THE VOLVO GROUP FINANCIAL REPORT 2004

VOLVO

Financial information

Cover: Emina Bajič, Volvo Powertrain, Skövde, Sweden.

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

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

CEO COMMENT

The year 2004 was one of the best years in the Volvo Group's history, with strong growth, improved profitability, strong cash flow and continued rapid product renewal. Sales increased successively during the year. The fourth quarter's sales of slightly more than SEK 57 billion brought net sales for the full year to SEK 201 billion. This is an increase of 15 percent compared with 2003.

Sales growth was driven by successful products launched in recent years as well as the high level of demand in our traditionally strong markets in Europe, North and South America. The new distribution systems in Eastern Europe and Asia that we established in recent years contributed to a rapid sales increase in these regions.

Volvo CE, Volvo Penta and Trucks achieved sales records. Trucks increased sales from 156,000 vehicles in 2003 to a record 193,000 vehicles and nearly SEK 137 billion in sales. Volvo CE approached SEK 30 billion in sales and Penta achieved slightly more than SEK 9 billion. Volvo Aero reported a decline in sales in 2004.

Large parts of the Group had to handle significant increases in the pace of production and large development projects, some of which entered their final phases towards the end of the year. These included the Renault Magnum and Volvo Trucks' VT880, which is aimed at the most exclusive segment in North America. Further, the launch of Volvo Penta's new IPS propulsion system has generated a positive response from boat builders. The investment level was high for structural and product-driven reasons. We succeeded, however, in limiting investments in capacity, despite production increases of more than 20 percent in some areas. It is also pleasing that it was possible to generate strong cash flow with this high level of activity.

For the full year, the Group achieved an operating margin of 7 percent and a return on equity of 13.2 percent, both of which are well within the framework set for our financial goals.

The higher margins are not only attributable to higher capacity utilization, but also largely to rationalization measures, more cost-efficient work methods and correct pricing of more efficient products.

In Trucks, all brands reported improved earnings, particularly in North America where Mack Trucks and Volvo Trucks increased profitability considerably. Volvo CE also posted higher earnings, but was affected adversely by the USD decline and by rising raw materials prices, particularly for steel.

As a result of fine efforts in many areas, Volvo Buses reversed heavy losses into profit in 2004. Progress was made particularly in Europe during 2004, but much work remains to achieve satisfactory profitability.

In addition to delivering highly favorable earnings, Volvo Penta also successfully launched a large number of products that further strengthened its position and which were well received by boat builders and customers.

Volvo Aero continued to develop strongly in components, while overhaul operations faced difficulties in a market characterized by intense competition and price pressures. Positive aspects in the industry are that passenger traffic is rising sharply, and that orders for new aircraft are increasing.

Volvo Financial Services reports continued profitability without compromising its strict credit policy, which is pleasing.

Overall, it is clear that the Group's intensive product-renewal efforts and the integration of new units have resulted in structurally higher margins.

Many excellent efforts have been made during 2004, not least in our business units, which strive to integrate activities, such as engine manufacturing, product development, parts distribution and IT systems for the whole Group in order to strengthen the competitiveness of our product offering. This will also be noticeable through upgraded product ranges, strengthened distribution and customer service, as well as enhanced economies of scale throughout the value chain.

The Board of Directors has proposed that the dividend is increased from SEK 8 to SEK 12.50 for 2004. We also note that, since the new strategy was implemented in 1998, the Volvo Group has distributed approximately SEK 41 billion to the shareholders in the form of dividends and share repurchase. During this period, the Group has grown and has now achieved similar sales levels as it had before the divestment of Volvo Cars.

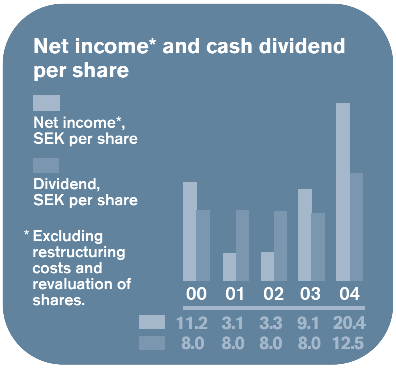
The Group has entered 2005 at a high pace. We expect continued high demand in Europe, in which the market for heavy trucks, boosted by favorable growth in Eastern Europe, could increase up to 5 percent. In North America, we anticipate that the heavy trucks market will grow by 15-20 percent.

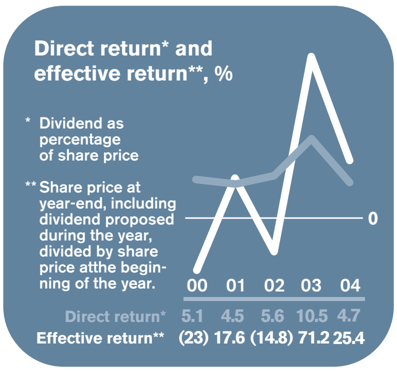
The Volvo Group's level of capacity utilization is expected to remain high and over time we can increase capacity further to meet demand. In many instances, it is the suppliers' capacity that prevents an increase in production rather than the Group's own capacity. Cost increases are also being noticed and, accordingly, the Group adjusts its pricing to offset such increases.

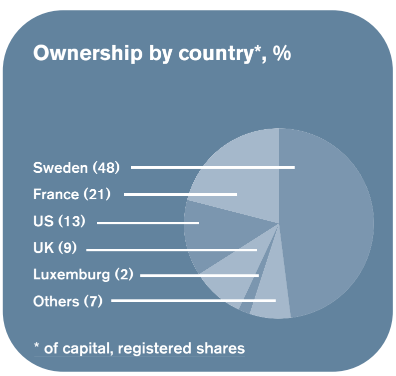
At the same time, we are in an intensive phase for the launch of new products. This will give us the opportunity to further strengthen our product offering but also encompasses the challenges associated with all kinds of launches. I feel, however, that the overall situation is positive.

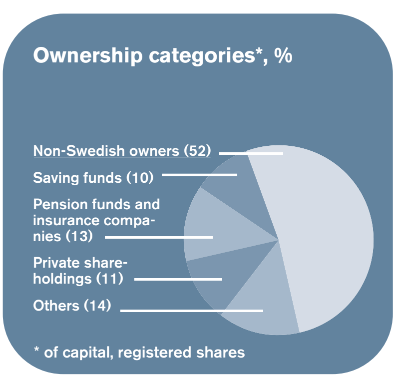
We look forward to a challenging and interesting continuation of 2005, with major opportunities to further strengthen our positions in the markets.

Leif Johansson
President and CEO









THE VOLVO SHARE

The Volvo share in 2004

The year was characterized by a continued positive development for equity on markets globally. On the Stockholm Stock Exchange, the All-Share Index increased by more than 17%. In the US, the Dow Jones Industrial Average gained 3% and the NASDAQ Composite closed up 9%.

The Volvo B share gained 23% in 2004, compared with an increase of 26% for the MSCI Europe Machinery Index.

Market capitalization

At the end of 2004, the market capitalization of Volvo was SEK 106,754 M, which corresponds to 4.0% of the total market value of the companies listed on the Stockholm Stock Exchange.

Trading

The majority of trading in Volvo shares takes place via the Stockholm Stock Exchange. In 2004, a total of 540 (436) million shares were traded in Stockholm, which equals an average of 2.1 (1.8) million shares traded per day. The deregulation of the international capital markets and the increased foreign ownership of shares listed on the Stockholm Stock Exchange have led to secondary listings becoming less important. Against this background, Volvo delisted its share from the London Stock Exchange and from the German stock exchanges in 2004. The NASDAQ listing in the United States is the only remaining secondary listing for Volvo.

ADR program in the United States

Since 1985, a program for American Depositary Receipts (ADRs) has existed in the United States. Each ADR represents one Volvo B share and the Volvo ADR is traded with the ticker VOLVY on NASDAQ. In 2004, the average daily volumes of ADRs traded were 94,695 (40,729) and the total number of outstanding ADRs at year-end was about 20 million (10 million), which equalled approximately 5% of the outstanding shares.

Dividend policy

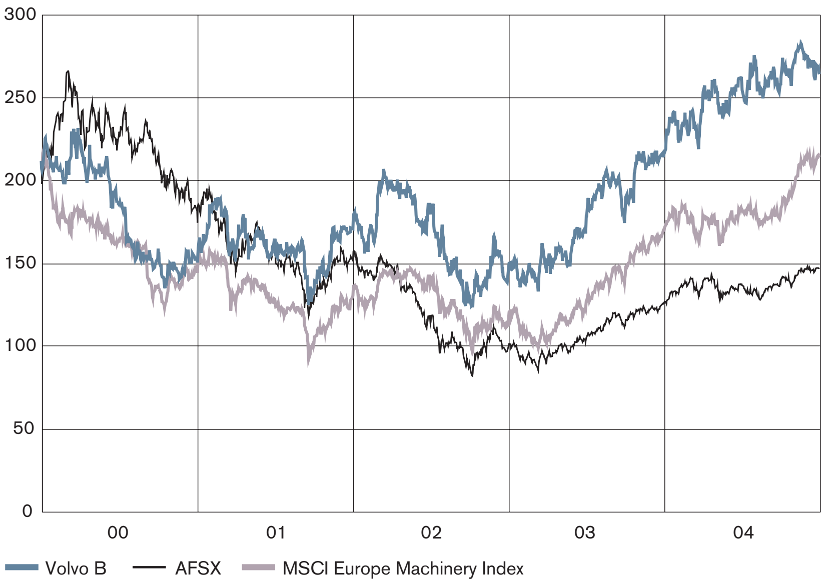
The objective is that the effective return to the shareholders, the dividend combined with the change in the share price, should exceed the average for the industry.

Distribution of Ainax

At the Annual General Meeting of AB Volvo on April 16, 2004, the Board's proposal to transfer all A shares in Scania AB to Ainax and then distribute Ainax to Volvo's shareholders was approved.

On June 8, 2004, AB Volvo distributed the shares in Ainax to AB Volvo's share-

Price Trend, Volvo series B SEK



holders. The value of the distribution was SEK 6,310 M or SEK 15.05 per share.

Repurchase of shares

On June 17, 2004, the Board of AB Volvo decided to acquire, through purchase on the Stockholm Stock Exchange, a maximum of 22,076,045 Series A and/or B shares, not exceeding a total purchase amount of SEK 4,300 M. By year-end 2004, a total of 9,315,000 Volvo A and B shares were repurchased equivalent to SEK 2,532 M.

The total number of shares held by Volvo as treasury stock at year-end was 31,391,043 or 7.1% of the registered shares.

Dividend

For fiscal year 2004, the Board of Directors proposes that the shareholders at the Annual General Meeting approve a cash dividend of SEK 12.50 per share, a total of approximately SEK 5,127 M. This corresponds to a direct return of 4.7% calculated at the year-end rate of SEK 263.50 for the Volvo B share.

Credit rating

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

Unsolicited = No agreement with Volvo to publish the rating

The largest shareholders in AB Volvo, December 31, 2004[1]

	Share capital, %[2]
Renault SA	20.0
Robur fonder (savings funds)	2.6
Svenska Handelsbanken[3]	1.9
Second Swedish National Pension Fund (AP2)	1.8
Svenska Handelsbanken/SPP fonder[4]	1.8

1 Following the repurchase of its own shares, AB Volvo held 7.1% of the Company´s shares on Dec. 31, 2004.
2 Based on all registered shares.
3 Svenska Handelsbanken comprises shares held by Svenska Handelsbanken, Svenska Handelsbanken Pension Fund and Oktogonen.
4 Savings and pension funds.

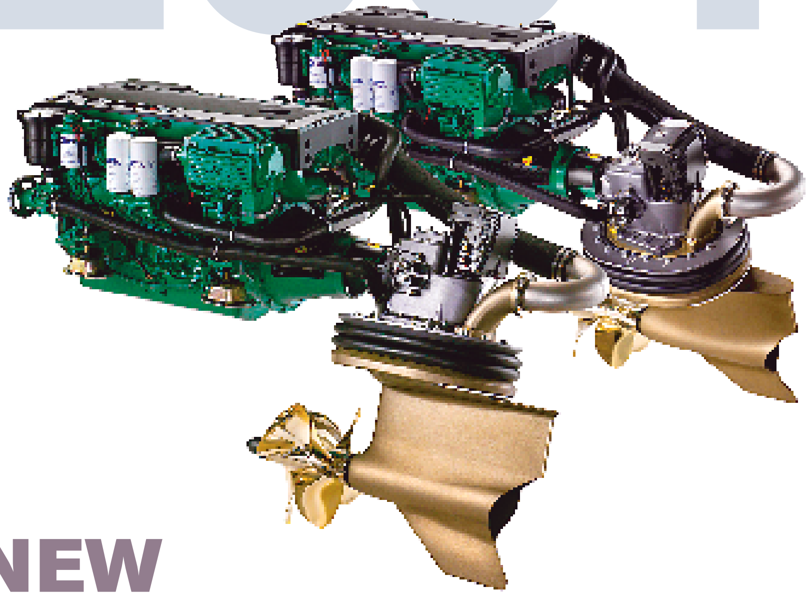
Share capital, December 31, 2004

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	202,349
Private persons	194,108
Legal entities	8,241

1 Following the repurchase of the Group's own shares, the number of outstanding shares was 410,129,842.
2 Series A shares carry one vote each.
3 Series B shares carry one tenth of a vote each.

More details on the Volvo share can be found on page 120.

THE YEAR 2004



NEW BOAT DRIVE SYSTEM INTRODUCED

Volvo Penta has introduced an entirely new drive system for boats – the Volvo Penta IPS (Inboard Performance System). The IPS system is based on forward-facing, pulling propellers and steerable driving units, which make the boats faster, more powerful, cleaner, quieter and substantially easier to maneuver. It is thought that the Volvo Penta IPS could gain the same significance in the boating world as another Volvo Penta innovation – the Aquamatic drive from the end of the 1950s.

SCANIA B SHARES SOLD

Volvo's holding of Scania B shares was sold to Deutsche Bank on March 4, 2004 for an amount of about SEK 14.9 billion. As a consequence of the divestment, the Scania holding was written down in the fourth quarter of 2003. The transaction was carried out as part of Volvo's commitment to the European Commission to divest the Scania shares not later than April 23, 2004.

VOLVO ANNUAL GENERAL MEETING APPROVED AINAX

At the Annual General Meeting of AB Volvo on April 16, 2004, the Board's proposal to transfer all A shares in Scania AB to the wholly owned subsidiary Ainax and thereafter to distribute the shares in Ainax to Volvo's shareholders was approved. The value of the distribution of Ainax was SEK 6,310 M.

MOODY'S CONFIRMED CREDIT RATING

Moody's confirmed AB Volvo's short-term credit rating of P-2 and long-term A3 and concurrently raised the outlook to stable. Moody's expects that Volvo will continue to increase efficiency, strengthen competitiveness and improve financial strength.

INDUSTRIAL RELOCATION WITHIN RENAULT TRUCKS

The Volvo Group is carrying out an industrial relocation in Europe as a result of which manufacture of crankshafts for medium-heavy truck engines is being increased at Villaverde, Spain, while the production of Renault heavy trucks is being concentrated to the plant in Bourg-en-Bresse, France. A total of about 450 employees will be affected by the decision. As a result a cost of approximately SEK 470 M was charged to operating income.

MACK INTRODUCES NEW ADVANTAGE HIGHWAY CHASSIS

At the Truck Show in Las Vegas, Mack presented the new Advantage chassis, to better serve the needs of highway customers. The new chassis will be used in all Mack Vision and CH models.

STRATEGIC ALLIANCE WITH ARVINMERITOR

In accordance with a Memorandum of Understanding signed earlier, Volvo and ArvinMeritor entered into a Strategic Alliance Agreement for the supply of axles, which includes ArvinMeritor taking over Volvo's axle manufacturing activities in Lyon, France. The European Commission approved the transaction on October 1, 2004. ArvinMeritor will be responsible for the manufacturing and supply of driven and non-driven axles for the Volvo Group's European truck and bus products.

NORTH AMERICAN ENGINE REMANUFACTURING BUSINESS ESTABLISHED

Volvo Construction Equipment acquired the assets related to the engine remanufacturing of ECHO Industries, Inc, Charlotte, North Carolina; the primary supplier of remanufactured engines to Volvo CE in North America. The market for Volvo CE's remanufactured engines has become quite substantial since they are updated to the latest version with the latest technical improvements. The acquisition secures a strong platform from which to develop the North American engine remanufacturing business.

NEW COMPACT EXCAVATORS LAUNCHED

Volvo CE launced its ECR range of short swing radius compact excavators from 2.5 to 8 tons, designed to meet the needs of operators working in confined areas. The four models in the launch, designated as ECR28, ECR38, ECR58 and ECR88, offer high maneuverability, improved safety and expanded job opportunities without compromising operator comfort.

PRÉVOST AND NOVA BUS ACQUIRED

As part of the restructuring of the bus manufacturer Henlys Group plc, the Volvo Group reached an agreement to acquire the remaining 50% of the North American bus manufacturer Prévost Car Inc., containing the Prévost and Nova brands.

