THE VOLVO GROUP FINANCIAL REPORT 2003

The Volvo Group's **positive trend** continued in 2003 and earnings, excluding write-down of shares, **more than doubled**. The improved performance from the truck operations in North America, a strong earnings trend in Volvo CE and another impressive result from Volvo Penta contributed to the **improved earnings**. Cash flow improved sharply. Income per **share increased** to SEK 10.30, excluding write-down of shares.

VOLVO

Contents

The year 2003

Volvo Trucks begins production in Russia

Volvo Trucks became the first Western truck manufacturer to start production under its own name in Russia. The new assembly facility for heavy trucks was inaugurated on March 20 in Zelenograd, just north of Moscow.

Volvo CE starts production in China

The first Volvo Excavator, built in Volvo CE's new plant located in the Pudong area outside Shanghai in China, left the production line at the beginning of April.

Volvo CE acquires US dealer L.B. Smith

On May 2, Volvo Construction Equipment purchased the assets associated with the Volvo distribution business of L.B. Smith, Inc., its largest dealer in the US. The intention is to spin off the acquired operations.

Volvo starts assembly of trucks in China

On June 9, Volvo Trucks signed a joint-venture agreement with China National Heavy Truck Corporation for production of trucks. Production is planned to commence during the first quarter of 2004.

Volvo Trucks introduces new models

Volvo Trucks launched the new Volvo NH in Brazil. This model was developed for the South American market and is built in Brazil. The launch was accompanied by the introduction of the new Volvo FH and Volvo FM in South America. The new medium-heavy truck in the 17-23 ton segment, Volvo VM, was also introduced during 2003. This marks the total renewal of the entire Volvo truck range in South America.

On June 5, Volvo Trucks presented the new Volvo FH16. The Volvo FH16 was developed to meet the trend for heavier and longer truck combinations. The new Volvo FH16 is equipped with an all-new 16-liter engine, with a power output of up to 610 hp, making it the most powerful truck in the European market.

Volvo Penta introduces new products

Volvo Penta is launching a new generation of medium-heavy diesel engines for leisure boats. The new electronic diesel engines, the D4 at 210 hp and the D6 at 310 hp, are manufactured at Volvo Penta's engine plant in Vara, Sweden.

Volvo Penta is also launching the new 130- or 160-hp D3 diesel engine and the new D2 75-hp engine for sailing yachts.

Renault Trucks launches the new Renault Master

The Renault Master features new exterior, interior, engines and improved performance. Furthermore, the user of the Renault Master benefits from a network of specialists in utility vehicles, consisting of 1,350 sales and service points in Europe.

Volvo acquires Bilia's truck and construction equipment operations

The truck and construction equipment operations of Bilia was acquired in the third quarter through the exchange of the predominant part of Volvo's holding in Bilia for 98% of the shares in the acquired operations, Kommersiella Fordon Europa AB (KFAB). KFAB is a leading service supplier and reseller of Volvo trucks and construction equipment in Europe.

Volvo Aero is partner in General Electric's new LMS100 gas turbine

Volvo Aero will deliver a number of key components to the new environmentally friendly gas turbine, the LMS100, which is expected to play a significant role in the power-generation industry. This is an important agreement for Volvo Aero and a broadening of its product range. The total value of the contracts is estimated to USD 800 M over a 20-year period.

The Volvo Group in EUR

	2002	**2003**
Net sales, EUR M	19,333	19,151
Operating income, EUR M[1]	310	716
Operating income, EUR M	310	274
Income after financial items, EUR M	220	182
Net income, EUR M	152	33
Income per share, EUR[1]	0.36	1.13
Income per share, EUR	0.36	0.08
Dividend per share, EUR	0.87	0.88[2]

1 Excluding write-down of shares in Scania AB and Henlys Group Plc.

2 As proposed by the Board of Directors. In addition, the Board proposed a dividend of 2 shares in the wholly owned subsidiary Ainax AB for each 31 shares in AB Volvo. Based on the closing price of Scania A shares on March 12, 2004, this was corresponding to a value of EUR 1.58 per share.

2002: EUR 1.00 = SEK 9.1596, annual average

2003: EUR 1.00 = SEK 9.1258, annual average

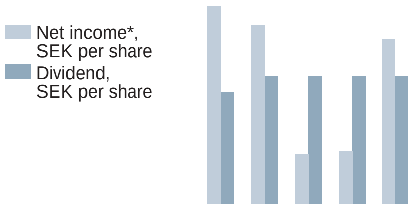
Volvo and ArvinMeritor plan strategic alliance on axles

Volvo plans to enter into a strategic alliance on axles with ArvinMeritor. A Memorandum of Understanding has been signed between the two companies. Final agreements are planned to be concluded during the first quarter of 2004.

Subsequent events

Volvo's holding of Scania B shares was divested to Deutsche Bank on March 4, 2004 for an amount of about SEK 15 billion. The transaction was carried out as part of our commitment to the European Commission to divest the Scania shares not later than April 23, 2004. After the sale, Volvo owns 27.3 million A shares in Scania AB, corresponding to 24.8% of the votes and 13.7% of the capital.

Net income* and cash dividend per share

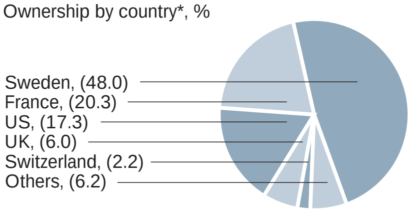


* excluding divested operations, restructuring costs and write-down of shares.	99	00	01	02	03
Net income*	12.4	11.2	3.1	3.3	10.3
Dividend	7.0	8.0	8.0	8.0	8.0

Direct return*, %

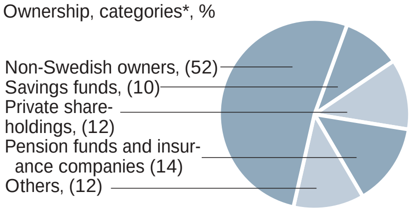
* Dividend as percentage of share price	99	00	01	02	03
	3.2	5.1	4.5	5.6	3.6

Ownership by country*, %



* of capital, registered shares

Ownership, categories*, %



* of capital, registered shares

The Volvo Share

Shareholders

Due to the increase in international cross-border trading of shares, Volvo has concentrated the trading of Volvo shares to the stock exchanges in Stockholm, London and New York (NASDAQ). In the fourth quarter of 2003, Volvo decided to apply for delisting of its shares from the German stock exchanges in Frankfurt, Hamburg and Düsseldorf. The delisting is planned to be effective in the latter part of 2004.

The dialogue with shareholders is of great importance to Volvo. In addition to the Annual General Meeting in April, a large number of activities took place in 2003 aimed at the professional investment community and Volvo's private shareholders. The Investors website on the Internet (www.volvo.com) is an important tool that makes it possible for all shareholders to obtain relevant and timely information about Volvo. In 2003, a new subscription service was launched at the website, that enables all shareholders to receive tailor-made information from Volvo.

The Volvo share in 2003

The year 2003 was characterized by recovering share prices on stock markets worldwide. In the US, the Dow Jones Industrial Average rose by 25% and NASDAQ Composite closed 50% higher. In Sweden, the Stockholmsbörsen All Share Index increased by 30%.

At the end of 2003 Volvo's market value amounted to SEK 91 billion, seventh in size on Stockholmsbörsen. The Volvo Series B share rose by 55% in 2003, compared with an increase of 27% on the MSCI Europe Machinery Index. In 2003, the effective return on the Volvo B share was 61%. Income per share amounted to SEK 0.70 (3.30). Excluding write-down of shares, income per share more than tripled to SEK 10.30 in 2003.

A total of 436 million Volvo shares were traded on Stockholmsbörsen, which accounts for the largest percentage of turnover, with an average of 1.8 million Volvo shares traded each day. During 2003, Volvo was the eleventh most actively traded share in terms of value on Stockholmsbörsen.

Dividend

Volvo's dividend policy states that the effective return (the dividend combined with the change in share price over the long term) should exceed the average for the industry. For fiscal year 2003, the Board of Directors proposes that the shareholders at the Annual General Meeting approve a cash dividend of SEK 8.00 per share, a total of approximately SEK 3,556 M, corresponding to a direct return of 3.6%, calculated at the year-end rate of SEK 220. In addition, the Board proposes to distribute 99% of the shares in the wholly owned company, Ainax to the shareholders. The value of the Ainax shares corresponds to SEK 14.40 per Volvo share, based on the Scania A closing price of SEK 223.50 at March 12, 2004.

Credit rating

Volvo's capital structure aims at balancing the expectations of the stock market and the financial market. Volvo annually meets with credit rating agencies to discuss the views of the lenders and to evaluate the capability to repay loans at maturity. The group aims to be a stable long-term A-rated company to attract lenders. The financial ratios are set to meet long-term A-rated requirements, and the targeted levels were met at year-end 2003.

Volvo held meetings with rating agencies during the past year to review operations and to discuss their views of the company. Moody's Investors Service confirmed the long-term A3 rating and short term at P-2. Standard & Poor's confirmed the short-term rating at A2. To utilize local funding opportunities, and to meet with legal requirements, Volvo is rated nationally in Canada and Japan at A-level and short-term in Australia and Sweden.

Dow Jones Sustainability Index

As of 2002, the Volvo share is part of the newly launched Dow Jones STOXX Sustainability Indexes. Launched in 1999, the Dow Jones Sustainability World Index is the first global index tracking the performance of the leading sustainability-driven companies worldwide. It covers the top 10% of the largest 2,500 companies in the Dow Jones Global Index in terms of economic, environmental and social criteria.

The largest shareholders in AB Volvo, December 31, 2003[1]

	Share capital, %[2]
Renault SA	20.0
Franklin Templeton funds	5.9
Capital Group funds	2.6
Robur aktiefonder (savings funds)	2.5
SHB	1.8

1 Following the repurchase of its own shares, AB Volvo held 5% of the Company's shares on Dec. 31, 2003.
2 Based on all registered shares.

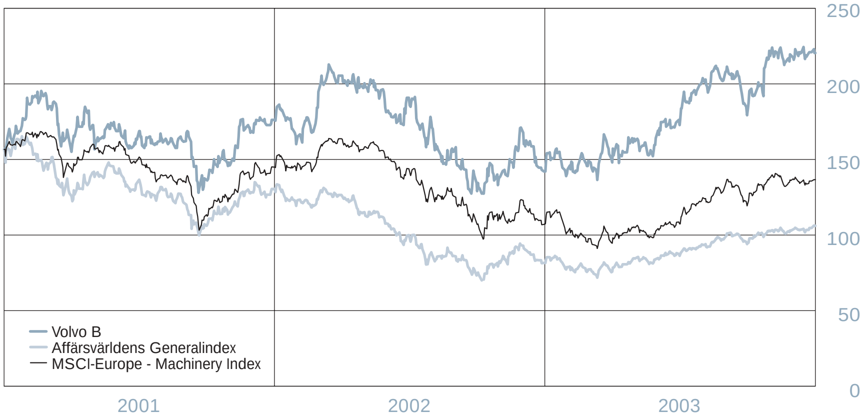
Share capital, December 31, 2003

Registered number of shares [1]	441,520,885
of which, Series A shares [2]	138,604,945
of which, Series B shares [3]	302,915,940
Par value, SEK	6
Share capital, SEK M	2,649
Number of shareholders	208,540
Private persons	199,488
Legal entities	9,052

1 Following the repurchase of the Group's own shares, the number of outstanding shares was 419,444,842.
2 Series A shares carry one vote each.
3 Series B shares carry one tenth of a vote each.

See further on page 90 for more detailed information.

Price Trend, Volvo series B shares SEK



Net sales by business area

SEK M	2001	2002	2003	%[1]
Trucks	116,568	118,752	116,969	(2)
Buses	16,675	14,035	11,978	(15)
Construction Equipment	21,135	21,012	23,154	10
Volvo Penta	7,380	7,669	7,596	(1)
Volvo Aero	11,784	8,837	8,030	(9)
Other	7,073	6,775	7,041	4
Volvo Group[2]	**180,615**	**177,080**	**174,768**	**(1)**

1 Percentage change pertains to 2003/2002.
2 Adjusted for changes in currency rates, net sales increased by 6%

Net sales by market area

SEK M	2001	2002	2003	%[1]
Western Europe	93,147	92,331	95,775	4
Eastern Europe	6,383	7,437	8,344	12
North America	54,630	50,206	42,043	(16)
South America	6,018	4,667	4,727	1
Asia	10,862	12,644	15,754	25
Other markets	9,575	9,795	8,125	(17)
Volvo Group	**180,615**	**177,080**	**174,768**	**(1)**

1 Percentage change pertains to 2003/2002.

Operating income (loss) by business area

SEK M	2001	2002	2003
Trucks	1,040	1,189	3,951
Buses	(524)	(94)	(361)
Construction Equipment	891	406	908
Volvo Penta	658	647	695
Volvo Aero	653	5	(44)
Financial Services	325	490	926
Other	143	194	459
Operating income[1]	**3,186**	**2,837**	**6,534**
Restructuring costs	(3,862)	–	–
Write-down of shares	–	–	(4,030)
Operating income (loss)	**(676)**	**2,837**	**2,504**

1 Excluding restructuring costs and write-down of shares in Scania AB and Henlys Group Plc.

Operating margin [1]

%	2001	2002	2003
Trucks	0.9	1.0	3.4
Buses	(3.1)	(0.7)	(3.0)
Construction Equipment	4.2	1.9	3.9
Volvo Penta	8.9	8.4	9.1
Volvo Aero	5.5	0.1	(0.5)
Volvo Group[1]	**1.8**	**1.6**	**3.7**
Volvo Group	**(0.4)**	**1.6**	**1.4**

1 Excluding restructuring costs and write-down of shares in Scania AB and Henlys Group Plc.

Financial performance

Net sales

Net sales in 2003 amounted to SEK 174,768 M (177,080), a decrease of 1% compared with the preceding year. Adjusted for changes in currency exchange rates, net sales increased by 6%.

Net sales of Volvo's truck operations amounted to SEK 116,969 M, an increase of 5% adjusted for changes in currency exchange rates. The increase in sales related mainly to higher deliveries in Asia and Eastern Europe. In North America, deliveries of trucks were down by 5% and in Western Europe the Volvo Group's deliveries of trucks were 4% lower than in the preceding year.

In Buses, net sales decreased 15% compared with 2002. The decline was partly attributable to currency movements. Adjusted for these effects, net sales decreased 8%, pertaining mainly to lower deliveries in North and South America, partially offset by favorable volumes in China and the Nordic countries. In an increasing world market, net sales of Construction Equipment rose 18%, adjusted for changes in currency rates, driven by a wider product range and improved market shares. In Volvo Penta, a weakening total market was compensated by increased market shares, and net sales increased by 8%, excluding the impact of currency translation. Volvo Aero's net sales rose by 4%, adjusted for changes in currency rates, despite the crisis in the airline industry.

The Group's net sales in Western Europe increased by 4%. Net sales in North America were down 16% due to lower USD exchange rates and lower deliveries of Mack trucks. Sales in Eastern Europe and Asia grew by 12% and 25% respectively while sales in South America increased 1%. The distribution of net sales by market is further specified in the adjoining table.

Operating income

Operating income, excluding write-down of shares, more than doubled in 2003 and amounted to SEK 6,534 M, compared with an operating income of SEK 2,837 M in the preceding year. The improvement was mainly attributable to higher margins on newly introduced products and cost rationalization. A detailed analysis of changes in the Group's operating income compared with 2002 is shown in the table on page 5.

Trucks' operating income in 2003 amounted to SEK 3,951 M (1,189). The improvement across the three truck brands, Mack, Renault and Volvo, is largely related to increased margins due to price realization and cost rationalization. Earnings improved in North America, where profitability developed favorably for both Volvo and Mack despite adverse market conditions. In Europe, Volvo Trucks' strong performance continued and both Renault Trucks and Volvo Trucks reported improved earnings.

The operating loss during 2003 in Buses, excluding write-down of shares, amounted to SEK 361 M compared with a loss of SEK 94 M in the preceding year. The weaker result was largely related to lower volumes, continued price pressure and currency effects. Construction Equipment reported operating income of SEK 908 M compared with SEK 406 M in 2002. The improved earnings were primarily related to increased volumes due to recently launched products and further improved market shares partly offset by strongly negative currency effects.

Operating income in 2003 for Volvo Penta amounted to SEK 695 M (647). The strong financial performance of Volvo Penta mainly related to higher sales and improved gross margins. In Volvo Aero, operating income

Consolidated income statements[1]			
SEK M	2001	2002	**2003**
Net sales	180,615	177,080	174,768
Cost of sales	(149,477)	(145,453)	(141,256)
Gross income	**31,138**	**31,627**	**33,512**
Research and development expenses	(5,391)	(5,869)	(6,829)
Selling expenses	(14,663)	(15,393)	(15,891)
Administrative expenses	(6,474)	(5,464)	(5,259)
Other operating income and expenses	(3,071)	(2,989)	(540)
Income from Financial Services	325	490	926
Income (loss) from investments in associated companies	(88)	126	166
Income from other investments	1,410	309	(3,581)
Restructuring costs	(3,862)	–	–
Operating income (loss)	**(676)**	**2,837**	**2,504**
Interest income and similar credits	1,653	1,246	1,193
Interest expenses and similar charges	(2,653)	(1,870)	(1,984)
Other financial income and expenses	(190)	(200)	(56)
Income (loss) after financial items	**(1,866)**	**2,013**	**1,657**
Income taxes	326	(590)	(1,334)
Minority interests in net income (loss)	73	(30)	(25)
Net income (loss)	**(1,467)**	**1,393**	**298**
Income (loss) per share, SEK	**(3.50)**	**3.30**	**0.70**

1 Financial Services reported in accordance with the equity method.

Change of operating income	
SEK bn	
Operating income 2002	**2.8**
Higher volumes and improvement of gross margins	4.8
Higher income from Financial Services	0.4
Changes in currency exchange rates	(0.9)
Lower capitalization of development costs	(0.8)
Higher research and development expenditures	(0.5)
Higher selling and administrative expenses	(1.2)
Deficit in Swedish pension foundation 2002	0.8
Higher dividend from Scania	0.2
Write-down of shares in Scania and Henlys Group	(4.0)
Other	0.9
Operating income 2003	**2.5**

declined to a loss of SEK 44 M (income: 5). The lower earnings were mainly a result of provisions for expected losses on contracts of SEK 170 M in the fourth quarter.

Operating income within Financial Services amounted to SEK 926 M (490). Financial Services' favorable trend of ten consecutive quarters of progressively increasing earnings primarily pertained to lower credit losses in the US customer financing operations and strong results in the operations in Europe as well as in other parts of the world.

Group operating income included write-down of shares in Scania AB and Henlys Group Plc during the fourth quarter of 2003 amounting to SEK 3,601 M and SEK 429 M respectively.

Group operating income in 2002 was negatively affected by provisions of SEK 807 M relating to a deficit within the Volvo Group's Swedish pension foundation.

Operating margin during 2003, excluding write-down of shares, was 3.7%, compared with 1.6% in 2002.

Impact of exchange rates on operating income

The effect of changes in currency rates on operating income in 2003 compared with 2002 was negative by approximately SEK 900 M.

The Swedish krona strengthened during 2003 against the major part of Volvo's inflow currencies, with negative effects on operating income. The US dollar, the Canadian dollar and the British pound had the greatest impact. Changes in spot-market rates for other currencies had minor effects. The total effect of changed spot-market rates was negative, approximately SEK 2,050 M.

The effect on income of forward and option contracts amounted to a gain of SEK 1,243 M (loss: 195), which resulted in a positive impact of SEK 1,438 M for 2003, compared with 2002.

Changes in spot rates in connection with the translation of income in foreign subsidiaries and the revaluation of balance sheet items in foreign currencies had a negative effect of SEK 290 M.

Impact of exchange rates on operating income
Compared with preceding year, SEK bn

Net sales [1]	(12.3)
Cost of sales	8.0
Research and development expenses	0.3
Selling and administrative expenses	1.4
Other operating income and expenses	1.7
Income from investments in shares	0.0
Total effect of changes in exchange rates on operating income	**(0.9)**

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

Operating net flow per currency

SEK M	2001	2002	**2003**
USD	8,100	7,100	7,500
EUR	8,000	9,700	11,800
GBP	4,200	5,400	3,400
CAD	1,000	1,600	1,600
Other currencies	2,800	5,000	5,200
Total	**24,100**	**28,800**	**29,500**

Preparations for adoption of International Financial Reporting Standards

For a description of Volvo's preparations for adoption of International Financial Reporting Standards (IFRS) in 2005, see further in Note 1 on page 36.

Net interest expense

Net interest expense for the year amounted to SEK 791 M (624). The higher net interest expense was mainly explained by lower yield on financial assets and higher average net financial debt during 2003, in part due to higher provisions for post-employment benefits and the acquisition of Bilia's truck and construction equipment operations, KFAB.

Income taxes

During 2003, an income tax expense of SEK 1,334 M was reported, compared with SEK 590 M for the year-earlier period. The income tax expense was mainly related to current tax expenses.

Minority interests

Minority interests in the Volvo Group were mainly attributable to Volvo Aero Norge AS (22%) and Volvo Aero Services LP (5%).

Net income

Net income amounted to SEK 298 M (1,393) corresponding to an income per share of SEK 0.70 (3.30). The return on shareholders' equity was 0.4% (1.7%). Excluding the write-down of shares in Scania AB and Henlys Group Plc, income per share more than tripled and amounted to SEK 10.30 and the return on shareholders' equity amounted to 5.7%.

Financial position

Balance sheet

The Volvo Group's total assets at December 31, 2003 amounted to SEK 231.3 billion, corresponding to a decline of SEK 8.0 billion since year-end 2002. Total assets declined by SEK 13.4 billion due to changes in currency rates and by SEK 4.0 billion due to write-down of shares in Scania AB and Henlys Group Plc. The decrease was partly offset by an increase of SEK 4.0 billion related to changes in the Group structure, mainly due to the acquisition of Bilia's truck and construction equipment operations, and an additional increase of SEK 3.6 billion as a consequence of the adoption of new accounting principles for derivative instruments (see Note 1).

Shareholders' equity and minority interests amounted to SEK 72.6 billion, corresponding to 40.5 % of total assets, excluding Financial Services. The Group's net financial debt at year-end 2003, amounted to SEK 2.4 billion, which corresponded to 3.3% of shareholders' equity and minority interests. Changes in shareholders' equity are specified on page 34. Effective in 2003, Volvo adopted new accounting principles for employee benefits (see Note 1).

The carrying value of Volvo's holding in Scania AB at year-end 2003 has been determined to SEK 20.4 billion, a write-down of SEK 3.6 billion has thereby been charged to operating income. The carrying value of the holding of Scania B shares was determined based upon the consideration received when Volvo divested those shares to Deutsche Bank on March 4, 2004. The carrying value of the holding of Scania A shares was determined based upon the closing share price of SEK 202 on December 31, 2003.

Volvo Group consolidated balance sheets, December 31	Volvo Group, excl Financial Services [1]			Financial Services			Total Volvo Group		
SEK M	2001	2002	**2003**	2001	2002	**2003**	2001	2002	**2003**
Assets									
Intangible assets	17,366	16,919	16,662	159	126	94	17,525	17,045	16,756
Property, plant and equipment	30,370	27,789	27,248	2,864	3,010	3,392	33,234	30,799	30,640
Assets under operating leases	15,020	11,155	8,976	14,060	13,284	13,234	27,101	23,525	21,201
Shares and participations	35,145	34,750	9,598	203	236	188	27,798	27,492	1,782
Long-term customer-financing receivables	19	55	53	26,256	25,348	23,918	26,075	25,207	23,448
Long-term interest-bearing receivables	5,627	4,189	2,911	0	7	5	5,554	4,188	2,769
Other long-term receivables	9,017	8,489	7,879	73	47	59	8,902	8,297	7,718
Inventories	30,557	27,564	25,848	518	741	611	31,075	28,305	26,459
Short-term customer-financing receivables	95	44	65	23,732	22,700	22,894	22,709	21,791	22,554
Short-term interest-bearing receivables	6,799	4,306	6,502	82	0	0	2,525	1,302	3,863
Other short-term receivables	29,798	25,767	25,200	2,647	2,126	1,649	31,044	25,693	24,903
Shares in Scania	–	–	20,424	–	–	–	–	–	20,424
Marketable securities	12,997	16,570	19,385	517	137	144	13,514	16,707	19,529
Cash and bank	11,877	7,584	8,717	2,417	1,602	654	13,869	8,871	9,206
Total assets	**204,687**	**185,181**	**179,468**	**73,528**	**69,364**	**66,842**	**260,925**	**239,222**	**231,252**
Shareholders' equity and liabilities									
Shareholders' equity	85,185	78,278	72,420	7,550	7,494	8,004	85,185	78,278	72,420
Minority interests	391	247	216	0	0	0	391	247	216
Provisions for post-employment benefits	14,632	16,218	15,264	15	18	24	14,647	16,236	15,288
Other provisions	14,085	13,893	12,792	4,342	2,828	2,256	18,427	16,721	15,048
Loans	29,710	22,494	24,677	57,956	54,270	52,852	81,568	72,437	74,092
Other liabilities	60,684	54,051	54,099	3,665	4,754	3,706	60,707	55,303	54,188
Shareholders' equity and liabilities	**204,687**	**185,181**	**179,468**	**73,528**	**69,364**	**66,842**	**260,925**	**239,222**	**231,252**
Shareholders' equity and minority interests as percentage of total assets	41.8%	42.4%	40.5%	10.3%	10.8%	12.0%	32.8%	32.8%	31.4%

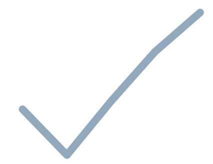
1 Financial Services reported in accordance with the equity method.

In February and March, 2004, the Henlys Group Plc announced that its earnings for 2004 is expected to be significantly lower than previously anticipated. As a consequence of receiving this information, it has been determined that the value of Volvo's holding of shares in Henlys Group Plc was permanently impaired at year-end 2003 and a write-down of SEK 429 M was charged to operating income for 2003. After this write-down, the carrying value of Volvo's shares in Henlys Group Plc amounts to SEK 95 M, which is corresponding to the market value of the shares at December 31, 2003. In October 1999, Volvo issued a convertible debenture loan to Henlys Group Plc of USD 240 M in connection with Henlys' acquisition of the US school bus manufacturer Bluebird. The convertible debenture loan matures in October 2009. In connection with the preparation of Volvo's financial statements for 2003, the financial situation of the Henlys Group Plc has been evaluated and Volvo has assessed that no impairment loss on the convertible debenture loan has been incurred.

Change in net financial position SEK bn	
December 31, 2002	**(6.1)**
Cash flow from operating activities	12.9
Investments in fixed assets and leasing assets, net	(5.3)
Investments in shares, net	(0.1)
Acquired and divested operations	(0.0)
Cash flow after net investments, excluding Financial Services	**7.5**
Change in provisions for post-employment benefits [1]	(1.5)
Debt in acquired and divested operations	(2.0)
Dividend paid to AB Volvo's shareholders	(3.4)
Currency effect	3.0
Other	0.1
Total change	3.7
December 31, 2003	**(2.4)**

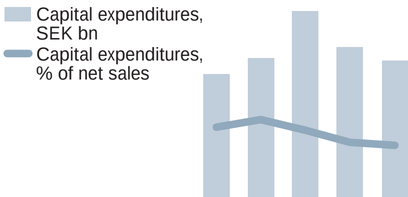
1 Includes adoption of new accounting standards, which increased the provisions for post-employment benefits by SEK 2.3 billion and contribution to US pension plans, which reduced the provisions by SEK 0.8 billion.

Self-financing ratio, excluding Financial Services, %



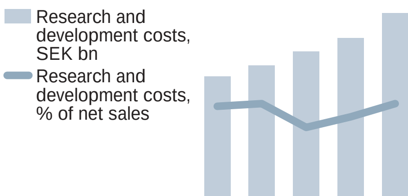
99	00	01	02	03
127	72	137	196	243

Capital expenditures excluding Financial Services



	99	00	01	02	03
Capital expenditures, SEK bn	5.6	6.3	8.4	6.8	6.2
Capital expenditures, % of net sales	4.8	5.3	4.6	3.8	3.6

Research and development costs



	99	00	01	02	03
Research and development costs, SEK bn	4.5	4.9	5.4	5.9	6.8
Research and development costs, % of net sales	3.6	3.7	2.8	3.2	3.7

Cash-flow statement

Cash flow

Cash flow after net investments, excluding Financial Services, amounted to SEK 7.5 billion. Operating cash flow (excluding the effects of acquisitions and divestments) was SEK 7.6 billion. The positive development during 2003 was mostly related to a favorable earnings capacity, reduction in tied-up working capital, in particular payables and inventories, and a low level of capital expenditures. Payment of post-employment benefits, net interest and tax payments had an adverse effect. The ongoing capital rationalization project within the Volvo Group is progressing well and all business areas reported positive cash flow in 2003.

Cash flow after net investments within Financial Services was negative in an amount of SEK 3.2 billion (negative: 4.3).

Investments

Investments in fixed assets in 2003, excluding Financial Services, amounted to SEK 5.8 billion (6.3). Capital expenditures in Trucks, which amounted to SEK 3.9 billion (4.5), were made in tools and equipment for the production of new truck models in North America, Brasil and France. Investments were also made in Sweden and France for increased capacity in the paint shops. The level of capital expenditures remained at the same level as last year in Buses at SEK 0.2 billion and in Volvo Aero at SEK 0.3 billion, decreased in Construction Equipment from SEK 0.7 billion to SEK 0.5 billion and increased in Volvo Penta from SEK 0.2 billion to SEK 0.4 billion.

Investments in leasing assets amounted to SEK 0.1 billion. In Financial Services investments in leasing assets amounted to SEK 5.2 billion and pertained mainly to the operations in North America and Western Europe.

Acquisitions and divestments

Net investments in shares during 2003 amounted to SEK 0.1 billion (0.1).

Acquired and divested companies had insignificant effect on cash flow in 2003. In 2002 cash flow was negatively affected by SEK 0.1 billion.

Financing and dividend

Net borrowings increased during 2003 by SEK 1.9 billion, of which new borrowing during the year, mainly through the issue of bonds and a commercial paper program, contributed SEK 25.4 billion. In 2002, net borrowings decreased by SEK 0.1 billion.

A dividend amounting to SEK 3.4 billion, corresponding to SEK 8.00 per share, was paid to AB Volvo's shareholders during the year.

Change in liquid funds

The Group's liquid funds increased by SEK 3.2 billion during the year amounting to SEK 28.7 billion at December 31, 2003.

Consolidated cash-flow statements

SEK bn	2001	2002	**2003**
Operating income	(1.0)	2.3	1.6
Add depreciation and amortization	7.0	7.8	7.2
Other non-cash items	0.0	1.0	4.1
Change in working capital	6.0	0.4	0.7
Financial items and income taxes paid	(2.3)	(1.1)	(0.7)
Cash flow from operating activities	**9.7**	**10.4**	**12.9**
Investing activities			
Investments in fixed assets	(7.7)	(6.3)	(5.8)
Investment in leasing assets	(0.5)	(0.1)	(0.1)
Disposals of fixed assets and leasing assets	1.1	1.1	0.6
Customer Finance receivables, net	0.8	0.0	0.0
Investments in shares, net	3.2	(0.1)	(0.1)
Acquired and divested operations	14.7	(0.1)	0.0
Cash flow after net investments excl Financial Services	**21.3**	**4.9**	**7.5**
Cash flow after net investments, Financial Services	**(5.3)**	**(4.3)**	**(3.2)**
Cash flow after net investments, Volvo Group total	**16.0**	**0.6**	**4.3**
Financing activities			
Change in other loans, net	6.2	(0.1)	1.9
Loans to external parties, net	0.2	1.7	0.9
Repurchase of own shares	(8.3)	–	–
Dividend to AB Volvo's shareholders	(3.4)	(3.4)	(3.4)
Other	0.1	0.1	0.1
Change in liquid funds excl translation differences	**10.8**	**(1.1)**	**3.8**
Translation differences on liquid funds	0.6	(0.7)	(0.6)
Change in liquid funds	**11.4**	**(1.8)**	**3.2**

Operating cash flow, excluding Financial Services

SEK bn	2001	2002	**2003**
Operating income	(1.0)	2.3	1.6
Depreciation and amortization	7.0	7.8	7.2
Other	3.7	0.3	4.1
Cash flow from operating activities	**9.7**	**10.4**	**12.9**
Net investments in fixed assets and leasing assets	(7.1)	(5.3)	(5.3)
Customer finance receivables, net	0.8	0.0	0.0
Operating cash flow	**3.4**	**5.1**	**7.6**

Future capital expenditures, approved [1]

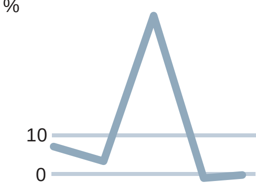
SEK bn	
Trucks	4.7
Buses	0.2
Construction Equipment	0.9
Volvo Penta	0.0
Volvo Aero	0.1
Other	0.5
Total	6.4

1 In property, plant and equipment.

Condensed cash-flow statements, Financial Services

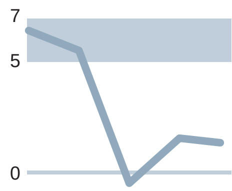
SEK bn	2001	2002	**2003**
Cash flow from operating activities	4.5	4.9	4.1
Net investments in credit portfolio, etc	(9.8)	(9.2)	(7.3)
Cash flow after net investments, Financial Services	(5.3)	(4.3)	(3.2)

Net sales growth*, %



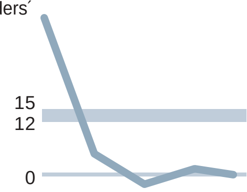
* Excluding divested operations	99	00	01	02	03
	8	3	50	(2)	(1)

Operating margin*, %



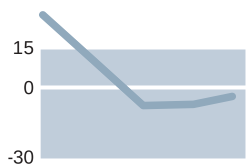
* Excluding divested operations	99	00	01	02	03
	6.4	5.5	(0.4)	1.6	1.4

Return on shareholders´ equity, %



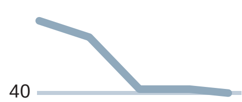
	99	00	01	02	03
	34.9	5.0	(1.7)	1.7	0.4

Net financial position as percentage of shareholders´ equity, %



	99	00	01	02	03
	29.3	10.6	(8.2)	(7.7)	(3.3)

Equity ratio*, %



* Excluding divested operations	99	00	01	02	03
	67	61	42	42	40

Financial targets

Volvo's ambition for the period up to 2005 is to achieve a sustainable level of profitability above the industry average. Sustainable profitability is driven by strong and profitable growth combined with a high degree of operating efficiency. At the same time a strong capital structure is essential in order to maintain investments on a competitive level – with the ultimate aim of providing world-class products and services. In order to achieve the strategy for growth and generate a competitive return for our shareholders, Volvo has set a number of Group-wide financial targets covering growth, operating margin, return on equity and capital structure. These financial targets are set and evaluated over a business cycle.

Sales growth

Volvo's ambition is that net sales should increase by an average of more than 10% on an annual basis. This objective should be achieved through both organic growth and acquisitions. During the period from 1999 to 2003, the average annual growth rate, excluding divested operations, was 11.7%.

Operating margin

The objective is to maintain an operating margin of between 5% and 7% over an economic cycle. The average annual operating margin for the Volvo Group during 1999 to 2003 was 2.9%.

Return on equity

Over time, the return on shareholders' equity should more than compensate for inflation as well as for industrial and financial risks. The objective is to achieve a return on shareholders' equity of between 12% and 15% over an economic cycle. Return on shareholders' equity during 1999 to 2003 averaged 8.1% per year.

Capital structure

A strong capital structure and a competitive cash flow is essential in order to be able to maintain investments in research and development, product development and in production on competitive levels – and in the end generate world-class products and services.

The Group's objective is to maintain a net financial position ratio, excluding Financial Services, between a net financial assets position of 15% and a net debt position of 30%. The equity ratio, excluding Financial Services, should not be lower than 40% and the equity ratio in Financial Services should not be lower than 10%.

At the end of December 2003, the net financial position of the Volvo Group amounted to a net debt of SEK 2.4 billion, corresponding to a net debt ratio of 3.3%. On December 31, 2003, the equity ratio for the Group, excluding Financial Services, was 40.5% and the equity ratio for Financial Services was 12.0%.

Trucks

The Volvo Group is one of the leading manufacturers of heavy trucks in the world. The foundation has been established for aggressive development of new trucks and services – including systems for telematics and e-commerce solutions and new forms of financing.

The three truck brands – Mack, Renault and Volvo – have highly competitive products and worldwide market coverage.

Total deliveries from the Group’s truck operations amounted to 155,989 trucks in 2003, a decline of 1% compared with the year-earlier period. In Europe, 92,083 trucks were delivered, compared with 96,289 trucks in 2002. Deliveries in North America were down 5% compared with the year-earlier period and totaled 34,756 trucks. Deliveries in Asia, including the Middle East, continued to develop favorably, particularly in Iran.

Mack Trucks

Mack Trucks is one of the largest manufacturers of heavy-duty trucks and major product components in North America. Since its founding in 1900, Mack has built on its reputation for strength and durability to become one of the leading heavy-duty truck brands in the North American market. In the US, Mack is the undisputed leader in the vocational segment. A clear majority of Mack vehicles employ drivelines manufactured in-house – a unique feature in the North American truck industry.

The transition of production to New River Valley was completed on May 1, 2003.

Due to the success of the Granite model in the vocational truck market, Mack ended the production of its RD model at the end of 2003 – further streamlining its product line-up while addressing a broader range of applications.

Mack trucks are sold and serviced in more than 45 countries.

Mack deliveries were down to 18,991 trucks in 2003, compared with 23,245 trucks a year earlier. The decline was partly related to competition from truck OEMs able to offer engines that are not compliant with the EPA ’02 emission requirements as well as the transition of production of highway trucks from Winnsboro to the New River Valley plant in the first half of 2003.

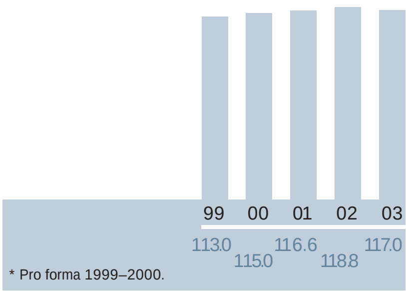
Renault Trucks

Renault Trucks is one of Europe's largest truck manufacturers. It traces its origin to the Berliet and Renault companies founded in 1895 and 1898. With a product program that ranges from light trucks for city distribution to heavy long-haul trucks and military vehicles, Renault Trucks is a true multispecialist with the ability to meet the specific requirements of all types of road transport.

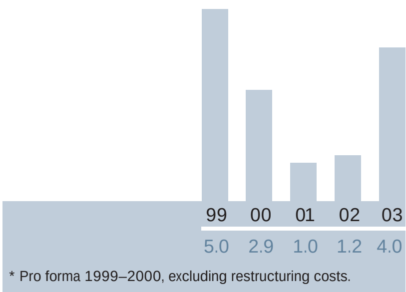
In 2003, Renault introduced a light truck, the new generation of the Renault Master. The Renault Master features new exterior and interior design, new engines and improved performance. The Renault Master is also accompanied by new service offers to reinforce and improve Renault Trucks’ market share in the less than 3.5-ton segment. An integrated Customer Center was opened in March within the Saint Priest facilities outside Lyon as part of an enhancement intended to increase service levels and strengthen the network in Europe. Renault Trucks has a strong international presence, with 2,000 dealers and service centers throughout the world, of which 1,350 are located in Europe. Aftersales services are provided in more than 80 countries.

Renault Trucks’ deliveries during 2003 amounted to 61,686 vehicles, a decrease of 4%. Deliveries to Eastern Europe rose by 11%. In Western Europe deliveries of

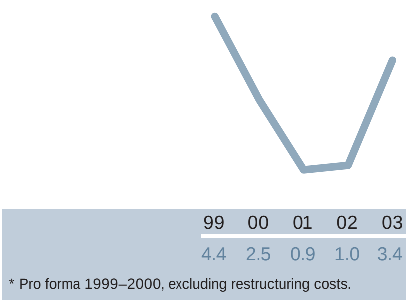
Net sales*, SEK bn



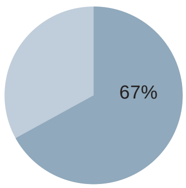
Operating income*, SEK bn



Operating Margin*, %



Net sales as percentage of Volvo Group sales, %



Renault trucks decreased by 8%, while deliveries in other parts of the world rose by 6%.

