that help employees to develop their competence so that they can better contribute to the business goals. Executives throughout the organization are expected to involve their work groups in the decision-making process and then focus on the implementation of decisions.

Greater diversity - a strategic goal

Among other points, the Volvo Group's Code of Conduct prescribes that the Group must support human rights. It also states that employees should be treated in a non-discriminatory manner 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 of 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, for example, local market conditions, different cultures and future employee requirements. Diversity generates creativity, which in turn leads to innovation – a prerequisite for success. There are various networks in the Volvo Group active in the diversity sphere. Several units have diversity managers whose task is to ensure continual progress in this area.

Diversity program

The Volvo Group has several programs in progress to increase diversity, since this feature is viewed as an area of strategic significance for long-term, business success. One of the programs that has emerged – Diversity and Leadership – is aimed at increasing the awareness of diversity issues and the challenges involved. There are also a number of tools available for dealing with the issues. “Globesmart” is an interactive web-based training program that helps Volvo Group employees to develop their skills in conducting business in other countries. A game based on the diversity theme has been developed by Volvo in Belgium and is now available in several languages. The purpose of the game is to introduce various aspects of diversity and show Group executives how diversity contributes to business success. Moreover, there are a number of local projects in progress in this area. At Volvo in North America, a project has been launched that is designed to assist and support suppliers owned by representatives of minorities, women, veterans or those who are functionally disabled.

Volvo Group Attitude Survey

The Volvo Group Attitude Survey is an annual Group-wide survey documenting employee attitudes toward their work and the improvements required. The results of the survey are compiled to identify key improvement areas. The proportion of satisfied employees has steadily improved in recent years. In 2007, the share of satisfied employees was 86%, compared with 84% a year earlier, with 83% in 2005 and 81% in 2003. The survey also indicates how well each manager interacts and communicates with his or her team members, provides feedback on performance and contributes to resolving conflicts.

An attractive employer for young people

According to Universum's annual Career Forecast Survey, Volvo Group topped the list as Sweden's most attractive employer among young engineers. A solid corporate culture and international career prospects are the factors that

distinguish Volvo Group from other companies and which contributed to putting Volvo Group at the top of the list. A total of 14,000 people participated in the survey. The factors that the respondents gave as highlighting the Volvo Group include confidence-inspiring management, good ethics and high moral values, solid corporate culture and financial strength.

Cooperation with trade union organizations

The right to be a trade union member and to negotiate collective agreements is respected throughout the Volvo Group and is established in the Code of Conduct. In Europe, the Volvo European Works Council was formed in 1996 to create a forum for dialogue between the employer and employees. Volvo European Dialogue is a forum in which employer and employee representatives meet once a year. The Chairman is the Volvo Group's President and CEO Leif Johansson. In addition to this forum, the employee representatives have two meetings each year. Representatives of various production units outside the EU are invited to attend one of these meetings every two years.

It is sometimes necessary to restructure parts of the Volvo Group's operations. In conjunction with any such restructuring, compliance with legislation, regulations and practices in each country is always observed.

Blainville receives award for its superior ergonomics

The Renault Trucks cab plant in Blainville, France, worked successfully in improving workplace ergonomics. The program contributed to reducing sickness absenteeism from almost 6% to slightly more than 2%. The PARI project (Plan of Accompaniment for Internal Reassignment) commenced in 2001. Work conducted at the various stations was analysed and improvements implemented.

In addition, the plant focused on giving added support to employees with disabilities and on raising management and employee awareness of the importance of an ergonomically well-designed work environment. These efforts were rewarded with the Volvo Group Health and Wellbeing Award for 2007. The aim of the award is to focus on and reward health-supporting projects in the Volvo Group. 2007 marks the second year of the award. In 2006, it was awarded to the ergonomics team at Mack's Macungie factory in the US.

A global challenge in education

The Volvo Group's operations are technology intensive and require well-educated employees. Throughout the OECD area, the number of university candidates seeking education in mathematics, natural sciences and engineering is declining sharply. The Volvo Group feels that the lack of interest among students in these subjects requires the action on the part of many stakeholders and measures that transcend national boundaries. In a bid to raise interest in these subjects, the Volvo Group and others plan to draw up methods and a long-term financing structure to establish a project to address the issue.

Sustainable development in partnership with our suppliers

The Volvo Group imposes high requirements on its suppliers' environmental programs and their social responsibility. The Group's truck companies have a total of some 6,500 suppliers. Quality requirements have been in force over a lengthy period and are a well-integrated feature of relations and joint development programs with our suppliers.

Standards for suppliers

All suppliers must meet a number of sustainability standards to qualify as a supplier. The requirements form part of the model for the evaluation of suppliers, and which include a number of parameters, such as the environment, financial position, management and organization, logistics and supplier programs regarding social responsibility.