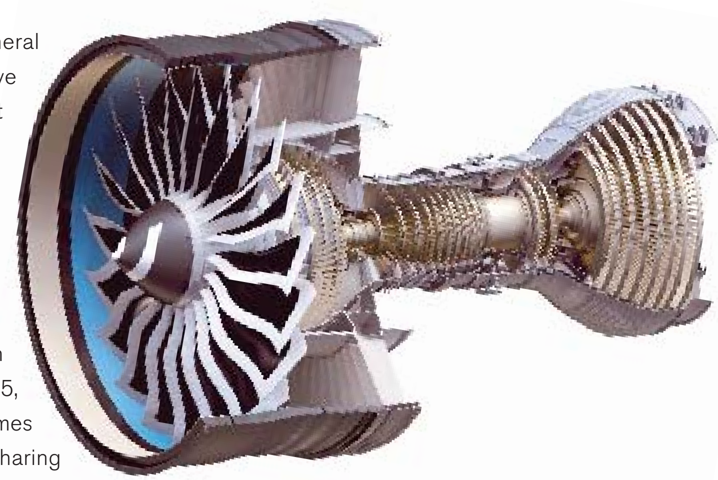
The purchase price was USD 83 M including two loans made available to Prévost Car Inc. by Henlys. In accordance with the agreement, Prévost Car Inc. became a wholly owned subsidiary of Volvo Bus Corporation. The agreement also involved Volvo converting part of the convertible debenture loan of USD 240 M issued to Henlys into shares in a newly established US-based company containing the US school bus manufacturer Blue Bird. The conversion resulted in a write-down of approximately SEK 1.3 billion.

RENAULT TRUCKS CONCLUDES FRAME AGREEMENT TO MANUFACTURE TRUCKS IN CHINA

Renault Trucks has signed a frame agreement with the Chinese truck manufacturer Dong Feng Motors aimed at establishing a joint-venture company for manufacturing trucks and truck components in China. It is planned that the new company will manufacture Renault Trucks' Kerax heavy construction trucks for the Chinese market. The agreement is still subject to final negotiation between the two companies as well as approval from the relevant Chinese authorities. Initially, the agreement aims to establish local assembly of CKD kits (Completely Knocked-Down) for Renault Trucks' Kerax model Kerax trucks. The long-term aim is to manufacture components, primarily cabs, for Renault Trucks' and Dong Feng's Chinese product range.

LARGEST COMMERCIAL AIRCRAFT ENGINE CONTRACT EVER

Volvo Aero and General Electric Company have signed an agreement whereby Volvo Aero will be responsible for the design and manufacture of three major components for the new GEnx engine. According to the agreement signed in Seattle on December 15, 2004, Volvo Aero becomes a risk and revenue sharing participant (RSP) in the GEnx engine program.



NEW VERSION OF RENAULT MAGNUM TO BE LAUNCHED IN 2005

Renault Trucks plans to launch a new version of its Renault Magnum truck for long-haul transports at the beginning of 2005. The launch of the new version of Renault Magnum is the latest example of the extensive product renewal process under way at Renault Trucks. The updated Renault Magnum will have a new driveline and be equipped with new engines and gearboxes. Great care has also been taken to improve the driver's environment.

LB SMITH DEALERSHIP SOLD

During 2004, Volvo CE successfully divested almost 90% of the US distribution acquired from LB Smith in 2003. The different distribution areas have been sold to strong, well capitalized and experienced independent dealers. Volvo CE purchased the assets associated with the North American distribution in order to ensure that the Volvo customers in North America continued to receive the highest possible standards of product support and service.

AB VOLVO AND RENAULT SA SIGNED SETTLEMENT AGREEMENT

AB Volvo and Renault SA signed a settlement agreement regarding the disagreement the companies have had since 2001 pertaining to Volvo's acquisition of Renault V.I. and Mack. According to the acquisition agreement in 2000, AB Volvo received 100% of the shares in Renault's truck subsidiaries, Renault V.I. and Mack in exchange for 15% of the shares in AB Volvo. Since then, AB Volvo and Renault SA have had ongoing discussions regarding the value of certain acquired assets and liabilities of Renault V.I. and Mack.

In accordance with this settlement, Renault SA transferred EUR 108 M to AB Volvo in January, 2005.

AGREEMENT IN PRINCIPLE COVERING ENGINE MANUFACTURE IN CHINA

Volvo signed an Engine Cooperation Frame Agreement with the truck manufacturers China National Heavy Truck Corporation (CNHTC), and First Automotive Works (FAW) covering the establishment of a jointly owned engine plant in China. The plant will manufacture complete engines for Volvo's products and for CNHTC's and FAW's trucks and buses. The three companies will form a joint company for production of engines for the Chinese market of which Volvo will own 52% and CNHTC and FAW 24% each. The agreement is still subject to final negotiation and the relevant Chinese authorities must also approve the agreement.

FINANCIAL PERFORMANCE

Net sales by business area

SEK M	2002	2003	**2004**	%[1]
Trucks	118,752	116,969	136,879	+17
Buses	14,035	11,978	12,722	+6
Construction Equipment	21,012	23,154	28,685	+24
Volvo Penta	7,669	7,596	9,057	+19
Volvo Aero	8,837	8,030	6,925	(14)
Other	6,775	7,041	7,228	+3
Volvo Group[2]	**177,080**	**174,768**	**201,496**	**+15**

1 Percentage change pertains to 2004/2003.
2 Adjusted for changes in currency rates, net sales increased by 18%.

Net sales by market area

SEK M	2002	2003	**2004**	%[1]
Western Europe	92,331	95,775	102,498	+7
Eastern Europe	7,437	8,344	10,556	+27
North America	50,206	42,043	51,751	+23
South America	4,667	4,727	6,949	+47
Asia	12,644	15,754	20,699	+31
Other markets	9,795	8,125	9,043	+11
Volvo Group	**177,080**	**174,768**	**201,496**	**+15**

1 Percentage change pertains to 2004/2003.

Operating income (loss) by business area

SEK M	2002	2003	**2004**
Trucks	1,189	3,951	8,989
Buses	(94)	(361)	185
Construction Equipment	406	908	1,572
Volvo Penta	647	695	937
Volvo Aero	5	(44)	377
Financial Services	490	926	1,365
Other	(125)	(42)	(45)
Operating income[1]	**2,518**	**6,033**	**13,380**
Dividend received from Scania AB	319	501	0
Revaluation of shares	–	(4,030)	820
Operating income	**2,837**	**2,504**	**14,200**

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

Net sales

Net sales in 2004 amounted to SEK 201,496 M (174,768), an increase of 15% compared with the preceding year. Adjusted for changes in currency exchange rates, net sales increased by 18%.

Net sales of Volvo's truck operations amounted to SEK 136,879 M, an increase of 20% adjusted for changes in currency exchange rates. The increase in sales related to improvements in all major markets, most notably in North America and Asia. The latter was due to a strong demand in the Middle East. Total deliveries from the Group's truck operations amounted to 193,219 vehicles in 2004, approximately 24% higher than in the preceding year.

In Buses, net sales increased by 6% compared with 2003, with an increase in bus deliveries in Western Europe contributing to this development. In an increasing world market, net sales of Construction Equipment rose 28%, adjusted for changes in currency rates, driven by a wider product range and improved market shares. In Volvo Penta, the strong sales development continued in 2004, with net sales increasing by 24%, excluding the impact of currency translation. Volvo Aero's net sales decreased by 6%, adjusted for changes in currency rates.

The Group's net sales in Western Europe increased by 7%. Net sales in North America were up 23% due to a strong replacement demand for both trucks and construction equipment. Sales in Eastern Europe and Asia grew by 27% and 31% respectively while sales in South America increased 47%. The distribution of net sales by market is further specified in the adjoining table.

Operating income

Operating income increased significantly in 2004 and amounted to SEK 14,200 M, compared with an operating income of SEK 2,504 M in the preceding year. The improvement in operations was mainly attributable to higher volumes, higher margins on newly introduced products and cost rationalization. A detailed analysis of changes in the Group's operating income compared with 2003 is shown in the table on page 11.

Trucks' operating income in 2004 amounted to SEK 8,989 M (3,951). The improvement across the three truck brands, Mack, Renault Trucks and Volvo, is largely related to higher volumes, increased margins due to price realization and cost rationalization. Earnings improved in North America, where profitability developed favorably for both Volvo and Mack. In Europe, Volvo Trucks' strong performance continued and both Renault Trucks and Volvo Trucks reported improved earnings. On markets outside Europe Volvo Trucks also recorded considerable improvements.

The operating income in Buses in 2004 amounted to SEK 185 M (loss: 361), excluding the write-down of shares in Henlys Group plc. amounting to SEK 95 M. The improvement in operating income was largely related to the turnaround program within Volvo Buses. Construction Equipment

Consolidated income statements[1]

SEK M	2002	2003	**2004**
Net sales	177,080	174,768	201,496
Cost of sales	(145,453)	(141,256)	(158,231)
Gross income	**31,627**	**33,512**	**43,265**
Research and development expenses	(5,869)	(6,829)	(7,233)
Selling expenses	(15,393)	(15,891)	(18,048)
Administrative expenses	(5,464)	(5,259)	(5,321)
Other operating income and expenses	(2,989)	(540)	(658)
Income from Financial Services	490	926	1,365
Income from investments in associated companies	126	166	2
Income from other investments	309	(3,581)	828
Operating income	**2,837**	**2,504**	**14,200**
Interest income and similar credits	1,246	1,193	993
Interest expenses and similar charges	(1,870)	(1,984)	(1,404)
Other financial income and expenses[2]	(200)	(56)	(1,210)
Income after financial items	**2,013**	**1,657**	**12,579**
Income taxes	(590)	(1,334)	(3,184)
Minority interests in net income	(30)	(25)	(40)
Net income	**1,393**	**298**	**9,355**
Income per share, SEK	**3.32**	**0.71**	**22.35**

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

Operating margin

%	2002	2003	**2004**
Trucks	1.0	3.4	6.6
Buses	(0.7)	(3.0)	1.5
Construction Equipment	1.9	3.9	5.5
Volvo Penta	8.4	9.1	10.3
Volvo Aero	0.1	(0.5)	5.4
Volvo Group[1]	**1.4**	**3.5**	**6.6**
Volvo Group	**1.6**	**1.4**	**7.0**

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

Change in operating income

SEK bn	
Operating income 2003	**2,5**
Higher volumes and improvement of gross margins	10,8
Higher income from Financial Services	0,4
Changes in currency exchange rates	(1,8)
Higher capitalization of development costs	0,4
Higher research and development expenditures	(1,0)
Higher selling and administrative expenses	(1,7)
Dividend from Scania 2003	(0,5)
Revaluation of shares in Scania and Henlys Group	4,9
Other	0,2
Operating income 2004	**14,2**

reported operating income of SEK 1,572 M compared with SEK 908 M in 2003. The improved earnings were primarily related to increased volumes due to recently launched products, further improved market shares and strengthened distribution, however strongly offset by negative currency effects and increased raw material costs.

Operating income in 2004 for Volvo Penta amounted to SEK 937 M (695). The strong financial performance of Volvo Penta mainly related to higher sales and improved gross margins. In Volvo Aero, operating income increased to SEK 377 M (loss:44). The improved earnings were mainly a result of cost reduction and more efficient use of production facilities.

Operating income within Financial Services amounted to SEK 1,365 M (926). Financial Services' favorable trend of progressively increasing earnings primarily pertained to a continued improved performance of the credit portfolio.

Operating margin for the Volvo Group during 2004 was 7.0%, compared with 1.4% in 2003.

Impact of exchange rates on operating income

The effect of changes in currency rates on operating income in 2004 compared with 2003 was negative by approximately SEK 1,800 M.

The Swedish krona strengthened during 2004 against the US dollar, with negative effects on operating income.

Net interest expense

Net interest expense for the year amounted to SEK 411 M (791). The improvement of the net interest expense can be explained by higher financial assets and lower financial liabilities. This development is explained by the sale of the Scania B shares and the strong operating cash flow during 2004.

Income taxes

During 2004, an income tax expense of SEK 3,184 M was reported, compared with SEK 1,334 M for the year-earlier period. The income tax expense was related to current and deferred tax expenses.

FINANCIAL POSITION

Impact of exchange rates on operating income

Compared with preceding year, SEK bn

Net sales[1]	(5.7)
Cost of sales	3,7
Research and development expenses	0.1
Selling and administrative expenses	0.5
Other operating income and expenses	(0.4)
Income from investments in shares	0.0
Total effect of changes in exchange rates on operating income	**(1.8)**

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	2002	2003	**2004**
USD	7,100	7,500	13,100
EUR	5,100	7,300	6,700
GBP	5,400	3,400	4,200
CAD	1,600	1,600	2,800
Other currencies	5,000	5,200	9,300
Total	**24,200**	**25,000**	**36,100**

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 56 and pages 108–115.

Minority interests

Minority interests in the Volvo Group were mainly attributable to Volvo Aero Norge AS (22%), Volvo Aero Services LP (5%) and Wuxi da Hao Power Co, Ltd (30%).

Net income

Net income amounted to SEK 9,355 M (298) corresponding to an income per share of SEK 22.35 (0.71). The return on shareholders' equity was 13.2% (0.4).

Balance sheet

The Volvo Group's total assets at December 31, 2004 amounted to SEK 222.9 billion, corresponding to a decline of SEK 8.4 billion compared to year-end 2003. Total assets were reduced since year-end, mainly as a result of divestment and distribution of Scania shares as well as changes in currency rates. This effect was partially offset by growth in the credit portfolio of Financial Services and higher inventories and receivables as a consequence of the significant sales increase. In addition, liquid funds increased by SEK 6.0 billion, mainly due to the proceeds received on the divestment of Scania B shares and a positive operating cashflow.

Shareholders' equity and minority interests amounted to SEK 69.6 billion, corresponding to an equity ratio of 40.0%, excluding Financial Services. Changes in shareholders' equity during the period are specified on page 54.

The Group's net financial assets on December 31, 2004, amounted to SEK 18.7 billion, which corresponded to 26.8% of Shareholders' equity and minority interests. Changes in net financial position are specified in the adjoining table.

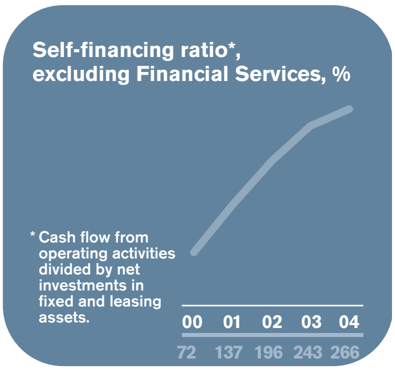
Change in net financial position

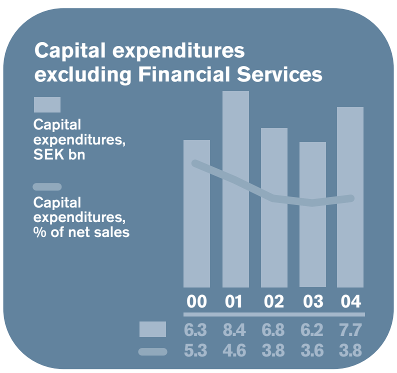
SEK bn	
December 31, 2003	**2.4**
Cash flow from operating activities	18.1
Investments in fixed assets and leasing assets, net	(6.8)
Customer financie receivables, net	0.1
Investments in shares, net	15.1
Acquired and divested operations	(0.1)
Cash flow after net investments, excluding Financial Services	**26.4**
Contribution to US pension plans	1.1
Write-down of convertible debenture loan to Henlys	(1.2)
Debt in acquired and divested operations	(0.7)
Repurchase of own shares	(2.5)
Dividend paid to AB Volvo's shareholders	(3.4)
Currency effect	0.8
Other	0.6
Total change	**21.1**
December 31, 2004	**18.7**

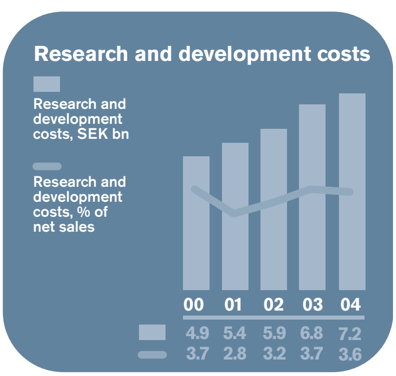
Consolidated balance sheets, December 31	Volvo Group, excl Financial Services[1]			Financial Services			Total Volvo Group		
SEK M	2002	2003	**2004**	2002	2003	**2004**	2002	2003	**2004**
Assets									
Intangible assets	16,919	16,662	16,564	126	94	42	17,045	16,756	16,606
Property, plant and equipment	27,789	27,248	27,260	3,010	3,392	3,891	30,799	30,640	31,151
Assets under operating leases	11,155	8,976	8,477	13,284	13,234	12,817	23,525	21,201	19,534
Shares and participations	34,750	9,598	10,116	236	188	193	27,492	1,782	2,003
Long-term customer-financing receivables	55	53	147	25,348	23,918	25,200	25,207	23,448	25,187
Long-term interest-bearing receivables	4,189	2,911	1,797	7	5	5	4,188	2,769	1,741
Other long-term receivables	8,489	7,879	6,426	47	59	212	8,297	7,718	6,034
Inventories	27,564	25,848	28,291	741	611	307	28,305	26,459	28,598
Short-term customer-financing receivables	44	65	83	22,700	22,894	26,207	21,791	22,554	26,006
Short-term interest-bearing receivables	4,306	6,502	10,330	0	0	0	1,302	3,863	1,643
Other short-term receivables	25,767	25,200	30,043	2,126	1,649	1,628	25,693	24,903	29,647
Shares in Scania	–	20,424	–	–	–	–	–	20,424	–
Marketable securities	16,570	19,385	25,839	137	144	116	16,707	19,529	25,955
Cash and bank	7,584	8,717	8,789	1,602	654	914	8,871	9,206	8,791
Total assets	**185,181**	**179,468**	**174,162**	**69,364**	**66,842**	**71,532**	**239,222**	**231,252**	**222,896**
Shareholders' equity and liabilities									
Shareholders' equity	78,278	72,420	69,409	7,494	8,004	8,306	78,278	72,420	69,409
Minority interests	247	216	229	0	0	0	247	216	229
Provisions for post-employment benefits	16,218	15,264	14,129	18	24	26	16,236	15,288	14,155
Other provisions	13,893	12,792	14,020	2,828	2,256	878	16,721	15,048	14,898
Loans	22,494	24,677	13,968	54,270	52,852	57,860	72,437	74,092	61,807
Other liabilities	54,051	54,099	62,407	4,754	3,706	4,462	55,303	54,188	62,398
Shareholders' equity and liabilities	**185,181**	**179,468**	**174,162**	**69,364**	**66,842**	**71,532**	**239,222**	**231,252**	**222,896**
Shareholders' equity and minority interests as percentage of total assets	42.4%	40.5%	40.0%	10.8%	12.0%	11.6%	32.8%	31.4%	31.2%

1 Financial Services reported in accordance with the equity method.

CASH-FLOW STATEMENT







Cash flow

Cash flow after net investments, excluding Financial Services, amounted to SEK 26.4 billion. Operating cash flow (excluding the effects of acquisitions and divestments) was SEK 11.4 billion. The positive development during 2004 was mostly related to an increase in profitability. Working capital increased somewhat compared to last year due to strong sales growth. However, the negative effects of the growth were reduced by increased working capital turnover. The successful capital rationalization project within the Volvo Group, that was concluded during 2004, was the main factor for this development. All business areas have reported significant improvements in capital efficiency as a result of the program and focus on operating capital will continue.