Volvo Trucks

Volvo specializes in heavy trucks, with total weight above 16 tons and began manufacturing trucks in 1928.

Number of vehicles invoiced	Trucks	
	2002	**2003**
Western Europe	87,486	82,672
Eastern Europe	8,803	9,411
North America	36,515	34,756
South America	5,358	5,976
Asia	9,144	16,286
Other markets	9,827	6,888
Total	**157,133**	**155,989**

Largest markets	2002		2003 Trucks	
	Registered heavy trucks	Market share %	Registered heavy trucks	Market share %
Volvo Trucks				
US	11,025	7.5	13,711	9.7
Great Britain	5,254	16.9	5,855	17.1
Iran	2,372	n/a	5,463	n/a
Germany	4,035	9.3	4,241	9.2
France	4,146	10.2	4,222	11.5
Brazil	4,318	14.7	4,127	13.1
Spain	3,098	12.1	3,861	14.4
Italy	2,805	9.8	2,614	11.2
Renault Trucks				
France	15,597	38.5	13,205	36.0
Great Britain	1,123	3.6	1,389	4.0
Germany	927	2.1	948	2.0
Spain	5,233	20.1	4,407	16.4
Mack Trucks				
US	20,482	13.6	15,146	10.7
Canada	2,281	10.7	1,724	7.7

Total market heavy trucks, thousands

98	99	00	01	02	03	
208	236	246	238	215	215	Western Europe
255	309	257	170	179	179	North America

In 2003, Volvo Trucks presented the new Volvo FH16. The Volvo FH16 is equipped with an all-new 16-liter engine, available with a choice of two power outputs, 610 and 550 hp, making it the most powerful standard truck ever in Europe. Also in 2003, Volvo Trucks introduced an entirely new truck, the Volvo VM, mainly for the South American market in the 17- to 23-ton class. In addition, a new generation of the Volvo NH, Volvo FH and Volvo FM was launched in South America . With these introductions, the entire Volvo Trucks product range has been renewed since 2000.

Volvo Trucks' products are marketed in more than 130 countries. The greater part of the sales take place in Western Europe and in North and South America.

Volvo Trucks has an extensive network of dealers and service centers in both Europe and North America. The distribution network in Europe was stregthened in 2003 through the acquisition of Bilia's network of truck dealers. To further improve its customers' ability to conduct competitive operations, Volvo Trucks offers a broad range of services.

During 2003, Volvo Trucks delivered a total of 75,312 trucks, an increase of 8% compared with a year earlier. Deliveries increased by 15% in North America and by 37% in Asia. The strong development in Asia is largely based on high deliveries to Iran.

Total market

The total market for heavy trucks in Western Europe was unchanged during 2003, compared with the preceding year. The markets in Germany and in the UK strengthened by 6% and 10%, respectively, while the markets in Italy and France weakened. Eastern Europe continues to show a positive trend.

The total market for heavy trucks in North America (Class 8) was unchanged at 179,000 trucks in 2003 compared with the year-earlier period. The trend during the fourth quarter showed positive signs in the vocational segment, however the uncertainty remains in other segments. The market for heavy trucks in Brazil rose by 28% compared with a year earlier.

Business environment

The acquisitions of Mack and Renault V.I. in 2001 were part of the restructuring that has been under way in the heavy-truck industry for a long time. In 1965 there were 40 independent manufacturers of heavy trucks in Western Europe; today, there are fewer than ten. Deregulation and increased globalization have created very tough competition that is driving the trend toward fewer and larger transport companies with increasingly streamlined operations. As a result, demands on truck manufacturers are also growing. Large development resources and rational production are required in order to meet customers' needs in a cost-effective way.

Market share development

The combined market share for heavy trucks in Western Europe for the truck operations of the Volvo Group was unchanged in 2003 compared with the year-earlier period at a level of 26.6%. Volvo Trucks' share of the market increased to 15.2% (14.1) in the heavy class as a result of the successful new product range. Renault Trucks' share of the market declined to 11.4% in the heavy-duty segment, down 1.5 points compared with the year-earlier period.

In North America, the combined market share of heavy trucks (class 8) declined to 19.8% (20.7). Volvo's market share amounted to 9.4% (7.8). This increase was due to a high demand for the new Volvo VN. Mack's share of the market fell to 10.4% (12.9) in 2003, an effect of a general decline in the

segments for both vocational trucks and economic haul trucks. Mack has been able to retain its leadership position in its core segments of construction and refuse.

In Brazil, Volvo's market share declined to 24.6% (31.0).

Financial performance

Net sales of Volvo's truck operations amounted to SEK 116,969 M in 2003. Adjusted for currency effects, sales increased by 5% compared with 2002.

Operating income in 2003 amounted to SEK 3,951 M (1,189). The improvement across the three truck brands, Mack, Renault and Volvo, is largely related to increased margins due to cost rationalization. The strong customer values in the new Volvo range, increased market shares and increased efficiency has contributed to the improved earnings in 2003. These positive effects were partly offset by negative currency effects and higher costs for research and development. Earnings improved in North America, where profitability developed favorably for both Volvo and Mack despite adverse market conditions. In Europe, Volvo Trucks' strong performance continued and both Renault Trucks and Volvo Trucks reported improved earnings.

Production and investments

Production of trucks in 2003 amounted to 75,440 Volvo trucks (68,610), 52,400 Renault trucks (55,666) and 18,519 Mack trucks (20,706).

On June 9, Volvo Trucks signed a joint venture agreement with China National Heavy Truck Corporation, CNHTC, for production of trucks. Production will start during the first quarter of 2004 in CNHTC's premises in Jinan, in the Shandong Province. The initial capacity will be 2,000 trucks per year. Volvo's product range in China will comprise the Volvo FL, Volvo FM9 and Volvo FM12. The ambition is to increase volumes to 10,000 trucks per year by 2010 with a high level of local integration.

The transfer of production of Mack highway trucks from Winnsboro to New River Valley was completed on May 1, 2003.

On July 11, all conditions for Volvo's acquisition of Bilia's trucks and construction equipment operations, Kommersiella Fordon Europa AB (KFAB), were met. KFAB is a leading service supplier and dealer of Volvo trucks and construction equipment, with operations in the Nordic countries and in several other countries in Europe. The acquisition of the strong KFAB dealerships and workshop network will significantly strengthen Volvo Trucks' European distribution system.

Net sales per market			Trucks
SEK M	2001	2002	**2003**
Western Europe	60,841	61,406	63,097
Eastern Europe	5,526	6,424	7,004
North America	33,630	33,721	28,151
South America	3,993	3,277	3,464
Asia	4,659	5,919	9,206
Other markets	7,919	8,005	6,047
Total	**116,568**	**118,752**	**116,969**

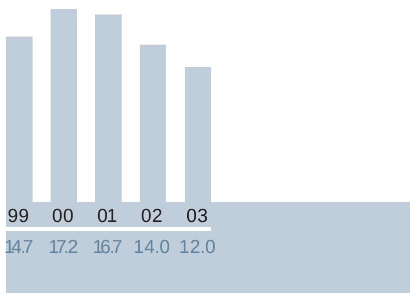
Number of trucks produced			Trucks
	2001	2002	**2003**
Volvo			
Volvo FH	28,920	31,880	33,720
Volvo VN and VHD[1]	12,860	14,300	17,080
Volvo FM9, 10, and 12	14,580	15,300	17,480
Volvo FL	6,690	5,640	4,820
Volvo NL and NH	2,400	1,490	1,940
Volvo VM	–	–	400
Total	**65,450**	**68,610**	**75,440**
Mack			
Mack CH	7,298	7,540	1,744
Mack CL	984	288	64
Mack Vision	2,122	2,523	4,811
Mack Granite	1,099	4,592	6,217
Mack DM	703	528	458
Mack DMM	111	47	–
Mack LE	1,393	1,084	964
Mack MR	3,015	1,668	2,034
Mack RB	488	103	130
Mack RD6	4,532	2,298	921
Mack RD8	86	35	54
Other	–	–	1,122
Total	**21,831**	**20,706**	**18,519**
Renault			
Renault Mascott	11,528	11,446	9,797
Renault Kerax	7,967	7,677	6,674
Renault Midlum	12,764	12,545	12,801
Renault Premium	17,918	16,150	15,567
Renault Magnum	7,027	7,848	7,516
SISU	–	–	45
Total	**57,204**	**55,666**	**52,400**

1 Includes other truck models produced in the United States.

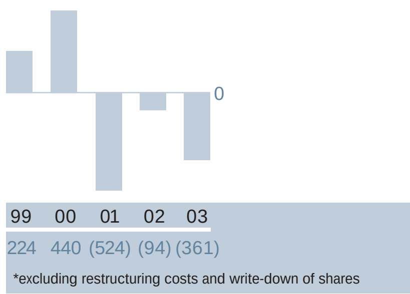
Ambitions for 2004

The ambition in 2004 is to continue the development of the distribution networks in Europe and North America, including the integration of the acquired former Bilia distribution network in Europe. In 2004, the unique brand identities and product ranges of the three strong brand names Volvo, Renault and Mack will be developed further.

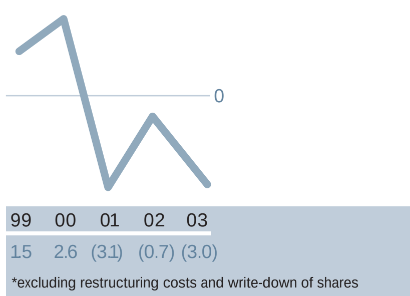
Net sales, SEK bn



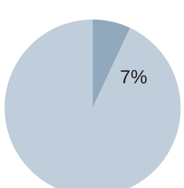
Operating income (loss)*, SEK M



Operating Margin*, %



Net sales as percentage of Volvo Group sales, %



Buses

Volvo Buses has renewed its entire product range in less than five years. Most of the new models are based on a common product platform for intercity buses and tourist coaches. The introduction of the TX platform has provided Volvo one of the most modern product ranges in the bus industry. The product range provides efficient transport solutions and includes complete buses and chassis for city and intercity traffic as well as coaches, which meet customers' and environmental demands.

Volvo Buses offers an extended range of facilities within servicing and financing to be able to offer all-encompassing customer-tailored transport solutions with the best total economy. In 2003, an agreement was made with Renault Trucks covering the sale of Volvo buses through Renault's dealer network in France. The French bus market is the second largest in Europe and the cooperation with Renault Trucks gives Volvo Buses access to an extensive dealer network for repair, service and spare parts.

Total market

The market for tourist buses globally remained very low in 2003, particularly in North America and Europe. The total market in Europe is weak, which is attributable mainly to Central Europe. Strong price pressures continue to prevail. In Asia, the markets in Hong Kong and Singapore are still at a low level, while a positive trend was noted in China. In 2003, the market was stable in Mexico while markets in South America continued to be weak, but with a tendency toward recovery.

Business environment

Within the OECD countries, deregulation and privatization have altered the operating conditions for many operators. New actors are penetrating and establishing a foothold in previously restricted areas, and competition between companies is increasing. There is a move toward fewer and larger operators who impose high demands on good overall economics and better potential for focusing on their core operations. Significant bus markets in Europe are in a state of recession, which results in increased competition in other markets. The trend toward consolidation in the bus industry is prevailing.

Market share development

Volvo delivered 7,817 (9,059) buses and bus chassis during 2003. The decline was mainly attributable to significantly lower volumes in North America, which were offset to some extent by favorable volumes in China and the Nordic countries.

Volvo's market share in Europe remained at about the same level as in 2002. In the Nordic region, the UK and Benelux, Volvo Buses is the market leader, while the market position in continental Europe remains weak. In the North American coach market, a downturn was noted, while the market share in Mexico, where Volvo is market leader, showed a sharp increase. In China, Volvo Buses increased its share of the total market during 2003.

Financial performance

Net sales in 2003 declined to SEK 11,978 M (14,035). The decrease was largely explained by lower deliveries, mainly in North

America, and changes in currency exchange rates. Adjusted for currency effects, net sales were down 8% compared with 2002.

The operating loss, excluding write-down of shares, rose to SEK 361 M, compared with a loss of SEK 94 M in 2002. The weaker result compared with the year-earlier period was largely related to lower volumes, continued price pressure and currency effects. In the fourth quarter, a write-down of the holding in Henlys Group Plc was made in an amount of SEK 429 M. In December 2003, the decision was taken to close the bus body plant in Aabenraa, Denmark. The cost for the closure amounted to SEK 42 M.

Production and investments

During the year Volvo produced 7,223 (9,113) buses and bus chassis, of which 35% were complete buses. The degree of utilization in the production system in Europe and North America decreased as an effect of the downturn in the market. In 2003, Volvo Buses decided to close the bus body plant in Aabenraa, Denmark. Some 200 employees will be affected by the closure.

Ambitions for 2004

Volvo Buses' ambition for 2004 is to continue implementing a comprehensive program to achieve profitability. Restructuring of the commercial and industrial operations in Europe will be completed. The product program will be standardized and globalized to secure economies of scale. Focus during 2004 will also be placed on capital utilization and cash flow, primarily through reducing lead times.

Number of vehicles invoiced			Buses
	2001	2002	**2003**
Western Europe	2,899	3,076	2,782
Eastern Europe	216	337	305
North America	3,128	1,945	1,553
South America	1,009	495	369
Asia	2,209	2,639	2,227
Other markets	492	567	581
Total	**9,953**	**9,059**	**7,817**

Net sales per market			Buses
SEK M	2001	2002	**2003**
Western Europe	6,263	6,695	6,153
Eastern Europe	373	409	381
North America	6,847	3,838	2,984
South America	757	366	329
Asia	1,839	2,022	1,447
Other markets	596	705	684
Total	**16,675**	**14,035**	**11,978**

Net sales, SEK bn

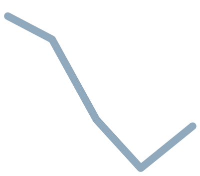
99	00	01	02	03
18.9	20.0	21.1	21.0	23.2

Operating income*, SEK bn

99	00	01	02	03
1.7	1.6	0.9	0.4	0.9

*excluding restructuring costs

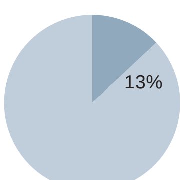
Operating Margin*, %



99	00	01	02	03
9.1	8.0	4.2	1.9	3.9

*excluding restructuring costs

Net sales as percentage of Volvo Group sales, %



Construction Equipment

Volvo CE's products, spare parts and services are offered worldwide in more than 200 countries. The products are used in a number of applications including general construction, road construction and maintenance, forestry, demolition, waste handling and mining.

Volvo CE has launched more than 40 new products on the market over the past two years. The product range comprises a comprehensive offering of excavators, wheel loaders, articulated haulers, motor graders and a range of compact wheel loaders, compact excavators, backhoe loaders and skid-steer loaders.

Services such as financing, leasing and sales of used equipment are also offered. In 2002, Volvo CE launched a franchise initiative for the rental market, Volvo CE Rents. At December 31, 2003, Volvo CE Rents had 45 stores open, most of them in North America.

In May, Volvo CE strengthened its distribution network in the US through the purchase of the distribution business of L.B. Smith, Inc. The intention is to spin off the acquired operations.

Total market

The total world market for heavy and compact construction equipment, within Volvo CE's product range, increased by 11% during 2003. In North America the market increased by 15%, Western Europe was down 1%, while other markets were up 19%, primarily driven by strong development in China, up 60%. Eastern Europe rose 48% and Africa was up 32%.

The increase in the total market is mainly driven by heavy construction equipment, which rose 18% during the year. The North American market for heavy equipment was up 15% while the market in Europe was flat. Other markets rose by 30%.

The world market for compact equipment increased slightly in 2003, up 5% compared with the preceding year. The market in North America was up 15%, while markets in Europe were down 1%. Other markets rose by 6%.

Business environment

The number of aquisitions in the construction equipment industry were slightly fewer in 2003, compared with 2002. Instead a high number of joint-ventures or agreements took place, such as Caterpillar that set up a supply agreement with Blount International to expand their forestry offering. Another example was the deal where Daewoo Heavy Industries & Machinery agreed to supply heavy equipment for Terex in the US. Companies such as Caterpillar, Komatsu and Mitsubishi are also focusing on China, which remains a huge market for construction equipment.

Market share development

Volvo CE continues to gain market shares. In most geographical and product areas the market shares were higher compared with a year earlier, mainly due to recently launched products equipped with new fuel-efficient and environmentally friendly Volvo engines.

The market in Europe continued to be the largest single market, with 53% of sales, while North America accounted for 23% of sales, Asia represented 16% and the rest of the world 8%.

Financial performance

Volvo CE's net sales amounted to SEK 23,154 M (21,012), up 18% adjusted for currency effects. The increase was mainly attributable to all-time-high volumes as a result of the expanded product range. Operating income in 2003 was SEK 908 M (406) and the operating margin 3.9% (1.9). The improved earnings were primarily related to increased volumes, which were strongly offset by negative currency effects.

Production and investments

Over the past two years Volvo CE has launched more than 40 new products to the market. The product portfolio is now in a highly competitive position. During the spring of 2003, production of excavators began in the new facilities located in the Pudong area outside Shanghai in China. The new factory ramped up production to around 1,200 machines a year. In addition, the dealer network expanded and in the beginning of 2004, there were 19 dealer partners supporting Volvo CE in China.

Ambitions for 2004

Volvo CE's ambition for 2004 is to capitalize on the recently launched new products and the extended product range to increase market shares. The dealer development program will continue, focusing on integrating the acquired network of former Bilia dealers in Europe and on developing and divesting the former L.B. Smith distribution network in the US. The Rental initiative will be further developed and additional rental stores will be opened in Europe and North America. In China, the new production plant for excavators is important, since China is the fastest-growing and one of the largest markets for crawler excavators.

Net sales per market Construction Equipment

SEK M	2001	2002	**2003**
Western Europe	10,326	10,383	11,576
Eastern Europe	341	454	772
North America	6,145	5,667	5,428
South America	847	709	636
Asia	2,773	3,048	3,707
Other markets	703	751	1,035
Total	**21,135**	**21,012**	**23,154**

Net sales, SEK bn

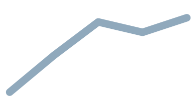
99	00	01	02	03
5.8	6.6	7.4	7.7	7.6

Operating income*, SEK M

99	00	01	02	03
314	484	658	647	695

*excluding restructuring costs

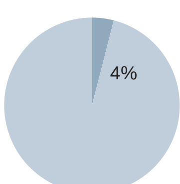
Operating Margin*, %



99	00	01	02	03
5.5	7.3	8.9	8.4	9.1

*excluding restructuring costs

Net sales as percentage of Volvo Group sales, %



Volvo Penta

Volvo Penta offers complete power systems and service for leisure boats, workboats and industrial applications such as power-generating equipment. Volvo Penta operates within three areas of activity: Marine Leisure, Marine Commercial and Industrial.

By supplying technologically superior products focused on performance and operational reliability, and being sensitive to customer demands for effective service solutions, Volvo Penta has developed a global leadership and one of the industry's strongest brands. With more than 5,000 dealers in some 130 countries, Volvo Penta has a uniquely strong global presence.

The year 2003 was the most comprehensive product introduction period in the history of Volvo Penta and it includes the launch of the completely new generation of medium-heavy marine diesel engines, D4 at 210 hp and D6 at 310 hp. These electronic diesel engines, launched with new stern drives and specially-adapted propellers, feature a number of technical solutions that make the engines faster, more powerful, cleaner and quieter than their predecessor.

The D4-210 and D6-310 are developed for both leisure boats and commercial boats in the size class of about 22 to 45 feet. This is a performance diesel segment in which Volvo Penta is the market leader.

The new D3 engine, which is the marine version of Volvo Cars' successful diesel engine for passenger cars, was also launched in 2003. D3's advantages in terms of weight, noise level and fuel consumption will open new segments for Volvo Penta and it will also provide a future alternative to outboard engines.

In 2003, Volvo Penta also launched the D2-75 diesel engine together with a new four-blade folding propeller for sailing yachts.

Total market

The world market for marine and industrial engines was relativeley stable during 2003, although the situation varied considerably in different parts of the world. The demand in Europe has been relatively strong, while the total demand in North America has been weaker. An increase of the North American demand was, however, noted in the second half of 2003. Demand for industrial engines in China has continued to rise.

Business environment

Environmental issues are gaining increasing importance in the industries in which Volvo Penta is active. Environmentally, Volvo Penta is well positioned, particularly as a result of the favorable environmental characteristics of the diesel engines launched in 2003. All engines already fulfill the comprehensive environmental standards planned for Europe and the US in 2006 and 2007. In addition, Volvo Penta's new engines also feature exceptionally good values with regard to fuel consumption and noise levels.

The D12 engine contributed during the year to increased sales for Volvo Penta, among other segments to car and passenger ferries. These types of vessels are often operated in traffic in urban environments or in the vicinity of other built-up areas, which means that operators often place higher demands on exhaust emission standards than legally required. Consequently, the D12's very low emissions level has strengthened Volvo Penta's competitiveness.

In China, Volvo Penta was selected as engine supplier to a number of newly built tourist boats that will traffic one of China's large systems of inland waterways. Since the inland system represents an important reserve of fresh water the local Chinese authorities conducted a very thorough evaluation of the engine's environmental

impact and fuel consumption. The choice fell to Volvo Penta's newly launched 4- and 5-liter diesel engines, the so-called workhorse engines.

Market share development

Volvo Penta's market shares among the boat builders in the US were strengthened and remained at high levels in Europe. Deliveries of Volvo Penta's new diesel engine range started in the autumn of 2003. The new range has been very well received by the trade press and boat builders. In the industrial engine sector Volvo Penta retained its strong position in Europe. In Asia, the strong development continued. China is now Volvo Penta's single largest market for industrial engines.

Financial performance

Net sales in 2003 totaled SEK 7,596 M compared with SEK 7,669 M in the preceding year. The strong earnings performance in recent years for Volvo Penta continued in 2003. Operating income amounted to SEK 695 M (647), which is Volvo Penta's best result to date. The operating margin for 2003 was 9.1% (8.4). Both sales and earnings were negatively affected by an unfavorable currency development, mainly from the weaker USD.

Production and investments

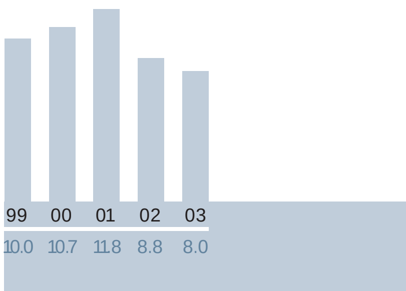
All of Volvo Penta's production facilities – the diesel engine factories in Vara, Sweden, and in Wuxi, China, and the gasoline engine factory in Lexington, Tennessee, USA – were operated at full capacity in 2003. The production capacity in all of these factories was increased in order to meet the strong demand for Volvo Penta products. During 2003 the production of the new diesel engines, D4-210 and D6-310, started in Vara. The Vara plant will have parallel production of these new engines together with the existing 3- and 4-liter engines.

Ambitions for 2004

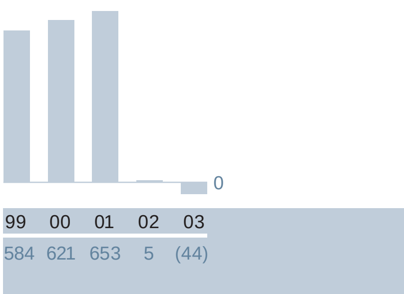
The activity levels for new product introductions will remain high during 2004. At the same time Volvo Penta is now focusing resources in order to secure efficient customer support for the new products on the market. The strategy to strengthen the cooperation and the integration with key customers in all business segments will continue. Volvo Penta has no intention to compete with its customers through the production of boats or generator sets.

Net sales per market			Volvo Penta
SEK M	2001	2002	**2003**
Western Europe	3,789	3,846	4,081
Eastern Europe	38	99	108
North America	2,175	2,261	2,109
South America	213	127	146
Asia	988	1,141	947
Other markets	177	195	205
Total	**7,380**	**7,669**	**7,596**

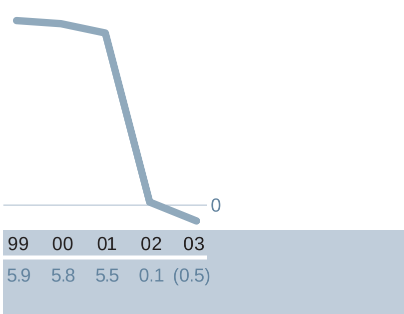
Net sales, SEK bn



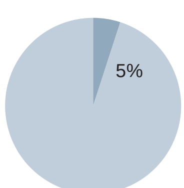
Operating income/loss, SEK M



Operating Margin, %



Net sales as percentage of Volvo Group sales, %



Volvo Aero

Volvo Aero develops and manufactures high-technology components for commercial aircraft and rocket engines. Volvo Aero also develops, manufactures and maintains military engines. Volvo Aero offers a wide range of services, including sale of parts for aircraft engines and aircraft, sale and leasing of aircraft engines and aircraft, overhaul and repair of aircraft engines, and asset management. In addition, Volvo Aero develops, produces and provides aftermarket services for gas-turbine engines and systems.

The company's operations are based on close cooperation with partners and on selective specialization. In 2003, overhaul contracts were signed with SAS, General Electric, MK Airlines, and Skyways Express. Partnership agreements for the manufacture of components for the GP7000 engine were signed with MTU Aero Engines. In addition, an extension of the marketing and distribution agreement for Boeing's surplus inventory for commercial aircraft, was signed with Boeing in 2003.

Volvo Aero operates worldwide, with production located in Sweden and Norway.

Total market

At the end of 2003, air traffic showed a positive trend in all regions of the world. Accumulated, however, 2003 declined compared with 2002, and it was the third consecutive year of declining air traffic.

Substantial challenges remain for the airline industry. There are positive signs from the low-cost segment, which has shown tremendous growth in the US and Europe. It is also starting to become established in Asia. This segment continues to put pressure on the established airlines.

Business environment

Aircraft deliveries decreased in 2003 for the second consecutive year and the production of large commercial aircraft will most likely decrease further in 2004. The aircraft manufacturers gross orders were down 5% from 2002 year's order intake. Since there is a time lag between airline profits and orders and deliveries of new aircraft, a recovery in deliveries is not expected before the end of 2005 or the beginning of 2006. A recovery in the aftermarket is expected during 2004.

Financial performance

As a result of the continued downturn in the aviation industry, Volvo Aero's net sales declined 9% to SEK 8,030 M (8,837). Earnings deteriorated to an operating loss of SEK 44 M, compared with operating income of SEK 5 M in the year-earlier period. The declines in sales and earnings were primarily attributable to a combination of lower volumes, mainly within engine overhaul in combination with strong price pressure and the falling USD exchange rate. Earnings were also negatively affected by provisions for expected losses on contracts amounting to SEK 170 M.

Despite the severe crisis in the aviation industry, Volvo Aero's manufacture of components for commercial aircraft engines and the military operations reported positive results for the full year. The operating margin was a negative 0.5% (positive: 0.1).

Production and investments

To align operations to a continued low level, Volvo Aero is reducing its workforce in Trollhättan, Sweden. As a consequence 241 persons will leave the company.

In 2003, a contract was signed with SAS, whereby Volvo Aero became the principal supplier of engine overhaul services for SAS/Spanair's fleet of MD80 aircraft. The contract covers the period up to and including 2006. Also in 2003, Skyways Express and Volvo Aero signed an agreement whereby Volvo Aero will become Skyways' exclusive supplier of engine overhaul and equipment maintenance services for the PW125 engines. The agreement, based on a price per hour of flying time, is valid until 2005 and is estimated to be worth at least SEK 100 M. Volvo Aero also signed overhaul contracts of JT9D engines for General Electric and the UK freight carrier MK Airlines.

An agreement was also signed with MTU Aero Engines of Germany to manufacture components for the GP 7000, an engine intended for Airbus's forthcoming A380 jumbo jet. Volvo Aero will produce the low-pressure turbine case over a 15-year period. Volvo Aero is already a partner in the Rolls-Royce Trent 900 engine program, the second engine alternative for the A380.

Volvo Aero has been a partner with General Electric since the 1980s and in 2003 Volvo Aero and GE agreed to cooperate as partners in the new LMS100 gas turbine. Volvo Aero will deliver a number of key components for the new environmentally friendly gas turbine. The total value of the contracts is expected to be USD 800 M over a 20-year period.

Ambitions for 2004

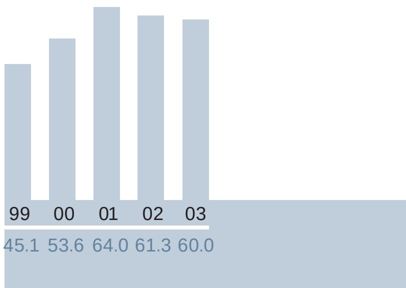
The aviation industry's sharp downturn necessitates continued adaptation to new conditions. Restoring profitability is the most important amibtion for 2004, while opportunities for increasing market shares are also created during a recession.

Net sales per market			Volvo Aero
SEK M	2001	2002	**2003**
Western Europe	4,788	3,422	3,951
Eastern Europe	87	28	49
North America	5,841	4,573	3,301
South America	187	177	152
Asia	708	497	428
Other markets	173	140	149
Total	**11,784**	**8,837**	**8,030**

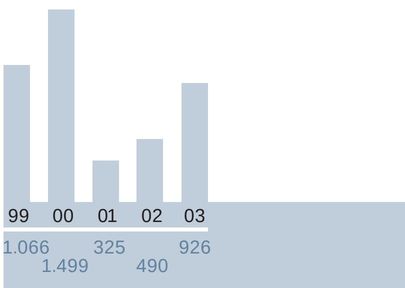
Accordingly, Volvo Aero aims to continue building its components business and will make strong efforts to become involved in engine programs, either as a partner or long-term supplier.

In the service sector, major efforts are being made to develop the customer offering and sign long-term contracts with airlines, partners and other customers.

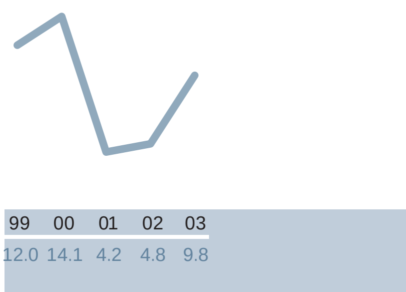
Credit portfolio, net, SEK bn



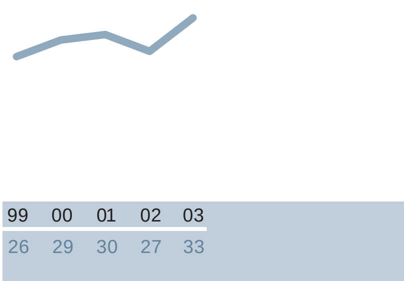
Operating income, SEK M



Return on shareholders´equity, %



Market penetration Volvo Trucks, %



Financial Services

Volvo Financial Services (VFS) provides services in four main areas: customer finance and insurance, treasury operations, real estate management and related services. Financial services play a significant role in Volvo’s strategy for becoming the world’s leading provider of commercial transport solutions. Financial services also fulfill the market’s growing need for increasingly sophisticated financial solutions.

The customer in focus

Volvo’s customer financing operations cover Europe, North America, Australia, parts of South America and Asia. At the end of 2003, VFS conducted customer financing directly or through cross-border activities in over 50 countries. Emerging markets were also in focus during the year, with plans for direct expansion in the Russian and the Czech markets, as well as in China through strategic alliances. Finance programs support the customers of Volvo’s business areas. The range of financial services includes instalment contracts, financial and operational leasing, and dealer financing. In most markets, insurance, service and maintenance contracts are also offered separately or in combination with financing services.

For much of the year, VFS concentrated on developing new business opportunities with creditworthy customers. These relationships and good margins are key components for achieving the stable, long-term growth and earnings that VFS desires. VFS benefited in 2003 from Renault Trucks’ and Construction Equipment's volume and profitability, as well as from a return to profitability in the US, its largest market. The year was not without challenges, however, as VFS began to experience increasing rates, margin pressure and competition from banks and independent finance companies.

Notwithstanding these challenges, the new customer finance model and strategies introduced in 2001 were verified in 2003 by VFS achieving its 10th consecutive quarter of increasing operating income. All VFS regions performed better than in the preceding year. VFS’s lease and loan portfolio is now at the midpoint of its turnaround transition.

Volvo Treasury coordinates the Group’s global funding strategy and manages all of its interest-bearing assets and liabilities. Operating from Göteborg, Greensboro, Singapore and Curitiba, the international presence supports the growth strategy of the Volvo Group. A flexible funding strategy kept the Group’s borrowing cost at record low levels and gave solid support to the customer finance activities. In spite of volatile financial markets, the management and hedging of the Group’s assets and liabilities and foreign exchange positions added good value to VFS’s bottom line and enhanced the interest net of the Group. In 2003, China was given a large share of attention, and efficient cash-pooling arrangements were set up in Eastern Europe to further strengthen the financial infrastructure. Volvo Treasury’s role as an in-house bank also includes advisory services for treasury related activities to all the Group companies. Currency hedging strategies, economic research and forecasting are included in this concept.

Danafjord, VFS’s real estate unit, expanded further in 2003. The operation covers the renting and development of commercial real estate in Sweden and increasingly in other countries. A new office building in Arendal was fully occupied in early 2003 with 1,080 persons. In addition, the acquisition of KFAB (the former truck and construction equipment operations of Bilia) includes seven real estate companies in Sweden, Norway, Finland, Germany and France that are being reported through Danafjord. The occupancy rate at the end of the year was 99.8% (99.9), and 61% (59) of the total leasing was for tenants outside the Volvo Group. 76% (77) of the leases run for five years or more.

Volume and assets

The total volume of new retail financing in 2003 amounted to SEK 26.8 billion, which was SEK 0.5 billion higher than 2002. For the year, Volvo Trucks accounted for 54% (51) of the volume, Construction Equipment for 17% (16), Renault Trucks for 15% (13), Buses for 5% (9) and Mack Trucks for 8% (9). The remaining 1% (2%) is mainly related to Volvo Aero and Volvo Penta.

In the markets where financial services are offered, the average penetration during the year was 33% for Volvo Trucks, 33% for Construction Equipment, 17% for Buses, 15% for Renault Trucks and 12% for Mack Trucks. Expressed as an average, Volvo Financial Services financed 24% of the Group's products sold in the markets where financing is offered, an increase of 5 percentage points from 2002.

Total assets as of December 31, 2003 amounted to SEK 67 billion (69), of which SEK 60 billion (61) was in the net credit portfolio. Adjusted for the effects of foreign exchange movements, the credit portfolio grew by 7% during the year, compared with a growth of 8% during 2002. The credit portfolio consists of 54% Volvo Trucks, 16% Construction Equipment, 10% Buses, 12% Renault Trucks and 6% Mack Trucks. The remaining 2% is mainly related to Volvo Aero and Volvo Penta. From a currency perspective, 39% of the portfolio was denominated in EUR, 33% in USD, 12% in GBP and 5% CAD. The remaining 11% is a mix of other European and Latin American currencies.

Financial performance

Year-end operating income amounted to SEK 926 M (490). Return on equity was 9.8% (4.8) with a year-end equity ratio of 12.0% (10.8).

Write-offs in 2003 totaled SEK 848 M resulting in an annualized write-off ratio for the year of 1.37% (1.39). Total credit reserves amounted to SEK 1.3 billion at the end of December, and the credit reserve ratio at year-end was 2.14%.

During 2003, VFS built on its foundation of controlled growth and improved profitability. Emphasis on prudent underwriting and competitive pricing has led to a more stable portfolio. Delinquencies are trending downward and were at their lowest level in nearly three years. Furthermore, the 2003 expenses and operational efficiency statistics demonstrate VFS was successful in streamlining daily operations.

Ambitions for 2004

A stabilizing global economy, rebound in capital spending and a comprehensive lineup of new Volvo Group products should serve as a catalyst for improved asset growth and quality. As competition increases, VFS will look to protect its share of the market while maintaining return goals.

Condensed income statement

SEK M	2001	2002	**2003**
Net sales	9,495	9,925	9,153
Income after financial items	**325**	**490**	**926**
Income taxes	10	(134)	(170)
Net income	**335**	**356**	**756**

Distribution of credit portfolio, net

%	2001	2002	**2003**
Operational leasing	23	22	22
Financial leasing	27	25	26
Installment contracts	36	37	37
Dealer financing	14	16	13
Other customer credits	0	0	2

Operational excellence initiatives will be pursued aggressively in 2004 to further improve efficiency and ability to care for customers. VFS also needs to continue strengthening the processes at both the front and back-ends of the operations. The approach will be conservative when moving into emergin markets. A close watch on the capital markets is essential so that financial risks can be managed.

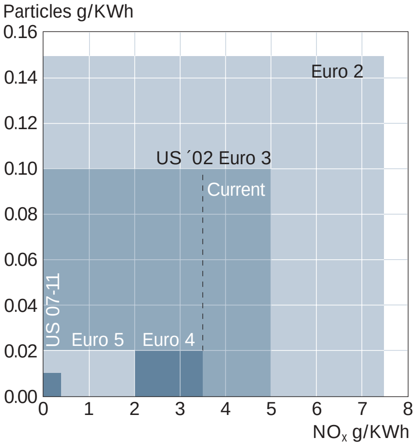
With the know-how of its 1,000 employees, VFS has the ambition to become a benchmark in the finance industry. In the meantime, VFS is on the path of reaching another of its goals, becoming a solid and dependable contributor to the Volvo Group's earnings.

More information on the Internet

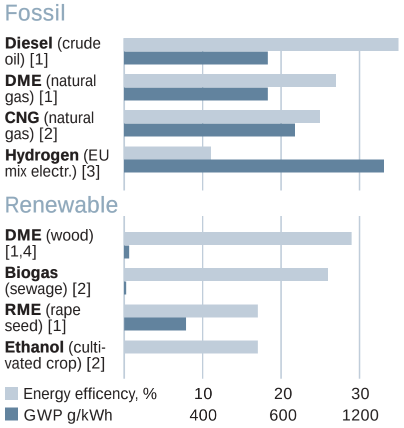
More detailed environmental information can be found at www.volvo.com.

You will find:
Policy documents, brochures, environmental data - products and production, emission legislation, product safety examples and training material.

Emissions standards for trucks and buses



Energy efficency and GWP – Global Warming Potential, "well-to-wheel"



DME = Dimethyl ether
RME = Rape methylester
BM = Biomass

[1] Diesel process
[2] Otto process
[3] Fuel cell hybride
[4] Wood via black liquor

Managing values

The corporate values of quality, safety and environmental care are naturally immersed in the daily operations of the Volvo Group. Quality and environmental management systems are used in all parts of the organization as the means for addressing responsibility and objectives. The Group policies and a common network of environmental auditors ensure that the Group guidelines and objectives are addressed. During 2003 the Group's business areas finalized introduction of environmental management systems in most operations. All but two production sites are now certified. Some market organisations still remain and projects are ongoing for all other operations with certification planned for 2004.

Quality issues

In product development, all business areas and business units use a well structured process with quality gates and milestones specifying the requirements that have to be fulfilled before a project is allowed to continue. Safety and environmental requirements are also key parameters in the process.

The focus on product quality in the development process as well as in the interface with the customer has led to improved results in customer satisfaction measurements.

Safety development

One important safety requirement is high product quality – the vehicles and engines must function reliably, and as the user expects. Other aspects of safety are to prevent accidents from happening, and when the accident is unavoidable, how to minimize the injuries for the driver, the passengers and people nearby.

A dedicated work to integrate the Volvo safety features and concepts into the new product lines at Volvo CE demonstrates how a good workplace with easy entrance and good visibility for the operator adds to high safety.