Requirements regarding suppliers' environmental programs were introduced in 1996. Current requirements entail, for example, that suppliers must be certified in line with ISO 14001:2004, or be able to produce an action plan for gaining certification during the year. Suppliers must also comply with the Volvo Group's black and grey chemicals lists. At the close of 2006, a new requirements document was adopted that includes ethical and social criteria. The Volvo Group demands that suppliers must adopt the ethical standards covering human rights, workplace issues, environmental questions and business principles and, in turn, imposing similar requirements on their own suppliers. In evaluating new suppliers, both of these areas act as stop criteria, meaning that potential suppliers are rejected if they cannot meet the requirements. The requirements documents and information for suppliers are available at www.volvogroup.com/suppliers. ■

The Volvo Group has two types of suppliers: those that supply services and products that serve as inputs for our products; and those that provide other types of services and products. Strategic suppliers preferably have their manufacturing or warehouse facilities close to the Volvo Group's production plants.

In terms of aggregate purchasing value, 82% of the truck companies' suppliers are located in Europe and North America, with 9% of the purchasing value deriving from Japan, 4% from South America, 3% from Eastern Europe and the remaining 3% from other markets. The value of purchases by truck companies amounts to some SEK 46 billion. The 24 largest suppliers account for 25% of purchasing value.

Follow up and audits/continual improvements

During 2007, 257 assessments were made of potential suppliers to the truck and bus companies and of this total 10% did not meet the set requirements and another 33% were ranked at the lowest level, which meant that action programs were established to develop the supplier. In connection with companies becoming new suppliers to the Volvo Group, a good deal of time is spent at their facilities to implement the requirements.

Some 59% of suppliers delivering to the truck and bus companies are certified according to ISO14001: 2004, which, among other implications, entails that their environmental programs are surveyed by a third party. An estimated 75% of the value of purchases derives from ISO 14001: 2004-certified suppliers. Those that are not ISO 14001:2004 certified are primarily long-time suppliers.

How we do business

The Volvo Group's Code of Conduct provides clear guidelines for relations with the Group's business partners. A general feature is that relations must be marked by impartiality, which implies that we must never provide rewards or advantages that breach governing legislation or reasonable and generally acceptable business practices.

The Volvo Group is active in more than 180 countries and we are occasionally quizzed about our operations in certain countries. We comply readily with recommendations in connection with trade embargoes imposed by the global community. Otherwise, the Volvo Group does not adopt a position in international conflicts, as we are both incapable and unwilling to do so. The Volvo Group is politically independent and adopts a neutral position as regards political parties and candidates. Neither the Group's brand nor its assets are to be used to promote the interests of any political party or political candidate.

The Volvo Group has a large number of wholly owned dealers that are covered by the Volvo Group's rules and reporting systems. These wholly owned dealers are frequently located in countries in which the Group has a market company that handles imports. In these markets there are also privately owned dealers. The Volvo Group also cooperates with distributors that act as our market representative. In such cases, activities are governed by contracts.

Defense materiel products

The Group includes companies that sell defense materiel – as defined in Swedish legislation governing military products and related regulations. These are primarily Renault Trucks, Volvo Trucks, Volvo Aero, Mack Trucks and Volvo Construction Equipment, which sell products categorized as military equipment.

The Volvo Group complies consistently with governing legislation and does not sell to countries on the UN's embargo list. As regards the sale of defense materiel, we always apply for permits to the particular public authority in each country in which the Group conducts production.



Prizes and awards

The presentation below shows a selection of the awards and prizes related to responsible enterprise that the Volvo Group has either received or awarded during the year.

Volvo Environment Prize

In 2007, the Volvo Environment Prize Foundation awarded the honor to Amory B Lovins, of the Rocky Mountain Institute in the US, for his outstanding landmark achievements in the energy area. During the past 30 years, he has contributed innovative theoretical and practical applications aimed at reducing energy consumption.

On the Dow Jones Sustainability Index for the sixth consecutive year

AB Volvo again qualified for the Dow Jones Sustainability World Index (DJSI) of globally leading companies in the area of long-term sustainable development. For the sixth 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 gains with environmental and social responsibility. AB Volvo gained particularly high ratings for environmental care and corporate governance.

Globe Forum

Globe Forum in Sweden has assessed a total of 67 Swedish companies listed on the OMX Nordic Exchange in Stockholm – the Large Cap list – in terms of their CSR programs. The Volvo Group was ranked in second place with 38 points out of a possible 40. The average score in the survey was 19.

The Folksam index

The 2007 Folksam Index for responsible business enterprise – drawn up by the leading Swedish insurer, Folksam – ranked the Volvo Group in third place among the top-ten companies in the "Top Environment Grade" on the human rights list, Volvo Group was ranked seventh. The Volvo Group was also awarded the distinction "Best in the Industry" in the category of human rights.

Volvo's Foundations

The Volvo Group has a number of foundations that award scholarships to prominent researchers and organizations to promote research in various spheres.

The Volvo research and education foundations – Assar Gabrieleson's Foundation and the Volvo Environment Prize Foundation allocated a total of SEK 24 M to various scholarships in 2007.