Cash flow after net investments within Financial Services was negative SEK 5.5 billion in 2004 (neg. 3.2), as a result of continued growth in the credit portfolio.

Investments

Investments in fixed assets in 2004, excluding Financial Services, amounted to SEK 7.2 billion (5.8). Capital expenditures in Trucks, which amounted to SEK 4.7 billion (3.9), were made in tools and equipment for the production of new truck models. Investments were also made to increase the number of workshops for the dealer network in Europe, for a modification of the Hagerstown plant in North America for manufacturing of engines and transmissions and for the move of the assembly line for the MD9 and MD11 engines from Skövde, Sweden, to Lyon, France. The level of capital expenditures remained at the same level as last year in Buses at SEK 0.2 billion, decreased in Volvo Penta from SEK 0.4 billion to SEK 0.3 billion and increased in Volvo Aero from SEK 0.3 billion to SEK 0.5 billion and in Construction Equipment from SEK 0.5 billion to SEK 0.7 billion.

Approved future capital expenditures amounting to SEK 8.2 billion (6.4) relate mainly to investments for the next generation of trucks.

Investments in leasing assets amounted to SEK 0.3 billion (0.1). In Financial Services investments in leasing assets amounted to SEK 4.6 billion (5.2) and pertained mainly to the operations in North America and Western Europe.

Acquisitions and divestments

Net divestments in shares during 2004 amounted to a negative SEK 15.1 billion (investment: 0.1). The divestment of the Scania B shares amounted to SEK 14.9 billion and had a significant effect on the cash flow.

Acquired and divested companies had an insignificant effect on cash flow negative 0.1 (0.0).

Financing and dividend

Net borrowings decreased during 2004 by SEK 8.8 billion, of which new borrowing during the year, mainly through the issue of bonds, contributed SEK 19.1 billion. In 2003, net borrowings increased by SEK 1.9 billion.

Consolidated cash-flow statements

SEK bn	2002	2003	**2004**
Operating income	2.3	1.6	12.8
Add depreciation and amortization	7.8	7.2	7.4
Other non-cash items	1.0	4.1	(0.4)
Change in working capital	0.4	0.7	(1.5)
Financial items and income taxes paid	(1.1)	(0.7)	(0.2)
Cash flow from operating activities	**10.4**	**12.9**	**18.1**
Investing activities			
Investments in fixed assets	(6.3)	(5.8)	(7.2)
Investment in leasing assets	(0.1)	(0.1)	(0.3)
Disposals of fixed assets and leasing assets	1.1	0.6	0.7
Customer Finance receivables, net	0.0	0.0	0.1
Investments in shares, net	(0.1)	(0.1)	15.1
Acquired and divested operations	(0.1)	0.0	(0.1)
Cash flow after net investments excl Financial Services	**4.9**	**7.5**	**26.4**
Cash flow after net investments, Financial Services	**(4.3)**	**(3.2)**	**(5.5)**
Cash flow after net investments, Volvo Group total	**0.6**	**4.3**	**20.9**
Financing activities			
Change in other loans, net	(0.1)	1.9	(8.8)
Loans to external parties, net	1.7	0.9	0.0
Repurchase of own shares	–	–	(2.5)
Dividend to AB Volvo's shareholders	(3.4)	(3.4)	(3.4)
Other	0.1	0.1	0.0
Change in liquid funds excl translation differences	**(1.1)**	**3.8**	**6.2**
Translation differences on liquid funds	(0.7)	(0.6)	(0.2)
Change in liquid funds	**(1.8)**	**3.2**	**6.0**

Operating cash flow, excluding Financial Services

SEK bn	2002	2003	**2004**
Operating income	2.3	1.6	12.8
Depreciation and amortization	7.8	7.2	7.4
Other	0.3	4.1	(2.1)
Cash flow from operating activities	**10.4**	**12.9**	**18.1**
Net investments in fixed assets and leasing assets	(5.3)	(5.3)	(6.8)
Customer finance receivables, net	0.0	0.0	0.1
Operating cash flow	**5.1**	**7.6**	**11.4**

Future capital expenditures, approved[1]

SEK bn	
Trucks	6.3
Buses	0.2
Construction Equipment	0.6
Volvo Penta	0.1
Volvo Aero	0.4
Other	0.6
Total	**8.2**

1 In property, plant and equipment.

Condensed cash-flow statements, Financial Services

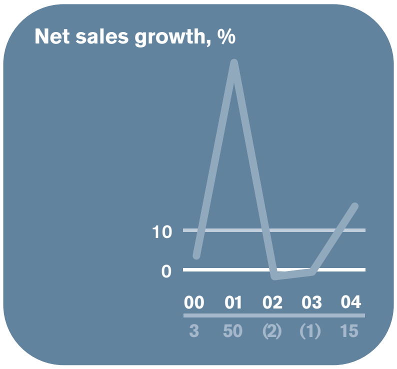
SEK bn	2002	2003	**2004**
Cash flow from operating activities	4.9	4.1	5.1
Net investments in credit portfolio, etc	(9.2)	(7.3)	(10.6)
Cash flow after net investments, Financial Services	(4.3)	(3.2)	(5.5)

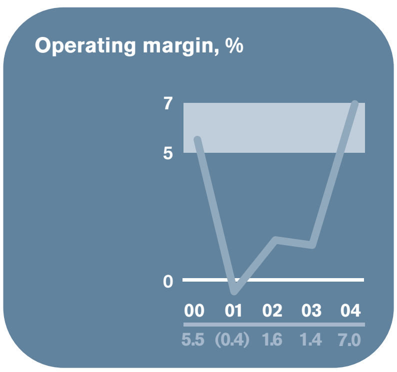
An ordinary dividend amounting to SEK 3.4 billion, corresponding to SEK 8.00 per share, was paid to AB Volvo's shareholders during the year. During 2004 AB Volvo repurchased own shares to the amount of SEK 2.5 billion.

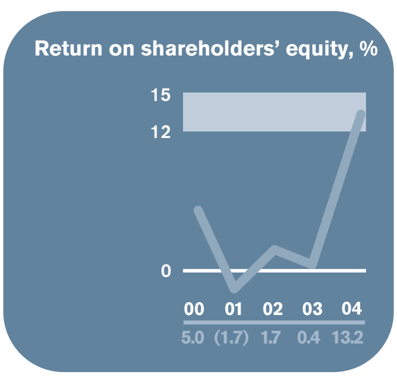
Change in liquid funds

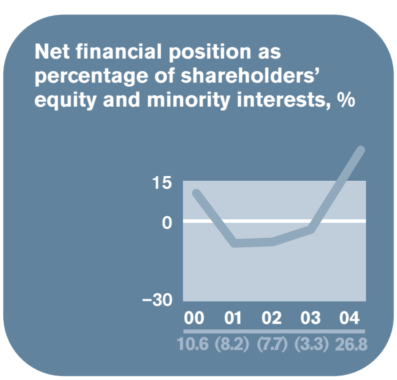
The Group's liquid funds increased by SEK 6.0 billion during the year amounting to SEK 34.7 billion at December 31, 2004.

FINANCIAL TARGETS









Financial targets

Volvo's ambition is to achieve a sustainable level of profitability above the industry average. Volvo has set a number of 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 2000 to 2004, the average annual growth rate, excluding divested operations, was 13.8%.

Operating margin

The objective is to obtain an operating margin of between 5% and 7% over a business cycle. The average annual operating margin for the Volvo Group during 2000 to 2004 was 3%.

Return on equity

The objective is to achieve a return on shareholders' equity of between 12% and 15%. Return on shareholders' equity in 2004 was 13.2%.

Capital structure

As the Volvo Group operates in cyclical industries, it is important to maintain a strong capital structure to be able to invest in production and product development throughout the entire business cycle.

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

At the end of December 2004, the Volvo Group had a net financial asset position of 26.8% of shareholders' equity and minority interests. On December 31, 2004, the equity ratio for the Group, excluding Financial Services, was 40.0% and the equity ratio for Financial Services was 11.6%.

RISK MANAGEMENT

The commercial vehicles industry is cyclical

The markets in which Volvo competes have been subject to considerable volatility corresponding to cycles in the overall business and economic environment in general and in the industrial sector in particular. The rate of infrastructure spending, construction and mining, and housing affect the Group's operations as its products are an important part of these activities. Economic development in Europe and North America is particularly important to Volvo because a significant part of the Group's revenues are derived from sales in these markets.

The cyclicality in demand for Volvo's products has at times resulted, and may in the future result, in temporary constraints upon Volvo's ability to produce the quantities necessary to fulfill orders in a timely manner.

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

Competition is intense among manufacturers of commercial vehicles and engines

Continued consolidation in the industry is expected to create fewer but stronger competitors. Volvo's products face substantial competition from commercial vehicles and engines provided by these

and other manufacturers, and such competition may have a significant impact on the prices Volvo receives for its products and on the Group's future sales volume. Our major competitors are DaimlerChrysler, Paccar, Navistar, MAN, Scania, Caterpillar, Komatsu, Cummins and Brunswick.

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

Prices for commercial vehicles can be volatile

Prices for commercial vehicles in certain markets have, at times, experienced sharp changes over short periods of time. This volatility is caused by many factors, including short-term fluctuations in demand, shortages of certain supplies, volatility in underlying economic conditions, changes in import regulations, excess inventory and increased competition. Overcapacity within the industry will likely occur if there is an economic downturn in Volvo's major markets or worldwide, leading, potentially, to further increased price pressure.

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

The Group's operations are exposed to currency fluctuations

Approximately 90% of Volvo's sales are in countries other than Sweden. Changes in exchange rates have a direct effect on Volvo's results of operations, balance sheet and cash flow and an indirect effect on Volvo's competitiveness, which will over time affect the Group's results. Volvo's income statement is affected primarily by the translation of revenue and expenses in foreign currencies, and its balance sheet is affected primarily by the translation of net assets of foreign subsidiaries into Swedish kronor at rates different from those used to translate earlier periods. In addition, currency movements may affect Volvo's pricing of products sold and materials purchased in foreign currencies as well as those of its competitors, which may be affected differently by such movements. Since Volvo has substantial manufacturing operations in Sweden and generates a substantial portion of its revenues in currencies other than the Swedish krona, Volvo's results of operations would be materially adversely affected by a considerable appreciation of the Swedish krona against other currencies.

The objective of Volvo's management of currency risks is to minimize short-term negative impact on Volvo's income and financial position. Volvo uses forward contracts and currency options to hedge the value of future payments in foreign currencies. Volvo has entered into, and expects to continue to enter into, such hedging arrangements with counterparties that are carefully selected and approved.

Please see note 33 "Financial risks and Instruments" on page 84 for detailed information.

Volvo's profitability is dependent upon the successful introduction of new products

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

Many of our products take a long time to develop from initial idea to finished product. It is crucial that we can offer the right products in the right place and at the right time. It is important to involve customers in the early phases of the development process as a means of safeguarding successful products in the marketplace.

Volvo relies on suppliers for the provision of certain raw materials and components

Volvo purchases raw materials, parts and components from numerous outside suppliers. A majority of the Group's requirements for raw materials and supplies is filled by single-source suppliers. The impact of an interruption in supply will vary by commodity and components. Some parts are generic to the industry while others are of a proprietary design requiring unique tooling, which would take time to recreate. The inability of a supplier to deliver could have an adverse effect on production at certain of Volvo's manufacturing locations.

The cost for raw material and components can vary significantly over the business cycle. These variations can occur due to changes in the commodity market or our suppliers' ability to deliver.

Volvo is working closely with the suppliers to manage these aspects, including reviewing suppliers' financial stability, quality systems and their production flexibilty.

The commercial vehicles industry is subject to extensive government regulation

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

Most of the regulatory challenges regarding products relates to engine emissions. The Volvo Group is a large player in the commercial vehicle industry and is one of the top three high-volume world producers of heavy duty diesel engines. The product development capacity, within the Volvo Group, is well consolidated and the Volvo Group has a unique opportunity, compared to competitors, to focus development resources to meet these challenges. Future product regulations are well known, provided that they are not changed, to the Volvo Group and the product development strategy is well tuned to the introduction of new regulations. The new regulations regarding product emissions are extensive, but our current assessment is that they are manageable for the Volvo Group and within our estimates.

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

Volvo is reliant on the protection and preservation of its intellectual property

Volvo products are sold primarily under the brands "Volvo", ”Volvo Penta", ''Volvo Aero'', "Renault Trucks" and "Mack". Volvo owns or otherwise has rights to a number of patents and trademarks, relating to the products it manufactures, which have been obtained over a period of years. These patents and trademarks have been of value in the growth of Volvo's business and may continue to be of value in the future. Volvo does not regard any of its businesses as being dependent upon any single patent or group of patents.

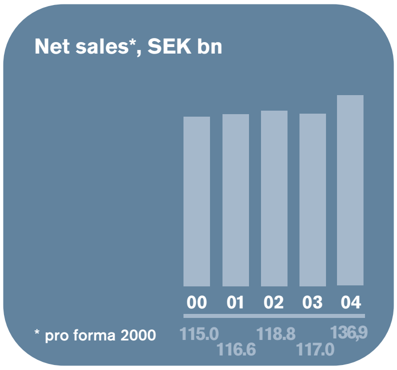
Through Volvo Trademark Holding AB, AB Volvo and Volvo Car Corporation jointly own all trademarks containing "Volvo" globally. AB Volvo has an exclusive right to use the "Volvo" name and trademark in relation to its products and services. Similarly, Volvo Car Corporation has an exclusive right to use the brand in relation to their products and services. To secure these rights and avoid having the trademark eroded, AB Volvo and Volvo Car Corporation have jointly adopted mechanisms to control their respective use of the trademark and to prevent others from taking undue advantage of it.

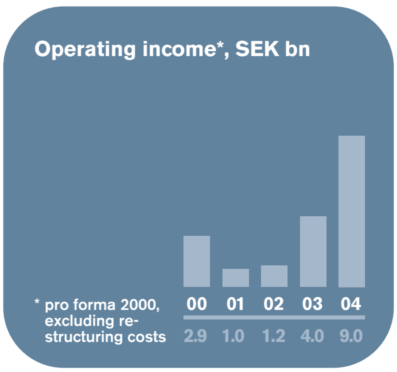
With regard to the "Mack" trademark, which is owned within the Volvo Group, similar control mechanisms apply. Volvo's rights to use the "Renault" trademark are limited to the truck sector only and are governed by a licence agreement with the French company Renault SA, the owner of the "Renault" trademark.

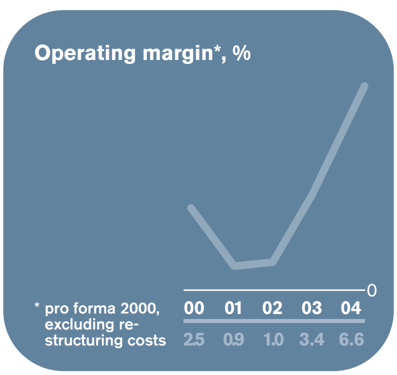
Complaints or litigation from customers and other third parties

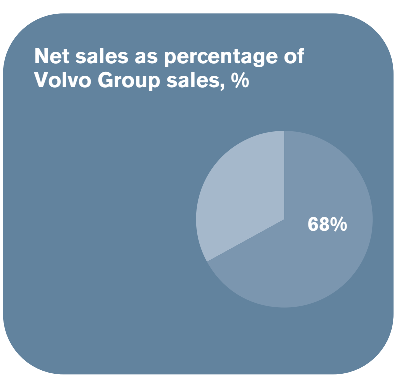
Volvo can be subject to complaints and litigation from customers, employees or other third parties, alleging health, environmental, safety or operational concerns or failure to comply with applicable laws and regulations. These claims, even if successfully solved without direct adverse financial effect, could have a material adverse effect on Volvo's reputation and divert financial and management resources from more beneficial uses.

Volvo continuously reviews its manufacturing and administrative processes with the aim of ensuring that Volvo products and operations meet applicable legal and other regulatory requirements.