A focused environmental agenda

During 2002, improved energy efficiency and lower emissions were defined as the focused environmental agenda for the entire Volvo Group, and objectives for the coming tree-year period were developed.

Fuel efficiency is the main interest of all our customers, with its direct link to the operating costs of the business. Improved total fuel efficiency is also the most rewarding way to decrease carbon dioxide (CO_2) emissions.

At the same time to improve ambient air quality, increasingly stricter emission regulations put pressure on the engine development to decrease mainly nitrogen oxides (NO_x) and particle emissions. Unfortunately, higher fuel efficiency normally means higher emissions of NO_x, a physical fact resulting from higher combustion temperatures. This balance is the challenge for all the Volvo Group business areas.

The recent product launches demonstrate how the stricter emission requirements have been met with highly competitive fuel efficiency, like the Volvo CE product lines. In many cases also decreased fuel consumption, for example, Volvo Penta's new medium-heavy marine diesel engines, D4-210 and D6-310, and the new D3, a future alternative to outboard engines, are combined with substantially lower emissions as well as advantages in terms of weight and noise levels. The key to the success is a close collaboration between engine development and each application, to ensure the right combination of engine, transmission, chassis and body. The I-shift transmission used in the Volvo Trucks is an excellent example of this integration.

Future fuels and energy efficiency

Major changes regarding the use of energy sources, fuels and vehicle powertrains, are slow processes that must be based on extensive investigations involving many different aspects. A few of the most important are possible energy supply, energy efficiency and greenhouse gas emissions, all of them in a well-to-wheel perspective.

The Volvo Group has found that DME (Di-Methyl Ether) has a very strong case as a long term vehicle fuel, derived both from fossil and renewable sources. The results also show that the diesel engine will play a vital role in future drive trains, due to its inherent energy efficiency and ultra low emission potential, also together with fuels derived from renewable sources.

The development of the second generation heavy duty DME vehicle technology has continued successfully and a prototype truck will be presented by Volvo during 2004.

The focused environmental agenda defines far-reaching objectives for energy efficiency also in the production processes. The organization is now being challenged on how to achieve substantially decreased CO_2 emissions in the most cost-effective way.

The production impact

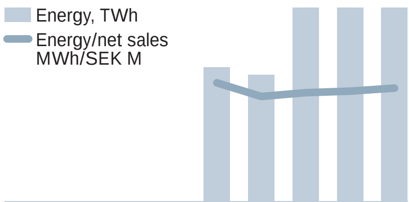
The Volvo Group has production sites on all continents. Minimum environmental performance and an ongoing improvement programs are a requirement at all plants, and have been followed up by regular audits since 1989. The environmental audits identify environmental risks and possible need for clean-up or other corrective actions, with a follow-up to ensure that these are promptly conducted. The Volvo Group has insurance coverage for possible accidental damage to nearby areas.

At the beginning of 2004, Volvo had a total of 48 plants for the production of trucks, buses, construction equipment, marine and industrial power systems, and aircraft engines, of which 16 in Sweden. All the plants have the requisite permits, which in Sweden cover waste, noise and emissions to air, water and soil. Two Swedish permits are to be renewed during 2004 due to a future increase in production volume.

Consumption of energy remained at roughly the same level as in 2002 but a slight decrease can be seen in the emissions of CO_2 and NO_x during 2003. The total water consumption also decreased during 2003. The program to increase resource efficiency is starting to give effect also in the emission values. Although using low sulphur content fuels when possible, an increase in the use of heating oil caused an increase in sulphur dioxide emissions compared to 2002. A total increase in production volumes caused a minor increase in solvent emissions and hazardous waste.

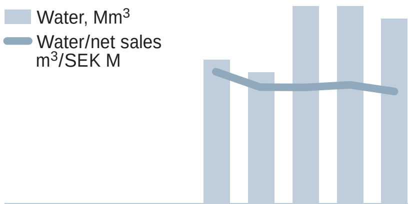
Detailed data is found in the adjoining diagrams and in the table on page 93.

Energy consumption



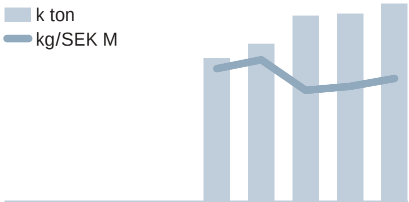
	99	00	01	02	03
Energy, TWh	1.8	17	2.6	2.6	2.6
Energy/net sales MWh/SEK M	15.6	13.8	14.3	14.5	14.9

Water consumption



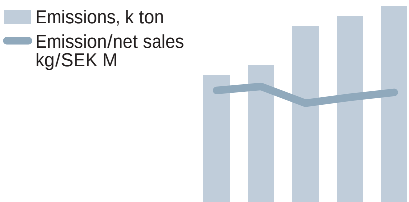
	99	00	01	02	03
Water, Mm^3	6.7	6.1	9.2	9.2	8.6
Water/net sales m^3/SEK M	57.8	51.0	50.9	52.0	49.1

Hazardous waste



	99	00	01	02	03
k ton	15.6	17.2	20.3	20.5	21.6
kg/SEK M	134	143	112	116	124

Solvent emission



	99	00	01	02	03
Emissions, k ton	1.3	1.4	1.8	1.9	2.0
Emission/net sales kg/SEK M	11.4	11.8	10.1	10.7	11.2

Corporate governance

Management system

The management of the Volvo Group is carried out through a number of corporate bodies. The shareholders excercise their voting rights at the Annual General Meeting, regarding i.a. the composition of the Board of Directors and election of auditors. The Board of Directors appoints the President and CEO and decides on issues relating to the Group's strategic direction and its overall organization.

The President and CEO exercises the daily control of the Group and the Group's eight business area presidents report to him.

Nomination Committee

In April 2003, the Annual General Meeting resolved to authorize the Board Chairman to appoint a Nomination Committee comprising three members from among the representatives of the company's three largest owners, in terms of voting rights, plus one member representing shareholders with smaller holdings in the company.

The Nomination Committee is responsible for submitting to the Annual General Meeting the names of candidates to serve as members of the Board of Directors and as auditors. The Committee also proposes the amount of the fees to be paid to the holders of these positions.

The Nomination Committee which was appointed during the third quarter of 2003 and for the period up to the next Annual General Meeting, comprises Lars Otterbeck, Alecta, Shemaya Lévy, Renault, Marianne Nilsson, Robur, Bengt Hane representing shareholders with smaller holdings and Lars Ramqvist, Chairman of the Board. Lars Otterbeck was appointed Chairman of the Committee. Lars Ramqvist resigned from the Committee on February 2, 2004.

Report on Board activities during 2003

In 2003, Volvo's Board of Directors consisted of eight members up to and including the Annual General Meeting, and ten members thereafter, all elected by the shareholders. In addition, the Board had three members and two deputy members appointed by employee organizations. The President is a member of the Board of Directors.

During 2003, the Board held six regular meetings and three extraordinary meetings.

The Board has adopted work procedures for its internal activities that contain rules pertaining to the number of Board meetings, matters to be handled at regular meetings of the Board and duties incumbent on the Chairman.

The Board has also issued written instructions specifying when and how information that is required to enable the Board to evaluate the company's and Group's financial position should be reported to the Board, as well as the distribution of work between the Board and the President, and in what circumstances the Executive Vice President is to substitute for the President.

The Annual General Meeting decides on the fees paid to the Board members elected by the sharebolders. For 2003 the total amount was SEK 5,200,000 of which the Chairman of the Board, Lars Ramqvist, received a fee of SEK 1,200,000.

During the year, the Board reviewed the financial position of the company and Group on a regular basis. The Board also dealt regularly with matters involving divestments, acquisitions, the establishment of new operations, and matters related to investments in product renewal and product development in the Group's business areas.

Changes in Board of Directors and Management

At the Annual General Meeting on April 9, 2003, Neelie Kroes and Haruko Fukuda were elected members of AB Volvo's Board of Directors.

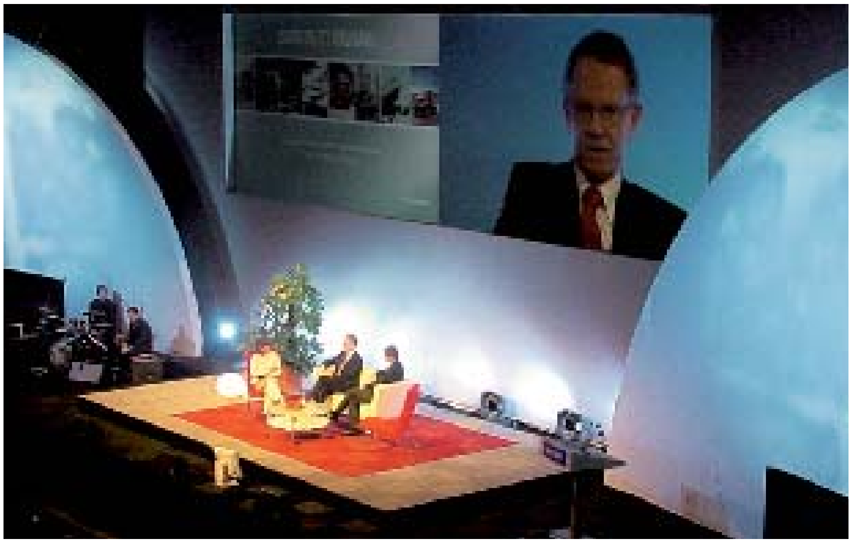
Stefano Chmielewski was appointed President of Renault Trucks and member of the Volvo Group Executive Committee effective May 1, 2003. He succeeded Philippe Mellier, who left the Volvo Group for an appointment as President of Alstom Transport.

At the beginning of 2003, Tryggve Sthen left Volvo for a new appointment as President of SKF Automotive Division.

Håkan Karlsson assumed the position of President of Volvo Bus Corporation on June 1 and also became a member of the Group Executive Committee from that date. He succeeded Jan Engström, who was appointed Senior Advisor of AB Volvo. Michel Gigou was appointed Senior Vice President of AB Volvo. As of January 1, 2004 Paul Vikner, who has served since July 2001 as President of Mack Trucks, Inc., was appointed member of the Group Executive Committee.

The Chairman of Volvo, Lars Ramqvist, resigned from the Board

Lars Ramqvist became Vice Chairman of Volvo's Board in 1998 and Chairman in 1999. On February 2, 2004 Lars Ramqvist resigned from the Board of Directors. At a statutory meeting held following the scheduled Board meeting on February 2, 2004, the Board elected Finn Johnsson as the new Chairman through to the Annual General Meeting. In connection with this, the members of the Board thanked Lars Ramqvist for his great commitment and the time he dedicated to his Board work.



Audit Committee

In December 2002, the Board of Directors of AB Volvo established an Audit Committee primarily for the purpose of overseeing the accounting and financial reporting processes and the audit of the financial statements. Finn Johnsson was elected Chairman of the Committee and Per-Olof Eriksson and Ken Whipple were appointed members. In March 2004, Finn Johnsson resigned from the Committee. Haruko Fukuda was appointed member and Per-Olof Eriksson Chairman of the Committee. As assigned by the Board, the Committee's duties include reviews of the financial reporting, the performance, qualifications and independence of the auditors and the performance of the internal audit function.

Remuneration Committee

In April 2003, the Board of Directors of AB Volvo established a Remuneration Committee primarily for the purpose of overseeing remuneration issues. Lars Ramqvist was elected Chairman of the Remuneration Committee and Tom Hedelius and Louis Schweitzer were appointed members. Lars Ramqvist resigned from the Committee on February 2, 2004. Finn Johansson was appointed new Chairman of the Committee.

The duties of the Committee include the review and recommendation for resolution by the Board regarding terms of employment and remunerations of the President and the Executive Vice President, principles for remuneration for the Group Executive Committee, principles for variable salary systems, share-based incentive programs and pension schemes. The Committee shall approve proposals on remuneration of the Group Executive Committee.

Remuneration policy

The guiding principle is that remuneration in the form of fixed and variable salaries for Volvo Group employees is prepared and decided by the employee's superior, in consultation with his or her superior, "grandfathering".

Leif Johansson and a number of key executives receive variable salaries in addition to fixed salaries. Variable salaries are based on operating income and cash flow of the Volvo Group and/or of the executive's company, in accordance with a system established by the Volvo Board. A variable salary may amount to a maximum of 50% of the fixed annual salary.

Volvo currently has two different types of option programs for senior executives: one call option program and one program for employee stock options. The call options were issued in 1999 and 2000 and the employee stock option program started in 2000. The employee stock options may only be exercised if the holder is employed by Volvo at the end of the vesting period. If the holder retires during the vesting period, he or she may exercise the full number of options. However, if the holder's employment with Volvo is terminated for any reason other than dismissal or the holder's resignation, the options may be exercised in part in relation to how large a part of the vesting period the holder has been employed.

The employee stock option program will be terminated and it is proposed to the Annual General Meeting that it is replaced by a share-based program.

The employment contracts of the Group Executive Committee and certain other senior executives contain provisions for severance payments, equal to the employee's monthly salary for a period of 12–24 months, when employment is terminated by the company. In agreements concluded after the spring of 1993, severance pay is reduced in the event the employee gains employment during the severance period, by an amount equal to 75% of income from the new employment.

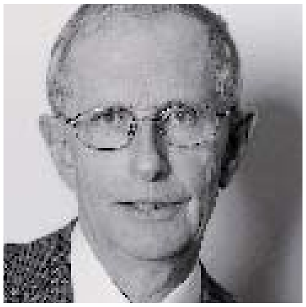
Group Management


Leif Johansson


Michel Gigou


Staffan Jufors


Stefan Johnsson


Lennart Jeansson


Paul Vikner


Fred Bodin

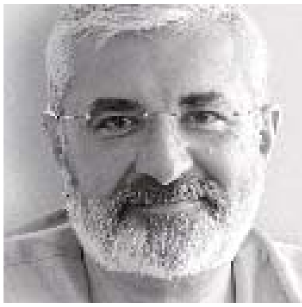

Per Löjdquist


Jorma Halonen


Håkan Karlsson


Salvatore L Mauro


Eva Persson


Stefano Chmielewski


Tony Helsham


Lars-Göran Moberg


Karl-Erling Trogen

Leif Johansson
Born 1951. Master of Engineering. President of AB Volvo and Chief Executive Officer of the Volvo Group since 1997. With Volvo since 1997.

Board member: Bristol-Myers Squibb Company, Confederation of Swedish Enterprise and The Association of Swedish Engineering Industries. Member of the Royal Swedish Academy of Engineering Sciences. Member of Volvo Board since 1997.

Holdings: 36,724 Volvo shares, including 30,000 Series B shares. 13,866 call options and 63,600 employee stock options.

Lennart Jeansson
Born 1941. Master of Business Administration. Executive Vice President of AB Volvo since 1990 and Deputy CEO since 1995. President of Volvo Car Corporation 1990–1993. Member of Group Executive Committee since 1986. With Volvo since 1966.

Board Chairman: Stena AB.

Board member: Stena Metall AB and Skandia.

Holdings: 31,334 Volvo shares, including 30,431 Series B shares. 5,952 call options and 25,000 employee stock options.

Jorma Halonen
Born 1948. Bachelor of Science in Economics. President of Volvo Truck Corporation since July 2001. Prior to that various positions at Scania 1990–2001. Member of Group Executive Committee since January 2002. With Volvo since 2001.

Holdings: 25,000 employee stock options.

Stefano Chmielewski
Born 1952. MA Master of Science Electronics/Automation. President of Renault Trucks since May 1, 2003.

Member of Volvo Group Executive Committee since May, 2003. With Volvo since 2001.

Holdings: 5,000 employee stock options.

Michel Gigou
Born 1946. Bachelor of Engineering and Master of Business Administration. Senior Vice President of AB Volvo. President of Volvo Trucks North America and Chairman of Mack Trucks, Inc. 2000–2003. President of Mack Trucks, Inc. 1996–2000. Previously at Renault S.A, with various positions in Europe. Member of Group Executive Committee since January 2002. With Volvo since 2000.

Holdings: 25,000 employee stock options.

Paul Vikner
Born 1949. Bachelor of Arts. President of Mack Trucks, Inc. since 2001. Executive Vice President of Sales and Marketing, Mack Trucks, Inc. 1996–2001. Previously at Iveco Trucks North America and Isuzu Trucks North America 1972–1994. Member of Group Executive Committee since January 1, 2004. With Volvo since 2001.

Holdings: 25,000 employee stock options.

Håkan Karlsson
Born 1961. Master of Engineering.

President of Volvo Bus Corporation and Member of Group Executive Committee since June 1, 2003. President of Volvo Logistics 2000–2003. With Volvo since 1986.

Holdings: 318 Volvo shares, including 85 Series B shares. 5,000 employee stock options.

Tony Helsham
Born 1954. Bachelor of Engineering. President of Volvo Construction Equipment since 2000. President and CEO of Euclid Hitachi Heavy Equipment 1995–1998. President of Volvo Construction Equipment Korea, 1998–2000. Member of Group Executive Committee since 2000. With Volvo since 1985.

Holdings: 28,626 employee stock options.

Staffan Jufors
Born 1951. Master of Business Administration. President of AB Volvo Penta since 1998. Member of Group Executive Committee since 1998. With Volvo since 1975.

Board member: EBP AB.

Holdings: 1,314 Volvo shares, including 194 Series B shares. 2,661 call options and 25,000 employee stock options.

Fred Bodin
Born 1947. Bachelor of Laws. President of Volvo Aero Corporation since 1997. General Counsel of Volvo Group, 1988–1997. Member of Group Executive Committee since 1993. With Volvo since 1981.

Holdings: 2,970 Volvo shares, including 2,227 Series B shares. 4,137 call options and 25,000 employee stock options.

Salvatore L Mauro
Born 1960. Bachelor of Science in Accounting. President of Volvo Financial Services since 2001. President of Volvo Car Finance Europe 1999–2001. Member of Group Executive Committee since 2001. With Volvo since 1985.

Holdings: 1,003 American Depositary Receipts (ADRs) of AB Volvo and 25,000 employee stock options.

Lars-Göran Moberg
Born 1943, Master of Engineering. President of Volvo Powertrain since June 2000. Member of Group Executive Committee since May 2001. With Volvo since 1995.

Holdings: 5,760 Volvo shares, including 5,652 Series B. 1,381 call options and 25,000 employee stock options.

Stefan Johnsson
Born 1959. Master of Business Administration. Senior Vice President of AB Volvo and CFO of the Volvo Group. Member of Group Executive Committee since 1998, responsible for economy, finance, strategic matters and business development. President of Volvo Group Finance Sweden 1994–1998. With Volvo since 1987.

Holdings: 41 Volvo Series A shares. 3,706 call options and 25,000 employee stock options.

Per Löjdquist
Born 1949. Senior Vice President of AB Volvo. Member of Group Executive Committee since 1997, responsible for Corporate Communications and Public Affairs. With Volvo since 1973.

Board member: West Sweden Chamber of Commerce and Industry, Aktiefrämjandet and Nilörngruppen AB.

Holdings: 4,055 Volvo shares, including 881 Series B shares; 2,484 call options and 31,800 employee stock options.

Eva Persson
Born 1953. Master of Laws. Senior Vice President of AB Volvo and General Counsel of the Volvo Group. Member of Group Executive Committee since 1997, responsible for legal, tax and security matters. With Volvo since 1988. Secretary to AB Volvo's Board since 1997.

Board member: Handelsbanken Region Väst, Second Swedish National Pension Fund.

Member of the Swedish Industry and Commerce Stock Exchange Committee.

Holdings: 418 Volvo shares, including 200 Series B shares. 2,323 call options and 31,800 employee stock options.

Karl-Erling Trogen
Born 1946. Master of Engineering. Senior Vice President of AB Volvo. President of Volvo Truck Corporation 1994–2000. President of Volvo Trucks North America 1991–1994. Member of Group Executive Committee since 1994. With Volvo since 1971.

Board member: Wilson Logistics Holding AB.

Holdings: 14,251 Volvo Series B shares. 7,316 call options and 25,000 employee stock options.

Board of Directors and Auditors

Board members elected by Annual General Meeting

1 Finn Johnsson
Chairman from February 2004. Born 1946, Master of Business Administration.
President of Mölnlycke Health Care AB.
Board Chairman: Wilson Logistics Holding AB and Unomedical A/S.
Board member: Skanska AB and AB Industrivärden.
Member of Volvo Board since 1998. Chairman of the Remuneration Committee.
Holdings: 2,000 Volvo Series B shares.

2 Lars Ramqvist
Resigned as Chairman and as member of the Board on February 2, 2004. Born 1938, Dr. of Philosophy. Hon. Dr. of Technology, Hon. Dr. of Philosophy. Honorary Chairman: Telefonaktiebolaget LM Ericsson.
Member of the Royal Swedish Academy of Sciences and the Royal Swedish Academy of Engineering Sciences.
Member of Volvo Board 1998–February 2, 2004, Chairman 1999–2004. Chairman of the Remuneration Committee and member of the Nomination Committee up to February 2004.

3 Per-Olof Eriksson
Born 1938, Master of Engineering, Hon. Dr. of Technology.
Board Chairman: Consolis Oy, Thermia AB and Odlander, Fredriksson & Co.
Board member: AB Custos, SSAB Svenskt Stål AB, Preem Petroleum AB and Assa Abloy. Proposed as board member of Elkem. Member of the Royal Swedish Academy of Engineering Sciences.
Member of Volvo Board since 1994. Chairman of the Audit Committee.
Holdings: 6,000 Volvo Series A shares.

4 Patrick Faure
Born 1946. Bachelor of Laws.
Executive Vice President of Renault S.A. and Chairman and CEO of Renault F1 since 1991. Chairman and CEO of Renault V.I. 1998–2001. With Renault since 1979.
Board member: VINCI, ERTICO.
Member of Volvo Board since 2001.
Holdings: 2,000 Volvo Series B shares.

5 Haruko Fukuda
Born 1946. OBE, MA (Cuntab), DSc.
Board member: The Foreign & Colonial Investment Trust plc, Investec plc, Aberdeen Asian Smaller Companies Investement Trust plc, Business Advisory Council of the United Nations Office for Project Service (UNOPS).
Senior Advisor at Lazard, Advisor at METRO AG.
Honorary Fellow of New Hall Cambridge, Chairman of the Advisory Board of New Hall Cambridge, Honorary Vice President of the Japan Society, Trustee of Mitsubishi Trust Oxford Foundation, Freeman of the City of London.
Member of Volvo Board since 2003. Member of the Audit Committee.
Holdings: None.

6 Tom Hedelius
Born 1939, Master of Business Administration, Hon. Dr. of Economics.
Board Chairman: AB Industrivärden, Bergman & Beving AB.
Honorary Chairman: Svenska Handelsbanken.
Vice Chairman: Addtech AB and Lagercrantz Group AB.
Board member: Svenska Cellulosa Aktiebolaget SCA and proposed as board member in Lundbergs.
Member of Volvo Board since 1994. Member of the Remuneration Committee.
Holdings: 2,000 Volvo Series A shares.

7 Leif Johansson
Born 1951, Master of Engineering.
President of AB Volvo and Chief Executive Officer of the Volvo Group.
Member of Volvo Board since 1997.
Holdings: 36,724 Volvo shares, including 30,000 Series B shares. 13,866 call options and 63,600 employee stock options.

8 Neelie Kroes
Born 1941.
Board Chairman: Meyer Monitor.
Board member: P&O Nedlloyd and Nederlandse Spoorwegen NV, mmO2 Plc, Cório, Royal Nedlloyd, Ballast Nedam, Prologis, New Skies Satellites, and Lucent Technologies BV the Netherlands.
She has held the office of Transport Minister of the Netherlands and was former advisor to the Transport Commissioner within the EU Commission.
Member of Volvo Board since 2003.
Holdings: None.

9 Louis Schweitzer
Born 1942. Bachelor of Laws.
Chairman and CEO of Renault since 1992. CFO and Executive Vice President 1988–1992. President and Chief Operating Officer 1990–1992. With Renault since 1986.
Board Chairman: Renault Nissan BV and proposed as board member and Chairman in AstraZeneca Plc.
Board member: R.C.I. Banque, Philips, Electricité de France, BNP-Paribas, and VEOLIA.
Member of Volvo Board since 2001. Member of the Remuneration Committee.
Holdings: 2,000 Volvo Series B shares.

10 Ken Whipple
Born 1934. Bachelor of Business and Engineering.
Board Chairman and CEO of CMS Energy Corporation, CEO of Glenlore Enterprises.
Board member: 14 JP Morgan Fleming Mutual Funds.
Member of Volvo Board since 2001. Member of the Audit Committee.
Holdings: None.

Board members designated by employee organizations

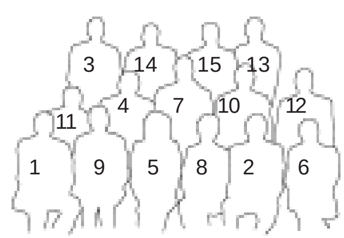
11 Lars-Göran Larsson
Born 1947. Employee representative. With Volvo since 1974.
Member of Volvo Board since 1994.
Holdings: 94 Volvo shares, including 50 Series B shares.

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

13 Stellan Rosengren
Born 1960. Employee representative. With Volvo since 1985.
Deputy member of Volvo Board since 1999.
Holdings: 250 Volvo Series B shares.

14 Johnny Rönnkvist
Born 1947. Employee representative. With Volvo since 1965.
Member of Volvo Board since 1999.
Holdings: 251 Volvo shares, including 50 Series B shares.

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



Secretary to the Board

Eva Persson
Born 1953. Master of Laws.

Senior Vice President of AB Volvo and General Counsel of the Volvo Group. Secretary to Volvo Board since 1997.

Holdings: 418 Volvo shares, including 200 Series B shares. 2,323 call options and 31,800 employee stock options.

Auditors

PricewaterhouseCoopers AB

Consolidated income statements

SEK M		2001	2002	**2003**
Net sales	Note 4	189,280	186,198	**183,291**
Cost of sales		(155,592)	(151,569)	**(146,879)**
Gross income		33,688	34,629	**36,412**
Research and development expenses		(5,391)	(5,869)	**(6,829)**
Selling expenses		(15,766)	(16,604)	**(16,866)**
Administrative expenses		(6,709)	(5,658)	**(5,467)**
Other operating income and expenses	Note 5	(4,096)	(4,152)	**(1,367)**
Income from investments in associated companies	Note 6	50	182	**200**
Income from other investments	Note 7	1,410	309	**(3,579)**
Restructuring costs	Note 8	(3,862)	–	**–**
Operating income (loss)	Note 4	(676)	2,837	**2,504**
Interest income and similar credits		1,275	1,217	**1,096**
Interest expenses and similar charges		(2,274)	(1,840)	**(1,888)**
Other financial income and expenses	Note 9	(191)	(201)	**(55)**
Income (loss) after financial items		(1,866)	2,013	**1,657**
Income taxes	Note 10	326	(590)	**(1,334)**
Minority interests in net income (loss)	Note 11	73	(30)	**(25)**
Net income (loss)		(1,467)	1,393	**298**
Net income (loss) per share, SEK		(3.50)	3.30	**0.70**

Consolidated balance sheets

SEK M		December 31, 2001		December 31, 2002		**December 31, 2003**	
Assets							
Non-current assets							
Intangible assets	Note 12		17,525		17,045		**16,756**
Tangible assets	Note 12						
Property, plant and equipment		33,234		30,799		**30,640**	
Assets under operating leases		27,101	60,335	23,525	54,324	**21,201**	**51,841**
Financial assets							
Shares and participations	Note 13	27,798		27,492		**1,782**	
Long-term customer-financing receivables	Note 14	26,075		25,207		**23,448**	
Other long-term receivables	Note 15	14,456	68,329	12,485	65,184	**10,487**	**35,717**
Total non-current assets			146,189		136,553		**104,314**
Current assets							
Inventories	Note 16		31,075		28,305		**26,459**
Short-term receivables							
Customer-financing receivables	Note 17	22,709		21,791		**22,554**	
Other receivables	Note 18	33,569	56,278	26,995	48,786	**28,766**	**51,320**
Shares in Scania	Note 13		–		–		**20,424**
Marketable securities	Note 19		13,514		16,707		**19,529**
Cash and bank accounts	Note 20		13,869		8,871		**9,206**
Total current assets			114,736		102,669		**126,938**
Total assets			260,925		239,222		**231,252**
Shareholders' equity and liabilities							
Shareholders' equity	Note 21						
Restricted equity							
Share capital		2,649		2,649		**2,649**	
Restricted reserves		12,297	14,946	14,093	16,742	**12,769**	**15,418**
Unrestricted equity							
Unrestricted reserves		71,706		60,143		**56,704**	
Net income (loss)		(1,467)	70,239	1,393	61,536	**298**	**57,002**
Total shareholders' equity			85,185		78,278		**72,420**
Minority interests	Note 11		391		247		**216**
Provisions							
Provisions for post-employment benefits	Note 22	14,647		16,236		**15,288**	
Provisions for deferred taxes		1,044		912		**569**	
Other provisions	Note 23	17,383	33,074	15,809	32,957	**14,479**	**30,336**
Non-current liabilities	Note 24						
Bond loans		30,715		33,870		**33,090**	
Other loans		14,036		12,549		**13,584**	
Other long-term liabilities		9,379	54,130	6,704	53,123	**4,627**	**51,301**
Current liabilities	Note 25						
Loans		36,817		26,018		**27,418**	
Trade payables		23,115		22,214		**24,528**	
Other current liabilities		28,213	88,145	26,385	74,617	**25,033**	**76,979**
Total shareholders' equity and liabilities			260,925		239,222		**231,252**
Assets pledged	Note 26		3,737		3,610		**3,809**
Contingent liabilities	Note 27		10,441		9,334		**9,611**

Changes in consolidated Shareholders' equity

	Share capital	Restricted reserves	Unrestricted reserves	Total share-holders' equity
Balance at December 31, 2000	**2,649**	**13,804**	**71,885**	**88,338**
Cash dividend	–	–	(3,356)	(3,356)
Net income	–	–	(1,467)	(1,467)
Effect of equity method of accounting [1]	–	21	(21)	–
Transfer between unrestricted and restricted equity	–	(3,410)	3,410	–
Translation difference	–	1,850	(828)	1,022
Repurchase of own shares	–	–	(8,336)	(8,336)
New issue of shares	–	–	10,356	10,356
Minimum liability adjustment for post-employment benefits [2]	–	–	(1,417)	(1,417)
Other changes	–	32	13	45
Balance at December 31, 2001	**2,649**	**12,297**	**70,239**	**85,185**
Cash dividend	–	–	(3,356)	(3,356)
Net income	–	–	1,393	1,393
Effect of equity method of accounting [1]	–	45	(45)	–
Transfer between unrestricted and restricted equity	–	4,219	(4,219)	–
Translation difference	–	(2,468)	238	(2,230)
Minimum liability adjustment for post-employment benefits [2]	–	–	(2,542)	(2,542)
Other changes	–	–	(172)	(172)
Balance at December 31, 2002	**2,649**	**14,093**	**61,536**	**78,278**
Cash dividend	–	–	(3,356)	(3,356)
Net income	–	–	298	298
Effect of equity method of accounting [1]	–	17	(17)	–
Transfer between unrestricted and restricted equity	–	1,246	(1,246)	–
Translation difference	–	(2,587)	2,061	(526)
Transition impact of new accounting standards for post-employment benefits [3]	–	–	(2,278)	(2,278)
Other changes	–	–	4	4
Balance at December 31, 2003	**2,649**	**12,769**	**57,002**	**72,420**

1 Mainly associated companies' effect on Group net income, reduced by dividends received.

2 Up to 2002, defined benefit plans for pensions in Volvo's subsidiaries in the United States were accounted for in accordance with US GAAP (SFAS 87). In accordance with these rules, a minimum liability adjustment should be charged to shareholders' equity with an amount that corresponds to the unfunded part of accrued benefit obligations less unrecognized prior service costs. See further in Note 22.

3 Effective in 2003, Volvo adopted RR 29 Employee Benefits. See further in Note 1.

Consolidated cash-flow statements

SEK M			2001		2002		**2003**
Operating activities							
Operating income			(676)		2,837		**2,504**
Depreciation and amortization	Note 12		9,961		10,844		**10,169**
Other items not affecting cash	Note 28		539		1,955		**4,929**
Changes in working capital:							
(Increase)/decrease in receivables			2,645		3,649		**517**
(Increase)/decrease in inventories			2,813		53		**1,433**
Increase/(decrease) in liabilities and provisions			992		(2,692)		**(1,507)**
Interest and similar items received			1,494		942		**1,437**
Interest and similar items paid			(1,862)		(1,047)		**(1,160)**
Other financial items			(191)		(170)		**(62)**
Income taxes paid			(1,572)		(1,069)		**(1,165)**
Cash flow from operating activities			14,143		15,302		**17,095**
Investing activities							
Investments in fixed assets		(8,090)		(6,665)		**(6,005)**	
Investments in leasing assets		(5,852)		(5,179)		**(5,333)**	
Disposals of fixed assets and leasing assets		2,578		3,162		**2,935**	
Customer-financing receivables, net	Note 28	(3,719)		(5,739)		**(4,316)**	
Shares and participations, net	Note 28	3,936		(88)		**(61)**	
Acquired and divested subsidiaries and other business units, net	Note 2, 28	13,002	1,855	(159)	(14,668)	**(39)**	**(12,819)**
Cash flow after net investments			15,998		634		**4,276**
Financing activities							
Increase (decrease) in bond loans and other loans	Note 28	6,164		(111)		**1,868**	
Loans to external parties, net	Note 28	213		1,692		**933**	
Dividend to AB Volvo shareholders		(3,356)		(3,356)		**(3,356)**	
Repurchase of own shares		(8,336)		–		**–**	
Dividends to minority shareholders		–		(13)		**(9)**	
Other		132	(5,183)	12	(1,776)	**63**	**(501)**
Change in liquid funds, excluding translation differences			10,815		(1,142)		**3,775**
Translation difference on liquid funds			600		(663)		**(618)**
Change in liquid funds			11,415		(1,805)		**3,157**
Liquid funds, January 1			15,968		27,383		**25,578**
Liquid funds, December 31			27,383		25,578		**28,735**

The effects of major acquisitions and divestments of subsidiaries in each year have been excluded from other changes in the balance sheet in the cash-flow statement. The effects of currency movements in translation of foreign Group companies have also been excluded since these effects do not affect cash flow. Liquid funds include cash and bank balances and marketable securities.

General information

Amounts in SEK M unless otherwise specified. The amounts within parentheses refer to the two preceding years; the first figure is for 2002 and the second for 2001.

Note 1 Accounting principles

The consolidated financial statements for AB Volvo (the Parent Company) and its subsidiaries have been prepared in accordance with generally accepted accounting principles in Sweden (Swedish GAAP). Accounting standards and interpretations issued by the Swedish Financial Accounting Standards Council have thereby been applied. Swedish GAAP differs in significant respects from US GAAP, see further in Note 35.

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

Changes of accounting principles in 2003

RR 29 Employee benefits

As of 2003, Volvo has adopted RR 29 Employee Benefits in its financial reporting. RR 29 Employee Benefits, which was issued by the Swedish Financial Accounting Standards Council in December 2002, conforms in all significant respects with IAS 19 Employee Benefits issued earlier by the International Accounting Standards Committee (IASC). By applying RR 29, defined-benefit pension plans and health-care benefit plans in all the Group's subsidiaries are accounted for by use of consistent principles. In Volvo's financial reporting up to 2002, such plans have been accounted for by applying the local rules and directives in each country. In accordance with the transition rules of the new standard, a transitional liability was established as at January 1, 2003, determined in accordance with RR 29. This transitional liability exceeded the liability recognized as per December 31, 2002, in accordance with earlier principles by approximately SEK 2.3 billion. The excess liability consequently was recognized as at January 1, 2003, as an increase in provisions for pensions and other post-employment benefits and a corresponding decrease in shareholders' equity. No additional deferred tax asset was recognized in the Group's balance sheet as at January 1, 2003, attributable to the transition liability. In accordance with the transition rules of the new standard, Volvo has not restated figures for earlier years in accordance with the new accounting standard. Because the Group's subsidiaries up to 2002 have been applying local rules in each country, the impact of adopting RR 29 as of 2003 differs for different countries of operations. Compared with earlier accounting principles in Sweden, the adoption of RR 29 has mainly had the effect that plan assets invested in Volvo's Swedish pension foundation as from 2003 are accounted for at a long-term expected return instead of being revalued each closing date to fair value. For Volvo's subsidiaries in the US, differences relate to accounting for past service costs and the fact that RR 29 does not include rules about minimum liability adjustments.

RR 27 Financial instruments: Disclosure and presentation

Effective in 2003, Volvo has adopted RR 27 Financial Instruments: Disclosure and Presentation, which conforms to a large extent with IAS 32 issued by the IASC. The adoption of RR 27 has affected the balance sheet presentation of certain derivative instruments that are used to manage financial risks related to financial assets and liabilities. In accordance with RR 27, derivative instruments with unrealized gains are to be presented as assets and derivative instruments with unrealized losses are to be presented as liabilities. In accordance with Volvo's earlier accounting principles, derivative instruments used for management of financial assets were reported as assets and derivative instruments used for management of financial liabilities were reported as liabilities. As a consquence of adoption of the presentation principles in RR 27, the Volvo Group's assets at December 31, 2003, increased by SEK 3.6 billion and the Group's liabilities increased by the corresponding amount. In accordance with the transition rules of RR 27, no restatement has been made of figures for prior years.

As of 2003, Volvo has also adopted RR 22 Presentation of Financial Statements, RR 24 Investment Property, RR 25 Segment Reporting – Sectors and Geographical Areas, RR 26 Events after the Balance Sheet Date and RR 28 Government Grants. Certain changes have been made in the structure and content of the financial information in this annual report as a result of these new standards. However, the standards listed above have not resulted in any changes of the measurement of the Group's financial performance or position.

Future changes of accounting principles

Effective in 2005 Volvo will adopt International Financial Reporting Standards (IFRS) in its financial reporting. The transition from Swedish GAAP to IFRS is being made to implement a regulation applicable to all listed companies within the European Union as of 2005. Because revised IFRS's are expected to be issued during 2004, the total effect of this change of accounting principles cannot be determined with certainty. Volvo considers, however, that the most significant effects will pertain to the accounting for financial instruments and goodwill. Restatement of figures for prior years will be made in accordance with the requirements of the transition rules. During 2003 Volvo has started a number of projects aimed at adapting the internal reporting routines to the new regulation. More detailed information about the IFRS transition effects will be presented in connection with the publication of the 2004 financial reports.

Consolidated financial statements

The consolidated financial statements comprise the Parent Company, subsidiaries, joint ventures and associated companies. Subsidiaries are defined as companies in which Volvo holds more than 50% of the voting rights or in which Volvo otherwise has a controlling influence. However, subsidiaries in which Volvo's holding is temporary are not consolidated. Joint ventures are companies over which Volvo has joint control together with one or more external parties. Associated companies are companies in which Volvo has a significant influence, which is normally when Volvo's holding equals to at least 20% but less than 50% of the voting rights.

The consolidated financial statement have been prepared in

Exchange rates

Country	Currency	Average rate 2001	2002	2003	Year-end rate 2001	2002	2003
Denmark	DKK	1.2403	1.2326	1.2281	1.2670	1.2386	1.2226
Japan	JPY	0.0850	0.0779	0.0697	0.0813	0.0740	0.0681
Norway	NOK	1.1485	1.2205	1.1418	1.1840	1.2605	1.0815
Great Britain	GBP	14.8763	14.5816	13.2023	15.4800	14.1538	12.9188
United States	USD	10.3272	9.7287	8.0778	10.6700	8.8263	7.2763
Canada	CAD	6.6721	6.1965	5.7688	6.6923	5.6335	5.5610
Euro	EUR	9.2434	9.1596	9.1258	9.4240	9.2018	9.1033

accordance with the principles set forth in the Recommendation of the Swedish Financial Accounting Standards Council, RR 1:00, Consolidated Financial Statements and Business Combinations.

All business combinations are accounted for in accordance with the purchase method.

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

Joint ventures are preferably reported by use of the proportionate method of consolidation. A few joint ventures are reported by use of the equity method due to practical reasons.