Volvo Adventure Award

In partnership with the United Nations Environment Program (UNEP), the Volvo Group operates an international competition for school children in the 13-16 age group. The purpose is to activate young people to get involved and improve their local environment. The 15 teams that went on to the final in 2007 met in Gothenburg over a period of four days to present their projects and exchange information. The first prize of USD 10,000 went to Waning Pranayadipta and Vania Santoso from Indonesia. They captured the prize as a result of their work in identifying the potential to recover materials instead of moving them to landfills or incineration.

Contribution to the struggle against HIV and AIDS in South Africa

The Volvo Group is one of the main sponsors in the Star School project. The project started in 2005 in the South African province of KwaZuluNatal and there are now 50 schools serving 50,000 pupils. The affiliated on schools pledge to work actively in issues involving HIV/AIDs.



















Volvo Employees' Aid Association

Since 1976, Volvo employees have donated nearly SEK 15 M to some 200 projects in underdeveloped countries worldwide. This is a non-profit association, as well as being politically and religiously independent, and is open to all employees at the Volvo Group.

GRI summary

GRI Index

GRI (Global Reporting Initiative) is an independent organization that has drawn up global guidelines for reporting and sustainability performance. The guidelines are voluntary. The table provides an overview of where the information is available in this publication, the Annual Report or at www.volvogroup.com

GRI indicator	Area	Page in this report	Page in Annual Report	Information on the Internet
Strategy and analysis			2, 8, 9, 18	
1.1	Vision and strategy	2, 3		
1.2	Sustainability impact, risk and opportunities	3		
Organizational profile			6, 7, 78-81, 136, 148	
2.1-8	Organization	Introduction, 7, 10, 32		
2.9	Changes in reporting	Back page		
2.10	Awards received	32		
3.1-3.12	Report profile	4, Back page		
3.13	External assurance	5		
Governance, Commitments and Engagements			2, 72-81, 123	
4.1-7, 9, 10	Corporate governance			
4.8	Business concept, vision, values	2, 3, 11, 26		
4.11-13	Commitment to external initiatives	15, 26, 32		
4.14-17	Stakeholders' engagement	4, 5		
Economic performance			4, 5, 8-13, 16, 17, 22-31, 110, 149-157	
EC1-4	Economic performance	6, 7, 9		
EC5-7	Market presence	Introduction, 2		
EC8-9	Indirect economic impacts	3, 10, 19, 27-30		
Environmental performance			18-21, 32-34, 36-39, 157	
EN1-2	Materials	13		
EN3-7	Energy	9, 14-25		
EN8-10	Water	24		
EN11-15	Biodiversity	24		
EN16-25	Emissions effluents and waste	23-25		
EN26-27	Products and services	14-22	157	
EN28	Compliance	24		
EN29	Transport	25		
EN30	Expenses and investments	6, 24, 32		
Social performance			34-35, 39, 72-81, 110-113, 119, 142, 156-157	
LA1-14	Labour practises and decent work, training and diversity	9, 26-29		
HR1-9	Human rights	26, 30, 31		
SO1-8	Society, corruption, politics, competition, compliance	31		
PR1-9	Product responsibility, health, safety, communications, compliance	13-15		

Reporting period

The Volvo Group's last sustainability report was part of the 2006 Annual Report. In addition, sustainability information is available at the Volvo Group's website, www.volvogroup.com.

This report covers operations for the 2007 financial year. The Volvo Group plans to publish regular sustainability reports. Previous reports and supplementary information are available at www.volvogroup.com.

Changes during the reporting period

The Volvo Group has published environmental reports since 1990. These reports initially covered environmental issues and were subsequently expanded to include a wider perspective in respect of sustainability, refer to the definition on pages 2-3 and 5 from the perspective of what has occurred in the business world and following dialogue with other stakeholders.

Demarcation

Unless otherwise stated, this report encompasses all companies in the Volvo Group. Nissan Diesel and Ingersoll Rand's division for road construction equipment are not included in the environmental data. Information regarding the Volvo Group's corporate governance is available in the 2007 Annual Report and at www.volvogroup.com.

Compilation of data and computations

This report was inspired by the guidelines provided by GRI (Global Reporting Initiatives) and others. The GRI index above refers to where the information may be found. This report was not audited by a third party. Although we understand the value of an audit, we have in the current circumstances opted to give priority to developing our in-house processes in an effort to further develop our sustainability efforts.

Additional information

- Annual Report, 2007
- Detailed environmental data at www.volvogroup.com.
- Product/environmental declarations at the product level at www.volvogroup.com.

Contact person:

Malin Ripa,
AB Volvo
Public Affairs
Dept. 960 VHQ
SE-405 08 Göteborg, Sweden
Telephone: +46-31-66 00 00



DIME -Dim

Produced via gasification

Sustainable

VOLVO

AB Volvo (publ)

SE-405 08 Göteborg, Sweden

Telephone +46 31 66 00 00

www.volvogroup.com