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

Total deliveries from the Group's truck operations amounted to 193,219 trucks in 2004, an increase of 24% compared with the year-earlier period. In Europe, 102,666 trucks were delivered, compared with 92,083 trucks in 2003. Deliveries in North America were up 42% compared with the year-earlier period and totaled 49,273 trucks. Deliveries in Asia continued to develop favorably, in particular in the Middle East.

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 of 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 segments of the heavy-duty truck market. A clear majority of Mack vehicles employ drivelines manufactured in-house – a unique feature in the North American truck industry. In addition, Mack trucks are sold and serviced in more than 45 countries.

Mack launched an ambitious program of product renewal in 2004 with the introduction of its Advantage chassis for highway applications. The new chassis delivers a variety of benefits to enhance efficiency and profitability of customers' operations – and also allows for Mack to expand into a broader range of highway applications.

Mack deliveries rose in 2004 to 25,469 trucks, compared with 18,991 trucks a year earlier. The gains were the result of strengthening in the overall truck market, tied to improved U.S. economic conditions.

Renault Trucks

Renault Trucks 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.

Renault Trucks has a strong presence in Europe with 1,350 dealers and service centers, which on a global basis extends to 2,000.

In May 2004, Renault Trucks introduced a new generation of the light truck, Renault Mascott, spanning the 3.5 to 6.5 ton segment. The Renault Mascott features a new exterior and interior design, new engines and improved performance. In June, a whole new range of all-wheel-drive military rigid trucks, Sherpa, was

Number of vehicles delivered

	2003	**2004**
Western Europe	82,672	90,746
Eastern Europe	9,411	11,920
North America	34,756	49,273
South America	5,976	9,190
Asia	16,286	24,881
Other markets	6,888	7,209
Total	**155,989**	**193,219**

Largest markets

	2003		**2004**	
	Registered heavy trucks	Market share %	Registered heavy trucks	Market share %
Volvo Trucks				
US	13,711	9.7	20,323	10.0
Iran	5,463	n/a	9,979	n/a
Brazil	4,713	13.1	6,354	13.1
Great Britain	5,855	17.1	5,658	16.6
France	4,222	11.5	4,722	12.3
Germany	4,250	9.2	4,584	8.5
Spain	3,861	14.4	4,317	14.9
Canada	2,232	9.9	3,374	11.1
Renault Trucks				
France	13,205	36.0	13,702	35.7
Spain	4,429	16.7	5,065	17.7
Great Britain	1,389	4,1	1,622	4.8
Germany	979	2.1	943	1.8
Mack Trucks				
US	15,146	10.7	20,670	10.2
Canada	1,697	7.5	1,809	6.0

launched and at the same time, the product portfolio was extended with the new Renault Puncher, a low entry truck targeted for applications like refuse collection, powered by diesel, GNV (Vehicular Natural Gas) or electric mode.

In the beginning of 2005, Renault Trucks plans to lauch a new version of its Renault Magnum truck with new engine and gearbox and extensive driver environment improvements.

Renault Trucks' deliveries during 2004 amounted to 70,486 vehicles, an increase of 14%. Deliveries to Eastern Europe rose by 24%. In Western Europe deliveries of Renault trucks increased by 9%, while deliveries in other parts of the world rose by 43%.

Volvo Trucks

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

Volvo Trucks products are marketed in more than 130 countries. The greater part of the sales takes place in Europe, North and South America and Asia.

In the beginning of 2005, Volvo Trucks presented the new truck model Volvo VT880 in Phoenix, Arizona. Volvo VT880 is developed for the North American market and is built in the New River Valley plant in Virginia, USA. The New Volvo VT880 is the first Volvo truck on the North American continent equipped with Volvo's new 16-liter engine, the same engine that was launched in 2003 in Europe and other markets.

During the year, Volvo Trucks continued to implement its European retail strategy.

Net sales per market

SEK M	2002	2003	**2004**
Western Europe	61,406	63,097	68,664
Eastern Europe	6,424	7,004	8,767
North America	33,721	28,151	35,154
South America	3,277	3,464	5,223
Asia	5,919	9,206	12,378
Other markets	8,005	6,047	6,693
Total	**118,752**	**116,969**	**136,879**

Number of trucks produced

	2002	2003	**2004**
Volvo			
Volvo FH	31,880	33,720	45,010
Volvo VN and VHD	14,300	17,080	25,640
Volvo FM9, 10, and 12	15,300	17,480	18,900
Volvo FL	5,640	4,820	4,980
Volvo NL and NH	1,490	1,940	1,170
Volvo VM	–	400	1,600
Total	**68,610**	**75,440**	**97,300**
Mack			
Mack CH / CHN	7,540	1,744	2,006
Mack CL	288	64	170
Mack Vision	2,523	4,811	7,283
Mack Granite	4,592	6,217	10,935
Mack DM	528	458	519
Mack DMM	47	–	–
Mack LE	1,084	964	849
Mack MR	1,668	2,034	2,603
Mack RB	103	130	130
Mack RD6	2,298	921	17
Mack RD8	35	54	4
Other	–	1,122	1,121
Total	**20,706**	**18,519**	**25,637**
Renault			
Renault Mascott	11,446	9,797	11,574
Renault Kerax	7,677	6,674	7,063
Renault Midlum	12,545	12,801	16,018
Renault Premium	16,150	15,567	17,250
Renault Magnum	7,848	7,516	8,801
SISU	–	45	49
Total	**55,666**	**52,400**	**60,755**

During 2004, Volvo Trucks delivered a total of 97,264 trucks, an increase of 29% compared with a year earlier. Deliveries increased by 52% in North America, by 45% in Asia and by 43% in South America. The strong development in Asia was mainly based on high deliveries to the Middle East.

Total market

The total market for heavy trucks in Europe 27 (Members of the European Union plus Norway and Switzerland) increased by 12% during 2004, compared with the preceding year. The market in Germany increased by 17% and the UK market decreased by 1%, while the markets in Italy and France increased by 18% and 5%, respectively. Eastern Europe continues to show a positive trend.

The total market for heavy trucks in North America (Class 8) increased by 43% in 2004 compared with the year-earlier period. The market for heavy trucks in Brazil rose by 34% compared with a year earlier.

Business environment

There were no significant changes to the structure of the truck industry during 2004 in terms of mergers or acquisitions. The year was characterized by a synchronized global recovery in demand, which was particularly strong in North America and the Middle East. The increased demand led to a significant increase of truck production, with only moderate investments in new production capacity among OEMs and suppliers. During 2004 the truck industry encountered sporadic supply bottlenecks of components and parts, as the suppliers had to accelerate their production systems very quickly to respond to significant increases in production rates.

One factor putting pressure on the industry was the increased costs on raw materials, to which the industry responded by increasing efficiency and adjusting prices.

Market share development

The Group's combined market share for heavy trucks in Europe 27 was 26.5% in

2004 compared with the year-earlier period at a level of 27.1%. Volvo Trucks' share of the market decreased to 15.2% (15.7) and Renault Trucks' share of the market declined to 11.3% (11.4) in the heavy-duty segment.

In North America, the Group's combined market share for heavy trucks declined to 19.4% (19.8). Volvo Trucks' market share amounted to 9.7% (9.4). This increase was due to a high demand for the new Volvo VN. Despite adding to its leadership position in its core vocational segments of construction and refuse applications, Mack's share of the overall US retail market fell to 9.7% (10.4) in 2004. This decline was due to the fact that growth was disproportionately dominated by the U.S. truck market's long-haul highway segment, which is not one of Mack's core segments.

In Brazil, Volvo's market share was unchanged at 13.1% (13.1).

Financial performance

Net sales for Volvo's combined truck operations amounted to SEK 136,879 M in 2004. Adjusted for currency effects, sales increased by 19.9% compared with 2003.

Operating income in 2004 amounted to SEK 8,989 M (3,951). In Europe, Volvo Trucks' strong performance was further enhanced and a considerable improvement was recorded in markets outside Europe. In North America both Mack Trucks and Volvo Trucks showed significant earnings improvements. Renault Trucks also reported higher earnings. The improvement in the truck operations was largely attributable to higher sales volumes and increased margins.

Production and investments

Production of trucks in 2004 amounted to 97,300 Volvo Trucks (75,440), 60,755 Renault Trucks (52,400) and 25,637 Mack Trucks (18,519).

In 2004, the decision was taken to optimize the industrial system within Renault Trucks. Assembly of the Renault Kerax will be relocated from Villaverde, Spain to Bourg-en-Bresse, France, during 2006. The remaining activities in Villaverde will be the manufacture of crankshafts.

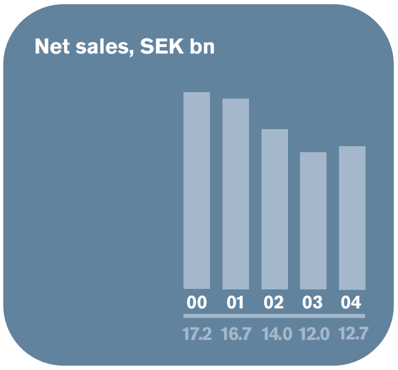
A frame agreement was signed in January 2004 between the Chinese company, Dong Feng Motors and Renault Trucks that lays the foundation for a joint venture.

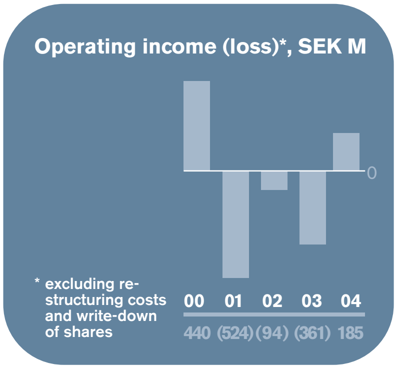
In April 2004, Volvo Trucks opened the assembly plant in Jinan, China together with China National Heavy Truck Corporation.

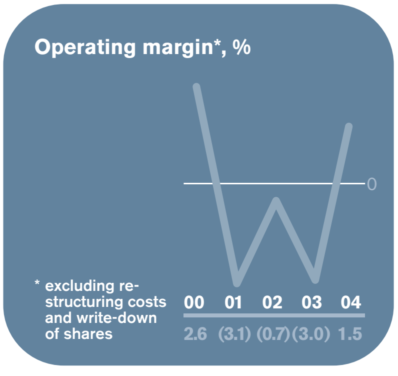
In September, the Group inaugurated a new engine factory in Vénissieux, France, for the assembly of 9 and 11 liter engines and in October the Group announced a comprehensive investment plan to upgrade its existing engine and transmission plant in Hagerstown, USA, to supply all business areas in the US with heavy duty engines in the future.

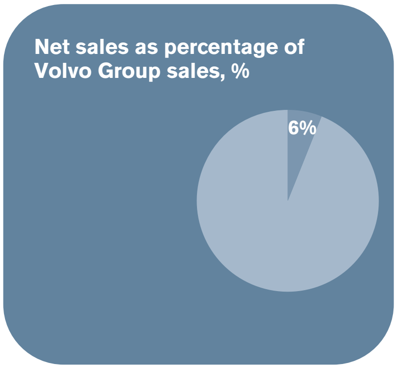
Ambitions for 2005

The main focus in the truck sector will be to manage the introduction and production start of several new trucks within all three truck brands. The high level of activity, in research and development on the engine side, will also continue to prepare for the launch of a new range that will comply with the new emission standards coming into force in Europe and North America in 2006/2007. The focus on developing stronger distribution networks in Europe, North America and Asia will continue. In production and purchasing, the focus is on mitigating cost increases on raw materials, balancing the effect of currency fluctuation and on managing a tight supply of certain parts and components.









BUSES

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

In 2004, new versions of Volvo's coaches, the Volvo 9700 and 9900, and Volvo's global bus chassis, B7R, were launched. In Mexico, two new models for intercity and tourist traffic, the Volvo 9300 and 8300, were introduced. The company also continued its broadening of a complete offering to customers, including such actions as opening new Bus Service Centers and introducing new variations of service contracts.

As part of the restructuring of the bus manufacturer Henlys Group plc, Volvo Group reached an agreement to acquire the remaining 50% of the North American bus manufacturer Prévost Car Inc., containing the Prévost and Nova brands.

Total market

The total bus market rose in most parts of the world during 2004, except in Mexico. However, price pressure remained strong in many markets. The total volume in Europe and North America increased moderately, with the largest percentage increase occurring in South America. Economic growth in Asia remained strong and bus sales continued to rise in many countries.

Business environment

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

Regional authorities and large cities are placing heavy demands on bus safety and minimal environmental impact. They are considering and demanding vehicles that operate on alternative fuels.

Market share development

Volvo invoiced 8,232 (7,817) buses and bus chassis during 2004. Increased sales were reported from many markets, including Europe, North America, South America and parts of Asia. However, volumes were lower in Mexico and China.

Volvo's market shares in Europe remained at about the same level as in 2003. Volvo remains the market leader in the Nordic region and the UK. Prévost reported higher market shares for its coaches, while Volvo lost market share in China and in Mexico for coaches.

Financial performance

Net sales during 2004 rose to SEK

Number of vehicles delivered

	2002	2003	**2004**
Western Europe	3,076	2,782	3,073
Eastern Europe	337	305	344
North America	1,945	1,553	1,388
South America	495	369	624
Asia	2,639	2,227	2,341
Other markets	567	581	462
Total	**9,059**	**7,817**	**8,232**

Net sales per market

SEK M	2002	2003	**2004**
Western Europe	6,695	6,153	6,422
Eastern Europe	409	381	526
North America	3,838	2,984	2,960
South America	366	329	521
Asia	2,022	1,447	1,632
Other markets	705	684	661
Total	**14,035**	**11,978**	**12,722**

12,722 M (11,978). The increase was attributable largely to higher volumes as well as to improved price management.

During the year, the company reversed an operating loss of SEK 361 M in 2003 to an operating income of SEK 185 M, excluding write-down of shares in Henlys Group plc. amounting to SEK 95 M (429). The improved earnings were due to increased volumes, higher prices, benefits from restructuring in Europe, including the plant in Aabenraa, Denmark, as well as the general cost reductions carried out by the company. Tied-up capital was reduced, due in part to shorter lead times from order to delivery.

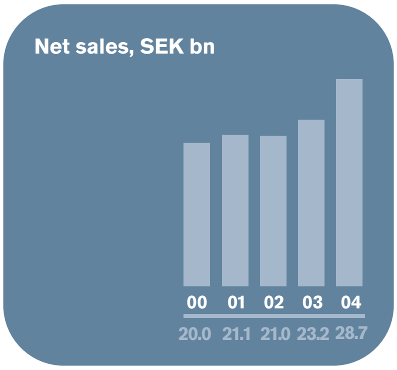
Production and investments

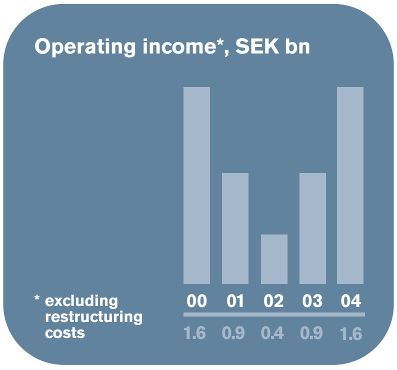
During the year Volvo produced 8,089 buses (7,223) and bus chassis, of which 34% were complete buses and coaches. Capacity utilization in the production system in Europe and North America increased, partly as a result of the upturn in the market and partly because the body plant in Aabenraa, Denmark, was closed during the year.

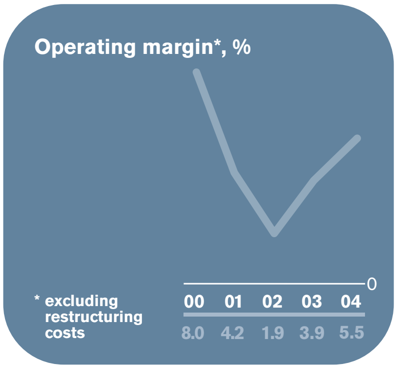
Ambitions for 2005

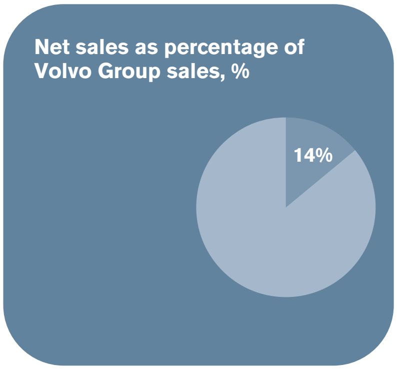
Volvo Buses' ambition for 2005 is to continue implementing the program that contributed to the improved earnings performance of Buses, with the long-term goal of reaching the Group's profitability targets. After the successful restructuring of the industrial and commercial operations in Europe, a similar program will be started in Mexico and China.

The company is continuing to standardize the global product program to secure economies of scale. Among other measures, this will be accomplished through continued increased component commonality between the buses and trucks within the Volvo Group.









CONSTRUCTION EQUIPMENT

Volvo CE's products, spare parts and services are offered worldwide in more than 125 markets. Customers are using the products in a number of different applications including general construction, road construction and maintenance, forestry, demolition, waste handling, material handling and extraction.

Volvo CE has launched more than 50 new products onto the market over the last three years. The comprehensive product portfolio includes a range of wheeled and crawler excavators, articulated haulers, wheel loaders, motor graders and a range of compact equipment such as compact wheel loaders, compact excavators, backhoe loaders and skid steer loaders.

The customer offering also includes services such as financing, leasing and used equipment sales. The rental initiative, launched in 2001, continues to develop favorably and on December 31, 2004, Volvo CE Rents had 77 stores established in North America and Europe.

In the course of 2004, almost 90% of the US distribution network, acquired from L.B Smith Inc in 2003, was divested. The different distribution areas have been sold to strong, well capitalized and experienced independent dealers.