Holdings in associated companies are reported in accordance with the equity method. The Group's share of reported income after financial items in such companies, adjusted for minority interests, is included in the consolidated income statement in Income from investments in associated companies, reduced in appropriate cases by amortization of goodwill. The Group's share of reported taxes in associated companies, is included in Group income tax expense.

For practical reasons, most of the associated companies are included in the consolidated accounts with a certain time lag, normally one quarter. Dividends from associated companies are not included in consolidated income. In the consolidated balance sheet, the book value of shareholdings in associated companies is affected by Volvo's share of the company's net income, reduced by the amortization of goodwill and by the amount of dividends received.

Accounting for hedges

Loans and other financial instruments used to hedge an underlying position are reported as hedges. In order to apply hedge accounting, the following criteria must be met: the position being hedged is identified and exposed to exchange-rate or interest-rate movements, the purpose of the loan/instrument is to serve as a hedge and the hedging effectively protects the underlying position against changes in the market rates. Financial instruments used for the purpose of hedging future currency flows are accounted for as hedges if the currency flows are considered probable to occur.

Foreign currencies

In preparing the consolidated financial statements, all items in the income statements of foreign subsidiaries and joint ventures (except subsidiaries in highly inflationary economies) are translated to Swedish kronor at the average exchange rates during the year (average rate). All balance sheet items except net income are translated at exchange rates at the respective year-ends (year-end rate). The differences in consolidated shareholders' equity arising as a result of variations between year-end exchange rates are charged or credited directly to shareholders' equity and classified as restricted or unrestricted reserves. The difference arising in the consolidated balance sheet as a result of the translation of net income, in the income statements, in foreign subsidiaries' to Swedish kronor at average rates, and in the balance sheets at year-end rate, is charged or credited to unrestricted reserves. Movements in exchange rates change the book value of foreign associated companies. This difference affects restricted reserves directly.

When foreign subsidiaries, joint ventures and associated companies are divested, the accumulated translation difference is reported as a realized gain/loss and, accordingly, affects the capital gain.

Financial statements of subsidiaries operating in highly inflationary economies are translated to Swedish kronor using the monetary method. Monetary items in the balance sheet are translated at year-end rates and nonmonetary balance sheet items and corresponding income statement items are translated at rates in effect at the time of acquisition (historical rates). Other income statement items are translated at average rates. Translation differences are credited to, or charged against, income in the year in which they arise.

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

Gains and losses pertaining to hedges are reported at the same time as gains and losses of the items hedged. Received premiums or payments for currency options, which hedge currency flows in business transactions, are reported as income/expense during the contract period.

Gains/losses on outstanding currency futures at year-end, which were entered into to hedge future commercial currency flows, are reported at the same time as the commercial flow is realized. For other currency futures that do not fullfil the criteria for hedge accounting a full market valuation is made on a portfolio basis and are credited to, or charged against, income.

In valuing financial assets and liabilities whose original currency denomination has been changed as a result of currency swap contracts, the loan amount is accounted for translated to Swedish kronor at the period-end exchange rate. Unrealized exchange rate gains relating to swap contracts are reported among short-term receivables and unrealized exchange rate losses relating to swap contracts are reported among current liabilities.

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

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

Other financial instruments

Interest-rate contracts and forward exchange rate contracts are used to change the underlying financial asset and debt structure and are reported as hedges against such assets and debts.

Interest-rate contracts used as part of the management of the Group's short-term investments are valued together with these investments in accordance with the portfolio method. Provisions are made for unrealized losses in excess of the unrealized gains within the portfolio.

Interest-rate contracts that do not fullfil the criteria of hedge accounting are valued at the balance sheet date at which time provisions for unrealized losses are made.

Net sales

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

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

Research and development expenses

Effective in 2001, Volvo adopted RR 15 Intangible Assets. In accordance with the new accounting standard, expenditures for development of new products, production systems and software shall be reported as intangible assets if such expenditures with a high degree of certainty will result in future financial benefits for the company. The acquisition value for such intangible assets shall be amortized over the estimated useful life of the assets. Volvo's application of the new rules means that high demands are established in order for these development expenditures to be reported as assets. For example, it must be possible to prove the technical functionality of a new product or software prior to this development being reported as an asset. In normal cases, this means that expenditures are capitalized only during the industrialization phase of a product development project. Other research and development expenses are charged to income as incurred. Expenditures for development of new products, production systems and software before 2001 was expensed as incurred and in accordance with the transition rules no retroactive application of RR 15 was made.

Warranty expenses

Estimated costs for product warranties are charged to operating expenses when the products are sold. Estimated costs include both expected contractual warranty obligations as well as expected goodwill warranty obligations. Estimated costs are determined based upon historical statistics with consideration of known changes in product quality, repair costs or similar. Costs for campaigns in connection with specific quality problems are charged to operating expenses when the campaign is decided and announced.

Restructuring costs

Restructuring costs are reported as a separate line item in the income statement if they relate to a considerable change of the Group structure. Other restructuring costs are included in Other operating income and expenses. A provision for decided restructuring measures is reported when a detailed plan for the implementation of the measures is complete and when this plan is communicated to those who are affected.

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

Depreciation is based on the historical cost of the assets, adjusted in appropriate cases by write-downs, and estimated useful lives. Capitalized type-specific tools are generally depreciated over 2 to 8 years. The depreciation period for assets under operating leases is normally 3 to 5 years. Machinery is generally depreciated over 5 to 20 years, and buildings over 25 to 50 years, while the greater part of land improvements are depreciated over 20 years. In connection with its participation in aircraft engine projects with other companies, Volvo Aero in certain cases pays an entrance fee. These entrance fees are capitalized and amortized over 5 to 10 years. Product and software development is normally amortized over 3 to 8 years.

The difference between depreciation noted above and depreciation allowable for tax purposes is reported by the parent company and in the individual Group companies as accumulated accelerated depreciation, which is included in untaxed reserves. Consolidated reporting of these items is described below under the heading Deferred taxes, allocations and untaxed reserves.

Goodwill is included in intangible assets and amortized over its estimated useful life. The amortization period is 5 to 20 years. The goodwill amounts pertaining to Renault Trucks, Mack Trucks, Volvo Construction Equipment, Champion Road Machinery, Volvo Aero Services, Prévost, Nova BUS, Volvo Bus de Mexico, Volvo Construction Equipment Korea, Volvo Aero Norge and Kommersiella Fordon Europa are being amortized over 20 years due to the holdings' long-term and strategic importance.

If, at a balance sheet date, there is an indication that a tangible or intangible non-current asset has been impaired, the recoverable amount of the asset is estimated. If the recoverable amount is less than the carrying amount, an impairment loss is recognized and the carrying amount of the asset is reduced to the recoverable amount.

Inventories

Inventories are stated at the lower of cost, in accordance with the first-in, first-out method (FIFO), or net realizable value.

Liquid funds

Liquid funds include cash and bank balances and marketable securities. Marketable securities are stated at the lower of cost or market value in accordance with the portfolio method. Marketable securities consist of interest-bearing securities, to some extent with maturities exceeding three months. However, these securities have high liquidity and can easily be converted to cash.

Post-employment benefits

Effective in 2003, Volvo has adopted RR 29 Employee benefits in accounting for post-employment benefits (see "Changes of accounting principles in 2003"). In accordance with RR 29, actuarial calculations under the projected unit credit method should be made for all defined benefit plans in order to determine the present value of obligations for benefits vested by its current and former employees. The actuarial calculations are being prepared annually and are based upon actuarial assumptions that are determined close to the balance sheet date each year. Changes in the present value of obligations due to revised actuarial assumptions are treated as actuarial gains or losses which are amortized over the employees' average remaining service period to the extent these exceed the corridor value for each plan. Deviations between expected return on plan assets and actual return are treated as actuarial gains or losses. Provisions for post-employment benefits in Volvo's balance sheet correspond to the present value of obligations at year-end, less fair value of plan assets, unrecognized actuarial gains or losses and unrecognized unvested past service costs. Up to and including 2002, defined benefit plans were accounted for in accordance with local rules and directives in the respective country of Volvo's subsidiaries. For post-employment benefits that are financed through defined contribution plans, Volvo's annual contributions to such plans are expensed as incurred. The accounting for defined contribution plans has not been affected by the adoption of RR 29 in 2003.

Provisions for residual value risks

Residual value risks are attributable to operational lease contracts and sales transactions combined with buy-back agreements or residual value guarantees. Residual value risks are the risks that Volvo in the future would have to dispose used products at a loss if the price development of these products is worse than what was expected when the contracts were entered. Provisions for residual value risks are made on a continuing basis based upon estimations of the used products' future net realizable values. The estimations of future net realizable values are made with consideration of current prices, expected future price development, expected inventory turnover period and expected variable and fixed selling expenses. If the residual value risks are pertaining to products that are reported as tangible assets in Volvo's balance sheet, these risks are reflected by depreciation or write-down of the carrying value of these assets. If the residual value risks are pertaining to products which are not reported as assets in Volvo's balance sheet, these risks are reflected under the line item provisions.

Deferred taxes, allocations and untaxed reserves

Tax legislation in Sweden and other countries sometimes contains rules other than those identified with generally accepted accounting principles, and which pertain to the timing of taxation and measurement of certain commercial transactions. Deferred taxes are provided for on differences which arise between the taxable value and reported value of assets and liabilities (temporary differences) as well as on tax-loss carryforwards. However, with regards to the valuation of deferred tax assets, these items are recognized provided that it is probable that the amounts can be utilized against future taxable income.

Tax laws in Sweden and certain other countries allow companies to defer payment of taxes through allocations to untaxed reserves. These items are treated as temporary differences in the consolidated balance sheet, that is, a split is made between deferred tax liability and equity capital (restricted reserves). In the consolidated income statement an allocation to, or withdrawal from, untaxed reserves is divided between deferred taxes and net income for the year.

Note 2 Acquisitions and divestments of shares in subsidiaries

AB Volvo's holding of shares in subsidiaries as of December 31, 2003 is shown on pages 81–83. Significant acquisitions, formations and divestments within the Group are listed below.

L.B. Smith (SABA Holding Inc.)

On May 2, Volvo Construction Equipment purchased the assets amounting to USD 189 M associated with the Volvo distribution business of L.B. Smith Inc. in the US. No goodwill or real estate was included in the deal. Because the intention is to spin off the acquired operations, the L.B. Smith distribution business has not been consolidated in the Volvo Group's financial statements during 2003.

Bilia's truck and construction equipment business ("Kommersiella Fordon Europa AB")

In the third quarter 2003, the acquisition of the truck and construction equipments operations of Bilia was completed. Volvo exchanged 41% of the shares in Bilia AB for 98% of the shares in Kommersiella Fordon Europa AB. Volvo has required compulsory acquisition of the remaining shares. The acquired operations include dealers and service suppliers for trucks and construction equipment in the Nordic region and ten other european countries. The acquisition cost of the shares has been determined to SEK 0.9 billion. The goodwill arising from this transaction amounted to SEK 0.6 billion.

Volvo Baumaschinen Deutschland GmbH

In February 2003 Volvo Construction Equipment sold the German dealer Volvo Baumashinen Deutschland GmbH to the Swedish dealer partner Swecon Anläggningsmaskiner AB.

Volvo Aero Services LP

During 2002 VNA Holding Inc acquired an additional 9% of the shares in Volvo Aero Services LP (previously The AGES Group ALP). Thereafter, Volvo owns 95% of Volvo Aero Services LP.

Prévost Holding BV

On October 1, 2001 Volvo Buses divested 1% of Prévost Holding BV, a Canadian and North American bus manufacturer, to Henlys Group Plc. Thereafter Volvo and Henlys Group Plc own 50% of Prévost Holding BV each. Thus, effective on October 1, 2001, Prévost Holding BV is a joint venture and reported in the Volvo Group accounts in accordance with the proportionate consolidation method.

Acrivia AB (former OmniNova Technology AB)

In April 2001, Volvo Buses acquired 65% of Acrivia AB, an engineering company that develops production processes for buses and produces frames for the new TX platform, from TWR Sweden AB. Thereafter, Volvo Buses owns 100% of Acrivia AB.

Low Cab-Over-Engine (LCOE)

On July 27, 2001 Volvo Trucks North America agreed to sell its LCOE business to Grand Vehicle Works Holdings, LLC. By divesting its LCOE operations, Volvo met the condition imposed by U.S. Department of Justice for approval of its acquisition of Mack and Renault V.I.

Volvia

On February 8, 2001, Volvo's wholly owned subsidiary, Volvia reached an agreement covering the divestment of its insurance operations. The buyer is the If insurance company. The purchase price for the operations was 562.

Renault V.I. and Mack

On January 2, 2001, AB Volvo's acquisition of Renault's truck operations, Mack and Renault V.I., became effective. Under the terms of acquisition AB Volvo acquired all the shares of Mack and Renault V.I. in exchange for 15% of the shares in AB Volvo. The purchase price for the shares was set at SEK 10.7 billion, based on the Volvo share price on the acquisition date. Goodwill amounting to SEK 8.4 billion that arose in connection with the acquisition is being amortized over 20 years. In connection with the acquisition, Renault V.I. Finance was acquired for about FRF 154 M.

The effects during 2003, 2002 and 2001 on the Volvo Group's balance sheet and cash flow statement in connection with the **acquisition of subsidiaries and other business units** are specified in the following table:

	2001	2002	2003
Intangible assets	8,914	135	948
Property, plant and equipment	9,126	95	1,102
Assets under operating lease	10,195	286	95
Shares and participations	433	(214)	(1,303)
Inventories	9,361	234	1,477
Current receivables	8,774	382	1,562
Liquid funds	4,059	105	31
Other assets	7,674	3	129
Shareholders' equity	(10,356)	–	–
Minority interests	–	119	–
Provisions	(14,524)	(33)	(225)
Loans	(2,543)	(247)	(2,144)
Liabilities	(30,020)	(582)	(1,469)
Acquired net assets	**1,093**	**283**	**203**
Liquid funds paid	(1,093)	(283)	(203)
Liquid funds according to acquisition analysis	4,059	105	31
Effect on Group liquid funds	**2,966**	**(178)**	**(172)**

The effects during 2003 and 2002 includes wholly owned subsidiaries that previously were accounted for according to the equity method.

The effects during 2003, 2002 and 2001 on the Volvo Group's balance sheet and cash flow statement in connection with the **divestment of subsidiaries and other business units** are specified in the following table:

	2001	2002	2003
Intangible assets	(354)	–	(1)
Property, plant and equipment	(288)	(5)	(23)
Inventories	(939)	(23)	(170)
Other receivables	(12,139)	(43)	(112)
Liquid funds	(1,824)	(13)	(1)
Minority interests	176	–	–
Provisions	2,922	–	24
Loans	420	–	–
Other liabilities	583	52	170
Divested net assets	**(11,443)**	**(32)**	**(113)**
Liquid funds received	11,860	32	134
Liquid funds, divested companies	(1,824)	(13)	(1)
Effect on Group liquid funds	**10,036**	**19**	**133**

Note 3 Joint ventures

Joint ventures are companies over which Volvo has joint control together with one or more external parties. Joint ventures are reported by applying the proportionate consolidation method, in accordance with RR 14 Joint ventures. Group holdings of shares in joint ventures are listed below.

	Dec 31, 2003	
Shares in Joint ventures	Holding percentage	Holding no of shares
Shanghai Sunwin Bus Corp., China [1]	50	–
Xian Silver Bus Corp., China [1]	50	–
Jinan Hua Wo Truck Corp., China [2]	50	–
Prévost Holding BV, Netherlands [3]	50	22,690

1 Reported according to the equity method up to 2002.
2 Established during 2003.
3 Subsidiary prior to October 1, 2001.

Volvo's share of joint ventures' income statements	2001	2002	2003
Net sales	1,047	2,724	1,832
Restructuring costs	(348)	–	–
Operating income	(261)	74	51
Income after financial items	(272)	10	19
Net income	**(162)**	**(21)**	**3**

Volvo's share of joint ventures' balance sheets	2001	2002	2003
Non-current assets	1,026	782	665
Current assets	2,000	1,484	1,217
Total assets	**3,026**	**2,266**	**1,882**
Shareholders' equity	354	570	581
Provisions	368	180	124
Long-term liablities	833	361	295
Current liabilities	1,471	1,155	882
Total shareholders' equity and liabilities	**3,026**	**2,266**	**1,882**

At the end of 2003 no guarantees were issued for the benefit of joint ventures, neither by Volvo alone nor jointly with other venturers.

At the same date Volvo's share of contingent liabilities issued by its joint ventures amounted to 96 (109; 79).

Average number of employees	2001 Number of employees	2001 of which women, %	2002 Number of employees	2002 of which women, %	2003 Number of employees	2003 of which women, %
Shanghai Sunwin Bus Corp.	621	13	622	13	617	13
Xian Silver Bus Corp.	220	13	210	13	267	13
Jinan Hua Wo Truck Corp.	–	–	–	–	5	20
Prévost Holding BV	278	19	978	11	842	15
Total number of employees	**1,119**	**14**	**1,810**	**12**	**1,731**	**14**

Note 4 Segment reporting

Reporting by business segment

The Volvo Group's operations are organized in eight business areas: Volvo Trucks, Renault Trucks, Mack Trucks, Buses, Construction Equipment, Volvo Penta, Volvo Aero and Financial Services. In addition to the eight business areas, there are other operations consisting mainly of business units that are designed to support the business areas' operations. The business units include Powertrain, 3P, Volvo IT, Logistics and Parts. Each business area, except for Financial Services, has total responsibility for its operating income, operating capital and operating cash flow. The Financial Services business area has responsibility for its net income and total balance sheet within certain restrictions and principles that are established centrally. The supervision and coordination of treasury and tax matters is organized centrally to obtain the benefits of a Group-wide approach. The legal structure of the Volvo Group is based on optimal handling of treasury, tax and administrative matters and, accordingly, differs from the operating structure.

The business units are designated to support the business areas and are therefore not reportable business segments. In Volvo's external financial reporting, the financial results within the business units Powertrain and Parts are distributed to the respective business segments. As the three truck brands share product development, production and other activities in business units such as 3P and Powertrain and also share certain infrastructure in distribution such as dealers, the truck brands are reported as one business segment.

Net sales	2001	2002	2003
Trucks	116,568	118,752	116,969
Buses	16,675	14,035	11,978
Construction Equipment	21,135	21,012	23,154
Volvo Penta	7,380	7,669	7,596
Volvo Aero	11,784	8,837	8,030
Other and eliminations	7,073	6,775	7,041
Volvo Group excl Financial Services	**180,615**	**177,080**	**174,768**
Financial Services	9,495	9,925	9,153
Eliminations	(830)	(807)	(630)
Volvo Group total	**189,280**	**186,198**	**183,291**

The above sales figures include internal sales with the following amounts: Trucks 719 (400; 279), Buses 166 (0; 151), Construction Equipment 313 (318; 201), Volvo Penta 31 (27;19), Volvo Aero 87 (74; 259) and Financial Services 630 (807; 830). Other and eliminations include internal sales of 8,014 (7,638; 7,441) and eliminations amounting to 9,330 (8,457; 8,350).

Internal sales between business areas are generally made at standard cost of sales, including calculated interest and product improvement expenses. Internal sales from service companies are generally at market prices.

Operating income (loss)	2001	2002	2003
Trucks	(2,066)	1,189	3,951
Buses	(916)	(94)	(790)
Construction Equipment	527	406	908
Volvo Penta	658	647	695
Volvo Aero	653	5	(44)
Financial Services	325	490	926
Other	143	194	(3,142)
Volvo Group total	**(676)**	**2,837**	**2,504**

Operating income in 2003 included write-down of shares in Scania AB and Henlys Group Plc amounting to 4,030, of which 429 was reported in Buses (Henlys Group) and 3,601 was reported in Other (Scania AB).

Operating income in 2001 included restructuring costs of 3,862, of which 3,106 in Trucks, (mainly related to the integration of Mack and Renault), 392 in Buses and 364 in Construction Equipment.

Depreciation and amortization	2001	2002	2003
Trucks	4,647	5,766	4,933
Buses	359	328	293
Construction Equipment	622	647	653
Volvo Penta	65	80	78
Volvo Aero	814	495	545
Other	540	448	721
Total excl Financial Services	**7,047**	**7,764**	**7,223**
Financial Services	2,914	3,080	2,946
Volvo Group total	**9,961**	**10,844**	**10,169**

Research and development expenses	2001	2002	2003
Trucks	3,614	4,175	4,874
Buses	498	396	453
Construction Equipment	674	685	904
Volvo Penta	287	352	291
Volvo Aero	211	173	224
Other	107	88	83
Volvo Group total	**5,391**	**5,869**	**6,829**

Income from investments in associated companies	2001	2002	2003
Trucks	(130)	15	(55)
Buses	(11)	8	1
Construction Equipment	–	–	–
Volvo Penta	–	–	–
Volvo Aero	(72)	(70)	(77)
Other	125	173	297
Volvo Group excl Financial Services	**(88)**	**126**	**166**
Financial Services	138	56	34
Volvo Group total	**50**	**182**	**200**

Total assets	2001	2002	2003
Operating assets, excluding Financial Services: [1]			
Trucks	82,431	68,988	68,307
Buses	9,083	8,913	6,855
Construction Equipment	14,178	14,409	14,476
Volvo Penta	2,538	3,340	2,604
Volvo Aero	13,389	11,631	8,982
Other [2]	28,600	28,166	23,664
Total operating assets excluding Financial Services	**150,219**	**135,447**	**124,888**
Interest-bearing financial assets	37,300	32,648	37,516
Tax receivables	8,548	8,113	7,220
Total assets in Financial Services	73,528	69,364	66,842
Other and eliminations	(8,670)	(6,350)	(5,214)
Volvo Group total	**260,925**	**239,222**	**231,252**

1 Defined as Total assets less Interest-bearing financial assets and Tax receivables.
2 Investment in Scania included with 20,424 (24,026; 24,051).

Total shareholders' equity and liabilities	2001	2002	2003
Operating liabilities, excluding Financial Services: [1]			
Trucks	56,106	50,481	49,261
Buses	3,511	3,006	2,600
Construction Equipment	3,928	4,079	4,822
Volvo Penta	1,434	1,450	1,460
Volvo Aero	5,291	4,629	3,265
Other	3,093	2,330	3,291
Total operating liabilities excluding Financial Services	**73,363**	**65,975**	**64,699**
Financial liabilities	44,342	38,714	39,940
Tax liabilities	376	770	650
Total liabilities in Financial Services	65,978	61,870	58,838
Other and eliminations	(8,710)	(6,632)	(5,511)
Total liabilities	**175,349**	**160,697**	**158,616**
Shareholders' equity	85,185	78,278	72,420
Minority interests	391	247	216
Volvo Group total	**260,925**	**239,222**	**231,252**

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

Investments in associated companies	2001	2002	2003
Trucks	513	213	26
Buses	359	296	21
Construction Equipment	–	–	–
Volvo Penta	–	–	–
Volvo Aero	51	44	35
Financial Services	165	208	165
Other	879	896	116
Volvo Group total	**1,967**	**1,657**	**363**

Capital expenditures	2001	2002	2003
Trucks	5,949	4,797	4,384
Buses	360	256	161
Construction Equipment	569	660	525
Volvo Penta	199	236	362
Volvo Aero	933	583	262
Other	354	244	528
Volvo Group excl Financial Services	**8,364**	**6,776**	**6,222**
Financial Services	5,775	5,461	5,459
Volvo Group total	**14,139**	**12,237**	**11,681**

Reporting by geographical segment

Net sales	2001	2002	2003
Europe	104,500	105,069	109,668
North America	57,724	53,438	44,502
South America	6,469	5,070	5,080
Asia	10,887	12,693	15,819
Other markets	9,700	9,928	8,222
Volvo Group total*	**189,280**	**186,198**	**183,291**
*of which:			
Sweden	13,615	12,923	14,801
United States	48,407	44,652	36,406
France	26,735	26,387	25,679

Total assets	2001	2002	2003
Sweden	97,728	91,558	89,747
Europe excluding Sweden	76,288	71,078	75,612
North America	69,748	61,266	50,234
South America	7,851	4,966	4,996
Asia	5,662	7,006	7,236
Other markets	3,648	3,348	3,427
Volvo Group total	**260,925**	**239,222**	**231,252**

Capital expenditures	2001	2002	2003
Sweden	4,646	3,701	2,629
Europe excluding Sweden	5,942	5,793	6,042
North America	3,169	2,261	2,442
South America	166	147	214
Asia	180	194	299
Other markets	36	141	55
Volvo Group total	**14,139**	**12,237**	**11,681**

Note 5 Other operating income and expenses

	2001	2002	2003
Gains/losses on forward and options contracts	(2,044)	(195)	1,243
Exchange rate differences on trade receivables and payables	411	(266)	(199)
Amortization of goodwill	(1,058)	(1,094)	(873)
Change in allowances for doubtful receivables, customer financing	(1,326)	(1,018)	(812)
Change in allowances for doubtful receivables, other	(415)	(362)	(294)
Surplus funds from Alecta (previously SPP)	43	–	–
Gain on sale of Volvia's insurance operations	562	–	–
Adjustment of the gain on sale of Volvo Cars	90	–	–
Other income and expenses	(359)	(1,217)	(432)
Total	**(4,096)**	**(4,152)**	**(1,367)**

Note 6 Income from investments in associated companies

Income from investments in associated companies and dividends recived from associated companies are specified below:

	Income (loss)			**Dividends received**		
	2001	2002	2003	2001	2002	2003
Petro Stopping Centers Holding LP	(73)	(57)	(73)	–	–	–
Aviation Lease Finance	24	51	30	–	–	–
Other companies	(79)	77	15	8	20	–
Holdings no longer reported as equity method investments						
Bilia AB [4]	151	128	64	42	44	47
Turbec AB [3]	(67)	(67)	(77)	–	–	–
Xian Silver Bus Corp [5]	27	29	–	–	–	–
Shanghai Sunwin Bus Corp [5]	(31)	(23)	–	–	–	–
AB Volvofinans [1]	46	–	–	9	–	–
Other companies	–	–	–	15	–	4
Subtotal	**(2)**	**138**	**(41)**	**74**	**64**	**51**

	Income (loss)		
	2001	2002	2003
Gains (losses) on sale of shares in associated companies			
Bilia AB [4]	–	–	188
Effero AB [3]	–	–	59
Eddo Restauranger AB [2]	–	32	–
AB Volvofinans [1]	61	–	–
Other companies	(9)	12	(6)
Subtotal	**52**	**44**	**241**
Total income from investments in associated companies	**50**	**182**	**200**

1 Divested in 2001.
2 Divested in 2002.
3 Divested in 2003.
4 Main part of holding divested in 2003.
5 As from 2003 reported in accordance with the proportionate method of consolidation.

Note 7 Income from other investments

	2001	2002	2003
Dividends received			
Scania AB	637	319	501
Henlys Group Plc	25	7	7
Diamond Finance, Ltd	–	–	5
Holdings of Volvo Technology Transfer [1]	26	–	4
Other	6	3	3
Subtotal	**694**	**329**	**520**
Write-downs of shares			
Scania AB	–	–	(3,601)
Henlys Group Plc	–	–	(429)
Holdings of Volvo Technology Transfer [1]	(14)	(7)	(39)
Other	(39)	–	(4)
Subtotal	**(53)**	**(7)**	**(4,073)**
Gain (loss) on divestment of shares			
Mitsubishi Motors [2]	768	–	–
Holdings of Volvo Technology Transfer [1]	(10)	(16)	(36)
Other	11	3	10
Subtotal	**769**	**(13)**	**(26)**
Total	**1,410**	**309**	**(3,579)**

1 A Volvo venture-capital company.
2 Excluding costs of 194 for terminating the distribution of Mitsubishi Canter as well as costs for terminated development projects.

Note 8 Restructuring costs

Restructuring costs in 2001 amounted to 3,862 of which 3,106 for Trucks, 392 for Buses and 364 for Construction Equipment.

Restructuring costs in Trucks included costs for the integration of Mack Trucks and Renault Trucks in order to secure coordination gains made possible through the acquisition. The integration measures included reduction of the North American production capacity through a decision to close Mack's Winnsboro plant and transfer of production to Volvo's New River Valley plant. Integration measures further included restructuring of the global distribution system and production structure. In addition to the integration measures, restructuring costs in Trucks included significant personnel reductions due to the prevailing business conditions, especially in North America. Restructuring costs in Buses were attributable to the shut down of Nova Bus' plant for city buses in Roswell, US. In Construction Equipment, restructuring measures were pertaining to close down of fabrication in the Asheville plant, US, and to an overall redundancy program.

Of the total restructuring costs, 2,259 was attributable to contractual pensions and excess personnel, 573 was attributable to writedowns of assets and the remainder, 1,030 to other restructuring costs.

Note 9 Other financial income and expenses

Other financial income and expenses include exchange gains in the net amount of 31 (losses 55; gains 59).

Note 10 Income taxes

Income taxes were distributed as follows:

	2001	2002	2003
Current taxes relating to the period	(555)	(802)	(984)
Adjustment of current taxes for prior periods	(59)	156	(291)
Deferred taxes originated or reversed during the period	1,349	(121)	(831)
Recognition and derecognition of deferred tax assets	(367)	242	802
Income taxes relating to associated companies	(42)	(65)	(30)
Total income taxes	**326**	**(590)**	**(1,334)**

Provisions have been made for estimated tax charges that may arise as a result of prior tax audits in the Volvo Group. Tax claims for which no provision has been deemed necessary of approximately 1,098 (982; 1,151) were reported as contingent liabilities.

Deferred taxes relate to income taxes payable or recoverable in future periods in respect of taxable temporary differences, deductible temporary differences, unused tax loss carryforwards or unused tax credit carryforwards. Deferred tax assets are recognized to the extent that it is probable that the amount can be utilized against future taxable income. At December 31, 2003, the valuation allowance attributable to deductible temporary differences, unused tax loss carryforwards and unused tax credit carryforwards for which no deferred tax asset was recognized amounted to 2,718 (3,063; 2,676).

At year-end 2003, the Group had unused tax loss carryforwards of about 17,300, of which approximately 2,300 will expire within 5 years.

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

	2001, %	2002, %	2003, %
Swedish corporate income tax rates	28	28	28
Difference in tax rate in various countries	6	8	11
Capital gains	7	(2)	(2)
Other non-taxable income	28	(15)	(23)
Amortization of goodwill	(17)	16	13
Other non-deductible expenses	(16)	14	83
Adjustment of current taxes for prior years	(3)	(8)	18
Recognition and derecognition of deferred tax assets	(19)	(12)	(48)
Other, net	3	0	1
Income tax rate for the Group	**17**	**29**	**81**

Specification of deferred tax assets and tax liabilities	2001	2002	2003
Deferred tax assets:			
Unused tax loss carryforwards	5,464	5,725	5,370
Other unused tax credits	501	343	329
Intercompany profit in inventories	359	280	236
Valuation allowance for doubtful receivables	596	536	523
Provisions for warranties	1,203	997	975
Provisions for post-employment benefits	4,641	4,971	4,687
Provisions for restructuring measures	895	622	370
Other deductible temporary differences	3,510	2,950	2,756
	17,169	**16,424**	**15,246**
Valuation allowance	(2,676)	(3,063)	(2,718)
Deferred tax assets after deduction for valuation allowance	**14,493**	**13,361**	**12,528**
Deferred tax liabilities:			
Accelerated depreciation on property, plant and equipment	2,081	2,059	1,979
Accelerated depreciation on leasing assets	2,542	684	1,062
LIFO valuation of inventories	916	1,075	350
Capitalized product and software development	571	951	1,071
Untaxed reserves	543	564	688
Other taxable temporary differences	1,143	1,329	1,119
	7,796	**6,662**	**6,269**
Deferred tax assets, net [1]	**6,697**	**6,699**	**6,259**

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

Note 11 Minority interests

Minority interests in net income (loss) and in shareholders' equity consisted mainly of the minority interests in Volvo Aero Norge AS (22%) and in Volvo Aero Services LP (5%). The Henlys Group's holding (49%) in Prévost Holding BV was reported as minority interest up to the third quarter 2001. As of October 1, 2001, Henlys' ownership interest was increased to 50% and Prévost Holding BV is from this date consolidated by the proportionate method.

Note 12 Intangible and tangible assets

Acquisition costs	Value in balance sheet 2001	Value in balance sheet 2002	Capital expenditures	Sales/ scrapping	Acquired and divested operations [4]	Translation differences	Reclassi-fications and other	Value in balance sheet 2003
Goodwill	15,974	14,787	–	(13)	878	(678)	3	14,977
Entrance fees, aircraft engine programs	2,089	2,116	97	–	–	(12)	20	2,221
Product and software development	2,039	3,949	1,021	–	6	(91)	7	4,892
Other intangible assets	2,263	2,122	58	(504)	43	(93)	(30)	1,596
Total intangible assets	**22,365**	**22,974**	**1,176**	**(517)**	**927**	**(874)**	**0**	**23,686**
Buildings	17,049	16,688	586	(196)	527	(965)	180	16,820
Land and land improvements	4,592	4,169	113	(55)	183	(335)	49	4,124
Machinery and equipment [1]	39,135	38,425	3,804	(1,321)	947	(2,080)	332	40,107
Construction in progress including advance payments	2,752	2,111	436	(2)	9	(95)	(648)	1,811
Total property, plant and equipment	63,528	61,393	4,939	(1,574)	1,666	(3,475)	(87)	62,862
Assets under operating leases	42,077	39,367	5,566	(5,611)	120	(3,021)	(2,067)	34,354
Total tangible assets	**105,605**	**100,760**	**10,505**	**(7,185)**	**1,786**	**(6,496)**	**(2,154)**	**97,216**

Accumulated depreciation and amortization	Value in balance sheet 2001	Value in balance sheet 2002	Deprecia-tion and amortiza-tion [2]	Sales/ scrapping	Acquired and divested operations [4]	Trans-lation differ-ences	Reclassi-fications and other	Value in balance sheet 2003	Net carrying value in bal-ance sheet 2003 [3]
Goodwill	2,961	3,490	873	(10)	(18)	(195)	(314)	3,826	11,151
Entrance fees, aircraft engine programs	1,306	1,201	81	–	–	(10)	19	1,291	930
Product and software development	3	491	538	–	2	(33)	(1)	997	3,895
Other intangible assets	570	747	141	(314)	(4)	(26)	272	816	780
Total intangible assets	**4,840**	**5,929**	**1,633**	**(324)**	**(20)**	**(264)**	**(24)**	**6,930**	**16,756**
Buildings	6,408	6,445	629	(123)	119	(382)	75	6,763	10,057
Land and land improvements	484	454	58	(7)	9	(44)	13	483	3,641
Machinery and equipment [1]	23,402	23,695	3,322	(1,066)	459	(1,255)	(179)	24,976	15,131
Construction in progress, including advance payments	–	–	–	–	–	–	–	–	1,811
Total property, plant and equipment	30,294	30,594	4,009	(1,196)	587	(1,681)	(91)	32,222	30,640
Assets under operating leases	14,976	15,842	4,527	(2,997)	25	(1,166)	(3,078)	13,153	21,201
Total tangible assets	**45,270**	**46,436**	**8,536**	**(4,193)**	**612**	**(2,847)**	**(3,169)**	**45,375**	**51,841**

1 Machinery and equipment pertains mainly to production equipment.
2 Includes write-downs, 140.
3 Acquisition costs less accumulated depreciation and amortization.
4 Includes subsidiaries and joint ventures that previously were accounted for according to the equity method.

Depreciation and amortization by type of asset	2001	2002	2003
Intangible assets	1,265	1,586	1,633
Property, plant and equipment	4,545	4,134	4,009
Assets under operating leases	4,151	5,124	4,527
Total	**9,961**	**10,844**	**10,169**

Capital expenditures by type of asset	2001	2002	2003
Intangible assets	2,574	2,011	1,176
Property, plant and equipment	5,713	4,802	4,939
Assets under operating leases	5,852	5,424	5,566
Total	**14,139**	**12,237**	**11,681**

Capital expenditures for property, plant and equipment approved but not yet implemented at December 31, 2003, amounted to SEK 6.4 billion (5.5; 6.1).

Investment property

Investment property is property owned for the purpose of obtaining rental income and/or appreciation in value. The acquisition cost of investment property was 1,858 at year-end. Capital expenditures during 2003 amounted to 59. Accumulated depreciation was 409 at year-end, whereof 62 during 2003. The estimated fair value of investment property was SEK 2.2 billion at year-end, based on discounted cash flow projections. The required return is based on current property market conditions for comparable properties in comparable locations. All investment properties were leased during the year. Net income for the year was affected by 337 in rental income from investment properties and 70 in direct costs.

Note 13 Shares and participations

Group holdings of shares and participations in non-Group companies	Registration number	Percentage holding [1]	Dec 31, 2002 Carrying value SEK M [2]	Dec 31, 2003 Carrying value SEK M [2]
Shares in associated companies, equity method of accounting				
Aviation Lease Finance USA	–	49	172	165
Blue Chip Jet HB, Sweden	969639-1011	40	151	98
Arbustum Invest AB, Sweden	556543-4247	40	32	33
Merakvim Metal Works Ltd, Israel	–	27	22	21
Euromation AB, Sweden	556232-0134	53	20	20
Petro Stopping Centers Holdings, LP, USA	–	29	80	0
Bilia AB, Sweden	556112-5690		710	–
Shanghai Sunwin Bus Corp, China [3]	–	50	139	–
Xian Silver Bus Corp., China [3]	–	50	135	–
Other holdings			196	26
Total shares and participations in associated companies [4]			**1,657**	**363**

Shares and participations in other companies	Registration number	Percentage holding [1]	Dec 31, 2002 Carrying value SEK M [2]	Dec 31, 2003 Carrying value SEK M [2]
Scania AB, Sweden	556184-8564	46/31	24,026	20,424
Deutz AG, Germany	–	11	670	670
Henlys Group Plc, Great Britain	–	10	524	95
Bilia AB, Sweden	556112-5690	2	–	28
Other holdings			615	626
Total shares and participations in other companies			**25,835**	**21,843**
Carrying value in accordance with Group balance sheet			**27,492**	**22,206**

1 Where two percentage figures are shown, the first refers to share capital and the second to voting rights.
2 Associated companies are reported in accordance with the equity method. Other companies are reported at cost.
3 From 2003 reported according to the proportionate method of consolidation.
4 Volvo's share of shareholders' equity in associated companies (incl. equity in untaxed reserves) amounted to 363 (1,629; 1,951). Excess values amounted to 0 (28; 16).

The market values of Volvo's holdings of shares and participations in listed companies as of December 31, 2003 are shown in the table below. When the carrying value of an investment exceeds its market value, it has been assessed that the fair value of the investment is higher than the quoted market price of this investment.

	Carrying value	Market value
Scania AB	20,424	18,459
Deutz AG	670	190
Henlys Group Plc	95	95
Bilia AB	28	54
Total holdings in listed companies	**21,217**	**18,798**
Holdings in non-listed companies	989	–
Total shares and participations	**22,206**	

Scania AB
During 1999 and 2000, Volvo acquired 45.5% of the capital and 30.6% of the voting rights in Scania AB, one of the world's leading manufacturers of trucks and buses. As a concession in connection with the European Commission's approval of Volvo's acquisition of Renault V.I. and Mack Trucks Inc. in 2001, Volvo undertook to divest its holding in Scania not later than April, 2004. At year-end 2003, the carrying value of Volvo's holding in Scania AB was determined to SEK 20.4 billion, and a write-down of SEK 3.6 billion was thereby charged to operating income for the year. The carrying value of the holding of the 63.8 million Scania B shares was determined based upon the consideration received when Volvo divested those shares to Deutsche Bank on March 4, 2004. The carrying value of the holding of 27.3 million Scania A shares was determined based upon the closing share price of SEK 202 on December 31, 2003. In March, 2004, AB Volvo's Board of Directors proposed that the Annual General Meeting approve a dividend to AB Volvo's shareholders of 99% of the shares in Ainax AB, a wholly owned subsidiary, which at the time of the distribution would hold Volvo's entire holding of Scania A shares.

Henlys Group Plc
During 1998 and 1999, Volvo acquired 9.9% of the capital and voting rights in Henlys Group Plc at a total acquisition cost of 524. Henlys Group is a british company involved in manufacturing and distribution of buses and bus bodies in Great Britain and North America. Volvo and Henlys Group jointly own the shares of the North American bus operations Prévost and Nova Bus. In February and March 2004, Henlys announced that its earnings for 2004 was expected to be significantly lower than previously anticipated. As a consequence of receiving this information, it was determined that Volvo's holding in Henlys Group Plc was permanently impaired at December 31, 2003, and a write-down of 429 was charged to income for the year. After this write-down, the carrying value of Volvo's shares in Henlys Group amounted to 95, corresponding to the market value of these shares at year-end 2003. In the beginning of March 2004, the market value of Volvo's shares amounted to 24.

Bilia AB
In 2003, Volvo exchanged 41% of the shares in Bilia for 98% of the shares in Kommersiella Fordon Europa AB. The capital gain was 188.

Effero AB
In 2003, Volvo divested its entire holding in Effero with a capital gain of 59.

Shanghai Sunwin Bus Corp
As of 2003, Shanghai Sunwin Bus is reported in the Volvo Group according to the proportionate method of consolidation.

Xian Silver Bus Corp
As of 2003, Xian Silver Bus is reported in the Volvo Group according to the proportionate method of consolidation.

Eddo Restauranger AB
In 2002, Volvo divested its entire holding in Eddo with a capital gain of 32.

Mitsubishi Motors Corporation (MMC)
In 2001, Volvo divested its holding and all rights and obligations relating to MMC, which resulted in a capital gain of 574, net of termination costs of 194.

AB Volvofinans
In 2001, Volvo divested its entire holding in Volvofinans for a total purchase price of 871 and with a capital gain of 61.

Arrow Truck Sales
In 2001, Volvo increased its holding to 100% and Arrow thereby became a subsidiary of Volvo.

SM Motors Pte Ltd
In 2001, Volvo divested its entire holding in SM Motors with a capital loss of 13.

Changes in the Volvo Group's holdings of shares and participations:	2001	2002	2003
Balance sheet, December 31, preceding year	30,481	27,798	27,492
Acquisitions and divestments, net	(2,844)	97	(720)
New issue of shares and shareholders' contributions	94	89	280
Share of income in associated companies, before income taxes	(2)	138	(41)
Income taxes related to associated companies	(42)	(65)	(30)
Dividends	(74)	(64)	(51)
Write-downs	(53)	(7)	(4,073)
Change in group structure	–	(210)	(470)
Translation differences	97	(203)	(118)
Other	141	(81)	(63)
Balance sheet, December 31	**27,798**	**27,492**	**22,206**

Note 14 Long-term customer-financing receivables

	2001	2002	2003
Installment credits	13,668	14,239	13,011
Financial leasing	11,534	10,341	9,975
Other receivables	873	627	462
Total	**26,075**	**25,207**	**23,448**

Note 15 Other long-term receivables

	2001	2002	2003
Convertible debenture loan in Henlys Group Plc [1]	2,561	2,118	1,746
Other loans to external parties	2,635	1,364	871
Prepaid pensions	358	706	152
Deferred tax assets	7,741	7,611	6,828
Other receivables	1,161	686	890
Total	**14,456**	**12,485**	**10,487**

1 In October 1999, Volvo issued a convertible debenture loan to Henlys Group Plc of USD 240 M in connection with Henlys Group's acquisition of the US school bus manufacturer Bluebird. The convertible debenture loan matures in October 2009. In February and March 2004, Henlys Group announced that its earnings for 2004 would be significantly lower than previously anticipated. After this announcement, the quoted market price of Henlys Group's shares fell significantly. In connection with the preparation of these financial statements, Volvo has evaluated the financial situation of Henlys Group and assessed that no impairment loss has been incurred on the convertible debenture loan.

Note 16 Inventories

	2001	2002	2003
Finished products	20,303	17,987	17,425
Production materials, etc.	10,772	10,318	9,034
Total [1]	**31,075**	**28,305**	**26,459**

1 Of which inventories valued to net realisable value amounting to 12,246.

Increase (decrease) in allowance for inventory obsolescence	2001	2002	2003
Balance sheet, December 31, preceding year	1,333	3,017	2,710
Increase in allowance for inventory obsolescence charged to income	252	248	203
Scrapping	(162)	(348)	(338)
Acquired and divested operations	1,421	(1)	(15)
Translation differences	224	(262)	(160)
Reclassifications, etc.	(51)	56	(154)
Balance sheet, December 31	**3,017**	**2,710**	**2,246**

Note 17 Short-term customer-financing receivables

	2001	2002	2003
Installment credits	8,450	8,306	8,947
Financial leasing	5,913	5,269	5,737
Retailer financing	7,296	7,356	6,555
Other receivables	1,050	860	1,315
Total	**22,709**	**21,791**	**22,554**

Note 18 Other short-term receivables

	2001	2002	2003
Accounts receivable	21,658	17,155	16,924
Prepaid expenses and accrued income [1]	2,478	2,846	3,036
VAT receivables	1,684	1,333	1,181
Loans to external parties [1]	2,114	1,300	3,863
Prepaid pensions	412	2	–
Current income tax receivables	988	634	530
Other receivables	4,235	3,725	3,232
Total, after deduction of valuation allowances for doubtful accounts receivable 932 (1,079; 1,393)	**33,569**	**26,995**	**28,766**

1 Effective in 2003, Volvo has adopted RR 27, Financial instrument; Disclosure and presentation. See further in Note 1. As result of this change of accounting prinicples, accrued interest income increased by SEK 0.6 billion and loans increased by SEK 3.0 billion at December 31, 2003.

Change of valuation allowances for doubtful accounts receivable	2001	2002	2003
Balance sheet, December 31, preceding year	1,101	1,393	1,079
Change of valuation allowance charged to income	222	224	201
Utilization of valuation allowance related to actual losses	(241)	(290)	(239)
Acquired and divested operations	303	(5)	68
Translation differences	42	(266)	(81)
Reclassifications, etc.	(34)	23	(96)
Balance sheet, December 31	**1,393**	**1,079**	**932**

Note 19 Marketable securities

Marketable securities consist mainly of interest-bearing securities, distributed as shown below:

	2001	2002	2003
Government securities	1,399	203	203
Banks and financial institutions	436	484	116
Corporate institutions	3,968	1,140	176
Real estate financial institutions	7,626	14,841	19,023
Other	85	39	11
Total	**13,514**	**16,707**	**19,529**

Note 20 Cash and bank accounts

	2001	2002	2003
Cash in banks	4,941	4,157	5,782
Time deposits in banks	8,928	4,714	3,424
Total	**13,869**	**8,871**	**9,206**

Note 21 Shareholders' equity

The share capital of the Parent Company is divided into two series of shares: A and B. Both series carry the same rights, except that each Series A share carries the right to one vote and each Series B share carries the right to one tenth of a vote.

The total number of registered shares by year end 2003 amounted to 441,520,885. After repurchase of 5% of the registered shares in 2001, the total number of outstanding Volvo shares by year end 2003 amounted to 419,444,842 whereof Series A shares 131,674,699 and Series B shares 287,770,143. Par value per share is SEK 6.00. Total par value was 2,649 and is based on 441,520,885 registered shares. The average number of outstanding shares was 419,444,842 in 2003.

In accordance with the Swedish Companies Act, distribution of dividends is limited to the lesser of the unrestricted equity shown in the consolidated or Parent Company balance sheets after proposed appropriations to restricted equity. Unrestricted equity in the Parent Company at December 31, 2003 amounted to 50,878.

As of December 31, 2003, Volvo-related foundations' holdings in Volvo were 0.17% of the share capital and 0.37% of the voting rights.

As shown in the consolidated balance sheet as of December 31, 2003, unrestricted equity amounted to 57,002. (61,536; 70,239). It is estimated that 0 of this amount will be allocated to restricted reserves.

Note 22 Provisions for post-employment benefits

Post-employment benefits, such as pensions, healthcare and other benefits are mainly settled by means of regular payments to independent authorities or bodies that assume pension obligations and administer pensions through defined contribution plans. The remaining post-employment benefits are defined benefit plans; that is, the obligations remain within the Volvo Group or are secured by own pension foundations. Costs and the obligations at the end of period for defined benefit plans are calculated based on actuarial assumptions and measured on a discounted basis. The Volvo group defined benefits plans relate mainly to subsidiaries in the US and comprise both pensions and other benefits, such as healthcare. Other large-scale defined benefit plans apply for salaried employees in Sweden (mainly through the Swedish ITP pension plan) and employees in France and Great Britain.

As of 2003 Volvo has adopted RR 29 Employee Benefits in its financial reporting. In accordance with the new standard, defined benefit plans in all the Group's subsidiaries are accounted for by use of consistent principles. In Volvo's financial reporting up to 2002, such plans have been accounted for by applying the local rules and directives in each country. In accordance with the transition rules, a transitional liability was established as at January 1, 2003, determined in accordance with RR 29. This transitional liability exceeded the liability recognized as at December 31, 2002, in accordance with earlier principles by SEK 2.3 billion. The excess liability was consequently recognized as at January 1, 2003, as an increase in provisions for post-employment benefits and a corresponding decrease in shareholders' equity. Comparable figures for prior years have not been restated. See note 1 for further information about the effects of this change in accounting principles.

The following tables disclose information about defined benefit plans in the Volvo Group. The information refers to assumptions applied for actuarial calculations, periodical costs and the value of obligations and plan assets at year-end. The tables also include reconciliation of obligations and plan assets during the year and the difference between fair values and carrying amounts reported on the balance sheet date.

Assumptions applied for actuarial calculations	2003 January 1	2003 December 31
Sweden		
Discount rate	5.5	5.5
Expected return on plan assets [1]	6.0	6.0
Expected salary increases	3.0	3.0
United States		
Discount rate	6.75	6.25
Expected return on plan assets [1]	7.65	7.65
Expected salary increases	3.5	3.5
France		
Discount rate	5.5	5.25
Expected salary increases	3.0	3.0
Great Britain		
Discount rate	5.5	5.5
Expected return on plan assets [1]	7.0	7.0
Expected salary increases	3.5	3.5

1 Applicable for the following accounting period. These assumptions reflect the expected long-term return rate on plan assets, based upon historical yield rates for different categories of investments and weighted in accordance with the foundation's investment policy. The expected return has been calculated net of administrative expenses and applicable taxes.

Pension costs	2001	2002	2003
Current service costs			646
Interest costs			1,377
Expected return on plan assets			(828)
Actuarial gains and losses [1]			–
Past service costs			
– Unvested			–
– Vested			46
Curtailments and settlements			3
Termination benefits			169
Pension costs for defined benefit plans			**1,413**
Pension costs for defined contribution plans			2,461
Total pension costs	**3,332**	**4,472**	**3,874**

1 For each plan, actuarial gains and losses are reported as income or expenses, when the accumulated amount exceeds the so called corridor. The income or expenses are then recognized over the expected average remaining service period of the employees.

Costs for post-employment benefits other than pensions	2003
Current service costs	107
Interest costs	415
Expected return on plan assets	0
Actuarial gains and losses [1]	–
Past service costs	
– Unvested	–
– Vested	–
Curtailments and settlements	(4)
Termination benefits	32
Total costs for post-employment benefits other than pensions	**550**

1 Actuarial gains and losses are for each plan reported as income or expenses, when the accumulated amount exceed the so called corridor. The income or expenses are then recognized over the expected average remaining service period of the employees.

An increase of one percentage point per year in healthcare costs would change the accumulated post-employment benefit obligation as of December 31, 2003 by approximately 171, and the post-employment benefit expense by approximately 13. A decrease of 1% would decrease the accumulated value of obligations by about 147 and reduce costs by approximately 11. Calculations made as of December 31, 2003 show an annual increase of 11.5% in the weighted average per capita costs of covered healthcare benefits; it is assumed that the percentage will decline gradually to 5% and then remain at that level.

Obligations in defined benefit plans	Sweden Pensions	United States Pensions	France Pensions	Great Britain Pensions	US Other benefits	Other plans	Total
Obligations at January 1, 2003	5,053	11,748	2,479	3,059	6,917	1,551	**30,807**
Acquisitions and divestments, net	37	–	–	–	–	–	**37**
Service costs	217	195	34	76	104	127	**753**
Interest costs	271	742	146	158	414	61	**1,792**
Unvested past service costs	–	14	66	–	–	1	**81**
Vested past service costs	–	25	–	–	–	21	**46**
Termination benefits	130	–	32	–	–	39	**201**
Curtailments	2	–	–	–	–	(5)	**(3)**
Employee contributions	–	–	–	25	–	4	**29**
Actuarial gains (–) and losses (+)	(156)	925	6	31	686	48	**1,540**
Exchange rate translation	–	(2,175)	(26)	(271)	(1,279)	(51)	**(3,802)**
Benefits paid	(222)	(767)	(404)	(92)	(564)	(201)	**(2,250)**
Obligations at December 31, 2003	**5,332**	**10,707**	**2,333**	**2,986**	**6,278**	**1,595**	**29,231**
of which							
Funded defined benefit plans	4,422	10,433	–	2,977	4,769	1,224	**23,825**

Fair value of plan assets in funded plans	Sweden Pensions	United States Pensions	France Pensions	Great Britain Pensions	US Other benefits	Other plans	Total
Plan assets at January 1, 2003	3,255	6,752	–	2,221	71	1,004	**13,303**
Acquisitions and divestments, net	–	–	–	–	–	–	**–**
Actual return on plan assets	337	1,201	–	227	1	66	**1,832**
Employer contributions	–	843	–	72	81	106	**1,102**
Employee contributions	–	–	–	25	–	1	**26**
Exchange rate translation	–	(1,314)	–	(199)	(18)	(21)	**(1,552)**
Benefits paid	–	(755)	–	(92)	(24)	(94)	**(965)**
Plan assets at December 31, 2003	**3,592**	**6,727**	**–**	**2,254**	**111**	**1,062**	**13,746**

Net provisions post-employment benefits	Sweden Pensions	United States Pensions	France Pensions	Great Britain Pensions	US Other benefits	Other plans	Total
Funded status at December 31, 2003	(1,740)	(3,980)	(2,333)	(732)	(6,167)	(533)	**(15,485)**
Unrecognized actuarial (gains) and losses	(307)	157	4	(76)	619	3	**400**
Unrecognized past service costs	–	8	(3)	2	(14)	(2)	**(9)**
Net provisions for post-employment benefits at December 31, 2003	**(2,047)**	**(3,815)**	**(2,332)**	**(806)**	**(5,562)**	**(532)**	**(15,094)**
whereof reported as							
Prepaid pensions and other assets	3	132	3	–	1	55	194
Provisions for post-employment benefits	(2,050)	(3,947)	(2,335)	(806)	(5,563)	(587)	(15,288)

Volvo's pension foundation in Sweden was formed in 1996 to secure obligations relating to retirement pensions for salaried employees in Sweden in accordance with the ITP plan (a Swedish individual pension plan). Plan assets amounting to 2,456 was contributed to the foundation at its formation, corresponding to the value of the pension obligations at that time. Since its formation, net contributions of 232 have been made to the foundation. The plan assets in Volvo's Swedish pension foundation are invested in Swedish and foreign shares and mutual funds, and in interest-bearing securities, in accordance with a distribution that is determined by the foundation's Board of Directors. During 2001 and 2002, the fair value of the foundation's plan assets decreased as a result of the downturn on the stock market and provisions to cover pensions obligations in excess of the fair value of plan assets was made with an amount of 292 in 2001 and 807 in 2002 among the Group's pension costs. According to RR 29, Employee Benefits, which has been applied as from 2003, Group pension costs are affected by an expected return on the plan assets, and discrepancies between the expected return and the actual return are treated as actuarial gains or losses. At December 31, 2003, the fair value of the foundation's plan assets amounted to 3,592, of which 47% was invested in shares or mutual funds. At the same date, retirement pension obligations attributable to the ITP plan amounted to 4,422. Swedish companies can secure new pension obligations through balance sheet provisions or pension fund contributions. Furthermore, a credit insurance must be taken out for the value of the obligations. In addition to benefits relating to retirement pensions, the ITP plan also includes, for example, a collective family pension, which Volvo finances through insurance with the Alecta insurance company. According to an interpretation from the Swedish Financial Accounting Standards Council's interpretations committee, this is a multi-employer defined benefit plan. For fiscal year 2003, Volvo did not have access to information from Alecta that would have enabled this plan to be reported as a defined benefit plan. Accordingly, the plan has been reported as a defined contribution plan.

Volvo's subsidiaries in the United States mainly secure their pension obligations through transfer of funds to pension plans. At the end of 2003, the total value of pension obligations secured by pension plans of this type amounted to 10,433. At the same point in time, the total value of the plan assets in these plans amounted to 6,727, of which 63% was invested in shares or mutual funds. The regulations for securing pension obligations stipulate certain minimum levels concerning the ratio between the value of the plan assets and the value of the obligations. During 2003, Volvo contributed 843 to the pension plans in order to comply with these regulations. Up to and including 2002, Volvo's subsidiaries in the United States reported defined benefit pension plans in accordance with US GAAP. As required by these reporting rules, Volvo's year-end reports for 2001 and 2002 included minimum liability adjustments to cover deficits in the Group's US pension plans. The effect of these on the Volvo Group's balance sheet for the fiscal years in question are specified in the table below.

	2001	2002
Long-term receivable for prepaid pensions	274	71
Deferred tax assets	–	122
Total assets	**274**	**193**
Shareholders' equity	(1,417)	(2,542)
Provision for post-employment benefits	1,691	2,735
Total shareholders' equity and liabilities	**274**	**193**

Note 23 Other provisions

	Value in balance sheet 2001	Value in balance sheet 2002	Provisions and reversals	Utilization	Acquired and divested companies	Trans-lation differences	Reclassi-fications	Value in balance sheet 2003
Warranties	5,989	5,977	5,687	(5,257)	50	(286)	4	6,175
Provisions in insurance operations	265	419	(33)	–	–	–	0	386
Restructuring measures	2,342	1,417	41	(516)	(5)	(103)	107	941
Provisions for residual value risks	1,716	1,698	(165)	(219)	21	(137)	9	1,207
Provisions for service contracts	1,705	1,478	369	(378)	48	(91)	55	1,481
Other provisions	5,366	4,820	1,645	(1,544)	59	(323)	(368)	4,289
Total	**17,383**	**15,809**	**7,544**	**(7,914)**	**173**	**(940)**	**(193)**	**14,479**

Note 24 Non-current liabilities

The listing below shows the Group's non-current liabilities in which the largest loans are distributed by currency. Most are issued by Volvo Treasury AB and Volvo Group Finance Europe BV.

Information on loan terms is as of December 31, 2003. Volvo hedges foreign-exchange and interest-rate risks using derivative instruments. See Note 34.

Bond loans	2001	2002	2003
GBP 1999/2003, 4.6%	154	–	–
DKK 1998/2005, 4.0%	317	310	58
SEK 1997–2003/2005–2008, 3.08–9.8%	2,502	5,950	6,372
JPY 1995–2003/2005–2011, 0.13–3.33%	2,130	888	1,443
HKD 1999/2006, 7.99%	136	113	94
CZK 2001/2005–2010, 2.6–6.5%	466	306	514
USD 1998–2003/2005–2008, 1.32–1.78%	2,070	2,154	1,274
EUR 1995–2003/2005–2011, 0.1–7.62%	22,907	24,120	23,047
Other bond loans	33	29	288
Total	**30,715**	**33,870**	**33,090**

Other loans	2001	2002	2003
USD 1966–2003/2005–2015, 1.31–13.0%	10,023	7,280	5,634
EUR 1986–2003/2005–2013, 0.5–9.59%	1,453	1,841	3,245
GBP 1995–2001/2005–2009, 4.43–7.14%	915	1,028	1,786
SEK 1992–2003/2006–2013, 4.15–7.49%	650	224	349
BRL 2000–2003/2005–2011, 9.85–21.64%	641	435	626
CAD 2002–2003/2006–2008, 3.53–3.7%	80	972	1,527
AUD 2002/2005–2006, 5.99–6.43%	–	400	208
Other loans	274	369	209
Total other long-term loans	**14,036**	**12,549**	**13,584**
Deferred leasing income	1,898	1,481	1,186
Residual value liability	7,250	5,121	3,249
Other long-term liabilities	231	102	192
Total	**54,130**	**53,123**	**51,301**

Of the above long-term loans, 1,777 (1,358; 1,703) was secured.

Long-term loans mature as follows:

2005	15,391
2006	9,218
2007	9,665
2008	5,688
2009 or later	6,712
Total	**46,674**

Of other long-term liabilities the majority will mature within five years.

At year-end 2003, credit facilities granted but not utilized and which can be used without restrictions amounted to approximately SEK 15 billion (18; 22). Approximately SEK 13 billion of these facilities consisted of stand-by facilities for loans with varying maturities through the year 2007. A fee normally not exceeding 0.25% of the unused portion is charged for credit facilities.

Note 25 Current liabilities

Balance sheet amounts for loans were as follows:

	2001	2002	2003
Bank loans	7,417	5,442	3,430
Other loans [1]	29,400	20,576	23,988
Total	**36,817**	**26,018**	**27,418**

Bank loans include current maturities, 1,659 (1,046; 1,484), of long-term loans. Other loans include current maturities of long-term loans, 14,470 (11,138; 12,608), and commercial paper, 5,836 (8,762; 15,966).

Non-interest-bearing liabilities accounted for 49,561 (48,599; 50,935), or 64% (65; 58) of the Group's total current liabilities.

Balance sheet amounts for Other current liabilities were as follows:

	2001	2002	2003
Advances from customers	3,112	2,589	1,821
Current income tax liabilities	707	621	459
Wages, salaries and withholding taxes	4,368	4,335	4,630
VAT liabilities	772	1,056	988
Accrued expenses and prepaid income [1]	7,724	7,315	8,113
Deferred leasing income	2,033	1,652	1,230
Residual value liability	4,341	3,985	3,201
Other liabilities	5,156	4,832	4,591
Total	**28,213**	**26,385**	**25,033**

Secured bank loans at year-end 2003 amounted to 96 (588; 472). The corresponding amount for other current liabilities was 1,987 (1,775; 1,732).

1 Effective in 2003, Volvo has adopted RR 27, Financial instrument; Disclosure and presentation. See further in Note 1. As result of this change of accounting principles other loans increased by SEK 3.0 billion and accrued interest expenses increased by SEK 0.6 billion at December 31, 2003.

Note 26 Assets pledged

	2001	2002	2003
Property, plant and equipment – mortgages	264	356	248
Assets under operating leases	1,246	964	2,031
Chattel mortgages	394	495	350
Receivables	1,063	1,180	678
Inventories	199	66	76
Cash, marketable securities	556	549	426
Other	15	–	–
Total	**3,737**	**3,610**	**3,809**

The liabilities for which the above assets were pledged amounted at year-end to 3,860 (3,721; 3,907).

Note 27 Contingent liabilities

	2001	2002	2003
Credit guarantees			
– issued for associated companies	67	219	154
– issued for customers and others	5,557	3,337	3,508
Tax claims	1,151	982	1,098
Other contingent liabilities	3,666	4,796	4,851
Total	**10,441**	**9,334**	**9,611**

The reported amounts for contingent liabilities reflect the Volvo Group's risk exposure on a gross basis. The reported amounts have thus not been reduced because of counter guarantees received or other collaterals in cases where a legal offsetting right does not exist. At December 31, 2003, the estimated value of counter guarantees received and other collaterals, for example the estimated net selling price of used products, amounted to 5,149.

Recourse obligations pertain to receivables that have been transferred, less reduction for recognized credit risks. Tax claims pertain to charges against the Volvo Group for which provisions are not considered necessary.

Legal proceedings

In March 1999, an FH 12 Volvo truck was involved in a fire in the Mont Blanc tunnel. The tunnel suffered considerable damage from the fire, which continued for 50 hours. 39 people lost their lives in the fire, and 34 vehicles were trapped in the tunnel. It is still unclear what caused the fire. The Mont Blanc tunnel was re-opened for traffic in 2002. An expert group was appointed by the Commercial Court in Nanterre, France, to investigate the cause of the fire and the losses it caused. At present, it is not possible to anticipate the result of this on-going investigation or the result of other French legal actions in progress regarding the fire. The investigating magistrate appointed to investigate potential criminal liability for the fire issued its final order and all parties previously placed under investigation, including Volvo Truck Corporation, have been sent to trial for unintentional manslaughter. It is expected that the trial will take place in 2005.

A claim was filed with the Commercial Court in Nanterre by the insurance company employed by the French tunnel operating company against certain Volvo Group companies and the trailor manufacturer in which compensation for the losses claimed to have been incurred by the tunnel operating company was demanded. The claimant requested that the Court postpone its decision until the expert group has submitted its report. The Court of Nanterre has since then declined jurisdiction in favour of the civil Court of Bonneville before which several other claims had been filed in connection with this matter. As a result, the Court of Bonneville is likely ultimately to rule on all civil liability claims filed in France against Volvo Group companies in connection with the Mont-Blanc tunnel fire. Volvo Group companies are also involved in proceedings regarding this matter before courts in Aosta, Italy and Brussels, Belgium. Volvo is unable to determine the ultimate outcome of the litigation referred to above.

AB Volvo and Renault SA have a dispute regarding the final value of acquired assets and liabilities in Renault V.I. and Mack. This process could result in an adjustment in the value of the transfer. Any such adjustment will affect the amount of acquired liquid funds and Volvo's reported goodwill amount. The outcome of this dispute cannot be determined with certainty. However, Volvo believes that the outcome will not lead to an increase in goodwill.

Volvo is involved in a number of other legal proceedings incidental to the normal conduct of its businesses. Volvo does not believe that any liabilities related to such proceedings are likely to be, in the aggregate, material to the financial condition of the Group.

Note 28 Cash flow

Other items not affecting cash pertain to risk provisions and losses related to doubtful receivables and customer-financing receivables 1,079 (1,306; 1,541), deficit in the Swedish pension fund – (807; –), capital gains on the sale of subsidiaries and other business units 85 (–; 829), write-down of shares in Scania AB and Henlys Group Plc amounting to 4,030 (–; –) and other negative 95 (negative 158; negative 173).

Net investments in customer-financing receivables resulted in 2003 in a negative cash flow of SEK 4.3 billion (5.7; 3.7). In this respect, liquid funds were reduced by SEK 15.6 billion (14.9; 16.6) pertaining to new investments in financial leasing contracts and installment contracts.

Investments in shares and participations, net in 2003 and in 2002 amounted to SEK 0.1 billion. Divestments of shares and participations, net in 2001 amounted to SEK 3.9 billion, mainly related to the sale of Volvo's holding in Mitsubishi Motors Corporation.

Acquired and divested subsidiaries and other business units, net in 2003 amounted to SEK 0.0 billion and in 2002 to a negative SEK 0.1 billion. Acquired and divested subsidiaries and other business units, net in 2001 amounted to SEK 13.0 billion mainly pertained to the final payment of SEK 12.1 billion from the sale of Volvo Cars, divestment of the insurance operation in Volvia and acquired liquid funds within Mack and Renault V.I.

During 2003, 2002 and 2001 net installments of loans to external parties contributed SEK 0.9 billion, SEK 1.7 billion and SEK 0.2 billion, respectively to liquid funds.

The change during the year in bonds and other loans increased liquid funds by SEK 1.9 billion (decrease 0.1; increase 6.2). New borrowing during the year, mainly the issue of bond loans and a commercial paper program, provided SEK 25.4 billion (33.1; 31.4). Amortization during the year amounted to SEK 23.5 billion (33.2; 25.2).

Note 29 Leasing

At December 31, 2003, future rental income from noncancellable financial and operating leases (minimum leasing fees) amounted to 27,586 (28,327; 31,109), of which 25,548 (25,737; 28,183) pertains to customer-financing companies. Future rental income is distributed as follows:

	Financial leases	Operating leases
2004	6,480	3,976
2005–2008	10,927	7,151
2009 or later	91	747
Total	**17,498**	**11,874**
Allowance for uncollectible future rental income	(168)	
Unearned rental income	(1,618)	
Present value of future rental income	15,712	

At December 31, 2003, future rental payments (minimum leasing fees) related to noncancellable leases amounted to 5,009 (4,335; 5,192).

Future rental payments are distributed as follows:

	Financial leases	Operating leases
2004	355	1,148
2005–2008	937	1,653
2009 or later	67	849
Total	**1,359**	**3,650**

Rental expenses amounted to:

	2001	2002	2003
Financial leases:			
– Contingent rents	(4)	(11)	(29)
Operating leases:			
– Contingent rents	(82)	(46)	(58)
– Rental payments	(899)	(1,238)	(1,187)
– Sublease payments	14	16	69
Total	**(971)**	**(1,279)**	**(1,205)**

Book value of assets subject to finance lease:

	2002	2003
Acquisition costs:		
Buildings	110	143
Land and land improvements	32	66
Machinery and equipment	24	69
Assets under operating lease	1,499	1,129
Total	**1,665**	**1,407**
Accumulated depreciation:		
Buildings	(62)	(27)
Land and land improvements	–	–
Machinery and equipment	(11)	(3)
Assets under operating lease	(646)	(561)
Total	**(719)**	**(591)**
Book value:		
Buildings	48	116
Land and land improvements	32	66
Machinery and equipment	13	66
Assets under operating lease	853	568
Total	**946**	**816**

Note 30 Related parties

The Volvo Group has transactions with some of its associated companies. The transactions consist mainly of sales of vehicles to dealers. Commercial terms and market prices apply for the supply of goods and services to/from associated companies. Bilia AB was reported as an associated company until June 30, 2003.

	2001	2002	2003
Sales to associated companies	2,179	2,813	1,486
Purchase from associated companies	18	44	24
Receivables from associated companies, Dec 31	65	370	253
Liabilities to associated companies, Dec 31	38	6	32

Group holdings of shares in associated companies are shown in Note 13, Shares and participations.

The Volvo Group also has transactions with Renault S.A. and its subsidiaries. Sales to and purchases from Renault S.A. amounted to 2,893 (1,523; 1,839) and 2,756 (3,608; 3,265). Amounts due from and due to Renault S.A. amounted to 501 (426; 568) and 537 (642;1,128) respectively, at December 31, 2003. The sales were mainly from Renault Trucks to Renault S.A. and consisted of components and spare parts. The purchases were mainly made by Renault Trucks from Renault S.A. and consisted mainly of light trucks.

On May 2 2003, Volvo CE North America acquired assets associated with the distribution business of L.B. Smith Inc., which is not consolidated since the holding is intended to be temporary. The sales from Volvo CE to these operations from May 2 to December 31, 2003 amounted to 1,301 and the receivables at year-end amounted to 15.

Note 31 Government grants

During 2003, government grants amounting to 121 have been received, of which 77 has been accounted for in the income statement. The grants were mainly received from the European Commission and the Swedish government.

Note 32 Personnel

In accordance with a resolution adopted at the Annual General Meeting 2003, the fee paid to the Board of Directors is a fixed amount of SEK 5,200,000, to be distributed as decided by the Board. The Chairman of the Board, Lars Ramqvist, received a fee of SEK 1,200,000. Fixed and variable salaries and other benefits for the Chief Executive Officer and Executive Vice President are decided by the Board of Directors after recommendation by the Remuneration Committee of the Board. The Remuneration Committee furthermore reviews and recommends for resolution by the Board principles for remuneration for the Group Executive Committee as well as principles for variable salary systems, share-based incentive programmes, pension schemes and severance pay for senior executives. In addition, the Remuneration Committee approves remuneration of the members of the Group Executive Committee. Fixed and variable salaries in line with the program described below, and other benefits for other senior executives are prepared and decided by the executive's superior, in consultation with his or her superior.

Remuneration to senior executives, SEK	Fixed salary	Variable salary	Other benefits	Pension costs	Financial instruments	Total
Board Chairman	1,200,000	–	–	–	–	**1,200,000**
CEO	10,191,761	3,417,935	515,636	10,825,500	1,600,000	**26,550,832**
Other executives (GEC [1])	46,234,744	14,157,308	9,134,452	25,008,600	10,720,000	**105,255,104**
Total	**57,626,505**	**17,575,243**	**9,650,088**	**35,834,100**	**12,320,000**	**133,005,936**

1 Group Executive Committee.

Terms of employment of the CEO

The President and Chief Executive Officer, Leif Johansson, is entitled to a fixed annual salary. In addition, he may receive a variable salary based on operating income and cash flow up to a maximum of 50% of his fixed annual salary. In 2003, the variable salary corresponded to 33% of the fixed annual salary. Leif Johansson is also participating in the employee stock options program; in 2003 he was allotted 50,000 options based on the fulfillment of financial targets for 2002. Leif Johansson is eligible to take retirement with pension at age 55. Pension benefits earned prior to his employment at Volvo are coordinated with prior employers and consequently Volvo does not take the full pension cost for Leif Johansson. The defined pension benefits are vested and earned gradually over the years up to the employee's retirement age and are fully earned at age 55. During the period between the ages of 55 and 65, he would receive a pension equal to 70% of his pensionable salary. For the period after reaching the age of 65 he will receive a pension amounting to 50% of his pensionable salary. The pensionable salary is the sum of 12 times the current monthly salary, Volvo's internal value for company car, and a five-year rolling annual average of earned variable salary that is limited to a maximum of 50% of the annual salary. Leif Johansson has twelve months notice of termination from AB Volvo and six months on his own initiative. If AB Volvo terminates Leif Johansson's employment, he is entitled to a severance payment equal to two years' salary, plus the average of the outcome of the variable salary for the previous five years. The severance payment will be adjusted for any income after the termination of his contract with Volvo.

Variable salaries

Leif Johansson, the Group Executive Committee, members of the executive committees of subsidiaries and a number of key executives receive variable salaries in addition to fixed salaries. Variable salaries are based on operating income and cash flow of the Volvo Group and/or of the executive's company, in accordance with a system established by the Volvo Board in 1993 and reviewed in 2000 and 2001. A variable salary may amount to a maximum of 50% of the fixed annual salary.

Severance payments and early retirement

The employment contracts of the Group Executive Committee and certain other senior executives contain provisions for severance payments when the Company terminates employment, as well as rules governing pension payments to executives who take early retirement. The rules governing severance payments provide that, when the Company terminates employment, an employee is entitled to severance pay equal to the employee's monthly salary for a period of 12 or 24 months, depending on age at date of severance. In certain contracts, replacing contracts concluded earlier, an employee is entitled to severance payments amounting to the employee's monthly salary for a period of 30 to 42 months. In agreements concluded after the spring of 1993, severance pay is reduced, in the event the employee gains employment during the severance period, in an amount equal to 75% of income from new employment.

An early retirement pension may be received when the employee reaches the age of 60. A pension is earned gradually over the years up to the employee's retirement age and is fully earned at age 60. From that date until reaching the normal retirement age, the retiree will receive a maximum of 70% of the qualifying salary. From the age of normal retirement, the retiree will receive a maximum of 50% of the qualifying salary.

Incentive programs

Volvo currently has two different types of option programs for senior executives, one call option program and one program for employee stock options. The employee stock options may only be exercised if the holder is employed by Volvo at the end of the vesting period.

However, if the holder's employment with Volvo is terminated for any reason other than dismissal or the holder's resignation, the options may be exercised in part in relation to how large part of the vesting period the holder has been employed. If the holder retires during the vesting period, he or she may exercise the full number of options.

New stock-based incentive program

The Board of Directors has proposed to the Annual General Meeting to approve a new stock-based incentive program for senior executives within the Volvo Group that will replace the present stock option program. Under the program, a total of maximum 110,000 Volvo shares can be allotted to approximately 165 senior executives. The number of shares to be allotted is proposed to depend upon the fulfillment of certain financial goals during the financial year 2004. Assuming said goals are fulfilled in full and that the Volvo share prices is SEK 243 at the time of allotment, Volvos cost for the program including social fees will be around SEK 35 M. The Board has furthermore proposed to the Annual General Meeting that the stock-based incentive programme may be hedged through transfer of Volvo's own shares.

	Programs from prior years			This year's program		
				2003/2008 employee stock options		
Financial instruments	1999/2004, call options number	2000/2005, call options number	2001/2004 employee stock options number	number	value	benefit
Board Chairman	–	–	–	–	–	–
CEO	5,045	8,821	13,600	50,000	1,600,000	1,600,000
Other senior executives	41,052	108,108	82,645	1,000,000	32,000,000	32,000,000
Total	**46,097**	**116,929**	**96,245**	**1,050,000**	**33,600,000**	**33,600,000**

Summary of option programs	Allotment date	Total number of outstanding options Dec 31, 2002	Dec 31, 2003	Excercise price	Term of the options	Value/option	Vesting, years
1998, call options [1]	May 5, 1999	58,659	46,097	290.70	May 18, 1999– May 4, 2004	68.70	n/a
1998, call options [2]	April 28, 2000	119,956	116,929	313.50	Apr 28, 2000– Apr 27, 2005	55.75	n/a
2000, employee stock options [3]	Jan 12, 2000	595,000	–	239.35	Mar 31, 2002– Mar 31, 2003	35.00	2
2000, employee stock options [3]	May 4, 2001	163,109	96,245	159.00	May 4, 2003– May 3, 2004	22.00	2
2002, employee stock options [3]	May 2, 2003	–	1,050,000	163.00	May 2, 2006– May1, 2008	32.00	3

1 The call options gives the holder the right to acquire 1.03 Series B Volvo shares for each option held from a third party. The price of the options is based on a market valuation by Trygg-Hansa Livförsäkrings AB. The number of options corresponds to a part of the executive's variable salary earned. The options were financed 50% by the Company and 50% from the option-holder's variable salary.

2 The options gives the holder the right to acquire one Series B Volvo share for each option held from a third party. The price of the options is based on market valuation by UBS Warburg. The number of options corresponds to a part of the executive's variable salary earned. The options were financed 50% by the Company and 50% from the option holder's variable salary.

3 In January 2000, a decision was made to implement a new incentive program for senior executives within the Volvo Group in the form of so-called employee stock options. The decision covers allotment of options for 2000, 2001 and 2002. The executives have not made any payment for the options. The employee stock options gives the holders the right to exercise their options or alternatively receive the difference between the actual price at that time and the exercise price determined at allotment. The theoretical value of the options at allotment was set using the Black & Scholes pricing model for options. Volvo has, as regards the options alloted in 2000 and 2001, hedged the commitments (including social costs) relating to a future increase in share price, through a Total Return Swap. Should the share price be lower than the exercise price at the closing date, Volvo will pay the swap-holder the difference between the actual share price and the exercise price at that time for each outstanding option. The Board has proposed to the Annual General Meeting that options allotted in 2003 may be hedged through transfer of Volvos own shares.

Renewal of the personnel stock options program for 2003

The Board of AB Volvo decided to renew the personnel stock options program established in 2000, and renewed in 2001 and 2002, and through which senior executives in the Volvo Group are allotted options on B shares in AB Volvo. The size of the allotment is determined by how well certain financial goals for 2003 are achieved. There will be no allotment under the program in 2004.

All obligations related to the employee stock option plans, including the Total Return Swaps, are marked to market on a continuing basis and any change in the obligation is recorded in the income statement. In 2003, the cost for the employee stock option plans amounted to 65 (cost 36, income 15). At December 31, 2003 the provision related to these options amounted to 74.