In Europe, the construction equipment dealerships arising from the Bilia acquisition have been fully integrated with Volvo CE's organization.

Total market

The total world market for heavy and compact construction equipment, within Volvo CE's product range, increased by 20% during 2004. In North America the market increased by 27%, Western Europe was up 12%, while other markets were up 20%, primarily driven by strong development in Eastern Europe, up 46%. South America rose 54% and East Asia was up 55%.

The increase in the total market was driven by both heavy and compact construction equipment. The North American market for **heavy equipment** was up 41% and the market in Europe was up 12%. Other markets rose by 14%.

The world market for **compact equipment** increased in 2004, up 20% compared with the preceding year. The market in North America was up 21%, and markets in Europe were up 12%. Other markets rose by 27%.

Business environment

No major structural changes in the industry were reported during 2004. The consolidation among small and medium competitors continued. Overall business environment remained positive in most markets, with the exception of a significant slow down in China during the second half of the year, due to governmental measures taken to slow the economy.

These actions had a considerable impact on the total market for excavators.

Other areas impacting general business conditions for the industry in 2004 were currency development, with a weakening US dollar, and cost increases and supply shortages of raw material such as steel and rubber.

Market share development

Volvo CE continued to gain market shares during 2004. In most geographical and product areas the market shares were higher compared with a year earlier. This was mainly due to recently launched products equipped with new fuel-efficient and more environmentally adapted Volvo engines and improved distribution.

Financial performance

Volvo CE's net sales amounted to SEK 28,685 M (23,154), up 28% adjusted for currency effects. The increase was mainly attributable to all-time-high volumes as a result of the expanded product range, improved distribution and dealer development, improved market shares and generally favorable market conditions. Operating income in 2004 increased 73% to SEK 1,572 M (908) and the operating margin was 5.5% (3.9). The improved earnings were primarily related to increased volumes, which were strongly offset by negative currency effects and increased costs for raw materials.

Production and investments

During 2004, the decision was taken to add capacity and start production of crawler excavators, mainly for Europe, in Volvo CE's factory in Konz, Germany. This means that Volvo CE will produce crawler excavators in Korea, China and Germany. Measures were also taken to increase capacity in the existing articulated hauler factory in Braås, Sweden.

Ambitions for 2005

Volvo CE's ambitions for 2005 is to continue to capitalize on the investments in the new products launched over the last couple of years and to continue to grow and develop the aftermarket and service business.

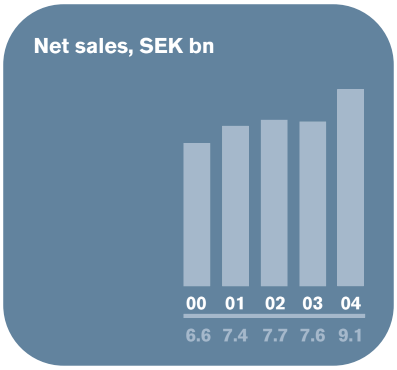
The dealer development program will continue on a global basis. The rental initiative is planned to expand further, and additional stores are to be opened in most geographical areas where Volvo CE operates. On the sales and marketing side, Volvo CE expects to participate in the business growth in Russia and India, to further capitalize on the integrated Bilia distribution network and to benefit from the significant progress made in the development of the North American distribution structure.

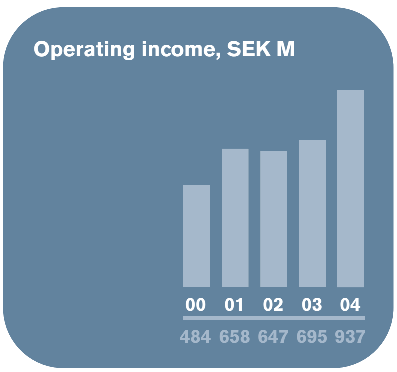
The new Tier-3 engines that will be required for certain products in the US in 2005 will be equipped with V-ACT, Volvo Advanced Combustion Technology.

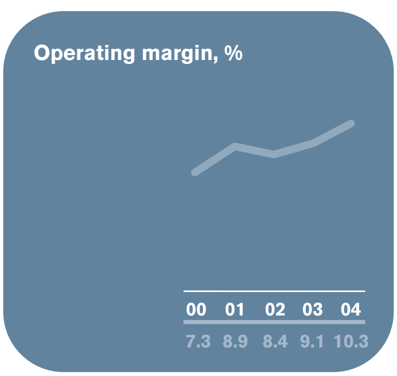
New products, targeting new segments and customers in the construction equipment market, will also be launched during 2005.

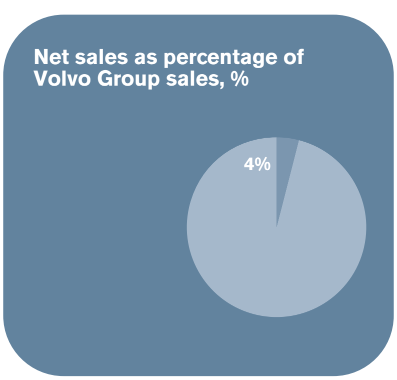
Net sales per market

SEK M	2002	2003	**2004**
Western Europe	10,383	11,576	12,443
Eastern Europe	454	772	1,010
North America	5,667	5,428	7,926
South America	709	636	922
Asia	3,048	3,707	4,961
Other markets	751	1,035	1,423
Total	**21,012**	**23,154**	**28,685**









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 strong global presence.

In recent years, Volvo Penta has carried out a number of notable product introductions. These were followed, at the end of 2004, by the launch of the revolutionizing drive system for boats – Volvo Penta IPS (Inboard Performance System). This new system is an alternative to traditional shaft installations for boats in the 35- to 50-foot class. Volvo Penta IPS replaces propellers and rudders with controllable drive units and forward-facing, counter-rotating pulling propellers. Compared with traditional shaft installations, this solution provides improvements in top speed, acceleration and comfort, while reducing fuel consumption. Noise and vibration levels are also reduced substantially.

Volvo Penta IPS has been very well received by boat builders and the trade press. The new system is expected to initiate the same extensive change in boating life as Volvo Penta's launch of the Aquamatic drive at the end of the 1950s.

In addition to IPS, a new 9-liter engine for leisure boats was launched as well as the D4-260 and D6-350, which are high-performance versions of Volvo Penta's new generation of marine diesel engines.

Volvo Penta is also continuing to maintain a high pace of development in other segments, including the introduction of a new 16-liter industrial engine and a new 9-liter engine. The 9-liter diesel engine is now being offered to customers within all of Volvo Penta's business segments.

Total market

The total world market for marine and industrial engines continued to improve, although the trend varied in different parts of the world. A strong gain for industrial engines was noted in the early part of the year, primarily due to sharply increased demand in China. This increase slackened toward year-end when the Chinese authorities instituted a number of restrictions in order to cool the economy.

In North America, the total market rose for gasoline and diesel engines. Continued stable demand for marine diesel engines was noted in Europe.

Net sales per market

SEK M	2002	2003	**2004**
Western Europe	3,846	4,081	4,723
Eastern Europe	99	108	184
North America	2,261	2,109	2,500
South America	127	146	142
Asia	1,141	947	1,324
Other markets	195	205	184
Total	**7,669**	**7,596**	**9,057**

Business environment

In the marine leisure business, Volvo Penta is an independent supplier of drive systems. This means that Volvo Penta does not manufacture boats and, accordingly, does not compete with its customers. Volvo Penta builds long-term partnerships with boat builders worldwide and focuses its resources on development, sales and services of engines and drive systems.

The same strategy applies in the Industrial business segment. Business in this segment is dominated by sales of engines for diesel-powered generators, usually referred to as gensets. Volvo Penta does not manufacture complete gensets, but delivers the engines to companies specializing in such production. In this manner, Volvo Penta has partnered successfully with genset producers around the world.

The position as an independent engine supplier is one of the cornerstones in the strategy that has contributed to Volvo Penta's successes in recent years. This is also a key element in future growth ambitions, within Marine Leisure as well as the Industrial business segment.

Market share development

The positive reception by the market of Volvo Penta's new generation of diesel engines has contributed to continued strong positions among the world's major boat builders. This trend was particularly notable in North America, where Volvo Penta has strengthened its position continuously for a number of years. This trend applies to diesel as well as gasoline engines.

The global industrial engine business continued to develop positively, primarily with regard to engines for diesel-powered gensets, particularly as a result of continued growth in the Chinese market. China was Volvo Penta's single largest market for industrial engines in 2004.

Financial performance

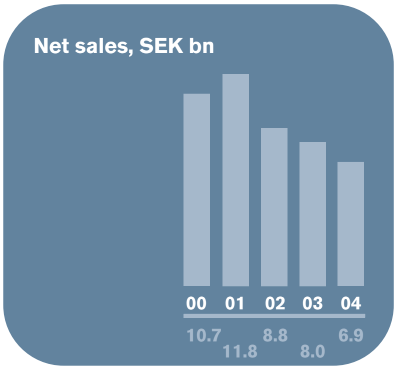
Sales rose 19% to SEK 9,057 M, compared with SEK 7,596 M in the preceding year, due to strong growth in all of Volvo Penta's business segments. Operating income increased from SEK 695 M to SEK 937 M, an increase of 35% compared with a year earlier. The operating margin was 10.3% (9.1). Both sales and operating income were all-time-highs for Volvo Penta.

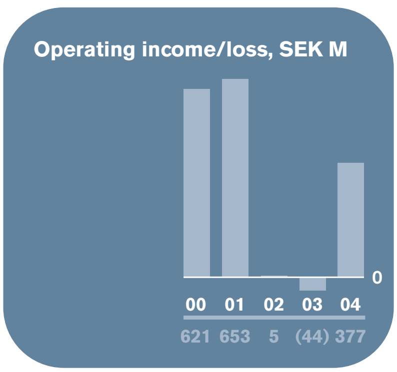
Production and investments

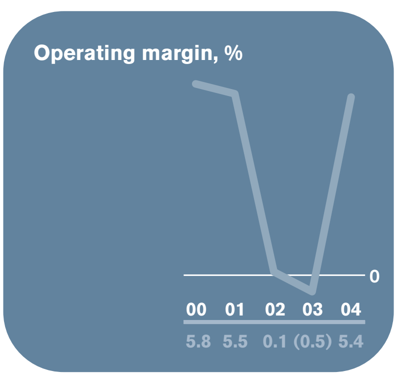
Volvo Penta's plants operated at full capacity during the year and capacity increases were successively implemented in all plants, including the diesel engine plants in Vara, Sweden, and Wuxi, China, as well as the gasoline engine plant in Lexington, Tennessee, USA. The plant in Vara has conducted parallel production of the existing engine series as well as the new-generation D4/D6. Volvo Penta has also contributed to the high capacity utilization in Volvo's joint engine plant Skövde, Sweden, primarily as a result of the strong sales of industrial engines.

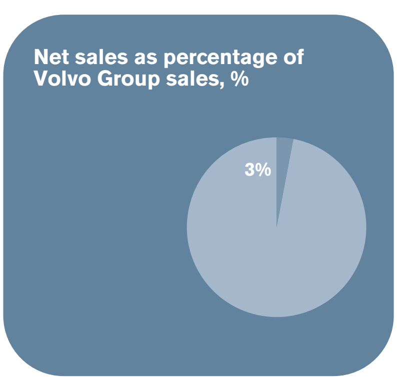
Ambitions for 2005

Volvo Penta has implemented extensive product introductions in recent years. In 2005, major resources will be applied to securing continued success for these new products in the market, particularly the Volvo Penta IPS drive system. The strong focus in recent years on cost control and cash flow as well as on aligning the production and logistics systems to prevailing market positions will be sustained.









VOLVO AERO

Volvo Aero offers a wide range of services and products for the commercial, aerospace and military aircraft industries, including high-technology components for engines, sale of parts for engines and aircrafts and overhaul and repair of aircraft engines and gas turbine engines. In addition, Volvo Aero provides aftermarket services for gas turbine engines and systems.

The company operates in close cooperation with partners. In 2004, important contracts on engine programs, such as the new engine GEnx and the industrial gas turbine LM2500, were signed with General Electric.

Total market

2004 is likely to show one of the strongest air traffic rebounds in history. Preliminary figures indicate a double-digit rate of traffic growth for the year. Air traffic in 2005 is expected to increase in line with historical industry trends.

However, high traffic volumes do not necessarily mean strong airline profits and the fortunes of airlines differ substantially. While the low-cost sector continued to perform well in 2004, many traditional airlines, primarily in the US, continue to face severe pressure from declining ticket prices and high fuel prices.

Business environment

Aircraft deliveries increased to 605 aircraft in 2004, compared to 586 in 2003. The order intake for large commercial aircraft was quite modest at 434 in the first eleven months of the year, but there were about 213 order announcements in December. The aircraft manufacturers have announced plans to increase production rates in 2005.

Financial performance

Volvo Aero's net sales declined 14% to SEK 6,925 M (8,030). The decline in sales was primarily attributable to a combination of lower volumes, mainly within engine overhaul, in combination with strong price pressure and the weakening US dollar.

During the same period, operating income was SEK 377 M (loss: 44). The improved result was mainly attributable to cost reduction and more efficient utilization of production facilities in Trollhättan, Sweden, and Kongsberg, Norway. A better mix of products and higher demand for new spare parts also contributed positively to the income. The operating margin was 5.4% (negative: 0.5).

The most profitable areas continue to be production of components and spare parts for commercial aircraft engines. Profitability remains unsatisfactory in the aftermarket business.

Production and investments

In 2004, Volvo Aero extended its cooperation with General Electric, as Volvo Aero became a partner in the new GEnx engine for the future Boeing 787 and Airbus A350. GE and Volvo Aero also signed agreements whereby Volvo Aero increased its stake in the LM2500 industrial gas turbine.

Volvo Aero also acquired the company Aero-Craft outside Hartford, Connecticut, USA. The acquisition was part of forming a strategic alliance with the forged components manufacturer Carlton and will allow Volvo Aero to expand its range of specialized parts with fan cases. Aero-Craft primarily manufactures components for large industrial gas turbines and for aircraft engines.

During 2004, Volvo Aero Services (VAS) and British Airways signed a multi-year agreement, whereby VAS will sell designated surplus spare parts from British Airways. VAS also signed agreements with, among others, Air Pacific, which will be provided with spare parts from the Boeing Company.

Overhaul contracts were signed with Continental Airlines, whereby Volvo Aero will inspect, repair and overhaul Continental's fleet of 30 aircraft with PW121 engines.

Volvo Aero and Harrods Aviation also signed an agreement, whereby Volvo Aero will give full support for heavy maintenance and overhaul of the Honeywell TFE 731 engine.

In June, Sweden and the Czech Republic signed a leasing agreement for 14 Gripen fighter aircraft for 10 years. Volvo Aero is responsible for service and product support of the RM12 engine for the Gripen fighter.

Ambitions for 2005

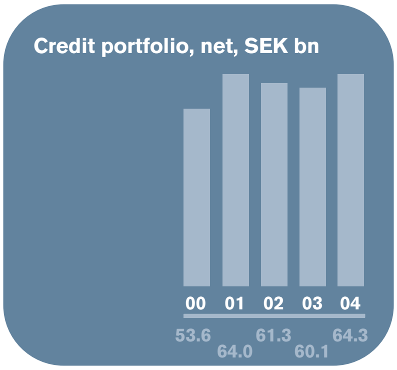
Volvo Aero will work hard to meet the sharp increase in demand for new engine components, with a continuous focus on cost.

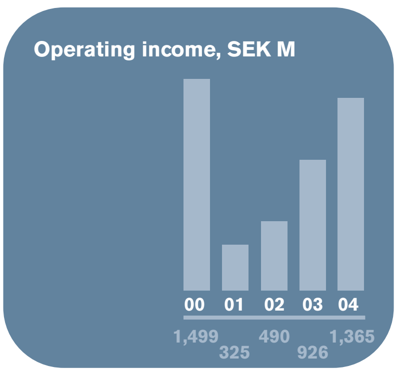
For 2005, the ambition is also to make sure the development of the GEnx engine runs smoothly and meets the time schedule. The ambition is also to integrate Aero-Craft and to start building up the extension into fan cases as a specialization.

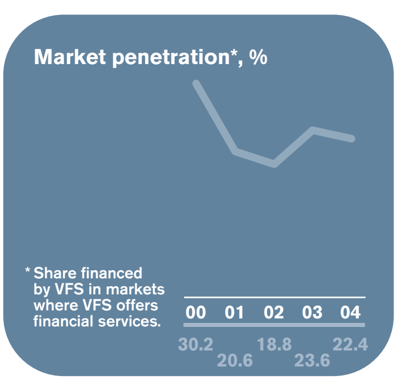
Volvo Aero also aims to improve the aftermarket businesses by increased volumes and reducing costs.

Net sales per market

SEK M	2002	2003	**2004**
Western Europe	3,422	3,951	3,130
Eastern Europe	28	49	49
North America	4,573	3,301	3,127
South America	177	152	138
Asia	497	428	400
Other markets	140	149	81
Total	**8,837**	**8,030**	**6,925**







FINANCIAL SERVICES

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

The customer in focus

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

At the end of 2004, VFS marked its 14th quarter of increasing operating income. Driving these results were the reorganization which VFS began in 2001 (focusing on portfolio control and risk management) as well as the improved global business climate. Throughout 2004 VFS successfully achieved a healthy balance in terms of credit risk, volume, sales penetration and professional pricing. All customer finance regions performed better than the previous year: Region International showed strong profitability and growth; Region Americas benefited from higher income and lower delinquencies and Region Europe showed strong profitable growth and continued low delinquencies. VFS took a conservative approach as it steadily moved into selected emerging markets in 2004. Challenges remain in increasing financing of trucks from Mack Trucks and Renault Trucks.