Change in number of options per program

Number of options	Program 2000	Program 2001	Program 2003
Dec 31, 2000	595,000	–	–
Alloted	–	163,109	–
Cancelled	–	–	–
Exercised	–	–	–
Dec 31, 2001	595,000	163,109	–
Alloted	–	–	–
Cancelled	–	–	–
Exercised	–	–	–
Dec 31, 2002	595,000	163,109	–
Alloted	–	–	1,125,000
Cancelled	595,000	9,792	75,000
Exercised	–	57,072	–
Dec 31, 2003	–	96,245	1,050,000

	2001		2002		2003	
Average number of employees	Number of employees	of which women, %	Number of employees	of which women, %	Number of employees	of which women, %
AB Volvo						
Sweden	105	53	132	54	117	54
Subsidiaries						
Sweden	24,463	17	24,434	18	25,553	17
Western Europe	26,043	13	24,996	14	26,604	15
Eastern Europe	1,862	13	2,087	14	2,302	15
North America	13,450	18	12,759	17	11,136	19
South America	2,071	11	2,057	11	2,216	11
Asia	2,599	10	2,526	13	3,599	13
Other countries	1,438	10	1,555	11	1,629	13
Group total	**72,031**	**15**	**70,546**	**16**	**73,156**	**16**

	2003	
Board members and chief officers	Number at year-end	of which women, %
AB Volvo		
Board members	13	15
Presidents and other senior executives	15	7
Volvo Group		
Board members	1,018	13
Presidents and other senior executives	1,412	14

Wages, salaries and other remunerations, SEK M	2001			2002			2003		
	Board and Presidents[1]	of which variable salaries	Other employees	Board and Presidents[1]	of which variable salaries	Other employees	Board and Presidents[1]	of which variable salaries	Other employees
AB Volvo									
Sweden	24.4	1.9	70.3	22.7	3.4	93.9	29.6	7.7	85.7
Subsidiaries									
Sweden	64.4	11.3	7,277.4	64.6	9.0	7,553.4	77.7	10.7	8,028.5
Western Europe	356.0	14.2	7,661.3	381.7	15.7	7,802.2	390.3	25.8	8,352.1
Eastern Europe	11.7	3.8	214.4	6.1	–	247.0	7.3	–	281.5
North America	174.5	14.3	7,135.9	170.1	13.2	6,200.9	184.5	12.9	5,075.3
South America	48.5	2.7	355.3	37.5	1.8	298.2	38.3	–	276.8
Asia	47.7	1.2	660.1	43.5	1.1	700.1	42.4	0.9	670.4
Other countries	13.0	–	231.1	9.2	–	295.7	8.9	–	325.8
Group total	**740.2**	**49.4**	**23,605.8**	**735.4**	**44.2**	**23,191.4**	**779.0**	**58.0**	**23,096.1**

Wages, salaries, other remunerations and social costs, SEK M	2001			2002			2003		
	Wages, salaries, remunerations	Social costs	of which pension costs	Wages, salaries, re-munerations	Social costs	of which pension costs	Wages, salaries, re-munerations	Social costs	of which pension costs
AB Volvo [2]	94.7	111.9	92.5	116.6	192.8	167.9	115.3	80.0	54.0
Subsidiaries	24,251.3	8,995.1	3,239.7	23,810.2	10,016.0	4,304.1	23,759.8	10,565.8	3,820.2
Group total [3]	**24,346.0**	**9,107.0**	**3,332.2**	**23,926.8**	**10,208.8**	**4,472.0**	**23,875.1**	**10,645.8**	**3,874.2**

1 Including current and former Board members, Presidents and Executive Vice Presidents.

2 Of the **Parent Company's** pension costs, 19.3 (47.1; 21.9) pertain to Board members and Presidents. The Company's outstanding pension obligations to these individuals amount to 290.8 (334.7; 319.1).

3 Of the **Group's** pension costs, 170.7 (135.9; 100.3) pertain to Board members and Presidents. The Group's outstanding pension obligations to these individuals amount to 732.7 (670.3; 558.4).

Note 33 Fees to the auditors

Audit fees	2001	2002	2003
Audit fees to PricewaterhouseCoopers	60	63	66
Audit fees to other audit firms	14	4	3
Total	**74**	**67**	**69**
Other fees to PricewaterhouseCoopers			
Fees for audit related services	59	22	23
Fees for tax services	47	43	30
Fees for other services	15	25	11
Total	**121**	**90**	**64**
Fees and other remuneration to external auditors total	**195**	**157**	**133**

Auditing assignments involve examination of the annual report and financial accounting and the administration by the Board and the President, other tasks related to the duties of a company auditor and consultation or other services that may result from observations noted during such examination or implementation of such other tasks. All other tasks are defined as other assignments.

Note 34 Financial risks and instruments

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

The nature of the various financial risks and objectives and policies for the management of these risks are desribed in the sections below. When applicable, information is also presented about the carrying values and fair values of Volvo's holdings of financial instruments at the balance sheet date. Volvo's accounting policies for financial instruments are described in Note 1. In calculating the fair values of financial instruments, Volvo has primarily used official rates or prices quoted on the capital markets. In their absence, the valuation has been made by discounting future cash flows at the market interest rate for each maturity. In the case of instruments with maturities shorter than three months, the carrying value has been assumed to closely approximate the fair value. All reported fair values are calculated values that will not necessarily be realized.

Currency risks

Currency risks in Volvo's operations are related to changes in the value of contracted and projected future flows of payments (commercial currency risks), to changes in the value of loans and financial investments (financial currency risks) and to changes in the value of assets and liabilities in foreign subsidiaries (equity currency risks). The objective of Volvo's management of currency risks is to minimize short-term negative impact on Volvo's income and financial position as a consequence of changes in currency exchange rates.

Commercial currency risks

Volvo uses forward contracts and currency options to hedge the value of future payments in foreign currencies. According to the Group's currency policy, between 50% and 80% of the projected net flow in each currency is hedged for the coming 6 months, 30% to 60% for months 7 through 12 and firm flows beyond 12 months should normally be fully hedged. The notional amount of all forward and option contracts outstanding as of December 31, 2003 was SEK 16.5 billion (20.9; 12.1). The fair value of these contracts amounted on the same date to 1,335. If assuming an instantaneous 10% strengthening of the SEK versus all other currencies, the fair value would amount to 2,715. If assuming an instantaneous 10% weakening of the SEK versus all other currencies the fair value would be negative of 45. Actual foreign currency rates rarely move instantaneously in the same direction and the actual impact of exchange rate changes may thus differ from the above sensitivity analyses. Further specifications of outstanding contracts are included in the tables below.

Currencies, average contract rates and maturities of outstanding forward contracts and option contracts as of December 31, 2003 for hedging of commercial currency risks

		Currencies			Other currencies	Fair value 2
Million		Net flow USD	Net flow GBP	Net flow EUR	Net SEK	
Due date 2004	amount	895	138	490	1,994	
	rate 1	8.21	13.11	9.19		
Due date 2005	amount	130	(4)	(3)	(296)	
	rate 1	9.69	14.55	9.13		
Due date 2006	amount	92	0	0	(170)	
	rate 1	8.43	0	0		
Total		**1,117**	**134**	**487**	**1,528**	
of which, option contracts		177	0	116	(148)	
Fair value of forward and option contracts, SEK M 2		**1,430**	**16**	**79**	**(190)**	**1,335**

1 Average forward contract rate.
2 Outstanding forward contracts valued at market rates.

Net flows per currency 2003

		Currencies			Other Currencies	Total
Million		USD	GBP	EUR	Net SEK	
Net flows 2003	amount	926	260	1,298		
	rate 3	8.0778	13.2023	9.1258		
Net flows SEK M, 3		**7,500**	**3,400**	**11,800**	**6,800**	**29,500**
Hedged portion, % 4		**97**	**53**	**38**		

3 Average exchange rate during the financial year.
4 Outstanding currency contracts, regarding commercial exposure due in 2004, percentage of net flows 2003.

Outstanding forward contracts and option contracts for hedging of commercial currency risks

	December 31, 2001			December 31, 2002			December 31, 2003		
	Notional amount[1]	Carrying value	Fair value	Notional amount[1]	Carrying value	Fair value	Notional amount[1]	Carrying value	Fair value
Foreign exchange forward contracts									
– receivable position	9,780	16	554	25,857	149	1,017	19,823	53	1,449
– payable position	20,022	(271)	(1,753)	10,210	(5)	(202)	6,104	–	(208)
Options – purchased									
– receivable position	173	–	0	4,484	–	94	8,012	–	148
– payable position	75	(1)	(1)	117	–	(1)	110	–	–
Options – written									
– receivable position	–	–	–	–	–	–	–	–	–
– payable position	–	–	–	3,458	–	(53)	7,082	–	(54)
Subtotal		(256)	(1,200)		144	855		53	1,335
Commodity forward contracts									
– receivable position	–	–	–	223	–	272	148	–	19
– payable position	–	–	–	88	–	(113)	119	–	(14)
Total		(256)	(1,200)		144	1,014		53	1,340

1 The notional amount of the derivative contracts represents the gross contract amount outstanding. To determine the estimated fair value, the major part of the outstanding contracts have been marked to market. Discounted cash flows have been used in some cases.

Financial currency risks

Loans and deposits in the Group companies are mainly made through Volvo Treasury in local currencies and financial currency exposure in the individual entities are thereby being minimized. Volvo Treasury uses various derivative instruments in order to provide deposits and lending in different currencies without increasing the company's own risk. The Volvo Group's net financial position is being affected by changes in currency rates because financial assets and liabilities are allocated between Group companies operating in different currencies. Carrying amounts, fair values and additional specifications of derivative instruments used to manage currency and interest rate risks related to financial assets and liabilities are shown in the table on page 65.

Equity currency risks

The Group value of assets and liabilities in foreign subsidiaries is affected by currency exchange rates in connection with the translation to SEK. Equity currency risks are being minimized by ongoing optimization of the amount of equity in foreign subsidiaries with consideration of commercial and legal prerequisites. Equity hedging could be made if the equity level of a foreign subsidiary is considered as too high. At year-end 2003, net assets in subsidiaries and in associated companies outside Sweden amounted to SEK 22.6 billion. Of this amount, SEK 0.7 billion was hedged by loans in foreign currencies. Hedging of investments in associated companies and other companies will be executed on a case-by-case basis.

Interest rate risks

Interest rate risks include the risks that changes in interest rates affects the Group's income and cash-flow (cash-flow risks) or the fair value of financial assets and liabilities (price risks). By matching fixed interest periods of financial assets and liabilities the exposure for interest rate risks is reduced. Interest rate swaps are used to change the fixed interest rate periods of the Group's financial assets and liabilities. Exchange rate swaps make it possible to borrow in foreign currencies in different markets without incurring currency risks. Volvo also holds standardized futures and forward rate agreements. The majority of these contracts are used to secure interest levels for short-term borrowing or deposits. Carrying amounts, fair values and additional specifications of derivative instruments used to manage currency and interest rate risks related to financial assets and liabilities are shown in the adjoining table.

Cash-flow risks

The exposure for cash-flow risks related to changes in interest rates pertains mainly to the Group's customer financing operations and interest net. According to the Group policy, matching of interest rate terms between lending and funding should exceed 80% in the customer financing operations. At the end of 2003, this matching was 94%. Volvo's interest-bearing assets, apart from the customer financing portfolio, consisted at the end of 2003 mainly of liquid funds that were invested in interest bearing securities with short-term maturities. By use of derivative instruments, the target is to achieve a fixed interest period of six months for the Group's liquid funds. At December 31, 2003, the average interest rate on liquid funds was 3.3%. Volvo's interest bearing liabilities, apart from loans designated to funding of the customer financing portfolio, consisted on the same date mainly of provisions for post-employment benefits and loans. Of such loans outstanding at year-end, US dollar loans amounting to SEK 2.9 billion had an average fixed interest period of 4.2 years. For the remaining amount of loans outstanding, the interest rate terms with consideration of derivative instruments were corresponding to a fixed interest period of six months. The average interest rate at year-end was 4.1%.

If assuming an instantaneous one percentage (100 basis points) increase in interest rates of all currencies from their levels at December 31, 2003, with all other variables held constant, Volvo's income after financial items over a 12-month period would increase by 77. If assuming a corresponding one percentage (100 basis points) decrease in interest rates, Volvo's income after financial items would decrease by the same amount. It should be noted that the assumptions on which this sensitivity analysis is based upon rarely occur in reality. Actual interest rates rarely move instantaneously. Also, the sensitivity analysis assumes a parallel shift of the yield curve and that both assets and liabilities react correspondingly to

Outstanding derivate instruments for hedging of financial currency risks and interest rate risks

	December 31, 2001			December 31, 2002			December 31, 2003		
	Notional amount	Carrying value	Fair value	Notional amount	Carrying value	Fair value	Notional amount	Carrying value	Fair value
Interest-rate swaps									
– receivable position	62,456	3,670	4,549	78,571	2,822	4,404	90,428	3,253	4,662
– payable position	86,328	(3,888)	(4,633)	73,257	(1,568)	(2,536)	93,400	(1,431)	(2,266)
Forwards and futures									
– receivable position	230,323	120	120	260,921	216	216	426,873	183	182
– payable position	250,390	(126)	(126)	255,503	(217)	(220)	437,570	(193)	(198)
Foreign exchange derivative contracts									
– receivable position	6,306	96	100	15,962	211	202	14,639	216	238
– payable position	21,465	(428)	(435)	5,443	(70)	(72)	1,774	(67)	(39)
Options purchased, caps and floors									
– receivable position	–	–	–	–	–	–	291	–	15
– payable position	–	–	–	200	–	(7)	200	–	(5)
Options written, caps and floors									
– receivable position	–	–	–	–	–	–	–	–	–
– payable position	–	–	–	–	–	–	–	–	–
Total		(556)	(425)		1,394	1,987		1,961	2,589

changes in market interest rates. The impact from actual interest rate movements may thus differ from the above analysis.

Price risks

The exposure for price risks as a result of changes in interest rates is attributable to financial assets and liabilities with extended fixed interest rate terms. A comparison between carrying values and fair values of Volvo's all financial assets, liabilities and derivative instruments is presented in the table on page 66.

Market risks attributable to investments in shares or other equity instruments

The Volvo Group is exposed to market risks attributable to investments in shares or other equity instruments because funds that have been transferred to Volvo's pension plans partially are invested in instruments of this nature. Additional information regarding plan assets and obligations of Volvo's pension plans is presented in Note 22. Apart from Volvo's pension plans, investments in shares are only made if motivated by operational purposes. A comparison between carrying values and market values of Volvo's holdings in listed companies is included in Note 13.

Credit risks

Volvo's granting of credits is governed by common policies and rules for classification of customers. The credit portfolio should include a proper distribution among different categories of customers and industries. Credit risks are managed through active monitoring, follow-up routines and in appropriate cases repossession of products. Furthermore, it is continuously monitored that appropriate allowances are made for doubtful receivables.

At December 31, 2003, the credit portfolio within Volvo's customer financing operations amounted to approximately SEK 60 billion. The credit risks within this portfolio are distributed among a large number of individual customers and dealers. Collaterals exist in the form of the products being financed. When granting credits, an effort is made to balance risk exposure and expected yield.

The Volvo Group's financial assets are primarily managed by Volvo Treasury and invested in the money and capital markets. All investments must meet criteria for low credit risk and high liquidity. In accordance with Volvo's credit policy, counterparties for both investments and transactions in derivatives must in general have a received a rating of "A" or better from one of the well established credit-rating agencies.

At the use of derivative instruments a counterparty risk will arise, i.e. the risk that a counterparty will not fulfill its part of a contract and that a potential gain will not be realized. Where appropriate, master netting agreements are signed with the respective counterparties to reduce exposure. The credit risk in futures contracts is limited through daily or monthly cash settlements of the net change in value of open contracts. The estimated gross exposure for counterparty risks related to forward exchange contracts, interest rate swaps and futures, options and commodity forward contracts amounted to 1,687; 4,844; 163 and 19 as of December 31, 2003.

Liquidity risks

Volvo maintains a strong financial position by contiously keeping a certain percentage of sales in liquid assets. A proper balance between short-term and long-term borrowing, as well as the ability to borrow in the form of credit facilities, are designed to ensure long-term financing.

Fair value of Volvo's financial instruments [1]

	December 31, 2001		December 31, 2002		December 31, 2003	
	Carrying value	Fair value	Carrying value	Fair value	Carrying value	Fair value
Assets						
Investments in shares and participations						
fair value determinable [2]	25,245	17,661	25,220	15,537	21,217	18,798
fair value not determinable [3]	586	–	615	–	626	–
Customer-financing receivables	48,784	49,102	46,998	47,508	46,002	46,244
Other loans to external parties and other interest-bearing receivables	7,334	7,897	4,807	4,735	6,483	6,623
Marketable securities	13,514	13,399	16,707	16,659	19,529	19,518
Total	**95,463**	**88,059**	**94,347**	**84,439**	**93,857**	**91,183**
Liabilities						
Long-term bond loans and other loans	44,751	46,731	46,419	48,282	46,674	48,175
Short-term bank loans and other loans	36,817	36,900	26,018	26,083	27,418	27,655
Total	**81,568**	**83,631**	**72,437**	**74,365**	**74,092**	**75,830**
Derivative instruments						
Outstanding derivative contracts for hedging of commercial currency risks	(256)	(1,200)	144	855	53	1,335
Outstanding commodity contracts	–	–	–	159	–	5
Outstanding derivative contracts for hedging of financial currency risks and interest rate risks	(556)	(425)	1,394	1,987	1,961	2,589

1 This table only include a comparison between carrying values and fair values for interest bearing balance sheet items and derivative instruments. For non interest bearing financial instruments, such as accounts receivable and trade payables, the carrying values are considered to be equal to the fair values.

2 Pertains mainly to Volvo's investments in Scania AB, Deutz AG and Henlys Group Plc. For the purpose of these disclosures, fair values of listed shares are based upon quoted market prices at the end of the period.

3 No single investment represents any significant amount.

Note 35 Net income and shareholders' equity in accordance with US GAAP

A summary of the Volvo Group's net income and shareholders' equity determined in accordance with US GAAP, is presented in the accompanying tables.

Application of US GAAP would have the following effect on consolidated net income and shareholders' equity:

Net income	2001	2002	2003
Net income in accordance with Swedish accounting principles	(1,467)	1,393	298
Items increasing (decreasing) reported net income			
Derivative instruments and hedging activities (A)	(298)	1,772	882
Business combinations (B)	((744)	1,094	556
Investments in debt and equity securities (C)	(153)	(9,616)	4,007
Restructuring costs (D)	(579)	–	–
Post-employment benefits (E)	456	669	(651)
Alecta surplus funds (F)	111	410	2
Software development (G)	(212)	(212)	(211)
Product development (H)	(1,962)	(1,236)	(352)
Entrance fees, aircraft engine programs (I)	(324)	(219)	(20)
Other (J)	31	37	0
Income taxes on above US GAAP adjustments (K)	821	(357)	(532)
Net increase (decrease) in net income	(2,853)	(7,658)	3,681
Net income (loss) in accordance with US GAAP	**(4,320)**	**(6,265)**	**3,979**
Net income (loss) per share, SEK in accordance with US GAAP	**(10.20)**	**(14.90)**	**9.50**
Weighted average number of shares outstanding (in thousands)	422,429	419,445	419,445

Shareholders' equity	2001	2002	2003
Shareholders' equity in accordance with Swedish accounting principles	85,185	78,278	72,420
Items increasing (decreasing) reported shareholders' equity			
Derivative instruments and hedging activities (A)	(1,584)	188	1,054
Business combinations (B)	4,125	5,219	5,788
Investments in debt and equity securities (C)	(7,328)	(9,813)	(2,326)
Restructuring costs (D)	–	–	–
Post-employment benefits (E)	272	(20)	1,658
Alecta surplus funds (F)	(412)	(2)	–
Software development (G)	542	330	119
Product development (H)	(1,962)	(3,263)	(3,568)
Entrance fees, aircraft engine programs (I)	(719)	(855)	(874)
Other (J)	17	54	52
Income taxes on above US GAAP adjustments (K)	3,155	1,066	467
Net increase (decrease) in shareholders' equity	(3,894)	(7,096)	2,370
Shareholders' equity in accordance with US GAAP	**81,291**	**71,182**	**74,790**

Significant differences between Swedish and US accounting principles

A. Derivative instruments and hedging activities. Volvo uses forward exchange contracts and currency options to hedge the value of future commercial flows of payments in foreign currency and commodity purchases. Under Swedish GAAP outstanding contracts that are highly certain to be covered by forecasted transactions are not assigned a value in the consolidated financial statements.

Under US GAAP Volvo does not apply hedge accounting for commercial derivatives. Outstanding forward contracts and options are valued at market rates, and unrealised gains or losses that thereby arise are included when calculating income. Unrealized net gains for 2003 pertaining to forwards and options contracts are estimated at 1,287 (870; losses 944).

Volvo uses derivative instruments to hedge the value of the Group's financial position. In accordance with US GAAP, all outstanding derivative instruments are valued at fair value. The unrealised gains or losses that thereby arise are included when calculating income. Only part of the Group's hedges of financial exposure qualifies for hedge accounting under US GAAP and are accounted for as such. In fair value hedges the derivatives are valued at fair value and the hedged items are valued at fair value regarding the risk and period being hedged and included when calculating income. In cash flow hedges only the derivatives are valued at fair value and unrealised gains or losses are included in shareholders equity (other comprehensive income), and affect net income when the hedged transactions occur.

	Net income			Shareholders' equity		
Accounting for derivative instruments and hedging activities	2001	2002	2003	2001	2002	2003
Derivatives Commercial exposure	342	1,814	417	(944)	870	1,287
Derivatives Financial exposure	(685)	43	92	(685)	(642)	315
Derivatives in fair value hedges	808	426	(36)	808	1,234	315
Fair value adjustment hedged items	(765)	(511)	36	(763)	(1,274)	(138)
Transition adjustment	2	–	–	–	–	–
Basis adjustment on derecognised fair value hedges	–	–	373	–	–	(725)
Derivative instruments and hedging activities in accordance with US GAAP	**(298)**	**1,772**	**882**	**(1,584)**	**188**	**1,054**

B. Business combinations. Acquisitions of certain subsidiaries are reported differently in accordance with Volvo's accounting principles and US GAAP. The differences are primarily attributable to reporting and amortization of goodwill.

Effective in 2002, Volvo adopted SFAS 141 "Business Combinations" and SFAS 142 "Goodwill and Other Intangible Assets" in its determination of Net income and Shareholders' equity in accordance with US GAAP. In accordance with the transition rules of SFAS 142, Volvo has identified its reporting units and determined the carrying value and fair value of each reporting unit as of January 1, 2002. No impairment loss has been recognized as a result of the transitional goodwill evaluation. In Volvo's income statement for 2003 prepared in accordance with Swedish GAAP, amortization of goodwill charged to income amounted to 873 (1,094). In accordance with SFAS 142, goodwill and other intangible assets with indefinite useful lives should not be amortized but rather evaluated for impairment annually. Accordingly, the amortization of goodwill reported under Swedish GAAP has been reversed in the determination of Net income and Shareholders' equity under US GAAP. Furthermore, impairment tests have been performed for existing goodwill as of December 31, 2003. No impairment loss has been recognized as a result of these tests.

In 2003, Volvo Construction Equipment acquired assets associated with the L.B. Smith distribution business in the United States. Under Swedish GAAP, this operation is classified as a temporary investment and therefore not consolidated in the Volvo Group. Under US GAAP, the acquired operations have been consolidated and accruals have been made for intercompany profits in the year-end inventory of the L.B. Smith business. Consolidation of the L.B. Smith distribution business under US GAAP affected Volvo's income after financial items negatively with 138. The Group's total assets increased by SEK 1.1 billion.

Goodwill	Net income 2001	Net income 2002	Net income 2003	Shareholders' equity 2001	Shareholders' equity 2002	Shareholders' equity 2003
Goodwill in accordance with Swedish GAAP	(1,058)	(1,094)	(873)	13,013	11,297	11,151
Items affecting reporting of goodwill:						
Acquisition of Renault V.I. and Mack Trucks Inc.	(153)	430	415	2,899	3,329	3,744
Acquisition of Volvo Construction Equipment Corporation	(91)	51	51	1,226	1,277	1,328
Other acquisitions	–	613	407	–	613	841
Net change in accordance with US GAAP	(244) [1]	1,094	873	4,125	5,219	5,913
Goodwill in accordance with US GAAP	**(1,302)**	**0**	**0**	**17,138**	**16,516**	**17,064**

1 Income under US GAAP was in total 744 lower than under Swedish GAAP, including 244 due to higher goodwill amortization and 500 due to other differences in purchase accounting.

In 2003, Volvo exchanged the main part of its shareholding in Bilia AB versus 98% of the shares in Kommersiella Fordon Europa AB (KFAB). In accordance with Swedish GAAP, the acquisition cost of the shares in KFAB was determined to SEK 0.9 billion and the goodwill attributable to this transaction amounted to SEK 0.6 billion. In accordance with US GAAP, the acquisition cost of the shares amounted to SEK 0.7 billion and the goodwill was determined to SEK 0.5 billion. As a consequence, Volvo's capital gain on the divestment of Bilia shares was 179 lower under US GAAP than under Swedish GAAP.

In 2001, AB Volvo acquired 100% of the shares in Renault V.I. and Mack Trucks Inc. from Renault SA in exchange for 15% of the shares in AB Volvo. Under Swedish GAAP, the goodwill attributable to this acquisition was set at SEK 8.4 billion while under US GAAP the corresponding goodwill was set at SEK 11.5 billion. The difference was mainly attributable to determination of the purchase consideration. In accordance with Swedish GAAP, when a subsidiary is acquired through the issue of own shares, the purchase consideration is determined to be based on the market price of the issued shares at the time of the transaction is completed. In accordance with US GAAP, such a purchase consideration is determined to be based on the market price of the underlying shares for a reasonable period before and after the terms of the transaction are agreed and publicly announced. The goodwill may be subject to adjustment pending resolution of the dispute between AB Volvo and Renault SA regarding the final value of acquired assets and liabilities in Renault V.I. and Mack Trucks.

In 1995, AB Volvo acquired the outstanding 50% of the shares in Volvo Construction Equipment Corporation (formerly VME) from Clark Equipment Company, in the US In conjunction with the acquisition, goodwill of SEK 2.8 billion was reported. The shareholding was written down by SEK 1.8 billion, which was estimated to correspond to the portion of the goodwill that was attributable at the time of acquisition to the Volvo trademark. In accordance with US GAAP, the goodwill of SEK 2.8 billion was amortized over its estimated useful life (20 years) until 2002 when Volvo adopted SFAS 142 (see above).

C. Investments in debt and equity securities. In accordance with US GAAP, Volvo applies SFAS 115: "Accounting for Certain Investments in Debt and Equity Securities." SFAS 115 addresses the accounting and reporting for investments in equity securities that have readily determinable fair market values, and for all debt securities. These investments are to be classified as either "held-to-maturity" securities that are reported at amortized cost, "trading" securities that are reported at quoted market prices with unrealized gains or losses included in earnings, or "available-for-sale" securities, reported at quoted market prices, with unrealized gains or losses being credited or debited to Other comprehensive income and thereby included in shareholders' equity.

As of December 31, 2003, unrealized losses after deduction of unrealized gains in "available-for-sale" securities amounted to 2,315 (9,763; 7,211). Sale of "available-for-sale" shares in 2003 provided SEK – (– ; 3,2 billion) and the capital gain, before income tax, on sales of these shares amounted to SEK – (– ; 0,6 billion).

As set out above, all "available-for-sale" securities are valued at quoted market price at the end of each fiscal year with the change in value being credited or debited to Other comprehensive income. However, if a security's quoted market price has been below the carrying value for an extended period of time, US GAAP include a presumption that the decline in value is "other than temporary". Under such circumstances, US GAAP require that the value adjustment must be recorded in Net income with a corresponding credit to Other comprehensive income. Accordingly, value adjustments amounting to 62 (9,683; –), have been charged to Volvo's net income under US GAAP. Value adjustments during 2002 was mainly pertaining to Volvo's investment in Scania AB. After these value adjustments, the remaining value of unrealized gains before tax credited to Other comprehensive income amounted to 3,399 as of December 31, 2003.

In accordance with Swedish accounting principles, write-downs have been made to the extent the fair value of the investments is considered to be lower than the acquisition cost of the investment. During 2003, Volvos investments in Scania AB and Henlys Group Plc was written down by 3,601 and 429 respectively under Swedish GAAP. See further in Note 13.

Summary of debt and equity securities available for sale and trading	Carrying value [1]	Fair value [2]	SFAS 115-adjustment, gross	Income taxes	SFAS 115-adjustment, net
Trading, December 31, 2003	19,083	19,072	(11)	3	(8)
Trading, January 1, 2003	16,130	16,080	(50)	14	(36)
Change 2003			39	(11)	28
Available for sale					
Marketable securities	446	446	–	–	–
Shares and convertible debenture loan	22,963	20,648	(2,315)	(29)	(2,344)
Available for sale					
December 31, 2003	23,409	21,094	(2,315)	(29)	(2,344)
January 1, 2003	27,760	17,997	(9,763)	22	(9,741)
Change 2003 [3]			7,448	(51)	7,397

1 In accordance with Swedish GAAP.
2 For the purpose of these disclosures, fair values have been based upon quoted market prices for listed securities.
3 Of the net SFAS 115 adjustment during 2003, 3,969 has been reported as an increase of net income in accordance with US GAAP and 3,428 has been reported in Other comprehensive income.

The carrying values and fair values for these securities were distributed as follows:

	January 1, 2003		December 31, 2003	
	Carrying value [1]	Fair value [2]	Carrying value [1]	Fair value [2]
Available for sale				
Marketable securities	422	422	446	446
Shares and convertible debenture loan	27,338	17,575	22,963	20,648
Trading	16,130	16,080	19,083	19,072

1 In accordance with Swedish GAAP.
2 For the purpose of these disclosures, fair values have been based upon quoted market prices for listed securities.

D. Restructuring costs. Up to and including 2000, restructuring costs were in the Volvo Group's year-end accounts reported in the year that implementation of these measures was approved by each company's Board of Directors. In accordance with US GAAP, costs were reported for restructuring measures only under the condition that a sufficiently detailed plan for implementation of the measures is prepared at the end of the accounting period. Effective in 2001, Volvo adopted a new Swedish accounting standard, RR 16 Provisions, contingent liabilities and contingent assets, which was substantially equivalent to US GAAP at that time. As from 2003, when SFAS 146 "Accounting for Costs Associated with Exit or Disposal Activities" became effective under US GAAP, there are again differences compared to Swedish GAAP regarding the timing of when restructuring costs should be recognized in the income statement. However, no differences has been identified in relation to business transactions during 2003.

E. Provisions for post-employment benefits. Effective in 2003, provisions for post-employment benefits in Volvo's consolidated financial statements are accounted for in accordance with RR 29 Employee benefits, which conforms in all significant respects with IAS 19 Employee Benefits. See further in Note 1 and 22. In accordance with US GAAP, post-employment benefits should be accounted for in accordance with SFAS 87, "Employers Accounting for Pensions" and SFAS 106, "Employers' Accounting for Post-retirement Benefits Other than Pensions". The differences between Volvo's accounting principles and US GAAP pertain to different transition dates, recognition of past service costs and minimum liability adjustments.

Net periodical costs for post-employment benefits	2001	2002	2003
Net periodical costs in accordance with Swedish accounting principles	3,910	5,087	4,424
Net periodical costs in accordance with US GAAP	3,454	4,418	5,075
Adjustment of this year's income in accordance with US GAAP, before income taxes	**456**	**669**	**(651)**

Net provisions for post-employment benefits	Dec 31, 2001	Dec 31, 2002	Dec 31, 2003
Net provisions for post-employment benefits in accordance with Swedish accounting principles	(13,877)	(15,528)	(15,094)
Difference in actuarial methods	(284)	170	–
Unrecognized actuarial (gains) and losses	1,154	1,350	5,296
Unrecognized transition (assets) and obligations according to SFAS 87, net	(52)	(33)	(29)
Unrecognized past service costs	–	–	659
Minimum liability adjustments	(546)	(1,507)	(4,268)
Net provisions for post-employment benefits in accordance with US GAAP	**(13,605)**	**(15,548)**	**(13,436)**

The projected benefit obligation, accumulated benefit obligation and fair value of plan assets for the pension plans with an accumulated benefit obligation in excess of plan assets were 18,867; 18,340 and 13,475 at December 31, 2003.

F. Alecta surplus funds. In the mid-1990s and later years surpluses arose in the Alecta insurance company (previously SPP) since the return on the management of ITP pension plan assets exceeded the growth in pension obligations. As a result of decisions in December 1998, Alecta distributed, company by company, the surpluses that had arisen up to and including 1998. In accordance with a statement issued by a special committee of the Swedish Financial Accounting Standards Council, surplus funds that were accumulated in Alecta should be reported in companies when their present value can be calculated in a reliable manner. The rules governing how the refund was to be made were established in the spring of 2000 and an income amounting to 683 was included in the Group's income statement under Swedish GAAP during 2000. In accordance with US GAAP, the surplus funds have been recognized in the income statement when settled.

G. Software development. In accordance with US GAAP (SOP 98–1 "Accounting for the Costs of Computer Software Developed or Obtained for Internal Use") expenditures for software development should be capitalized and amortized over the useful lives of the projects. In Volvo's accounting in accordance with US GAAP, SOP 98–1 is applied as of January 1999. In Volvo's accounts prepared under Swedish GAAP up to and including 2000, expenditures for software development were expensed as incurred. Effective in 2001, Volvo adopted a new Swedish accounting standard, RR 15 Intangible assets. With regard to software development, the new standard is substantially equivalent to US GAAP and consequently the difference between Swedish and US GAAP is pertaining only to expenditures for software development during 1999 and 2000.

H. Product development. Effective in 2001, Volvo adopted a new Swedish accounting standard, RR15 Intangible assets. In accordance with the new standard, which conforms in all significant respects to the corresponding standard issued by the International Accounting Standards Committee (IASC), expenditures for development of new and existing products should be recognized as intangible assets if such expenditures with a high degree of certainty will result in future financial benefits for the company. The acquisition value of such intangible assets should be amortized over the useful lives of the assets. In accordance with the new standard, no retroactive application is allowed. Under US GAAP, all expenditures for development of new and existing products should be expensed as incurred.

I. Entrance fees, aircraft engine programs. In connection with its participation in aircraft engine programs, Volvo Aero in certain cases pays an entrance fee. In Volvo's accounting these entrance fees are capitalized and amortized over 5 to 10 years. In accordance with US GAAP, these entrance fees are expensed as incurred.

J. Other. Other include accounting differences regarding interest costs, leasing, stock option plans and guarantees.

In accordance with US GAAP, interest expense incurred in connection with the financing of the construction of property and other qualifying assets is capitalized and amortized over the useful life of the related assets. In Volvo's consolidated accounts, interest expenses are reported in the year in which they arise.

The differences regarding leasing transactions pertain to sale-leaseback transactions prior to 1997.

In accordance with Swedish GAAP, accruals are made for employee stock option programs to the extent that the exercise price of the options is lower than the actual market price of the shares at the end of the period. In accordance with US GAAP, such accruals should be allocated over the vesting period of the employee stock option program.

In accordance with FIN 45 "Guarantor's Accounting and Disclosure Requirement for Guarantees, Including indirect Guarantees of indebtness for Others", a liability should be recognized at the time a company issues a guarantee for the fair value of the obligations assumed under certain guarantee agreements. In accordance with Swedish accounting principles, a liability should be recognized to the extent a company expects that a loss will be incurred as result of the guarantee commitment. At December 31, 2003, the gross value of credit guarantees issued for external parties amounted to 3,879. The fair value of these guarantees recognized under US GAAP amounted to 244. Counterguarantees received in respect of these commitments amounted to 167.

K. Income taxes on US GAAP adjustments. Deferred taxes are generally reported for temporary differences arising from differences between US GAAP and Swedish accounting principles. During 2002, a new tax legislation was enacted in Sweden which removed the possibility to offset capital losses on investments in shares held for operating purposes against income from operations. As a result of the new legislation, a tax expense of 2,123 was charged to Volvo's net income under US GAAP to reduce the carrying value of deferred tax assets relating to investments in shares classified as "available-for-sale".

Comprehensive income (loss)	2001	2002	2003
Net income (loss) in accordance with US GAAP	(4,320)	(6,265)	3,979
Other comprehensive income (loss), net of income taxes			
Translation differences	1,015	(2,222)	(606)
Unrealized gains and (losses) on securities (SFAS 115):			
Unrealized gains (losses) arising during the year	(1,532)	(2,425)	3,366
Less: Reclassification adjustment for (gains) and losses included in net income	733	7,558	62
Additional minimum liability for pension obligations (SFAS 87)	(1,622)	(3,234)	186
Fair value of cash-flow hedges (SFAS 133)	–	–	(11)
Other	41	(165)	(12)
Other comprehensive income (loss), subtotal	(1,365)	(488)	2,985
Comprehensive income (loss) in accordance with US GAAP	**(5,685)**	**(6,753)**	**6,964**

Supplementary US GAAP information

Classification. In accordance with SFAS 95, "cash and cash equivalents" comprise only funds with a maturity of three months or less from the date of purchase. Some of Volvo's liquid funds (see Notes 19 and 20) do not meet this requirement. Consequently, in accordance with SFAS 95, changes in this portion of liquid funds should be reported as investing activities.

Income from investments in associated companies is reported before income taxes in accordance with Swedish accounting principles, and after income taxes in accordance with US GAAP. Income taxes attributable to associated companies amounted 30 (65; 42).

Parent Company

Corporate registration number 556012-5790.

Board of Directors' report

In 2003, the truck and construction equipment operations of Bilia were acquired through the exchange of Volvo's 41% holding in Bilia for 98% of the shares in the acquired operations, Kommersiella Fordon Europa AB.

Income from investments in Group companies includes dividends in the amount of 4,368 (770; 24,814), write-down of shares of 1,579 (531; 12,217) and transfer pricing adjustments and group contributions delivered totaling 406 (3,835; 3,450). Income from other shares and participations includes a write-down of shares in Scania AB and Henlys Group Plc amounting to 3,901 and 429 respectively as well as a dividend from Scania AB of 501 (319; 637).

The carrying value of shares and participations in Group companies amounted to 41,329 (38,950; 38,140), of which 40,060 (38,537; 37,725) pertained to shares in wholly owned subsidiaries. The corresponding shareholders' equity in the subsidiaries (including equity in untaxed reserves but excluding minority interests) amounted to 51,395 (49,657; 39,752).

Shares and participations in non-Group companies included 1 (628; 659) in associated companies that are reported in accordance with the equity method in the consolidated accounts. The portion of shareholders' equity in associated companies accruing to AB Volvo totaled 98 (861; 844). Shares and participations in non-Group companies included listed shares in Deutz AG, Henlys Group Plc and Bilia AB with a carrying value of 790. The market value of these holdings amounted to 339 at year-end. Based upon information published by Henlys Group in February and March 2004, it was determined that Volvo's holding in Henlys Group Plc was permanently impaired at December 31, 2003. A write-down of 429 was charged to income for the year, after which the carrying value of Volvo's shares in Henlys Group Plc amounted to 95, corresponding to the market value of these shares at year-end 2003. No write-down has been made of the holding in Deutz since the fair value of the investment is considered to be higher than the quoted market price of this investment.

At year-end 2003, shares in Scania AB with a carrying value of 20,424 was accounted for among current assets, and a write-down of 3,901 was charged to income. The carrying value of the holding of Scania B shares was determined based upon the consideration received when Volvo divested those shares to Deutsche Bank on March 4, 2004. The carrying value of the holding of Scania A shares was determined based upon the closing share price of SEK 202 on December 31, 2003. In March, 2004, AB Volvo's Board of Directors proposed that the Annual General Meeting approve a dividend to AB Volvo's shareholders of 99% of the shares in Ainax AB, a wholly owned subsidiary, which at the time of the distribution would hold Volvo's entire holding of Scania A shares. Further information regarding the holding in Scania is provided in Note 10.

Financial net debt amounted to 3,606 (assets 3,281; assets 12,207).

AB Volvo's risk capital (shareholders' equity plus untaxed reserves) amounted to 62,296 corresponding to 89% of total assets. The comparable figure at year-end 2002 was 85%.

Income statements

SEK M		2001	2002	**2003**
Net sales		500	441	**458**
Cost of sales		(500)	(441)	**(458)**
Gross income		–	–	**–**
Administrative expenses	Note 1	(424)	(560)	**(498)**
Other operating income and expenses		0	16	**52**
Income from investments in Group companies	Note 2	9,599	(3,599)	**1,812**
Income from investments in associated companies	Note 3	22	54	**283**
Income from other investments	Note 4	1,258	326	**(3,822)**
Operating income (loss)		10,455	(3,763)	**(2,173)**
Interest income and similar credits	Note 5	455	503	**139**
Interest expenses and similar charges	Note 5	(467)	(261)	**(196)**
Other financial income and expenses	Note 6	(163)	(34)	**(117)**
Income (loss) after financial items		10,280	(3,555)	**(2,347)**
Allocations	Note 7	2	–	**0**
Income taxes	Note 8	832	1,070	**158**
Net income (loss)		11,114	(2,485)	**(2,189)**

Balance sheets

SEK M			Dec 31, 2001		Dec 31, 2002		Dec 31, 2003
Assets							
Non-current assets							
Rights	Note 9		0		0		**0**
Property, plant and equipment	Note 9		35		31		**23**
Financial assets							
Shares and participations in Group companies	Note 10	38,140		38,950		**41,329**	
Other shares and participations	Note 10	26,224		26,168		**813**	
Other long-term receivables	Note 11	1,282	65,646	2,362	67,480	**2,520**	**44,662**
Total non-current assets			65,681		67,511		**44,685**
Current assets							
Short-term receivables from Group companies			6,072		2,543		**3,729**
Other short-term receivables	Note 12		524		250		**85**
Shares in Scania AB	Note 10		–		–		**20,424**
Short-term investments in Group companies	Note 13		17,873		9,045		**924**
Cash and bank accounts			7		0		**0**
Total current assets			24,476		11,838		**25,162**
Total assets			90,157		79,349		**69,847**
Shareholders' equity and liabilities							
Shareholders' equity							
Restricted equity							
Share capital (441,520,885 shares, par value SEK 6)		2,649		2,649		**2,649**	
Legal reserve		7,241	9,890	7,241	9,890	**7,241**	**9,890**
Unrestricted equity							
Unrestricted reserves		51,150		58,908		**53,067**	
Net income (loss)		11,114	62,264	(2,485)	56,423	**(2,189)**	**50,878**
Total shareholders' equity			72,154		66,313		**60,768**
Untaxed reserves	Note 14		1,528		1,528		**1,528**
Provisions							
Provisions for pensions	Note 15	342		425		**437**	
Other provisions	Note 16	37	379	41	466	**29**	**466**
Non-current liabilities	Note 17						
Liabilities to Group companies			4,455		4,330		**3,252**
Current liabilities							
Loans from Group companies		1,800		1,081		**1,054**	
Trade payables		46		36		**42**	
Other liabilities to Group companies		9,616		5,312		**2,518**	
Other current liabilities	Note 18	179	11,641	283	6,712	**219**	**3,833**
Total shareholders' equity and liabilities			90,157		79,349		**69,847**
Assets pledged			–		–		**–**
Contingent liabilities	Note 19		150,295		133,330		**128,411**

Changes in Shareholders' equity

	Restricted equity			
	Share capital	Legal reserves	Unrestricted equity	Total shareholders' equity
Balance at December 31, 2000	**2,649**	**7,241**	**52,486**	**62,376**
Cash dividend	–	–	(3,356)	(3,356)
Repurchase of own shares	–	–	(8,336)	(8,336)
Issue of shares to Renault SA	–	–	10,356	10,356
Net income 2001	–	–	11,114	11,114
Balance at December 31, 2001	**2,649**	**7,241**	**62,264**	**72,154**
Cash dividend	–	–	(3,356)	(3,356)
Net income 2002	–	–	(2,485)	(2,485)
Balance at December 31, 2002	**2,649**	**7,241**	**56,423**	**66,313**
Cash dividend	–	–	(3,356)	(3,356)
Net income 2003	–	–	(2,189)	(2,189)
Balance at December 31, 2003	**2,649**	**7,241**	**50,878**	**60,768**

The distribution of share capital by class of shares is shown in Note 21 to the consolidated financial statements.

Cash-flow statements

SEK M		2001	2002	**2003**
Operating activities				
Operating income		10,455	(3,763)	**(2,173)**
Depreciation and amortization		17	2	**1**
Other items not affecting cash	Note 20	16,309	(815)	**288**
Changes in working capital:				
Increase (–)/decrease (+) in receivables		(219)	50	**18**
Increase (+)/decrease (–) in liabilities and provisions		65	(36)	**(29)**
Interest and similar items received		662	504	**131**
Interest and similar items paid		(410)	(263)	**(175)**
Other financial items		(206)	(8)	**(124)**
Income taxes paid		(530)	210	**(6)**
Cash flow from operating activities		26,143	(4,119)	**(2,069)**
Investing activities				
Investments in fixed assets		(9)	(1)	**0**
Disposals of fixed assets		0	3	**7**
Shares and participations in Group companies, net	Note 20	15,849	(1,544)	**(1,033)**
Shares and participations in non-Group companies, net	Note 20	3,181	66	**(1)**
Cash flow after net investments		45,164	(5,595)	**(3,096)**
Financing activities				
Increase (+)/ decrease (–) in loans	Note 20	(15,659)	(775)	**(1,078)**
Loans granted, net	Note 20	60	891	**(591)**
Dividend to AB Volvo shareholders		(3,356)	(3,356)	**(3,356)**
Repurchase of own shares		(8,336)	–	**–**
Change in liquid funds		17,873	(8,835)	**(8,121)**
Liquid funds at January 1		7	17,880	**9,045**
Liquid funds at December 31		17,880	9,045	**924**

Liquid funds

Liquid funds include cash and bank balances and deposits at Volvo Treasury.

General information

Amounts in SEK M unless otherwise specified. The amounts within parentheses refer to the two preceding years; the first figure is for 2002 and the second for 2001.

The accounting principles applied by Volvo are described in Note 1 to the consolidated financial statements. Reporting of Group contributions is in accordance with a statement issued by a special committee of the Swedish Financial Accounting Standards Council. Group contributions are reported among Income from investments in Group companies.

As of 2003, the Volvo Group has adopted "RR 29 Employee Benefits" in its financial reporting. The parent company is still applying the principles of FAR's Recommendation No. 4 "Accounting of pensions liabilities and pension costs" as in previous years. Consequently there are differences between the Volvo Group and the Parent Company in the accounting for defined-benefit pension plans as well as in valuation of plan assets invested in the Volvo Pension Foundation.

Effective in 2002, all Income from investments are included as a part of the operating income rather than as earlier among financial items. The previous year has been restated to conform to the changed classification.

Intra-Group transactions

Of the Parent Company's sales, 372 (320; 353) were to Group companies and purchases from Group companies amounted to 173 (191; 188).

Fees to auditors

Fees and other remunerations paid to external auditors for the fiscal year 2003 totaled 25 (23; 51), of which 5 (2; 3) for auditing, distributed between PricewaterhouseCoopers, 5 (2; 3) and others, 0 (0; 0), and 20 (21; 48) related to non-audit services from PricewaterhouseCoopers.

Note 1 Administrative expenses

Administrative expenses include depreciation of 1 (2; 17) of which 1 (2; 3) pertain to machinery and equipment, 0 (0; 1) to buildings and – (–; 13) to rights in the Volvo Ocean Race.

Note 2 Income from investments in Group companies

Of the income reported, 4,368 (770; 24,814) pertained to dividends from Group companies. Transfer pricing adjustments and Group contributions delivered totaled a net of 406 (3,835; 3,450). Divestments of shares resulted in capital gain of 60 (loss 3, gains 452). Write-downs of shareholdings amounted to 1,579 (531; 12,217) and write-down of a long-term receivable amounted to 631.

In 2001 Herkules VmbH, a subsidiary and the holder of shares in Mitsubishi Motors Company, was sold to DaimlerChrysler, thus resulting in a capital gain of 172 in AB Volvo.

Note 3 Income from investments in associated companies

Dividends from associated companies that are reported in the Group accounts in accordance with the equity method amounted to 47 (44; 42). The participation in Blue Chip Jet HB amounted to a loss of 14 (25; 20). The exchange of shares in Bilia AB for shares in Kommersiella Fordon Europa AB, resulted in a capital gain of 250. Income in 2002 included a capital gain of 35 pertaining to sale of shares in Eddo Restauranger AB.

Note 4 Income from other investments

Of the income reported, 508 (326; 663) pertained to dividends from other companies. The dividend from Scania AB was 501 (319; 637) and from Henlys Group Plc 7 (7; 26). Write-downs of shareholdings amounted to 4,330 (–; –), whereof Scania AB, 3,901 and Henlys Group Plc, 429. In 2001 transfer of shares together with rights and obligations relating to Mitsubishi Motors Corporation to a subsidiary, Herkules VmbH, resulted in a capital gain of 595.

Note 5 Interest income and expenses

Interest income and similar credits amounting to 139 (503; 455) included interest in the amount of 139 (503; 420) from subsidiaries and interest expenses and similar charges totaling 196 (261; 467), included interest of 155 (221; 451) to subsidiaries.

Note 6 Other financial income and expenses

Other financial income and expenses include exchange rate differences on loans, guarantee commissions from subsidiaries, unrealized gains (losses) pertaining to a hedge for a program of employee stock options, costs for confirmed credit facilities as well as costs of having Volvo shares registered on various stock exchanges. In 2001 additional financial expenses attributable to a tax audit previously carried out are included.

Note 7 Allocations

	2001	2002	2003
Allocation to additional depreciation	(1)	–	0
Utilization of replacement reserve	3	–	–
Total	**2**	**–**	**0**

Note 8 Income taxes

	2001	2002	2003
Current taxes	(280)	(51)	–
Deferred taxes	1,112	1,121	158
Total income taxes	**832**	**1,070**	**158**

Current taxes were distributed as follows:

Current taxes	2001	2002	2003
Current taxes for the period	–	–	–
Adjustment of current taxes for prior periods	(280)	(51)	–
Total income taxes	**(280)**	**(51)**	**–**

Deferred taxes relate to estimated tax on the change in tax-loss carryforwards and temporary differences. Deferred tax assets are reported to the extent that it is probable that the amount can be utilized against future taxable income.

Deferred taxes related to change in tax-loss carryforwards amount to 148 (1,111; 1,110) and to changes in other temporary differences to 10 (10; 2). No income taxes have been debited or credited directly to equity.

The table below shows the principal reasons for the difference between the corporate income tax (28%) and the tax for the period.

	2001	2002	2003
Income after financial items	10,282	(3,555)	(2,347)
Income tax according to applicable tax rate (28%)	**(2,879)**	**995**	**657**
Capital gains	81	1	87
Non-taxable dividends	7,353	350	1,362
Recognition of deferred tax assets	–	(70)	–
Non-deductible write-downs of shareholdings	(3,421)	(150)	(1,831)
Other non-deductible expenses	(39)	(11)	(120)
Other non-taxable income	17	6	3
Adjustment of current taxes for prior periods	(280)	(51)	–
Total income taxes	**832**	**1,070**	**158**

Specification of deferred tax assets	2001	2002	2003
Tax-loss carryforwards	1,110	2,221	2,369
Valuation allowance for doubtful receivables	1	1	2
Provision for post-employment benefits	117	125	137
Other deductible temporary differences	2	4	1
Deferred tax assets	**1,230**	**2,351**	**2,509**

Note 9 Intangible and tangible assets

Acquisition cost	Value in balance sheet 2001	Value in balance sheet 2002	Capital expenditures	Sales/ scrapping	Reclassi-fications	Value in balance sheet 2003
Rights	52	52	–	–	–	52
Total intangible assets	**52**	**52**	**–**	**–**	**–**	**52**
Buildings	17	15	0	(5)	1	11
Land and land improvements	8	7	–	(2)	–	5
Machinery and equipment	47	47	0	0	0	47
Construction in progress	1	1	–	–	(1)	–
Total tangible assets	**73**	**70**	**0**	**(7)**	**0**	**63**

Accumulated depreciation	Value in balance sheet 2001 [2]	Value in balance sheet 2002 [2]	Depreciation [1]	Sales/ scrapping	Value in balance sheet 2003 [2]	Net carrying value in balance sheet 2003 [3]
Rights	52	52	–	–	52	0
Total intangible assets	**52**	**52**	**–**	**–**	**52**	**0**
Buildings	2	1	0	0	1	10
Land and land improvements	–	–	0	–	–	5
Machinery and equipment	36	38	1	–	39	8
Construction in progress	–	–	–	–	–	–
Total tangible assets	**38**	**39**	**1**	**0**	**40**	**23**

The assessed value of buildings was 7 (7; 8) and of land 3 (4; 4). Capital expenditures in tangible assets amounted to 0 (1; 10). Capital expenditures approved but not yet implemented at year-end 2003 amounted to 1 (2; 1).

1 Including write-downs.
2 Including accumulated write-downs.
3 Acquisition value, less depreciation.

Note 10 Investments in shares and participations

Holdings of shares and participations are specified in AB Volvo's holding of shares pages 81–83. Changes in holdings of shares and participations are shown below.

	Group companies			Non-Group companies		
	2001	2002	2003	2001	2002	2003
Balance December 31, previous year	39,729	38,140	38,950	28,587	26,224	26,168
Acquisitions/New issue of shares	15,581	1,055	2,796	1	(25)	0
Divestments	(22,388)	(3)	(1,998)	(2,344)	(6)	(587)
Shareholder contributions	17,435	289	3,160	–	–	–
Write-downs	(12,217)	(531)	(1,579)	(20)	(25)	(4,344)
Reclassification, Scania AB	–	–	–	–	–	(20,424)
Balance, December 31	**38,140**	**38,950**	**41,329**	**26,224**	**26,168**	**813**

Shares and participations in Group companies

In 2003 acquisition of the truck and construction equipment operations of Bilia was completed through the exchange of Volvo's 41% holding in Bilia for 98% of the shares in the acquired operations, Kommersiella Fordon Europa AB. The acquisition cost of the shares in Kommersiella Fordon Europa AB is 855.

Total shares in Volvo do Brasil Veiculos Ltda and Comercio é Participacao Volvo Ltda, with a total value of 1,941 were received as dividend from Volvo Global Trucks AB. The shares were then given to Volvo Holding Sverige AB as a shareholder contribution.

Shareholder contributions were also made to Volvo Financial Services AB, 400, Volvo China Investment Pty Ltd, 347, Volvo Powertrain AB, 182, Volvo Holding Mexico, 110, Volvo Technology Transfer AB, 75, Volvo Business Services AB, 85 and Celero Support AB, 20.

Volvo Bus de Mexico with a book value of 50, was liquidated.

Write-downs were carried out during the year on holdings in Volvo Bussar AB, 1,054, Sotrof AB, 500 and Celero Support AB, 20.

2002: An investment of 1,054 was made in newly issued preference shares in VNA Holding Inc.

A shareholder contribution was made to Volvo China Investment Co Ltd of 107, whereupon the shareholdings were written down by the corresponding amount. Shareholder contributions were also made to Volvo Holding Mexico, 89, Volvo Technology Transfer AB, 50, Volvo Bussar AB, 28 and to Celero Support AB, 15.

Write-downs was carried out at the end of the year on holding in Sotrof AB, 400.

2001: All shares in Renault V.I. that were acquired from Renault SA, were paid for with Volvo shares held by AB Volvo and were booked to an amount of 10,700. The shares were then sold group internal to Volvo Holding France SA.

The shares in Mack Trucks Inc were acquired from Renault V.I. for 3,225 and newly issued shares were subscribed for in the amount of 1,490. At the end of the year the holdings were written down by 1,490.

A shareholder contribution of 8,678 was made to the newly formed company Volvo Global Trucks AB, who then aquired the shares in Volvo Lastvagnar AB for the corresponding amount.

The shares in Volvo Powertrain AB and Volvo Parts AB were acquired from Volvo Lastvagnar AB.

The shares in Mitsubishi Motors Corporation together with all rights and obligations relating to the company, were given a total value of 3,010 and were used as a shareholder contribution to a newly established German subsidiary; Herkules VmbH. The company was then divested to DaimlerChrysler.

Shareholder contributions were made to Volvo Holding Sverige AB, 4,900, Volvo Aero AB, 299, Volvo Parts AB, 200, Volvo Holding Mexico, 159 and Volvo Technology Transfer AB, 100.

Write-downs were carried out on holdings in Sotrof AB, 6,966 and VFHS Finans, 3,460.

Shares and participations in non-Group companies

During 1999 and 2000, AB Volvo acquired 45.5% of the capital and 30.6% of the voting rights in Scania AB, one of the world's leading manufacturers of trucks and buses. As a concession in connection with the European Commission's approval of AB Volvo's acquisition of Renault V.I. and Mack Trucks Inc. in 2001, AB Volvo undertook to divest its holding in Scania not later than April, 2004. At year-end 2003, the carrying value of AB Volvo's holding in Scania AB was determined to 20,424, and a write-down of 3,901 was thereby charged to operating income for the year. The carrying value of the holding of the 63.8 million Scania B shares was determined based upon the consideration received when AB Volvo divested those shares to Deutsche Bank on March 4, 2004. The carrying value of the holding of 27.3 million Scania A shares was determined based upon the closing share price of SEK 202 on December 31, 2003. In March, 2004, AB Volvo's Board of Directors proposed that the Annual General Meeting approve a dividend to AB Volvo's shareholders of 99% of the shares in Ainax AB, a wholly owned subsidiary, which at the time of the distribution would hold AB Volvo's entire holding of Scania A shares.

During 1998 and 1999, AB Volvo acquired 9.9% of the capital and voting rights in Henlys Group Plc at a total acquisition cost of 524. Henlys Group is a British company involved in manufacturing and distribution of buses and bus bodies in Great Britain and North America. AB Volvo and Henlys Group jointly own the shares of the North American bus operations Prévost and Nova Bus. In February and March 2004, Henlys announced that its earnings for 2004 was expected to be significantly lower than previously anticipated. As a consequence of receiving this information, it was determined that AB Volvo's holding in Henlys Group Plc was permanently impaired at December 31, 2003, and a write-down of 429 was charged to income for the year. After this write-down, the carrying value of AB Volvo's shares in Henlys Group amounted to 95, corresponding to the market value of these shares at year-end 2003. In the beginning of March 2004, the market value of AB Volvo's shares amounted to 24.

The participations in Blue Chip Jet were written down by 14, corresponding to the share of the year's income. In 2003, Volvo exchanged 41% of the shares in Bilia AB for 98% of the shares in Kommersiella Fordon Europa AB. The capital gain was 250.

2002: The acquisition costs for Scania shares, acquired in prior years, decreased by 25.

The participations in Blue Chip Jet HB were written down by 25, corresponding to the share of the year's income.

The remaining shares in Eddo Restauranger AB were divested to Amica AB.

2001: Total shares in Mitsubishi Motors Corporation, with a book value of 2,344, were transferred to a wholly-owned German subsidiary, which was then divested to DaimlerChrysler.

Note 11 Other long-term receivables

	2001	2002	2003
Deferred tax assets	1,230	2,351	2,509
Other receivables	52	11	11
Total	**1,282**	**2,362**	**2,520**

Note 12 Other short-term receivables

	2001	2002	2003
Income tax receivables	258	–	–
Accounts receivable	27	45	16
Prepaid expenses and accrued income	52	48	48
Other receivables	187	157	21
Total	**524**	**250**	**85**

The valuation allowance for doubtful receivables amounted to 7 (5; 5) at the end of the year.

Note 13 Short-term investments in Group companies

Short-term investments in Group companies comprise deposits of 924 (9,045; 17,873) in Volvo Treasury.

Note 14 Untaxed reserves

The composition of, and changes in, untaxed reserves:	Value in balance sheet 2001	Allocations 2002	Value in balance sheet 2002	Allocations 2003	Value in balance sheet 2003
Tax allocation reserve	1,525	–	1,525	–	1,525
Accumulated additional depreciation					
Land	3	–	3	–	3
Total	**1,528**	**–**	**1,528**	**–**	**1,528**

Note 15 Provisions for pensions

Provisions for pensions and similar benefits correspond to the actuarially calculated value of obligations not insured with third parties or secured through transfers of funds to pension foundations. The amount of pensions falling due within one year is included. AB Volvo has insured the pension obligations with third parties. Of the amount reported, 42 (60; 10) pertains to contractual obligations within the framework of the PRI (Pension Registration Institute) system.

In 1996, two Groupwide pension foundations for employees were formed to secure commitments in accordance with the ITP plan. The Volvo 1995 Pension Foundation pertained to pension funds earned through 1995 and the Volvo 1996 Pension Foundation pertained to funds earned beginning in 1996. During 2000 these two foundations merged into one foundation. No pension funds have been transferred from AB Volvo to the Volvo Pension Foundation and no withdrawals have been made.

AB Volvo's pension costs in 2003 amounted to 85 (168; 93).

The accumulated benefit obligation of all AB Volvo's pension obligations at year-end 2003 amounted to 804, which has been secured in part through provisions for pensions and in part through funds in pension foundations. Net asset value in the Pension Foundation, marked to market, accruing to AB Volvo was 42 lower than corresponding pension obligations. A provision was recorded to cover this deficit.

Note 16 Other provisions

Other provisions comprise provisions for taxes in the amount of 21 (21; 24).

Note 17 Non-current liabilities

Long-term debt matures as follows:	
2005	3,180
2006	–
2007 or later	72
Total	**3,252**

Long-term liabilities to Group companies include loans of 3,180 (3,204; 3,329) from Renault V.I.

Note 18 Other current liabilities

	2001	2002	2003
Income tax liabilities	–	6	–
Wages, salaries and withholding taxes	30	38	39
Other liabilities	50	93	110
Accrued expenses and prepaid income	99	146	70
Total	**179**	**283**	**219**

No collateral is provided for current liabilities.

Note 19 Contingent liabilities

Of the contingent liabilities amounting to 128,411 (133,330; 150,295), 128,399 (133,298; 149,829) pertained to Group companies.

Guarantees for various credit programs are included in amounts corresponding to the credit limits. These guarantees amount to 123,503 (129,471; 147,246), of which guarantees on behalf of Group companies totaled 123,498 (129,446; 146,786). At the end of each year, the utilized portion amounted to 67,603 (69,672; 72,804) including 67,591 (69,640; 72,793) pertaining to Group companies.

Note 20 Cash flow

	2001	2002	2003
Other items not affecting cash			
Write-downs of shareholdings and long-term receivables	12,237	557	6,555
Dividends, transfer pricing adjustments and Group contributions	5,119	(1,408)	(6,017)
Gain on sale of shares	(1,047)	(32)	(310)
Other	0	68	60
Total	**16,309**	**(815)**	**288**

Further information is provided in Notes 2, 3 and 4.

Shares and participations in Group companies, net			
Investments	(7,671)	(1,616)	(1,151)
Disposals	23,520	72	118
Net investments in shares and participations in Group companies	**15,849**	**(1,544)**	**(1,033)**

Renault V.I. was transferred Group-internal 2001 for 10,700.

Proceeds received from the sale of Volvo Personvagnar Holding AB resulted in a positive cash flow of – (–; 12,539).

Other investments and sales of shares in Group companies are shown in Note 10.

Shares and participations in non-Group companies, net			
Investments	(1)	25	(1)
Disposals	3,182	41	–
Net investments in shares and participations in non-Group companies	**3,181**	**66**	**(1)**

During 2001 Mitsubishi Motors Corporation was sold for 3,182. Other investments and sales of shares in non-Group companies are presented in Note 10.

Increase/decrease in loans			
New loans	104	1,054	–
Amortization	(15,763)	(1,829)	(1,078)
Change in loans, net	**(15,659)**	**(775)**	**(1,078)**

Loans granted, net			
New loans granted	(40)	–	(631)
Amortization received	100	891	40
Change in loans granted, net	**60**	**891**	**(591)**

Note 21 Financial risks and instruments

Volvo's accounting policies for financial instruments are described in Note 1 and Note 34 to the consolidated financial statements. Hedging transactions in AB Volvo are carried out through Volvo Treasury AB. In 2003, the Parent Company has used interest-rate swaps to hedge financial liablities of Group companies. Maturities of these swaps are between 2006 and 2009. Volvo has forward exchange contracts for hedging of a long-term liability to Renault V.I. (See Note 17). These contracts are renewed every sixth month.

Outstanding derivative instruments for hedging of financial currency risks

	Dec 31 2003		
	Notional amount	Carrying value	Fair value
Interest-rate swaps			
– payable position	2.874	(14)	(50)
Foreign exchange contracts			
– receivable position	3.190	11	13

Note 22 Personnel

Wages, salaries and other remunerations amounted to 115 (117; 95). Social costs amounted to 110 (193; 112) of which pension costs, 85 (168; 93). Of these 59 (47; 22) pertained to Board members and Presidents. The Company's outstanding pension obligations to these individuals amounted to 366 (335; 319).

The number of employees at year-end was 132 (124; 122). Information on the average number of employees, wages, salaries and other remunerations including option programs as well as Board members and senior executives by gender is shown in Note 32 to the consolidated financial statements.

Absence due to illness	July 1–Dec 31, 2003
Total absence due to illness as percentage of regular working hours	2.6%
of which, continuous sick leave for 60 days or more	46.8%
Absence due to illness (as percentage of regular working hours) by gender:	
Men	1.4%
Women	3.7%
Absence due to illness (as percentage of regular working hours) distributed by age group:	
29 years or younger	0.5%
30–49 years	2.2%
50 years or older	3.4%

AB Volvo's holding of shares

AB Volvo's holding of shares and participations in non-Group companies	Registration number	Percentage holding	Dec 31, 2002 Carrying value, SEK M	Dec 31, 2003 Carrying value, SEK M
Scania AB, Sweden [2]	556184-8564	46/31	24,325	20,424
Deutz AG, Germany [2]	–	11	670	670
Bilia AB, Sweden [2]	556112-5690	2	612	25
Henlys Group Plc, Great Britain [2]	–	10	524	95
Blue Chip Jet HB, Sweden	969639-1011	40	16	1
Other investments			21	22
Total carrying value, non-Group companies			**26,168**	**21,237**

1 Where two percentage figures are shown, the first refers to share capital and the second to voting rights.
2 The market value of the holdings is shown in Note 13 to the consolidated financial statements.

AB Volvo's holding of shares and participations in Group companies	Registration number	Percentage holding	Dec 31, 2002 Carrying value, SEK M	Dec 31, 2003 Carrying value, SEK M
Volvo Global Trucks AB, Sweden	556605-6759	100	8,420	8,420
Volvo Lastvagnar AB, Sweden	556013-9700	100	–	–
Volvo Lastvagnar Sverige AB, Sweden	556411-6878	100	–	–
Volvo Finland AB, Finland	–	100	–	–
Volvo Trucks (Deutschland) GmbH, Germany	–	100	–	–
Volvo Europa Truck NV, Belgium	–	100	–	–
Volvo Trucks (Schweiz) AG, Switzerland	–	100	–	–
Volvo Truck Espana, SA, Spain	–	100	–	–
Volvo Truck and Bus Limited, Great Britain [1]	–	100	–	–
Volvo Polska SP.O.O, Poland	–	100	–	–
Volvo Truck Latvia Sia, Latvia	–	100	–	–
Volvo Truck Czech S R O, Czech Republic	–	100	–	–
Volvo Truck Slovak, Slovakia	–	100	–	–
Volvo Ukraine LLC, Ukraine	–	100	–	–
Volvo do o Beograd, Yugoslavia	–	100	–	–
Volvo Macedonia, Ltd, Macedonia	–	100	–	–
Volvo Romania SRL, Romania	–	100	–	–
Volvo Bulgaria EOOD, Bulgaria	–	100	–	–
Volvo Otomotiv Turk Ltd STI, Turkey	–	100	–	–
Volvo Trucks Canada Inc, Canada	–	100	–	–
Volvo Trucks de Mexico, Mexico	–	100	–	–
Volvo Peru Sociedad Anonima, Peru	–	100	–	–
Volvo East Asia (Pte) Ltd., Singapore	–	100	–	–
Volvo Truck Korea Ltd., South Korea	–	100	–	–
Volvo Truck Australia Pty Ltd., Australia	–	100	–	–
Volvo India Ltd., India	–	100	–	–
Renault V I, France	–		–	–
France Vehicules Industriels, France	–	100	–	–
Renault Trucks UK Ltd, Great Britain	–	100	–	–
Renault Trucks Nederland BV, The Netherlands	–	100	–	–
Renault VI Belgique, Belgium	–	100	–	–
Renault Trucks Deutschland GmbH, Germany	–	100	–	–
Renault Lastbiler Danmark A/S, Denmark	–	100	–	–
Renault Vehicules Industriels Suisse, Switzerland	–	100	–	–

AB Volvo's holding of shares and participations in Group companies (cont.)	Registration number	Percentage holding	Dec 31, 2002 Carrying value, SEK M	Dec 31, 2003 Carrying value, SEK M
Renault V I España SA, Spain	–	100	–	–
Renault Trucks, España, Spain	–	100	–	–
Renault Trucks Italia Spa, Italy	–	100	–	–
Renault Trucks Osterreich GmbH, Austria	–	100	–	–
Renault Trucks Polska SP Z.OO, Poland	–	100	–	–
Renault Trucks Hungaria KFT, Hungaria	–	100	–	–
Renault Trucks CR, SRO, Czech Republic	–	100	–	–
Renault Trucks Argentina, Argentina	–	100	–	–
SARL Renault Trucks Algerie, Algeria	–	100	–	–
Mack Trucks Inc, USA	–	100	3,225	3,225
Mack Canada, Canada	–	100	–	–
Mack Leasing System, Inc., USA	–	100	–	–
Mack de Venezuela, C.A., Venezuela	–	100	–	–
Mack Vehiculos Industriales, C.A., Venezuela	–	100	–	–
Mack Vehucolos Industriales de Mexico SA de CV, Mexico	–	100	–	–
Mack Trucks Australia Pty Ltd., Australia	–	100	–	–
Volvo Bussar AB, Sweden	556197-3826	100	2,912	1,859
Säffle Karosseri AB, Sweden	556058-3485	100	–	–
Acrivia AB, Sweden	556540-1691	100	–	–
Carrus Oy, Finland	–	100	–	–
Volvo Busse Deutschland GmbH, Germany	–	100	–	–
Prévost Holding BV, Canada [2]	–	50	–	–
Shanghai Sunwin Bus Co, China [2]	–	50	–	–
XIAN Silver Bus Co, China [2]	–	50	–	–
Volvo Construction Equipment NV, Beesd, The Netherlands	–	100	2,582	2,582
Volvo Wheel Loaders AB, Sweden	556310-1319	100	–	–
Volvo Construction Equipment Components AB, Sweden	556527-6820	100	–	–
Volvo Articulated Haulers AB, Sweden	556360-1615	100	–	–
Volvo Construction Equipment Customer Support AB, Sweden	556310-1301	100	–	–
Volvo Construction Equipment International AB, Sweden	556310-1293	100	–	–
Volvo Construction Equipment Cabs AB, Sweden	556527-6838	100	–	–
Volvo Construction Equipment SA, Belgium	–	100	–	–
Volvo Construction Equipment Europe Ltd., Great Britain	–	100	–	–
Volvo Construction Equipment Europe GmbH, Germany	–	100	–	–
Volvo Compact Service Equipment GmbH, Germany	–	100	–	–
Volvo Motor Graders, Ltd., Canada	–	100	–	–
AB Volvo Penta, Sweden	556034-1330	100	421	421
Volvo Penta Norden AB, Sweden	556127-7533	100	–	–
Volvo Penta Europe AB, Sweden	556541-0429	100	–	–
Volvo Penta Central Europe GmbH, Germany	–	100	–	–
Wuxi da Hao Power, Co Ltd, China	–	70	–	–
Volvo Aero AB, Sweden	556029-0347	100	2,885	2,885
Volvo Aero Engine Services AB, Sweden	556328-9171	100	–	–
Volvo Aero Support AB, Sweden	556413-0184	100	–	–
Volvo Aero Norge AS, Norway	–	78	–	–

AB Volvo's holding of shares and participations in Group companies (cont.)	Registration number	Percentage holding	Dec 31, 2002 Carrying value, SEK M	Dec 31, 2003 Carrying value, SEK M
VNA Holding Inc, USA	–	100	3,510	3,510
Volvo Trucks North America, Inc., USA	–	100	–	–
Volvo Construction Equipment North America Inc., USA	–	100	–	–
Volvo Penta of The Americas, Inc., USA	–	100	–	–
Volvo Aero North America Inc., USA	–	100	–	–
Volvo Aero Services LP, USA	–	95	–	–
Volvo Treasury North America Inc., USA	–	100	–	–
Volvo Commercial Finance LLC The Americas, USA	–	100	–	–
Volvo Holding Sverige, Sweden	556539-9853	100	5,693	7,634
Volvo Treasury AB, Sweden	556135-4449	100	3,044	3,044
Sotrof AB, Sweden	556519-4494	100	2,488	1,988
Volvo Group Finance Europe BV, The Netherlands	–	100	1,003	1,003
Volvo Construction Equipment Korea Co Ltd, South Korea	–	100	–	–
Volvo Financial Services AB, Sweden	556000-5406	100	486	886
Kommersiella Fordon Europa AB, Sweden	556049-3388	98	–	855
Volvo China Investment Co Ltd, China	–	100	275	622
Volvo Truck & Bus Ltd, Great Britain [1]	–	100	413	413
Volvo Holding Mexico, Mexico	–	100	278	388
Volvo Technology Transfer AB, Sweden	556542-4370	100	286	361
Volvo Powertrain AB, Sweden	556000-0753	100	166	348
Volvo Parts AB, Sweden	556365-9746	100	200	200
Volvo Group Insurance Försäkrings AB, Sweden	516401-8037	100	182	182
Volvo Business Services, Sweden	556029-5197	100	27	107
Volvo Holding Danmark AS, Denmark	–	100	104	104
Volvo Norge AS, Norway	–	100	56	56
Volvo Malaysia Sdn, Malaysia	–	100	48	48
Celero Support AB, Sweden	556039-1798	100	25	25
Volvo Bus de Mexico, Mexico	–	100	50	–
Other holdings			171	163
Total carrying value Group companies [3]			**38,950**	**41,329**

1 Total holding by Volvo Global Trucks and AB Volvo is 100%.
2 Joint ventures, reported in accordance with the proportionate consolidation method in Volvo's consolidated accounts.
3 AB Volvo's share of shareholders' equity in subsidiaries (including equity in untaxed reserves) was 51,395 (49,657).

Proposed disposition of unappropriated earnings

Group

As shown in the consolidated balance sheet at December 31, 2003, unrestricted equity amounted to SEK 57,002 M (61,536). Of this amount, SEK 0 M is estimated to be appropriated to restricted equity.

AB Volvo	SEK M
Retained earnings	53,067
Net income 2003	(2,189)
Total	50.878

The Board of Directors and the President propose that the above sum be disposed of as follows:

SEK M	
To the shareholders, a dividend of SEK 8.00 per share	3,356
To the shareholders, a dividend of 27,060,958 shares in the wholly owned subsidiary Ainax AB [1]	5,403
To be carried forward	42,119
Total	50,878

1 Each 31 shares in AB Volvo entitle to receive 2 shares in Ainax AB. The proposed dividend comprises 27,060,958 shares of totally 27,320,838 shares in Ainax AB. At the time of the dividend, the assets in Ainax AB will consist of 27,320,838 A shares in Scania AB and working capital amounting to SEK 100,000,000. In this proposed disposition of unappropriated earnings, the value of A shares in Scania AB have been determined to SEK 196 per share, corresponding to the market value at December 31, 2003, SEK 202 per share, reduced by SEK 6 per share, for expected dividend which will not be paid to Ainax AB. The final value of shares in Ainax AB which are proposed to be distributed will be determined when the Annual General Meeting decide on the dividend, based upon the market value of A shares in Scania AB at that time.

Göteborg, March 14, 2004

Finn Johnsson

Per-Olof Eriksson Patrick Faure Haruko Fukuda

Tom Hedelius Leif Johansson

Neelie Kroes Louis Schweitzer Ken Whipple

Lars-Göran Larsson Olle Ludvigsson Johnny Rönnkvist

Our audit report was issued on March 14, 2004

PricewaterhouseCoopers AB

Olof Herolf
Authorized Public Accountant
Lead Partner

Olov Karlsson
Authorized Public Accountant
Partner

Auditors’ report for AB Volvo

We have audited the annual accounts, the consolidated accounts, the accounting records and the administration of the Board of Directors and the President of AB Volvo for the year 2003. These accounts and the administration of the Company are the responsibility of the Board of Directors and the President. Our responsibility is to express an opinion on the annual accounts, the consolidated accounts and the administration, based on our audit.

We conducted our audit in accordance with generally accepted auditing standards in Sweden. Those standards require that we plan and perform the audit to obtain reasonable assurance that the annual accounts and the consolidated accounts are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the accounts. An audit also includes evaluating the accounting principles used and their application by the Board of Directors and the President, as well as evaluating the overall presentation of information in the annual accounts and consolidated accounts. As a basis for our opinion concerning discharge from liability, we examined significant decisions, actions taken and circumstances of the Company in order to determine the liability, if any, to the Company of any Board member, or the President. We also examined whether any Board member or the President has, in any other way, acted in contravention of the Companies Act, the Annual Accounts Act, or the Company’s Articles of Association. We believe that our audit provides a reasonable basis for our opinion set out below.

The annual accounts and consolidated accounts have been prepared in accordance with the Annual Accounts Act and, thereby, give a true and fair view of the Company’s and the Group’s financial position and results of operations in accordance with generally accepted accounting principles in Sweden.

We recommend to the general meeting of shareholders that the income statements and balance sheets of the Parent Company and the Group be adopted, that the profit of the Parent Company be dealt with in accordance with the proposal in the Board of Directors’ Report, and that the members of the Board of Directors and the President be discharged from liability for the financial year.