Volvo Treasury coordinates the Group's global funding strategy and manages all of its interest-bearing assets and liabilities. Operating from Gothenburg, Greensboro, Singapore and Curitiba, the international presence supports the growth strategy of the Volvo Group. The funding strategy kept the Group's borrowing cost at low levels and gave support to the customer finance activities. In 2004, Volvo Treasury obtained favorable loans for funding research and development, managed an increase in assets resulting from the sale of the Scania shares, and refinanced debt resulting in funding cost savings. Volvo Treasury's role as an in-house bank also includes advisory services to the Group companies.

Danafjord, VFS's real estate unit, expanded further in 2004. The operation covers the renting and development of commercial real estate in Sweden and increasingly in other countries. In the Spring of 2004, Danafjord acquired Volvo Trucks' real estate in Lundby, Gothenburg and began building a 15,000 sqm new office building there. The occupancy rate at the end of the year was 99.8% (99.8), and 52% (61) of the total leasing was for tenants outside the Volvo Group. 84% (76) of the leases run for five years or more.

Volume and assets

The total volume of new retail financing in 2004 amounted to SEK 29.5 billion, which was SEK 2.6 billion higher than 2003. For the year, Volvo Trucks accounted for 51% (54) of the volume, Construction Equipment for 20% (17), Renault Trucks for 17% (15), Buses for 4% (5) and Mack Trucks for 7% (8). The remaining 1% (1) is mainly related to Volvo Aero and Volvo Penta.

Total assets as of December 31, 2004 amounted to SEK 71.5 billion (67), of which SEK 64 billion (60) was in the net credit portfolio. Adjusted for the effects of foreign exchange movements, the credit portfolio grew by 10.8% during the year, compared with growth of 7% during 2003. The credit portfolio consists of 50% Volvo Trucks, 18% Construction Equipment, 16% Renault Trucks and 7% Mack Trucks and 7% Buses. The remaining 2% is mainly related to Volvo Aero and Volvo Penta. From a currency perspective, 41.5% of the portfolio was denominated in EUR, 30.4% in USD, 11.2% in GBP and 5.2% CAD. The remaining 11.7% is a mix of other European and Latin American currencies.

In the markets where financial services are offered, the average penetration during the year was 28% for Volvo Trucks, 35% for Construction Equipment, 14% for Buses, 17% for Renault Trucks and 11% for Mack Trucks. Expressed as an average, Volvo Financial Services financed 22% of the Group's products sold in the markets where financing is offered, a decrease of 1.2 percentage points from 2003.

Financial performance

In 2004 VFS strengthened its foundation of controlled growth and improving profitability. This was accomplished through prudent credit granting and pricing in the face of stiffening competition from banks and other lenders.

VFS earned SEK 1,365 M in operating income, up 47% from SEK 926 M reported in 2003. Return on equity was 11.1% (9.8) with a year-end equity ratio of 11.6% (12.0).

Write-offs in 2004 totalled SEK 429 M, resulting in an annualized write-off ratio for the year of 0.66% (1.37). Total credit reserves amounted to SEK 1.3 billion at the end of December, and the credit reserve ratio at year-end was 2.08%.

Ambitions for 2005

The improving business climate and rebound in capital spending gives VFS optimism going into 2005. As competition increases, VFS will pursue growth opportunities while maintaining the quality of its pricing and credit decisions. Conservatively managing a healthy customer finance portfolio remains the top priority. VFS will also monitor the capital markets to help ensure its funding costs remain best in class.

In 2005 and beyond, VFS has plans to increase its commercial focus and play an increasing role in why new and retained customers decide to acquire Volvo Group products. With the know-how of its 1,100 employees, VFS has the ambition to become a benchmark in the finance industry. In the meanwhile, VFS is a solid and dependable contributor to the Volvo Group's earnings.

Condensed income statement

SEK M	2002	2003	**2004**
Net sales	9,925	9,153	9,598
Income after financial items	**490**	**926**	**1,365**
Income taxes	(134)	(170)	(430)
Net income	**356**	**756**	**935**

Distribution of credit portfolio, net

%	2002	2003	**2004**
Operational leasing	22	22	20
Financial leasing	25	26	25
Installment contracts	37	37	38
Dealer financing	16	13	16
Other customer credits	0	2	1

SUSTAINABLE DEVELOPMENT

Transport is a fundamental condition of economic growth, competitiveness and social development. It is a prerequisite for trade and town planning as well as people's work and living choices.

We also know that transport brings negative effects on society in terms of traffic accidents, emissions and other environmental impact.

About 40,000 people lose their lives in traffic accidents every year within the EU. Climate change, caused by carbon dioxide, is recognized as the most serious threat to the environment of our time.

Volvo supports UN's Global Compact

Since 2001, Volvo has supported the UN's Global Compact, a treaty based on the UN's Declaration of Human Rights, UN convention against corruption, the conventions of the International Labor Organization (ILO) governing basic principles and workplace rights, the OECD's Guidelines for Multinational Enterprises and the Rio Declaration on the Environment and Development.

The Global Compact has been introduced to promote responsible enterprise worldwide. By supporting the Global Compact, Volvo pledges to realize and integrate ten principles regarding human rights, work conditions and environment into its operations. Volvo will also be involved in disseminating the principles in a bid to encourage other companies to support the Global Compact. More information is available at

www.unglobalcompact.org.

Our ambition to take responsibility, as an employer and producer, encompasses all these aspects.

By developing more efficient vehicles and transport solutions, advanced safety features and by continuously adapting our products to environmental demands, we aim to contribute to the decrease of the negative impact described above.

Our commitment to contribute to a positive development of society is reflected in our Code of Conduct and in our corporate values: quality, safety and environmental care. They form the platform for all operations within the Group.

We have also established a wide range of activities, policies and control systems to support a sustainable development within our sphere of interest.

Volvo's Code of Conduct

On June 17, 2003, AB Volvo's Board of Directors adopted the Code of Conduct. It is mandatory to all members of the Board of Directors and all employees of the Volvo Group. The Code of Conduct details important principles concerning ethics in Volvo's business operations, environmental work and its view on human rights and working conditions.

Our Code of Conduct is based on parts of the UN convention against corruption, the Rio Declaration on Environment and Development, parts of the OECD's Guidelines for Multinational Enterprises, as well as recommendations from the financial market and the Volvo Group's core values.

The Code of Conduct underscores the principles which govern the Group's relations with employees, business partners and other stakeholders in matters of business principles, environment and workplace practices.

We also encourage suppliers, dealers, consultants and other business partners to adopt the principles. The principles in the Code of Conduct are to be used in assessing current and future suppliers.

All Group managers are responsible for communicating the contents and spirit of the Code of Conduct and for encouraging all employees to disclose behavior that may be non-compliant with the Code's principles. Employees may anonymously report any violations to the Chairman of AB Volvo's Audit Committee.

The head of Corporate Communications and Public Affairs, Per Löjdquist, is responsible for Corporate Social Responsibility within Group Management.

The complete Code of Conduct is available for downloading from Volvo's website:

www.volvo.com

Active stakeholder dialogue

The Volvo Group has a broad interface with society. This is important since we are a large employer in many communities and operate in industries of great public interest. We actively exchange information with stakeholders at many levels and contexts, and strive to attain a frank communication. This include customers, employees, potential employees, suppliers, investors, analysts, public authorities, voluntary organizations and the media. We are represented in networks and participate in conferences to facilitate the communication process.

CORPORATE GOVERNANCE

Corporate bodies in corporate governance

The governance and control of the Volvo Group is carried out through a number of corporate bodies. At the General Meeting, the shareholders exercise their voting rights with regard to i.a. the composition of the Board of Directors of AB Volvo and election of external auditors. A Nomination Committee proposes candidates to serve as Board members and external auditors. The Board appoints the President and Chief Executive Officer of AB Volvo (CEO). The duties of the Board are partly exercised through its Audit Committee and its Remuneration Committee. The CEO is charged with the day-to-day management for the Group in accordance with guidelines and instructions provided by the Board. The presidents of the Group's eight business areas report to him.

The Board

In 2004, Volvo's Board of Directors consisted of 10 members elected by the Annual General Meeting until February 2, nine until September 1 and eight thereafter. In addition, the Board had three members and two deputy members appointed by employee organizations. The CEO, Leif Johansson, was a member of the Board.

During 2004, the Board held six regular meetings and seven extraordinary meetings. One Board member was excused from two of the ordinary meetings. One board member was excused from three extraordinary meetings and six board members were excused from one extraordinary meeting each.

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 required to enable the Board

Volvo included in the Dow Jones Sustainability Index

Since 2002, Volvo has been included in the Dow Jones Sustainability World Index (DJSI World). DJSI World is the first worldwide index based on the work of global companies regarding sustainable development. The companies are evaluated annually in line with a model that covers financial, environment and social factors. DJSI World covers the best 10% of the 2,500 companies included in the Dow Jones Global Index. Volvo is also one of the approximately 170 companies included in the Dow Jones STOXX Sustainability Index, which encompasses the leading companies in Europe.

More information is available at www.sustainability-indexes.com

Chairman of the Board, Finn Johnsson and Executive Vice President, Lennart Jeansson at a plant visit in Poland.

to evaluate the company's and Group's financial position should be reported to the Board, as well as the distribution of duties between the Board and the CEO and in what circumstances the deputy CEOs are to substitute for the CEO.

The Annual General Meeting decides on the fees paid to the Board members elected by the shareholders. The Annual General Meeting held on April 16, 2004 approved a total fee to the Board, for the time until the end of the next Annual General Meeting, of SEK 4,800,000. The fee was to be distributed among the Board Members according to the Board's decision. The Chairman of the Board receives a fee of SEK 1,200,000.

During the year, the Board reviewed the financial positions of AB Volvo and the Volvo 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. During 2004 the Board of Directors has reviewed the Group's strategies and visited the Volvo Group's operations in Poland.

Lars Ramqvist resigned from the Board on February 2, 2004. Finn Johnsson replaced him as Chairman of the Board. Neelie Kroes resigned from the Board as of September 1, 2004, following her nomination as EU Commissioner.

An account of each Board member's age, education, main professional experience, other board memberships, ownership of shares in Volvo and the years of memberships can be found on pages 50–51.

Audit Committee

In December 2002, the Board established an Audit Committee primarily for the purpose of overseeing the accounting and financial reporting processes and the audit of the financial statements. As assigned by the Board, the Committee's duties include reviews of the financial reporting, the performance, qualifications and independence of external auditors and the performance of the internal audit function.

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 was appointed Chairman of the Committee. On April 16, the Board appointed Haruko Fukuda, Ken Whipple and Per-Olof Eriksson, Chairman, to comprise the Audit Committee until the end of the next Annual General Meeting of the shareholders.

In 2004 the Audit Committee held three ordinary meetings and two extraordinary meetings. All members of the Committee were present at all meetings. The Audit Committee met with the external auditors at the ordinary meetings.

Remuneration Committee

In April 2003, the Board established a Remuneration Committee. The duties of the Committee include the review and recommendation for resolution by the Board regarding terms of employment and remuneration for the CEO and deputy CEOs, principles for remuneration, including pensions and severance payment, for the Group Executive Comittee, principles for variable salary systems, share-based incentive programs, pensions and severance payment for other senior executives. In addition the Remuneration Committee decides the remuneration for the members of the Group Executive Committee, other than the CEO and deputy CEOs.

Until February 2, 2004, the Remuneration Committee consisted of Lars Ramqvist, Chairman, Tom Hedelius and Louis Schweitzer. Lars Ramqvist resigned from the Committee on February 2, 2004 and was replaced by Finn Johnsson as Chairman. On April 16, 2004, Tom Hedelius, Louis Schweitzer and Finn Johnsson, Chairman, were appointed to the Remuneration Committee until the end of the next Annual General Meeting.

Resignations from the Volvo Board of Directors

Neelie Kroes resigned from the Volvo Board of Directors as of September, 2004, following her nomination as EU Commissioner.

The Chairman of the Board, Lars Ramqvist, resigned from the Board on February 2, 2004.

Changes in Volvo's Group Management

The former President of Volvo Trucks, Jorma Halonen, 55, assumed the position of Executive Vice President and Deputy CEO of the Volvo Group as of November 1, 2004. He will work parallel with Lennart Jeansson – who currently holds this position – until mid-year 2005 when Lennart Jeansson, 63, will retire.

Effective November 1, the new President of Volvo Trucks is Staffan Jufors, 52, former President of Volvo Penta.

Göran Gummeson was appointed new President of Volvo Penta. Göran Gummeson, who assumed his new duties on November 1, 2004, is also a member of the Volvo Group Executive Committee.

In 2004, the Remuneration Committee held five meetings. One member was excused from two of the meetings.

CEO and management

For the CEO and each member of the Group Executive Committee an account of their respective age, education, board memberships, ownership of shares in Volvo, and year of joining Volvo can be found on pages 48–49.

Nomination Committee

The Nomination Committee is the shareholders' body responsible for submitting to the Annual General Meeting the names of candidates to serve as members of the Board and as external auditors. The Committee also proposes the fees to be paid to the members of the Board.

On April 16, 2004, the Annual General Meeting resolved to authorize the Chairman of the Board to appoint a Nomination Committee comprising, in addition to the Chairman of the Board, 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, which was appointed during the third quarter of 2004 and for the period until the next Annual General Meeting, comprises the Chairman of the Board Finn Johnsson, Lars Idermark, Chairman of the Nomination Committee, Second Swedish National Pension Fund (AP 2), Thierry Moulonguet, Renault, Marianne Nilsson, Robur, and Bengt Hane representing shareholders with smaller holdings.

External auditing

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

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

PwC provides certain services to Volvo in addition to the audit. In 2004 such services comprised i.a. advice on preparation and implementation of testing and reporting of internal controls, which is mandatory under the provisions of the US Sarbanes Oxley Act. PwC also advised on the transition to International Financial Reporting Standards, which will take place during 2005. In addition PwC provides tax advice and other audit related services to Volvo. When PwC is retained to provide services other than the audit, it is done in accordance with rules established by the Audit Committee pertaining to pre-approval of the nature of the services and the fees. Hence, Volvo believes that the provision of the additional services does not jeopardize PwC's independence.

For more detailed information concerning auditors' fees see note 32 of the notes to the consolidated financial statements.

The Board of Directors at a plant visit in Poland.

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 and in accordance with guidelines adopted within the Group.

Leif Johansson and a number of senior executives receive variable salaries in addition to fixed salaries. Variable salaries are, in most cases, based on operating income and cash flow for the Volvo Group and/or for 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.

A more detailed account of remuneration to the CEO and principles for the remuneration to other senior executives can be found in note 31 to the consolidated financial statements.

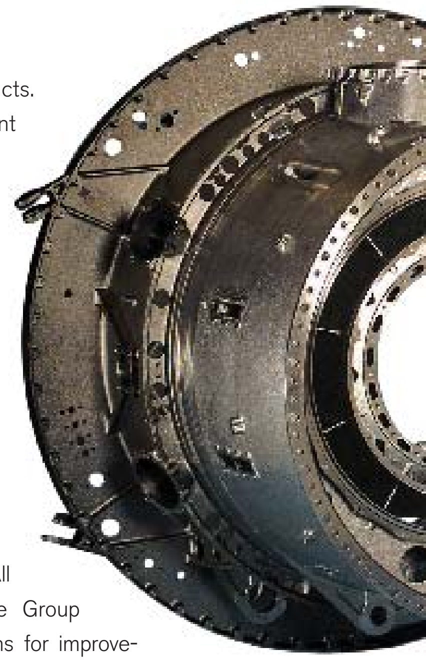
CORPORATE VALUES

Quality, Safety and Environmental care express the Volvo Group's ambition to create value for our customers and to contribute to sustainable development.

Volvo's operations have been, to a large extent, value-driven since the very beginning. The founders declared at an early stage that Volvo's business would be based on concern for people. Safety, quality, reliability and responsibility became key elements in operations and products. Environmental care was added in the early seventies.

Powered by this long tradition, the corporate values have become an integral part of all activities in the Group, through the whole value chain. They are expressed and defined by Groupwide policies and in the Volvo Group's overarching guidelines for corporate culture, The Volvo Way.

QUALITY



Quality expresses our mindset, that we provide products and services that can be trusted. In all aspects of our business, from product development and manufacturing to delivery and customer support, the focus is on the customers' needs and expectations.

Being able to offer products with ever-increasing quality require considerable commitment from all employees and thus quality issues have the highest priority at all levels in the organization.

Quality policy

The quality goal, expressed in the Group's quality policy, is to be ranked as a leading force in quality issues among the global manufacturers of vehicles and transport-related products. This commitment is based on customer focus, involvement from leaders at all levels, participation of all employees, and a process-oriented culture focused on continuous improvements. All units within the Group have action plans for improvements.

Quality organization

All units have quality managers and work with a shared method for process improvement and product development. Gates and milestones specify requirements that must be fulfilled before product development projects are permitted to continue. Safety and environmental requirements are included in the same process.

At Group level, a Quality Council coordinates the Volvo Group's quality activities. The members consist of the quality managers from each business area. Chairman of the Quality Council, Michel Gigou is responsible for quality issues within the Group Executive Committee.

The Quality Council supports the Group Executive Committee and the Board of Directors in the review of quality agendas. It serves as the advisory body for quality issues of a Groupwide nature.

Quality management system

Everyone in the organization is responsible for daily quality work. Key concepts are total quality and participation through open dialog and distinct goals. Our leadership guidelines emphasize that all employees should be given all means needed to understand the objectives and their role in achieving them. Good insight into our customers' operations is a key factor in maintaining the requisite level of quality in products and services.

All employees within the Volvo Group's production work in certified quality management systems in accordance with ISO 9001:2000.

Operational development

Several quality initiatives are underway within the Group. Operational Development (OD) is the process in use in most units, currently involving more than 15,000 employees in Europe and North America. With leaders' improved ability to communicate, all employees are made aware of business conditions and each individual can contribute to the development of the operation.

QUALITY MEANS THAT WE OFFER RELIABLE PRODUCTS AND SERVICES

SAFETY

Safety relates to the use of our products in society. We strive to minimize the risks and consequences of accidents, and to improve the safety and work conditions for vehicle operators. The Volvo Group has a strong commitment to provide customers with products that meet high demands on safety and we shall thereby be recognized as a leading producer of safe products, components and systems.

Our safety programs have two points of departure: to prevent accidents and to prevent injuries in the event of accidents.

Safe use

Safety aspects have a prominent role in all our product development and are based on an awareness of the user's expected behaviour.

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

The Volvo Group cooperates with other automotive manufacturers, researchers and authorities in various joint projects in the safety area. Intelligent Vehicle Safety Systems, IVSS, is one example. IVSS is a Swedish cooperative venture between authorities and other manufacturers. It commenced in 2003 and covers seven research areas relating to future traffic safety. The program runs until 2008.

Accident prevention

The fact that the human factor is a decisive or major contributing cause of nearly 95% of all traffic accidents reflects the importance of preventive safety characteristics such as good visibility, driving qualities, road holding and brakes. The driver's workplace is a key area.

The Volvo Group has made considerable progress in developing systems that help drivers to drive safely. For example, our trucks and buses have electrically controlled disc brakes. These can be used in a stabilization system, Electronic Stability Program, ESP. Another example is the Adaptive Cruise Control, ACC, an electronic system that automatically adjusts the vehicle speed and distance in relation to the vehicle ahead.

Injury prevention

The Volvo Group is a leader in designing vehicles that protect the driver and passengers in the event of a collision. Safety solutions include overturn-tested chassis, frontal collision protection, deformation zones, safety belts and deformable fittings and airbags.

At an early stage, Volvo focused on improving safety for other traffic users. We introduced the Front Under Run Protection System to prevent passenger cars being wedged in under a truck in a frontal collision, as early as 1996. Front Under Run Protection System became a legal requirement in the EU in 2003.

As of 2001, Volvo trucks are fitted with Front Under Run Protection System as standard.

Own crash investigation team

Since 1969, Volvo has had its own crash investigation team, which conducts detailed inquiries of traffic accidents involving vehicles from the Volvo Group. The team's findings contribute significantly to our safety work and have led to a large share of Volvo's safety solutions historically.

Information is compiled in a database with data from 1,500 accidents. The team's findings are also available to public authorities and researchers.

TO PREVENT ACCIDENTS AND INJURIES

CARE FOR THE ENVIRONMENT

Environmental care expresses our commitment to improve energy and resource efficiency and to reduce emissions in all aspects of our business, with a special focus on the use of our products.

The increasing demand for transport sets focus on the transport-related contribution to global environmental problems. The Volvo Group and the industry as a whole are aware of this state of affairs. The challenge for Volvo is to develop solutions that fulfil society's needs and limit impact on the environment.

We have a good track record in the environmental area. Our efforts have resulted in products that are increasingly environmentally adapted. We have significantly reduced the impact from our production facilities and internal transports. These efforts are ongoing. Our environmental agenda focuses on energy efficiency, lower emissions and alternative fuels.

Environmental policy with a holistic approach

The Group's environmental policy is the primary and guiding instrument for our environmental efforts. The policy makes it clear that Volvo's environmental program shall be characterized by a holistic view, continuous improvement, technical development and increased resource efficiency. The policy is broken down into strategies and goals in the organization.

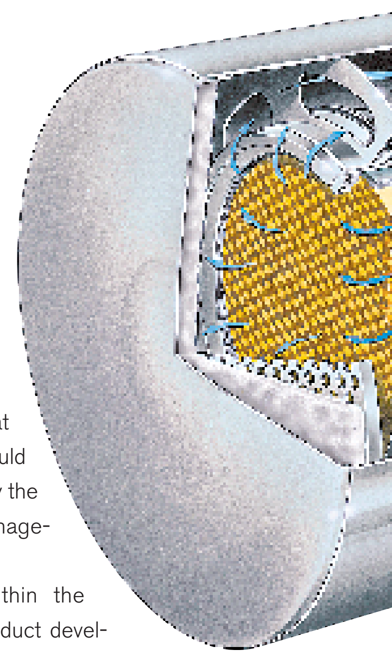
Since 1996, we have also imposed demands on the environmental efforts of our suppliers and dealers. Environmental requirements form part of our evaluation of suppliers and our subsequent purchases.

Decentralized environmental organization

Responsibility for the environmental efforts at production facilities is a regular aspect of operational responsibility. All of our production facilities have a dedicated environmental coordinator. When it comes to emission levels, fuel consumption and choice of material, for the products, those questions are dealt with by the development units at the respective business areas and the Groupwide development units. Each unit has an environmental manager. The Volvo Group also has internal consultants, with specialist competences in chemicals, life cycle assessments, environmental audits and environmental protection.

At the Group level, coordinating responsibility lies with the Environmental Affairs function. There is also a Groupwide Environmental Council, which comprises the environmental managers of the various business areas and business units. Karl-Erling Trogen, member of the Group Executive Committee, is the Chairman of the Volvo Group Environmental Council.

Environmental management systems in place



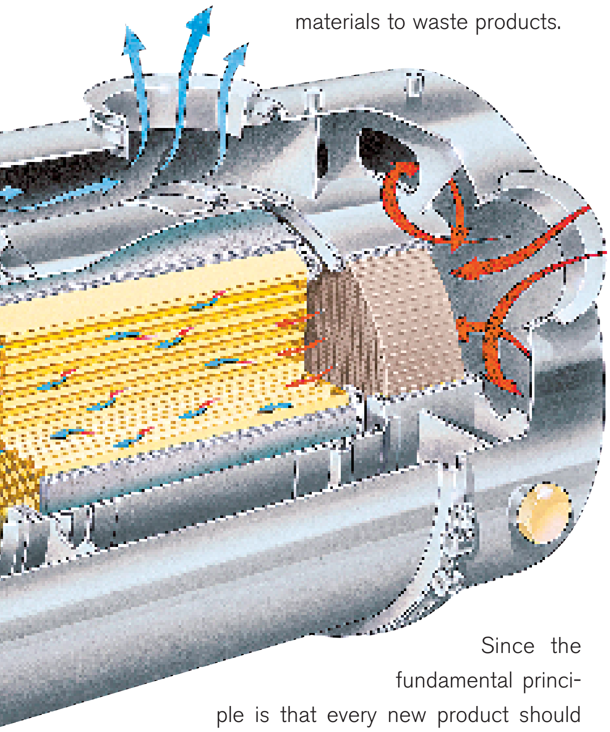
96% of all employees within Volvo Group production are working in accordance with certified environmental management systems. The objective is that all employees should be encompassed by the environmental management systems.

Other areas within the Group, such as product development and the marketing organizations, are also covered by environmental management systems.

Education plays an important role and all employees must complete a basic environmental training program. Specialists within the Volvo Group are trained to deal with specific environmental issues related to their areas.

Product development with a holistic view

Up to 90% of a product's total environmental impact occurs during its use, through the release of carbon dioxide and other emissions. This makes it necessary for us to adopt a total view when it comes to the environmental impact of products and operations. We do this by using life-cycle analysis with a focus on a product's complete life cycle, from raw materials to waste products.



Since the fundamental principle is that every new product should have a lower environmental impact than the one it is replacing, environmental demands are placed on the development of new products. Engineers test various materials, designs and manufacturing processes in order to determine what has the least impact on the environment.

Environmental improvement and utilization

Improved fuel efficiency results in lower costs for our customers and is an effective way to reduce emissions of carbon dioxide. In order to improve air quality, regulators in many countries are placing even more stringent requirements on reducing emissions, especially of nitrogen oxides and particulates

In order to meet these demands, we are continuously developing new engine technologies that reduce fuel consumption and emissions. The harmful substances in emissions have been reduced by up to 85% over the past twenty years. Fuel consumption and carbon dioxide emissions have been cut by 30% over the same period.

Our products use primarily diesel engines, due to their energy efficiency and their potential for extremely low emissions. While the primary focus is on developing diesel engines, Volvo has also made significant strides in the areas of alternative engine types and fuels. In the long term, we regard dimethylether as a possible fuel alternative. It can be used in the diesel process, has a high level of efficiency and can be produced from renewable raw materials.

Our products are largely recyclable. For example, as much as 96% of a truck can be recycled.

Volvo's Environment Prize goes to urbanization experts

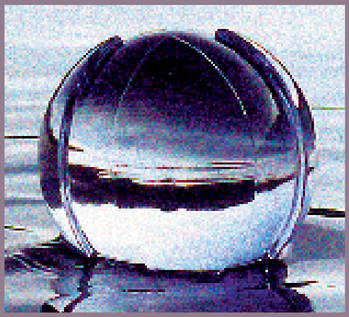
The 2004 Volvo Environment Prize was awarded to four of the world's foremost experts on urbanization issues: David Satterthwaite from the UK, Jaime Lerner from Brazil, and the husband and wife team Mario and Luisa Molina from the US.

The year 2004 marked the first time in the history of the world when more people lived in cities than in rural areas. Nevertheless, researchers believe that the growing problem of overpopulation and its associated ills, air pollution and transportation problems, is solvable. While not overlooking their environmental impact, the prizewinners consider roads, railways and air transportation to be important prerequisites for economic development and social harmony.

Volvo's Environment Prize was founded in 1989 as a way to emphasize Volvo's involvement in issues relating to environmental research and sustainable development. The prize amount is SEK 1.5 M.

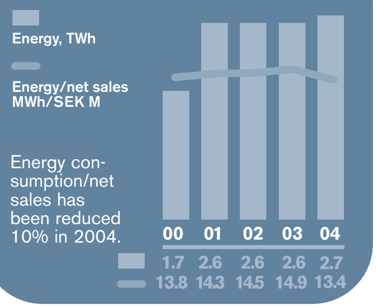
More information about Volvo's Environment Prize is available at

www.environment-prize.com

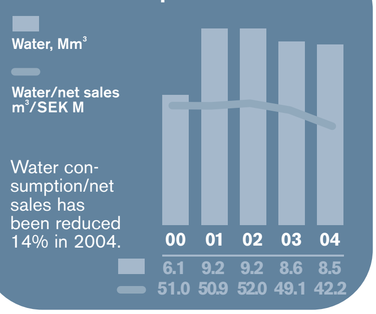


INCREASED ENERGY EFFICIENCY AND LOWER EMISSIONS

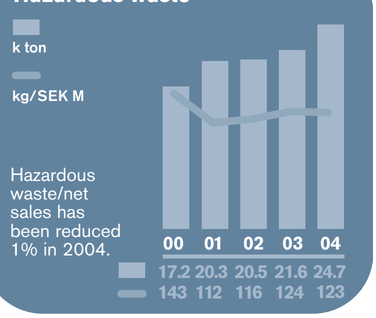
Energy consumption



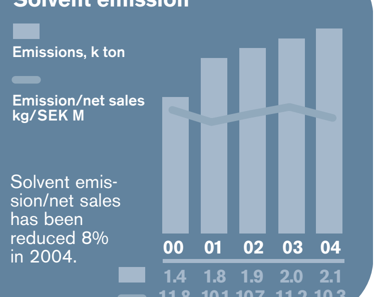
Water consumption



Hazardous waste



Solvent emission



Environmentally adapted production

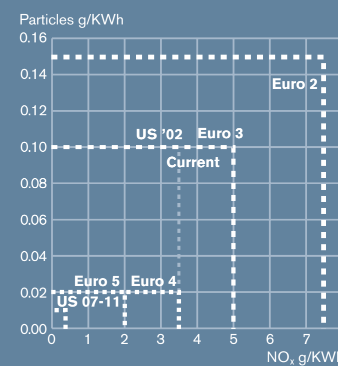
Environmental protection and responsible utilization of our shared natural resources are obvious aspects of Volvo's production. The Volvo Group places environmental requirements on all facilities. These requirements include guidelines for the utilization of chemicals, energy use, emissions into the air and water, waste management, environmental organization and improvement efforts.

Since 1989, routine audits are conducted in order to monitor environmental efforts. Auditors identify environmental risks and any necessary measures that must be taken. Follow-up is conducted to ensure that work is completed. We have insurance coverage for environmentally related damages to the immediate surroundings, for example in the event of a sudden emission.

All of Volvo's production facilities have the requisite environmental permits. In Sweden, there are 16 facilities that require permits. Those permits encompass waste, noise and emissions into the air, ground and water. Three Swedish environmental permits are subject to renewal in 2005.

Detailed environmental data from all Volvo Group plants is available on page 123.

Emission standards for trucks and buses



Within the EU, emission requirements for heavy diesel vehicles are regulated through the so-called Euro classes. Vehicles registered after October 1, 2006 will have to fulfill the Euro 4 emissions standard, while the Euro 5 standard will come into effect on October 1, 2009. The EU standards are designed to harmonize with standards that will come into effect in the US. Volvo welcomes a more rapid harmonization of European standards with American ones.

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

www.volvo.com

EXECUTION, ACCOUNTABILITY AND RESPECT FOR THE INDIVIDUAL

Aina Nilsson, Design Director, Volvo Trucks.

The SNS project and more women in leading positions within the Volvo Group

There is a need for both greater diversity and more women in leading positions in trade and industry – for competitiveness and renewal within companies and the workplace. Since 2001, the Volvo Group's President and CEO, Leif Johansson, has been a member of a working committee with the task of ensuring that more women are given leading positions in Swedish trade and industry.

The committee has been working with a project initiated by the SNS, the Swedish Center for Business and Policy Studies; a project that is now being implemented within Volvo to further increase equality – "The SNS project and more women in leading positions within the Volvo Group in Sweden".

By creating value for our customers we create value for our shareholders. In order to make the mission a reality, we need to continually develop our expertise within key areas and we must succeed in attracting new, talented employees.

The Volvo Way

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

The Volvo Way is based on the conviction that each employee has the capability and desire to improve our operations and, by so doing, also develop professionally. By moving from word to action, focusing on execution and realizing changes faster than competitors, we strive to secure sustainable success.

Individual responsibility

Leaders throughout the Volvo Group organization are expected to focus on execution and involve their teams in the decision-making process. Customer focus, open dialog, feedback and individual commitment are key principles in The Volvo Way, to align Group strategies and objectives with daily teamwork. Objectives and goals are established for each unit, department, work team, and to a large extent each individual.

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

Competence development

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

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

Key figures

	2003	2004
Average number of employees	73,156	78,196
Share of women, %	16.1	16.1
Share of women in leading positions*, %	13.3	15.3

* Comprises positions held by board members and senior officers.

Diversity

Improving diversity throughout the global organization is a key strategic objective. By taking advantages of differences in knowledge, experiences and perspectives, the Volvo Group continues to build success.

It is the responsibility of management to leverage the strengths of diversity. Several units have appointed diversity managers to ensure focus and continual improvements in this area. We also measure and monitor key performance indicators, including the percentage of women in leading positions within the Volvo Group companies.

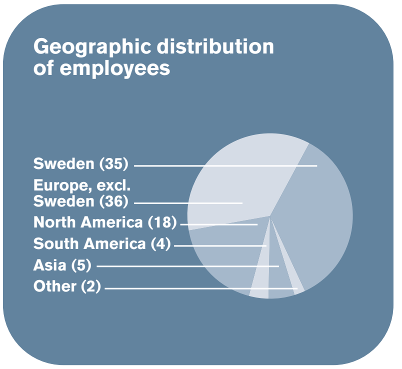
Volvo European Dialog

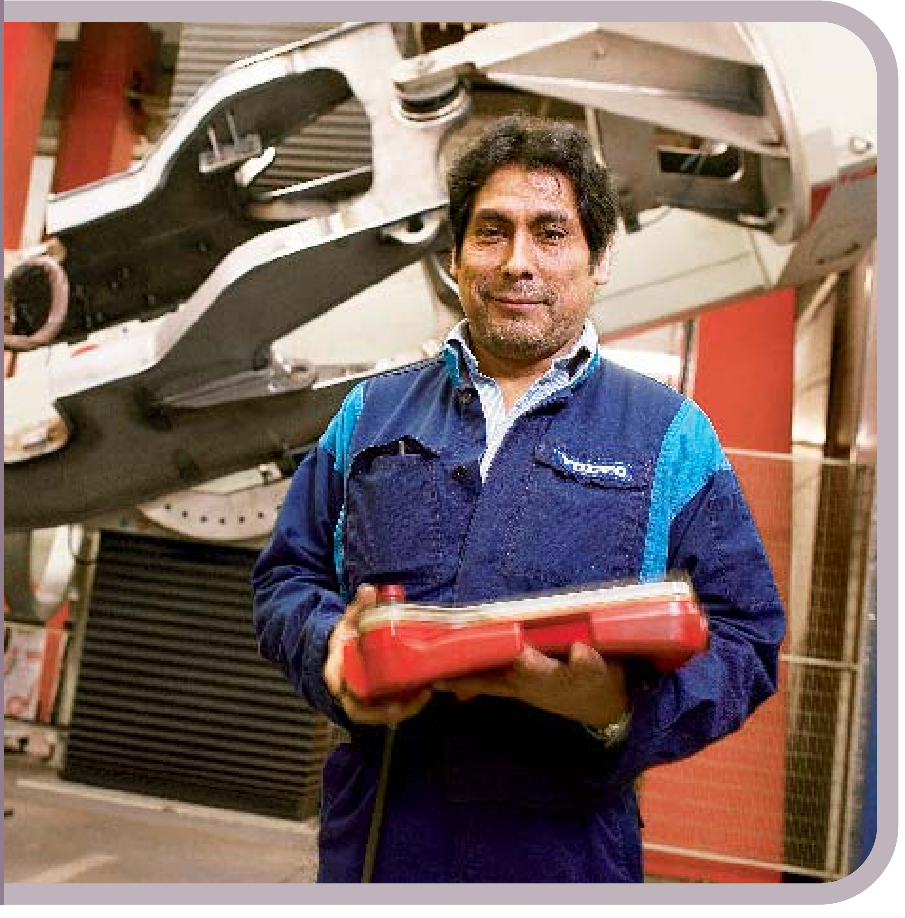
The Volvo European Works Council was formed in 1996 with the purpose of creating a forum for dialog between employer and employees. Volvo European Dialog is a meeting where representatives of the the employer and employees meet once a year. The Chairman is Volvo Group's President Leif Johansson.