Göteborg, March 14, 2004

PricewaterhouseCoopers AB

Olof Herolf
Authorized Public Accountant
Lead Partner

Olov Karlsson
Authorized Public Accountant
Partner

Eleven-year summary

Consolidated income statements SEK M	1993	1994	1995	1996	1997	1998	1999	2000	2001	2002	2003
Net sales	**111,155**	**155,866**	**171,511**	**156,060**	**183,625**	**212,936**	**125,019**	**130,070**	**189,280**	**186,198**	**183,291**
Cost of sales	(85,840)	(115,092)	(128,529)	(121,249)	(138,990)	(163,876)	(99,501)	(104,548)	(155,592)	(151,569)	(146,879)
Gross income	**25,315**	**40,774**	**42,982**	**34,811**	**44,635**	**49,060**	**25,518**	**25,522**	**33,688**	**34,629**	**36,412**
Research and development expenses	(4,438)	(4,652)	(7,343)	(8,271)	(8,659)	(10,104)	(4,525)	(4,876)	(5,391)	(5,869)	(6,829)
Selling expenses	(11,480)	(15,737)	(17,418)	(14,895)	(17,160)	(19,042)	(8,865)	(10,140)	(15,766)	(16,604)	(16,866)
Administrative expenses	(6,131)	(7,711)	(7,399)	(6,685)	(7,018)	(8,091)	(4,791)	(4,974)	(6,709)	(5,658)	(5,467)
Other operating income and expenses	(1,146)	(3,262)	(1,657)	(1,087)	(3,141)	(2,634)	(611)	622	(4,096)	(4,152)	(1,367)
Income (loss) from investments in associated companies	(1,749)	5,861	2,119	314	2,929	444	567	444	50	182	200
Income from other investments	444	1,667	788	9,007	1,168	4,526	170	70	1,410	309	(3,579)
Income from divestment of subsidiaries	–	–	3,032	–	–	–	26,695	–	–	–	–
Restructuring costs [1]	(1,600)	–	(1,817)	–	–	(2,331)	–	–	(3,862)	–	–
Operating income (loss)	**(785)**	**16,940**	**13,287**	**13,194**	**12,754**	**11,828**	**34,158**	**6,668**	**(676)**	**2,837**	**2,504**
Interest income and similar credits	4,041	2,927	3,801	4,530	3,197	1,268	1,812	1,588	1,275	1,217	1,096
Interest expenses and similar charges	(5,458)	(3,572)	(3,686)	(3,114)	(2,699)	(1,315)	(1,505)	(1,845)	(2,274)	(1,840)	(1,888)
Other financial income and expenses	(440)	83	(354)	(407)	(76)	(162)	131	(165)	(191)	(201)	(55)
Income (loss) after financial items	**(2,642)**	**16,378**	**13,048**	**14,203**	**13,176**	**11,619**	**34,596**	**6,246**	**(1,866)**	**2,013**	**1,657**
Income taxes	(468)	(2,783)	(3,741)	(1,825)	(2,583)	(3,140)	(2,270)	(1,510)	326	(590)	(1,334)
Minority interests in net income (loss)	(356)	(365)	(45)	99	(112)	(42)	(104)	(27)	73	(30)	(25)
Net income (loss)	**(3,466)**	**13,230**	**9,262**	**12,477**	**10,481**	**8,437**	**32,222**	**4,709**	**(1,467)**	**1,393**	**298**

1 In 1995 write-down of goodwill pertaining to Volvo Construction Equipment.

Consolidated income statements with Financial Services reported in accordance with the equity method SEK M	1993	1994	1995	1996	1997	1998	1999	2000	2001	2002	2003
Net sales	**109,978**	**154,668**	**166,541**	**150,425**	**178,531**	**205,712**	**116,382**	**120,392**	**180,615**	**177,080**	**174,768**
Cost of sales					(135,027)	(158,077)	(92,772)	(97,131)	(149,477)	(145,453)	(141,256)
Gross income					**43,504**	**47,635**	**23,610**	**23,261**	**31,138**	**31,627**	**33,512**
Research and development expenses					(8,659)	(10,104)	(4,525)	(4,876)	(5,391)	(5,869)	(6,829)
Selling expenses					(16,763)	(18,468)	(8,117)	(9,285)	(14,663)	(15,393)	(15,891)
Administrative expenses					(6,889)	(7,950)	(4,632)	(4,651)	(6,474)	(5,464)	(5,259)
Other operating income and expenses					(3,015)	(2,515)	(587)	309	(3,071)	(2,989)	(540)
Income from Financial Services					375	681	1,066	1,499	325	490	926
Income (loss) from investments in associated companies					3,033	354	478	341	(86)	126	166
Income from other investments					1,168	4,526	170	70	1,408	309	(3,581)
Income from divestment of subsidiaries					–	–	26,695	–	–	–	–
Restructuring costs					–	(2,331)	–	–	(3,862)	–	–
Operating income (loss)	**(785)**	**16,940**	**13,287**	**13,194**	**12,754**	**11,828**	**34,158**	**6,668**	**(676)**	**2,837**	**2,504**

Consolidated balance sheets

SEK M	1993	1994	1995	1996	1997	1998	1999	2000	2001	2002	2003
Intangible assets	2.284	4,545	5,626	2,277	3,284	5,778	6,618	6,925	17,525	17,045	16,756
Property, plant and equipment	25,922	25,991	25,094	26,458	30,793	36,207	19,788	22,231	33,234	30,799	30,640
Assets under operating leases	2,235	2,205	2,847	4,968	13,501	22,285	12,337	14,216	27,101	23,525	21,201
Shares and participations	26,299	18,548	18,087	12,412	4,583	3,393	29,213	30,481	27,798	27,492	22,206
Inventories	21,390	23,380	23,929	23,148	27,993	32,128	21,438	23,551	31,075	28,305	26,459
Customer financing receivables	8,019	9,351	10,336	15,552	32,304	46,798	34,313	41,791	48,784	46,998	46,002
Interest-bearing receivables	602	1,516	2,766	4,080	4,667	4,735	18,617	19,228	8,079	5,490	6,632
Other receivables [1]	26,323	28,597	26,708	25,603	27,087	34,197	24,019	26,352	39,946	33,990	32,621
Liquid funds	21,442	24,449	23,306	26,661	20,603	20,224	29,269	15,968	27,383	25,578	28,735
Assets	**134,516**	**138,582**	**138,699**	**141,159**	**164,815**	**205,745**	**195,612**	**200,743**	**260,925**	**239,222**	**231,252**
Shareholders' equity [1]	27,088	43,332	51,200	57,876	61,951	69,375	97,692	88,338	85,185	78,278	72,420
Minority interests	6,686	838	605	504	899	860	544	593	391	247	216
Provision for post employment benefits	6,139	6,097	6,890	3,150	3,296	2,936	2,130	2,632	14,647	16,236	15,288
Other provisions	14,235	13,914	14,602	14,988	19,657	25,187	14,832	14,941	18,427	16,721	15,048
Loans	42,675	33,551	28,166	31,886	41,217	64,230	53,345	66,233	81,568	72,437	74,092
Other liabilities	37,693	40,850	37,236	32,755	37,795	43,157	27,069	28,006	60,707	55,303	54,188
Shareholders' equity and liabilities	**134,516**	**138,582**	**138,699**	**141,159**	**164,815**	**205,745**	**195,612**	**200,743**	**260,925**	**239,222**	**231,252**
Assets pledged	4,613	6,527	5,434	6,503	6,743	5,388	3,930	2,990	3,737	3,610	3,809
Contingent liabilities	8,656	7,581	7,450	6,188	5,406	6,737	6,666	6,789	10,441	9,334	9,611

1 Effective in 1997, adjustment was made to conform with the Swedish Financial Accounting Standard Council's recommendation, RR 9, Income Taxes.

Consolidated balance sheets excluding Financial Services[1]

SEK M	1993	1994	1995	1996	1997	1998	1999	2000	2001	2002	2003
Intangible assets		4,544	5,623	2,258	3,262	5,692	6,518	6,781	17,366	16,919	16,662
Property, plant and equipment		25,246	23,430	24,720	28,755	33,944	17,318	19,652	30,370	27,789	27,248
Assets under operating leases		0	0	49	1,366	1,817	1,611	4,245	15,020	11,155	8,976
Shares and participations		20,782	20,699	16,359	9,894	11,744	35,296	37,366	35,145	34,750	30,022
Inventories		23,047	23,813	23,042	27,756	31,883	21,053	22,998	30,557	27,564	25,848
Customer financing receivables		0	0	0	227	384	9	15	114	99	118
Interest bearing receivables		1,516	2,720	4,060	4,664	4,715	18,617	19,286	12,426	8,495	9,413
Other receivables		28,596	26,110	24,312	25,802	31,398	21,075	24,882	38,815	34,256	33,079
Liquid funds		21,811	20,637	23,170	16,605	15,439	24,465	10,958	24,874	24,154	28,102
Assets		**125,542**	**123,032**	**117,970**	**118,331**	**137,016**	**145,962**	**146,183**	**204,687**	**185,181**	**179,468**
Shareholders' equity		43,332	51,200	57,876	61,951	69,375	97,692	88,338	85,185	78,278	72,420
Minority interests		703	351	448	859	804	544	593	391	247	216
Provision for post-employment benefits		6,060	6,855	3,126	3,266	2,904	2,118	2,619	14,632	16,218	15,264
Other provisions		11,806	12,525	12,618	15,962	19,435	9,861	8,277	14,085	13,893	12,792
Loans		24,266	16,301	13,432	1,047	5,018	12,206	18,233	29,710	22,494	24,677
Other liabilities		39,375	35,800	30,470	35,246	39,480	23,541	28,123	60,684	54,051	54,099
Shareholders' equity and liabilities		**125,542**	**123,032**	**117,970**	**118,331**	**137,016**	**145,962**	**146,183**	**204,687**	**185,181**	**179,468**

1 Financial Services reported in accordance with the equity method.

Consolidated cash-flow statements SEK bn	1993	1994	1995	1996	1997	1998	1999	2000	2001	2002	2003
Operating income [1]	(0.8)	16.9	13.3	13.2	12.8	11.8	7.5	6.7	(0.7)	2.8	2.5
Depreciation and amortization	3.8	5.1	5.6	5.4	6.8	9.6	5.2	6.3	10.0	10.8	10.2
Other items not affecting cash [2]					(3.5)	(4.9)	(0.3)	(0.4)	0.5	2.0	4.9
Change in working capital [2]	3.5	(8.9)	(7.3)	(11.2)	4.7	1.5	(1.0)	(3.3)	6.4	1.0	0.4
Financial items and income tax [2]					(0.4)	(2.0)	(1.7)	(1.3)	(2.1)	(1.3)	(0.9)
Cash flow from operating activities	**6.5**	**13.1**	**11.6**	**7.4**	**20.4**	**16.0**	**9.7**	**8.0**	**14.1**	**15.3**	**17.1**
Investments in fixed assets	(3.5)	(4.3)	(6.5)	(8.2)	(9.9)	(10.5)	(4.9)	(5.4)	(8.1)	(6.7)	(6.0)
Investments in leasing assets	(1.7)	(2.5)	(2.6)	(3.9)	(9.8)	(12.7)	(5.6)	(5.7)	(5.8)	(5.2)	(5.3)
Disposals of fixed assets and leasing assets	0.8	1.4	1.3	2.0	1.8	2.6	1.6	2.1	2.6	3.2	2.9
Customer financing receivables, net	1.9	(1.5)	(1.6)	(4.8)	(15.5)	(12.8)	(7.1)	(4.5)	(3.7)	(5.7)	(4.3)
Shares and participations, net	0.5	8.2	2.0	14.1	10.7	5.5	(25.9)	(1.6)	3.9	(0.1)	(0.1)
Acquired and divested subsidiaries and other business units, net	0.4	–	(4.4)	(0.9)	(1.3)	(5.6)	31.0	0.0	13.0	(0.2)	0.0
Cash flow after net investments	**4.9**	**14.4**	**(0.2)**	**5.7**	**(3.6)**	**(17.5)**	**(1.2)**	**(7.1)**	**16.0**	**0.6**	**4.3**
Increase (decrease) in loans	(5.9)	(8.3)	1.5	6.8	5.6	19.5	16.3	8.1	6.2	(0.1)	1.9
Loans to external parties, net	(0.2)	(0.9)	(0.9)	(1.9)	(0.4)	(0.3)	(3.2)	0.3	0.2	1.7	0.9
Repurchase of own shares	–	–	–	–	–	–	–	(11.8)	(8.3)	–	–
Dividend to AB Volvo shareholders	(0.6)	(0.6)	(1.5)	(1.9)	(2.0)	(2.2)	(2.6)	(3.1)	(3.4)	(3.4)	(3.4)
Other	0.2	(1.3)	0.7	(5.0)	(5.9)	(0.2)	(0.1)	0.0	0.1	0.1	0.1
Change in liquid funds, excluding translation differences	**(1.6)**	**3.3**	**(0.4)**	**3.7**	**(6.3)**	**(0.7)**	**9.2**	**(13.6)**	**10.8**	**(1.1)**	**3.8**
Translation differences on liquid funds	1.3	(0.3)	(0.7)	(0.3)	0.3	0.3	(0.2)	0.3	0.6	(0.7)	(0.6)
Change in liquid funds	**(0.3)**	**3.0**	**(1.1)**	**3.4**	**(6.0)**	**(0.4)**	**9.0**	**(13.3)**	**11.4**	**(1.8)**	**3.2**

1 1999, excluding gain on sale of Volvo Cars of SEK 26.7 billion.

2 Reported on a single line in 1993–1996.

Operating cash flow excluding Financial Services SEK bn	1993	1994	1995	1996	1997	1998	1999	2000	2001	2002	2003
Operating income			12.9	12.8	12.4	11.1	6.4	5.2	(1.0)	2.3	1.6
Depreciation and amortization			4.8	4.4	5.0	6.4	3.1	3.8	7.0	7.8	7.2
Other items not affecting cash					(4.0)	(5.5)	(0.5)	(1.6)	0.0	1.0	4.1
Change in working capital			(6.3)	(11.1)	3.4	0.7	(1.7)	(3.0)	6.0	0.4	0.7
Financial items and income taxes					(0.5)	(2.3)	(1.7)	(0.8)	(2.3)	(1.1)	(0.7)
Cash flow from operating activities			**11.4**	**6.1**	**16.3**	**10.4**	**5.6**	**3.6**	**9.7**	**10.4**	**12.9**
Investments in fixed assets			(6.4)	(8.0)	(9.5)	(10.2)	(4.7)	(5.1)	(7.7)	(6.3)	(5.8)
Investments in leasing assets			(0.8)	(0.8)	(0.5)	(0.9)	(0.5)	(0.6)	(0.5)	(0.1)	(0.1)
Disposals of fixed assets and leasing assets			1.2	1.8	1.0	1.5	0.8	0.7	1.1	1.1	0.6
Customer-financing receivables, net			–	–	0.3	(0.3)	0.1	0.0	0.8	0.0	0.0
Operating cash flow			**5.4**	**(0.9)**	**7.6**	**0.5**	**1.3**	**(1.4)**	**3.4**	**5.1**	**7.6**

Exports from Sweden SEK M	1993	1994	1995	1996	1997	1998	1999	2000	2001	2002	2003
Volvo Group, total	36,130	43,330	56,059	54,589	58,569	64,401	52,719	46,251	50,394	52,730	49,300

Key ratios [5]	1993	1994	1995	1996	1997	1998	1999	2000	2001	2002	2003
Gross margin, % [1, 2]	22.8	26.2	25.1	22.3	24.4	23.2	20.3	19.3	17.2	17.9	19.2
Research and development expenses as percentage of net sales [1, 2]	4.0	3.0	4.3	5.3	4.9	4.9	3.9	4.1	3.0	3.3	3.9
Selling expenses as percent of net sales [1, 2]	10.3	10.1	10.2	9.5	9.4	9.0	7.0	7.7	8.1	8.7	9.1
Administration expenses as percentage of net sales [1, 2]	5.5	4.9	4.3	4.3	3.9	3.9	4.0	3.9	3.6	3.1	3.0
Return on shareholders' equity, %	neg	36.5	19.3	23.7	17.2	13.0	34.9	5.0	neg	1.7	0.4
Interest coverage, times	0.6	5.5	4.6	5.5	5.8	9.6	23.1	4.5	neg	2.2	1.9
Self-financing ratio, % [3]	148	247	151	73	115	78	108	89	125	176	204
Self-financing ratio excluding Financial Services, % [3]			190	87	181	108	127	72	137	196	243
Net financial position, SEK M	(20,592)	(6,999)	201	10,672	16,956	12,232	28,758	9,392	(7,042)	(6,063)	(2,426)
Net financial position as percentage of shareholders' equity and minority interests	(61.0)	(15.9)	0.4	18.3	27.0	17.4	29.3	10.6	(8.2)	(7.7)	(3.3)
Shareholders' equity and minority interests as percentage of total assets	25.1	31.9	37.4	41.4	38.1	34.1	50.2	44.3	32.8	32.8	31.4
Shareholders' equity and minority interests as percentage of total assets, excluding Financial Services [4]		35.1	41.9	49.4	53.1	51.2	67.3	60.8	41.8	42.4	40.5
Shareholders' equity as percentage of total assets	20.1	31.3	36.9	41.0	37.6	33.7	49.9	44.0	32.6	32.7	31.3

1 Key ratios are stated in accordance with the new 1997 Annual Accounts Act. Figures for the years 1993 through 1996 have been adjusted to conform with the new principle.

2 1993–1996 including Financial Services. As from 1997 Financial Services is accounted by the equity method.

3 As of 1999, Volvo's cash-flow statement is presented in accordance with the Swedish Financial Accounting Standards Council's recommendation, Reporting of Cash Flow, RR 7. Values in prior years are adjusted in accordance with the new presentation form.

4 Financial Services had a marginal effect on the percentage of risk capital and minority capital prior to 1994.

5 Effective in 1997, adjustment was made to conform with the Swedish Financial Accounting Standard Council's recommendation, RR 9, Income Taxes. Income per share is calculated as net income divided by average number of shares.

Volvo share statistics

Data per share (adjusted for issues and splits) [1]	1993	1994	1995	1996	1997	1998	1999	2000	2001	2002	2003
Income, SEK [1]	(8.90)	31.80	20.20	26.90	23.20	19.10	73.00	11.20	(3.50)	3.30	0.70
Cash dividend, SEK	1.55	3.40	4.00 [8]	4.30	5.00	6.00	7.00	8.00	8.00	8.00	8.00 [9]
Share price at year-end, SEK (B share)	108	140	136	151	213	186	220	156.50	176	142	220
Direct return, % (B share) [2]	1.4	2.4	2.9	2.9	2.3	3.2	3.2	5.1	4.5	5.6	3.6
Effective return, % (B share) [3]	60	32	0	30	46	(10)	22	(23)	17.6	(14.8)	60.6
Price/earnings ratio (B share) [4]	neg	4	7	6	9	9	3	14	neg	43	310
EBIT multiple [5]	36	7	7	16	9	11	10	10	25	23	14
Payout ratio, % [6]	neg	11	20	16	22	31	10	71	neg	242	1,143
Shareholders' equity, SEK [7]	70	98	110	125	140	157	221	222	203	187	173
Return on shareholders' equity	neg	36.5	19.3	23.7	17.2	13.0	34.9	5.0	neg	1.7	0.4

Other share data	1993	1994	1995	1996	1997	1998	1999	2000	2001	2002	2003
Number of shareholders at year-end	147,300	182,700	206,700	176,800	225,500	210,600	238,000	230,000	214,000	211,000	208,500
Number of Series A shares outstanding at year-end, millions	25.3	142.2	142.2	142.2	138.6	138.6	138.6	124.7	131.7	131.7	131.7
Number of Series B shares outstanding at year-end, millions	52.3	301.9	321.4	321.4	302.9	302.9	302.9	272.6	287.8	287.8	287.8
Average number of outstanding shares, millions		415.9	458.9	463.6	452.5	441.5	441.5	421.7	422.4	419.4	419.4
Number of Series A shares traded in Stockholm during the year, millions	32.8	54.1	23.2	23.7	23.7	34.5	27.0	42.4	40.3	27.3	31.4
Number of Series B shares traded in Stockholm during the year, millions	465.5	363.3	363.3	316.4	362.7	371.3	479.6	391.2	344.4	349.4	404.8
Number of A and B shares traded in London during the year, millions	150.7	287.5	232.8	301.0	260.8	425.5	215.8	143.0	169.0	60.8	95.5
Number of shares traded in ADR, NASDAQ during the year, millions	11.5	19.0	73.5	83.0	51.8	50.5	54.9	16.0	15.0	11.0	10.4

1 Effective in 1997, adjustment was made to conform with the Swedish Financial Accounting Standard Council's recommendation, RR9, Income Taxes. Income per share is calculated as net income divided by average number of shares outstanding.

2 Dividend in SEK per share divided by share price at year-end.

3 Share price at year-end, including dividend paid during the year, divided by share price at beginning of the year, including redemption 1997 and distribution of one share of Swedish Match 1996.

4 Share price at year-end divided by income per share.

5 Market value at year-end minus net financial position and minority interests divided by operating income excluding restructuring costs and write-down of shares.

6 Dividend divided by income per share.

7 Shareholders' equity divided by number of shares outstanding at year-end.

8 Plus one share of Swedish Match per Volvo share, price of SEK 21.74 (weighted average first ten trading days following listing).

9 Proposed by the Board of Directors. In addition, two shares in Ainax per 31 Volvo shares.

The largest shareholders in AB Volvo, December 31, 2003 [1]	Number of shares	% of total votes [2]	Share capital, % [2]
Renault	88,304,177	20.0	20.0
Franklin-Templeton funds	26,049,296	1.5	5.9
Capital Group funds	11,472,150	0.7	2.6
Robur fonder (savings funds)	11,166,411	4.6	2.5
SHB	8,155,195	4.8	1.8
Alecta	7,710,940	3.7	1.7
Second Swedish National Pension Fund	7,667,863	3.3	1.7
Fourth Swedish National Pension Fund	7,484,795	2.3	1.7
SEB fonder (savings funds)	6,682,957	2.4	1.5
SHB/SPP fonder	6,600,046	1.1	1.5
Total	**181,293,830**	**44.4**	**41.1**

Distribution of shares, December 31, 2003

Volvo shareholders [1] holding	Number of shareholders	% of total votes [2]	Share of capital, % [2]
1–1,000 shares	196,954	6.3	7.1
1,001–10,000 shares	10,542	4.5	5.8
10,001–100,000 shares	772	3.4	5.0
100,001–	272	85.8	82.1
Total	**208,540**	**100**	**100**

1 Following the repurchase of own shares, AB Volvo held 5% of the Company's shares on Dec 31, 2003.

2 Based on all registered shares.

Business area statistics

Net sales SEK M		1993	1994	1995	1996	1997	1998	1999	2000	2001	2002	2003
Trucks [1]	Western Europe	14,025	21,121	22,548	21,244	22,280	27,837	30,006	30,415	60,841	61,406	63,097
	Eastern Europe	599	948	1,299	1,721	2,274	3,089	2,265	3,158	5,526	6,424	7,004
	North America	11,817	13,951	13,069	8,510	12,206	17,659	22,303	17,048	33,630	33,721	28,151
	South America	3,188	4,780	4,641	2,759	3,832	3,777	2,190	3,111	3,993	3,277	3,464
	Asia	2,170	2,474	2,863	2,577	2,410	2,047	2,010	3,432	4,659	5,919	9,206
	Other markets	330	1,379	1,330	1,443	1,503	1,267	1,492	1,911	7,919	8,005	6,047
	Total	**32,129**	**44,653**	**45,750**	**38,254**	**44,505**	**55,676**	**60,266**	**59,075**	**116,568**	**118,752**	**116,969**
Buses	Western Europe	3,380	3,838	4,709	4,660	5,082	5,528	5,735	6,767	6,263	6,695	6,153
	Eastern Europe	62	102	34	80	190	366	226	182	373	409	381
	North America	43	34	736	1,575	2,314	5,574	6,871	7,723	6,847	3,838	2,984
	South America	897	1,005	1,087	853	1,002	910	469	732	757	366	329
	Asia	986	868	844	1,112	1,562	1,519	943	1,269	1,839	2,022	1,447
	Other markets	119	289	285	247	432	389	469	514	596	705	684
	Total	**5,487**	**6,136**	**7,695**	**8,527**	**10,582**	**14,286**	**14,713**	**17,187**	**16,675**	**14,035**	**11,978**
Construction Equipment [2]	Western Europe			4,199	7,163	7,836	9,557	9,901	10,029	10,326	10,383	11,576
	Eastern Europe			112	93	263	336	193	255	341	454	772
	North America			1,403	3,385	5,680	6,548	5,725	5,823	6,145	5,667	5,428
	South America			556	598	991	957	498	776	847	709	636
	Asia			339	937	1,036	1,092	1,903	2,484	2,773	3,048	3,707
	Other markets			307	628	847	882	662	626	703	751	1,035
	Total			**6,916**	**12,804**	**16,653**	**19,372**	**18,882**	**19,993**	**21,135**	**21,012**	**23,154**
Volvo Penta	Western Europe	1,541	1,753	2,065	2,048	2,219	2,725	2,986	3,204	3,789	3,846	4,081
	Eastern Europe	0	0	1	2	34	23	26	30	38	99	108
	North America	859	1,326	1,139	1,142	1,332	1,412	1,770	2,257	2,175	2,261	2,109
	South America	74	92	99	109	136	153	134	160	213	127	146
	Asia	434	464	458	486	643	476	692	794	988	1,141	947
	Other markets	78	107	116	98	102	142	153	154	177	195	205
	Total	**2,986**	**3,742**	**3,878**	**3,885**	**4,466**	**4,931**	**5,761**	**6,599**	**7,380**	**7,669**	**7,596**
Volvo Aero	Western Europe	2,281	2,400	2,590	2,950	3,682	4,231	4,560	4,651	4,788	3,422	3,951
	Eastern Europe	0	13	27	8	6	47	16	42	87	28	49
	North America	1,326	1,104	1,100	1,071	3,066	3,502	4,557	5,040	5,841	4,573	3,301
	South America	4	0	4	4	257	284	193	134	187	177	152
	Asia	5	66	66	89	264	336	491	701	708	497	428
	Other markets	11	5	3	21	201	184	136	145	173	140	149
	Total	**3,627**	**3,588**	**3,790**	**4,143**	**7,476**	**8,584**	**9,953**	**10,713**	**11,784**	**8,837**	**8,030**
	Other and eliminations [1]	10,912	10,636	4,321	2,669	3,436	4,781	6,807	6,825	7,073	6,775	7,041
Net sales excl Financial Services		**55,141**	**68,755**	**72,350**	**70,282**	**87,118**	**107,630**	**116,382**	**120,392**	**180,615**	**177,080**	**174,768**
Financial Services	Western Europe	1,177	1,198	4,758	5,384	4,461	5,465	6,300	6,240	5,314	5,573	5,604
	Eastern Europe				0	0	86	185	257	360	424	474
	North America			6	54	509	1,152	1,620	2,626	3,216	3,344	2,542
	South America				153	72	297	455	452	451	403	358
	Asia				0	0	0	1	0	24	49	65
	Other markets			206	44	52	224	76	103	130	132	110
	Total	**1,177**	**1,198**	**4,970**	**5,635**	**5,094**	**7,224**	**8,637**	**9,678**	**9,495**	**9,925**	**9,153**
	Eliminations	–	–	–	–	–	–	–	–	(830)	(807)	(630)
Volvo Group excluding divested operations		**56,318**	**69,953**	**77,320**	**75,917**	**92,212**	**114,854**	**125,019**	**130,070**	**189,280**	**186,198**	**183,291**
Cars		58,158	73,598	83,340	83,589	96,453	103,798	–	–	–	–	–
Other divested operations and eliminations		(3,321)	12,315	10,851	(3,446)	(5,040)	(5,716)	–	–	–	–	–
Volvo Group total		**111,155**	**155,866**	**171,511**	**156,060**	**183,625**	**212,936**	**125,019**	**130,070**	**189,280**	**186,198**	**183,291**

Effective in 1997, the Volvo Group's accounting per market area reflects geographical definitions, based on an ISO standard. The figures for 1993–1996 have been adjusted to conform with the new principle.

1 Net sales 1993-2001 have been restated in accordance with new organization effective from 2002.

2 Subsidiary in the Volvo Group as of July 1995. Net sales for the Construction Equipment business area in the years 1993 through 1995, calculated using the average exchange rate for the US dollar in each year, amounted to 9,665,12,084 and 13,684.

Operating income SEK M	1993 [9]	1994 [8]	1995 [7]	1996 [6]	1997 [5]	1998 [4]	1999 [3]	2000	2001 [2]	2002	2003 [1]
Trucks [10]	585	4,051	5,020	783	1,707	2,769	3,247	1,414	(2,066)	1,189	3,951
Buses	313	318	405	331	550	(37)	224	440	(916)	(94)	(790)
Construction Equipment	–	–	717	1,162	1,436	626	1,709	1,594	527	406	908
Volvo Penta	125	223	212	(27)	181	(63)	314	484	658	647	695
Volvo Aero	143	60	103	153	472	527	584	621	653	5	(44)
Financial Services	323	271	355	244	375	681	1,066	1,499	325	490	926
Other	(2,297)	7,533	1,422	9,377	3,624	3,950	319	616	143	194	(3,142)
Volvo Group excluding divested operations	**(808)**	**12,456**	**8,234**	**12,023**	**8,345**	**8,453**	**7,463**	**6,668**	**(676)**	**2,837**	**2,504**
Cars	23	2,599	490	1,080	4,409	3,375	26,695	–	–	–	–
Other divested operations	–	1,885	4,563	91	–	–	–	–	–	–	–
Operating income (loss) Volvo Group	**(785)**	**16,940**	**13,287**	**13,194**	**12,754**	**11,828**	**34,158**	**6,668**	**(676)**	**2,837**	**2,504**

1 Operating income in 2003 included write-down of shares in Scania AB and Henlys Group Plc amounting to 4,030, of which 429 was reported in Buses (Henlys Group) and 3,601 was reported in Other (Scania AB).
2 Operating income in 2001 included restructuring costs mainly related to the integration of Mack and Renault of SEK 3,862 M of which 3,106 in Trucks, 392 in Buses and 364 in Construction Equipment.
3 Effective January 1, 1999, Volvo Cars was reported as a divested operation. The capital gain from the divestment was SEK 26,695 M.
4 Restructuring costs in 1998 amounted to SEK 1,650 M of which 46 in Trucks, 422 in Buses, 910 in Construction Equipment and 158 in Volvo Penta. In addition operating income included a capital gain from the sale of shares in Pharmacia UpJohn amounting to SEK 4,452 M.
5 Operating income in 1997 included a capital gain from the sale of shares in Pripps Ringnes amounting to SEK 3,027 M.
6 Operating income in 1996 included a capital gain from the sale of shares in Pharmacia UpJohn amounting to SEK 7,766 M.
7 Operating income in 1995 included write-down of goodwill pertaining to Volvo Construction Equipment, consolidated as from July 1, 1995, amounting to SEK 1,817 M.
8 Operating income in 1994 included a capital gain from the sale of shares in Investment AB Cardo amounting to SEK 2,597 M and AB Custos amounting to SEK 916 M.
9 Operating income in 1993 included a provision of SEK 1,600 M relating to excess value in Volvo Trucks, which was estimated to arise in connection with exchange of shares with Renault.
10 Refers to Volvo Trucks for 1993–2000.

Operating margin %	1993	1994	1995	1996	1997	1998	1999	2000	2001	2002	2003
Trucks	1.8	9.1	11.0	2.0	3.8	5.0	5.4	2.4	(1.8)	1.0	3.4
Buses	5.7	5.2	5.3	3.9	5.2	(0.3)	1.5	2.6	(5.5)	(0.7)	(6.6)
Construction Equipment [1]	–	–	10.4	9.1	8.6	3.2	9.1	8.0	2.5	1.9	3.9
Volvo Penta	4.2	6.0	5.5	(0.7)	4.1	(1.3)	5.5	7.3	8.9	8.4	9.1
Volvo Aero	3.9	1.7	2.7	3.7	6.3	6.1	5.9	5.8	5.5	0.1	(0.5)
Volvo Group excluding divested operations	**(1.5)**	**18.1**	**11.4**	**17.1**	**9.6**	**7.9**	**6.4**	**5.5**	**(0.4)**	**1.6**	**1.4**
Operating margin, total	**(0.7)**	**11.0**	**8.0**	**8.8**	**7.1**	**5.7**	**29.3**	**5.5**	**(0.4)**	**1.6**	**1.4**

1 Included in the Volvo Group as of mid-year 1995. Operating margin for Volvo Construction Equipment for the years 1993 to 1995 amounted to 5.2, 13.4 and 12.3.

Number of employees at year-end Number	1993	1994	1995	1996	1997	1998	1999	2000	2001	2002	2003
Trucks	17,780	19,790	21,450	20,860	22,090	22,560	23,330	24,320	44,180	43,470	46,900
Buses	2,610	2,600	3,620	3,750	4,220	8,690	8,860	9,060	6,230	6,660	6,680
Construction Equipment	–	–	7,610	7,300	8,550	9,680	8,900	8,830	7,780	8,410	9,280
Volvo Penta	1,420	1,540	1,570	1,420	1,400	1,490	1,400	1,480	1,370	1,410	1,440
Volvo Aero	4,040	3,770	3,890	3,740	4,170	3,990	4,550	4,240	4,040	3,660	3,440
Financial Services	220	230	450	560	710	860	1,160	1,220	1,080	1,060	1,060
Other	3,130	2,120	2,370	3,090	3,840	5,190	5,270	5,120	6,240	6,490	6,940
Volvo Group, excluding divested operations	**29,200**	**30,050**	**40,960**	**40,720**	**44,980**	**52,460**	**53,470**	**54,270**	**70,920**	**71,160**	**75,740**
Cars	26,800	29,080	31,050	29,600	27,920	27,360	–	–	–	–	–
Other divested operations	17,640	16,420	7,040	10	–	–	–	–	–	–	–
Volvo Group, total	**73,640**	**75,550**	**79,050**	**70,330**	**72,900**	**79,820**	**53,470**	**54,270**	**70,920**	**71,160**	**75,740**

Employees Number	1993	1994	1995	1996	1997	1998	1999	2000	2001	2002	2003
Sweden	43,980	44,880	47,000	43,330	43,650	43,900	24,840	25,030	24,350	25,420	26,380
Europe, excluding Sweden	16,280	18,040	16,930	15,290	16,100	17,880	11,900	12,320	27,800	27,130	29,120
North America	6,950	6,100	7,860	6,900	8,450	12,100	11,880	11,410	12,670	12,440	12,270
South America	3,400	3,400	3,620	2,130	2,000	1,980	1,930	2,100	2,090	2,020	2,640
Asia	2,170	2,380	2,830	2,260	1,720	3,340	2,480	2,570	2,550	2,590	3,710
Other markets	860	750	810	420	980	620	440	840	1,460	1,560	1,620
Volvo Group total	**73,640**	**75,550**	**79,050**	**70,330**	**72,900**	**79,820**	**53,470**	**54,270**	**70,920**	**71,160**	**75,740**

Vehicles invoiced Number	1993	1994	1995	1996	1997	1998	1999	2000	2001	2002	2003
Heavy trucks (>16 tons)	47,280	63,560	71,360	59,100	63,930	78,690	81,240	76,470	117,180	120,200	120,920
Medium-heavy trucks (7–15.9 tons)	3,950	4,940	5,130	4,580	5,050	4,590	3,850	5,360	17,310	16,220	15,870
Light trucks (<7 tons)									20,820	20,710	19,200
Total trucks	**51,230**	**68,500**	**76,490**	**63,680**	**68,980**	**83,280**	**85,090**	**81,830**	**155,310**	**157,130**	**155,990**
Buses and bus chassis	**5,450**	**5,770**	**6,830**	**7,410**	**8,730**	**10,200**	**9,500**	**11,015**	**9,953**	**9,059**	**7,817**

		1993	1994	1995	1996	1997	1998	1999	2000	2001	2002	2003
Trucks	Total Europe	17,100	27,000	34,160	34,970	34,470	42,350	42,530	46,140	98,040	96,290	92,080
	Western Europe	16,240	25,450	32,330	32,310	31,040	37,810	39,630	42,050	90,460	87,490	82,670
	Eastern Europe	860	1,550	1,830	2,660	3,430	4,540	2,900	4,090	7,580	8,800	9,410
	North America	21,860	26,460	27,090	16,850	20,900	29,310	34,300	23,610	34,650	36,510	34,760
	South America	5,900	8,320	7,800	4,980	6,970	6,020	3,900	4,530	5,790	5,360	5,980
	Asia	4,840	4,830	5,270	4,850	4,710	3,760	2,720	5,560	6,600	9,140	16,290
	Other markets	1,530	1,890	2,170	2,030	1,930	1,840	1,640	1,990	10,230	9,830	6,880
	Total	**51,230**	**68,500**	**76,490**	**63,680**	**68,980**	**83,280**	**85,090**	**81,830**	**155,310**	**157,130**	**155,990**
Buses	Total Europe	2,610	3,040	3,570	3,840	4,190	3,860	3,630	3,994	3,115	3,413	3,087
	Western Europe	2,520	2,900	3,510	3,770	4,030	3,580	3,430	3,870	2,899	3,076	2,782
	Eastern Europe	90	140	60	70	160	280	200	124	216	337	305
	North America	30	10	340	750	1,110	2,730	3,640	3,869	3,128	1,945	1,553
	South America	1,320	1,630	1,510	1,460	1,350	1,510	710	980	1,009	495	369
	Asia	1,050	780	920	1,060	1,410	1,650	1,000	1,659	2,209	2,639	2,227
	Other markets	440	310	490	300	670	450	520	513	492	567	581
	Total	**5,450**	**5,770**	**6,830**	**7,410**	**8,730**	**10,200**	**9,500**	**11,015**	**9,953**	**9,059**	**7,817**

Effective in 1997, The Volvo Group's accounting per market area reflects geographical definitions based on an ISO standard. The accounting for the years 1993–1996 has been adjusted to conform with the new principle.

Environmental performance of Volvo production plants Absolute values related to net sales	1999	2000	2001	2002	2003
Energy consumption (GWh; MWh/SEK M)	1,815; 15.6	1,656; 13.8	2,586;14.3	2,564; 14.5	2,607; 14.9
CO_2 emissions (1,000 tons; tons/SEK M)	184; 1.6	172; 1.4	316; 1.7	307; 1.7	298; 1.7
Water consumption (1,000 m^3; m^3/SEK M)	6,729; 57.8	6,138; 51.0	9,187; 50.9	9,202; 52.0	8,587; 49.1
NOx emissions (tons; kilos/SEK M)	478; 4.1	464; 3.9	730; 4.0	726; 4.1	570; 3.3
Solvent emissions (tons; kilos/SEK M)	1,332; 11.4	1,422; 11.8	1,816; 10.1	1,896; 10.7	1,965; 11.2
Sulphur dioxide emissions (tons; kilos/SEK M)	77; 0.7	59; 0.5	308; 1.7	173; 1.0	200; 1.1
Hazardous waste (tons; kg/SEK M)	15,596; 134	17,170; 143	20,306; 112	20,531; 116	21,613; 124
Net sales, SEK bn	116.4	120.4	180.6	177.1	174.8

Definitions

Definitions of key ratios

Capital expenditures
Capital expenditures include investments in property, plant and equipment, intangible assets and assets under operating leases.
Investments in fixed assets included in the Group's cash flow statement include only capital expenditures that have reduced the Group's liquid funds during the year.

Equity ratio
Shareholders' equity divided by total assets.

Income per share
Net income divided by the weighted average number of shares outstanding during the period.

Interest coverage
Income divided by interest expense and similar charges. Income includes operating income and interest income and similar credits.

Net financial position
Cash and bank accounts, marketable securities and interest-bearing short- and long-term receivables reduced by short- and long-term interest-bearing loans and provisions for post-employment benefits. Net debt in Financial Services is not included since the interest expense on these liabilities is charged against operating income and does not affect consolidated interest net.

Operating cash flow, excluding Financial Services
Cash flow from operating activities with deductions for net investments in fixed assets and leasing assets.

Operating margin
Operating income divided by net sales.

Return on operating capital
Operating income divided by average operating capital. Operating capital consists of operating assets (tangible and intangible assets, receivables and inventories) reduced by non interest-bearing liabilities and other provisions.

Return on shareholders' equity
Net income divided by average shareholders' equity.

Self-financing ratio
Cash flow from operating activities (see Cash flow statement) divided by net investments in fixed assets and leasing assets.

Annual General Meeting, April 16

The Annual General Meeting of AB Volvo will be held in Göteborg in Göteborg Convention Centre, main entrance 5, with adress Mässans gata 20 (Korsvägen) and entrance 2 from Focus Parking garage, on Friday April 16, 2004, at 2:00 p.m.

Notice

Shareholders who wish to participate must:

be recorded in the share register maintained by VPC AB (Swedish Central Securities Depository) not later than April 6, 2004, give notice of intention to attend not later than 12:00, Wednesday, April 7, 2004

- by telephone, +46 31 66 00 00 beginning March 18
- by mail addressed to AB Volvo (publ), Legal Department, SE-405 08 Göteborg, Sweden
- by e-mail agm@volvo.com

When giving notice, shareholders should state their:

- name
- personal number (registration number)
- address and telephone number

Shareholders whose shares are held in the trust department of a bank or by a brokerage firm should request that the shares be temporarily reregistered in the shareholder's name several banking days prior to April 6, 2004.

June 1, 2004 has been proposed as the record date for dividends. The distribution of Ainax shares is expected to occur on June 8 and the distribution of cash dividends on June 15, 2004.

Volvo's Nomination Committee

The following persons are members of Volvo's Nomination Committee:

Lars Otterbeck	Alecta, Chairman of the Nomination Committee
Shemaya Lévy	Renault SA
Marianne Nilsson	Robur
Bengt Hane	Representative for shareholders with smaller holdings

The Nomination Committee is responsible for submitting to the Annual General Meeting the names of candidates to serve as members of the Board of Directors and as auditors. The Committee also proposes the amount of the fees to be paid to the holders of these positions.

Publication dates

Volvo Annual Report 2003	March, 2004
Form 20-F US GAAP 2003	May, 2004
Three months ended March 31, 2004	April 23, 2004
Six months ended June 30, 2004	July 21, 2004
Nine months ended September 30, 2004	October 22, 2004
Report on 2004 operations	February, 2005
Annual Report 2004	March, 2005

The reports are available on www.volvo.com on date of publication and are also sent directly to all shareholders who have advised Volvo that they wish to receive Group financial information.

The above information can also be ordered from Celero Support AB, DDC, Dept 63356 ARUN, SE-405 08 Göteborg, Sweden. Telephone: +46 31-66 10 47. Telefax: +46 31-66 20 20. E-mail: volvoinf@volvo.com

Historical and current time series reflecting the Volvo Group's financial development, market information and share data are published regularly on www.volvo.com.

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