Volvo Group Attitude Survey

A yearly employee survey contributes to capturing attitudes and behavioral changes throughout the Volvo Group. Results of the survey are compiled and discussed within each team to identify key improvement areas. The attitude survey results are also included in the appraisal of each manager's performance.

The percentage of satisfied employees throughout the Volvo Group has steadily improved to 81% in March 2004, compared to 77% the previous year, 74% in 2002 and 67% in 2001. Other key indicators monitor how well each manager involves and communicates with his or her team members, gives feedback on performance and contributes to resolving negative conflicts.





VOLVO IS AN IMPORTANT PART OF SOCIETY

The Volvo Group is a major employer in many of the communities in which our production and development sites are located and is therefore an important part of society. Together with local authorities, voluntary organizations and private citizens, we try in various ways to contribute to a positive development.

As a global company with operations connected to transport, we participate in a large number of forums around the world, dealing with transport-related issues.

We believe that new technologies and systems have the ability to make transports serve society in a more efficient way, with less negative effects on people and environment. Thus, we strive to maintain a positive and open dialog about these opportunities with authorities and other stakeholders to support a sustainable development.

Sharing knowledge with other stakeholders is one of the major strategies for our projects and partnerships. One example of such activities is our Future Urban Transport foundation, in which we exchange knowledge with universities and research institutes.

The Group collaborates also extensively with universities and colleges in a large number of countries and has initiated several projects of social interest.

Volvo Traffic Safety Program in Brazil

In Brazil, Volvo do Brazil has been operating a comprehensive program for the past 15 years to improve traffic safety in the country. Among other activities, Volvo works to educate young people about traffic safety. One project, Transitando, involves students from 355 schools and has received numerous awards.

Share the Road

In the US, Mack has sponsored the American Trucking Association's highway safety program "Share the Road" for the past five years. The goal of this initiative is to increase traffic safety by educating motorists on how to safely share the road with trucks. .

www.atasharetheroad.com

Volvo Adventure

In partnership with the UN's environmental program, UNEP, the Volvo Group runs an educational program in environmental issues. The program, called Volvo Adventure, targets young people aged between 10 and 16. Each team works on a project aimed at involving and improving the environment in their school or local community.

www.volvoadventure.org

Young Enterprise

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

www.ungforetagsamhet.se

The Green Car

The Green Car is a major automotive engineering collaboration between the Swedish government and Swedish vehicle manufacturers. The goal is to meet the increasing environmental demands and more intense international competition by strengthening national abilities for innovation in the technology sector. The emphasis is on the development of new engines and alternative fuels.

www.pff.nu

Sponsorship

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

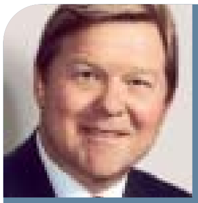
Volvo currently has five long-term sponsorship commitments: Volvo Ocean Race, the golf tournaments Volvo Masters in Europe and Asia and Volvo China Open, the Gothenburg Symphony Orchestra, the Gothenburg Opera and the Nobel Museum in Stockholm. In addition, Renault Trucks sponsors the Olympique Lyonnais soccer team. Volvo also sponsors about 45 individual sport and cultural events each year.

www.volvooceanrace.org
www.sponsorship.volvo.com
www.gso.se
www.opera.se
www.nobelprize.org/nobel/nobelmuseum
www.olweb.fr

GROUP MANAGEMENT

Leif Johansson
President and CEO

Born 1951. Master of Engineering. President of AB Volvo and Chief Executive Officer of the Volvo Group since 1997. With Volvo since 1997. **Board member:** Bristol-Myers Squibb Company, 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:** 42,262 Volvo shares, including 35,538 Series B shares. 8,821 call options and 50,000 employee stock options.



Paul Vikner
President of Mack Trucks, Inc.

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

Håkan Karlsson
President of Volvo Bus Corporation

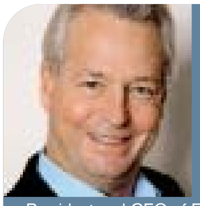
Born 1961. Master of Engineering. President of Volvo Bus Corporation and Member of Group Executive Committee since June 1, 2003. President of Volvo Logistics 2000–2003. With Volvo since 1986. **Holdings:** 352 Volvo shares, including 85 Series B shares.

Lennart Jeansson
Executive Vice President and Deputy CEO

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 Insurance Company Ltd. **Deputy Board Chairman:** Sixth Swedish National Pension Fund and Chalmers University of Technology Foundation. **Holdings:** 31,368 Volvo shares, including 30,431 Series B shares. 5,952 call options and 25,000 employee stock options.

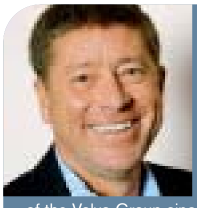
Stefano Chmielewski
President of Renault Trucks

Born 1952. MA Master of Science Electronics/Automation. President of Renault Trucks since May 1, 2003. Member of Volvo Group Executive Committee since May, 2003. With Volvo since 2001. **Holdings:** None.



Tony Helsham
President of Volvo Construction Equipment

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

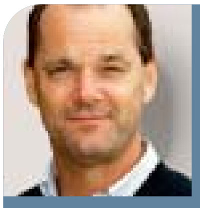


Jorma Halonen
Executive Vice President and Deputy CEO

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

Staffan Jufors
President of Volvo Truck Corporation

Born 1951. Master of Business Administration. President of Volvo Truck Corporation since November 1, 2004. President of AB Volvo Penta 1998–2004. Member of Group Executive Committee since 1998. With Volvo since 1975. **Board member:** EBP AB. **Holdings:** 1,154 Volvo shares, including 194 Series B shares. 2,293 call options and 25,000 employee stock options.



Göran Gummeson
President of Volvo Penta

Born 1947. President of Volvo Penta since November 1, 2004. Has held various positions at Volvo Penta since 1991, head of Volvo Penta's European operations 1998–2004. Member of Group Executive Committee since November 1, 2004. With Volvo since 1991. **Holdings:** None

Fred Bodin

President of Volvo Aero Corporation

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

Lars-Göran Moberg

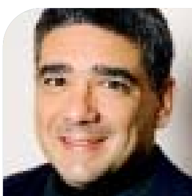
President of Volvo Powertrain

Born 1943, Master of Engineering. President of Volvo Powertrain since January 2001. Member of Group Executive Committee since May 2001. With Volvo since 1995. **Holdings:** 5,858 Volvo shares, including 5,652 Series B and 25,000 employee stock options.

Eva Persson

Senior Vice President

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



Salvatore L Mauro

President of Volvo Financial Services

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

Stefan Johnsson

Senior Vice President

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:** 75 Volvo Series A shares. 2.477 call options and 25,000 employee stock options.

Karl-Erling Trogen

Senior Vice President

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. **Holdings:** 14,251 Volvo Series B shares, 5,084 call options and 25,000 employee stock options.

Michel Gigou

Senior Vice President

Born 1946. Bachelor of Engineering and Master of Business Administration. Senior Vice President of AB Volvo. President of Volvo Trucks North America and Chairman of Mack Trucks, Inc. 2000–2003. President of Mack Trucks, Inc. 1996–2000. Previously at Renault 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.

Per Löjdquist

Senior Vice President

Born 1949. Senior Vice President of AB Volvo. Member of Group Executive Committee since 1997, responsible for Corporate Communications and Public Affairs. With Volvo since 1973. **Board member:** West Sweden Chamber of Commerce and Industry, and Nilörngruppen AB. **Holdings:** 5,398 Volvo shares, including 3,174 Series A shares; 1.792 call options and 25,000 employee stock options.

BOARD OF DIRECTORS AND AUDITORS

Board members elected by Annual General Meeting

Finn Johnsson

Chairman of the Board, Chairman of the Remuneration Committee

Born 1946, Master of Business Administration. President of Mölnlycke Health Care AB. **Board Chairman:** Thomas Concrete Group AB, Unomedical A/S and KappAhl. **Board member:** Skanska AB and AB Industrivärden. Member of Volvo Board since 1998. Chairman since February 2004. **Holdings:** 2,000 Volvo Series B shares.

Principal work experience: Machine Division at Swedish Match; President Arenco Machine Co., USA; President Tarkett AB; Executive Vice President Stora AB; President Industri AB Euroc; President United Destillers, UK.

Per-Olof Eriksson

Chairman of the Audit Committee

Born 1938, Master of Engineering, Hon. Dr. of Technology. **Board Chairman:** Consolis Oy, Callans Trä AB and Odlander, Fredriksson & Co. **Board member:** Investment AB Öresund, SSAB Svenskt Stål AB, Assa Abloy, Senea AB and Elkem ASA. Member of the Royal Swedish Academy of Engineering Sciences. Member of Volvo Board since 1994. **Holdings:** 6,200 Volvo Series A shares.

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

Patrick Faure

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

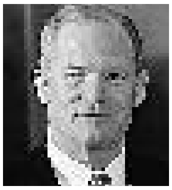
Principal work experience: Secretary General Précision Mécanque Labinal; numerous positions with Renault Group (among others Secretary General, Executive Vice President Marketing and Sales and Chairman and CEO Renault V.I.).

Haruko Fukuda

Member of the Audit Committee

Born 1946. OBE, MA (Cantab), 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. **Holdings:** None.

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



Tom Hedelius

Member of the Remuneration Committee

Born 1939, Master of Business Administration, Hon. Dr. of Economics. **Board Chairman:** AB Industrivärden, Bergman & Beving AB and Sandrews. **Honorary Chairman:** Svenska Handelsbanken. **Vice Chairman:** Addtech AB and Lagercrantz Group AB. **Board member:** Svenska Cellulosa Aktiebolaget SCA and Lundbergs AB. Member of Volvo Board since 1994. **Holdings:** 2,000 Volvo Series A shares.

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

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. **Board member:** Bristol-Myers Squibb Company, Confederation of Swedish Enterprise and The Association of Swedish Engineering Industries. Member of the Royal Swedish Academy of Engineering Sciences. **Holdings:** 42,262 Volvo shares, including 35,538 Series B shares. 8,821 call options and 50,000 employee stock options.

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

Louis Schweitzer

Member of the Remuneration Committee

Born 1942. Bachelor of Laws. Chairman and CEO of Renault. **Board Chairman:** Renault Nissan BV and AstraZeneca plc. **Board member:** R.C.I. Banque, Philips, Electricité de France, BNP-Paribas, and VEOLIA. Member of Volvo Board since 2001. **Holdings:** 2,000 Volvo Series B shares.

Principal work experience: Official at French Budget Department; Chief of Staff of Mr Lawrence Fabius (Minister of Budget, then Minister for Industry and Research, and Prime Minister), Professor Institut d'Etudes Politiques de Paris; numerous positions with Renault SA (Chief Financial Officer and Executive Vice President Finance and Planning, President and Chief Operating Officer).

Ken Whipple

Member of the Audit Committee

Born 1934. Bachelor of Business and Engineering. Board Chairman of CMS Energy Corporation and Consumers Energy. **Board member:** 14 JP Morgan Fleming Mutual Funds and Korn-Ferry International AB. Member of Volvo Board since 2001. **Holdings:** None.

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

Neelie Kroes

Member of Volvo Board 2003–2004.

Neelie Kroes resigned from the Volvo Board of Directors as of September, 2004, following her nomination as EU Commissioner.

Board members and deputies appointed by employee organizations

Martin Linder

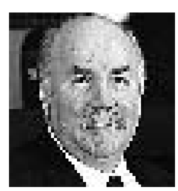
Born 1973. Employee representative. With Volvo since 1994. Member of Volvo Board since 2004. **Holdings:** None.

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.

Stellan Rosengren

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



Johnny Rönnkvist

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

Berth Thulin

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

Eva Persson

Secretary of the Board

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:** 500 Volvo shares, including 248 Series B shares and 25,000 employee stock options.

Auditors

PricewaterhouseCoopers AB

Olof Herolf
Authorized Public Accountant
Lead Partner

Olov Karlsson
Authorized Public Accountant
Partner

Financial Information

Consolidated income statements

SEK M		2002	2003	**2004**
Net sales	Note 4	186,198	183,291	**210,401**
Cost of sales		(151,569)	(146,879)	**(163,947)**
Gross income		34,629	36,412	**46,454**
Research and development expenses	Note 4	(5,869)	(6,829)	**(7,233)**
Selling expenses		(16,604)	(16,866)	**(19,099)**
Administrative expenses		(5,658)	(5,467)	**(5,494)**
Other operating income and expenses	Note 5	(4,152)	(1,367)	**(1,285)**
Income from investments in associated companies	Note 4, 6	182	200	**27**
Income from other investments	Note 7	309	(3,579)	**830**
Operating income	Note 4	2,837	2,504	**14,200**
Interest income and similar credits		1,217	1,096	**820**
Interest expenses and similar charges		(1,840)	(1,888)	**(1,231)**
Other financial income and expenses	Note 8	(201)	(55)	**(1,210)**
Income after financial items		2,013	1,657	**12,579**
Income taxes	Note 9	(590)	(1,334)	**(3,184)**
Minority interests in net income	Note 10	(30)	(25)	**(40)**
Net income		1,393	298	**9,355**
Net income per share, SEK		3.32	0.71	**22.35**
Diluted earnings per share, SEK		3.32	0.71	**22.33**

Consolidated balance sheets

SEK M		December 31, 2002		December 31, 2003		**December 31, 2004**	
Assets							
Non-current assets							
Intangible assets	Note 11		17,045		16,756		**16,606**
Tangible assets	Note 11						
Property, plant and equipment		30,799		30,640		**31,151**	
Assets under operating leases		23,525	54,324	21,201	51,841	**19,534**	**50,685**
Financial assets							
Shares and participations	Note 12	27,492		1,782		**2,003**	
Long-term customer-financing receivables	Note 13	25,207		23,448		**25,187**	
Other long-term receivables	Note 14	12,485	65,184	10,487	35,717	**7,775**	**34,965**
Total non-current assets			136,553		104,314		**102,256**
Current assets							
Inventories	Note 15		28,305		26,459		**28,598**
Short-term receivables							
Customer-financing receivables	Note 16	21,791		22,554		**26,006**	
Other receivables	Note 17	26,995	48,786	28,766	51,320	**31,290**	**57,296**
Shares in Scania AB	Note 12		–		20,424		**–**
Marketable securities	Note 18		16,707		19,529		**25,955**
Cash and bank accounts	Note 19		8,871		9,206		**8,791**
Total current assets			102,669		126,938		**120,640**
Total assets			239,222		231,252		**222,896**
Shareholders' equity and liabilities							
Shareholders' equity	Note 20						
Restricted equity							
Share capital		2,649		2,649		**2,649**	
Restricted reserves		14,093	16,742	12,769	15,418	**10,726**	**13,375**
Unrestricted equity							
Unrestricted reserves		60,143		56,704		**46,679**	
Net income		1,393	61,536	298	57,002	**9,355**	**56,034**
Total shareholders' equity			78,278		72,420		**69,409**
Minority interests	Note 10		247		216		**229**
Provisions							
Provisions for post-employment benefits	Note 21	16,236		15,288		**14,155**	
Provisions for deferred taxes		912		569		**420**	
Other provisions	Note 22	15,809	32,957	14,479	30,336	**14,478**	**29,053**
Non-current liabilities	Note 23						
Bond loans		33,870		33,090		**27,612**	
Other loans		12,549		13,584		**12,799**	
Other long-term liabilities		6,704	53,123	4,627	51,301	**4,653**	**45,064**
Current liabilities	Note 24						
Loans		26,018		27,418		**21,396**	
Trade payables		22,214		24,528		**30,813**	
Other current liabilities		26,385	74,617	25,033	76,979	**26,932**	**79,141**
Total shareholders' equity and liabilities			239,222		231,252		**222,896**
Assets pledged	Note 25		3,610		3,809		**3,046**
Contingent liabilities	Note 26		9,334		9,611		**9,189**

Changes in consolidated Shareholders' equity

SEK M

	Share capital	Restricted reserves	Unrestricted reserves	Total shareholders' equity
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**
Cash dividend	–	–	(3,356)	(3,356)
Distribution of shares in Ainax AB to shareholders	–	–	(6,310)	(6,310)
Net income	–	–	9,355	9,355
Effect of equity method of accounting [1]	–	33	(33)	–
Transfer between unrestricted and restricted equity	–	(1,440)	1,440	–
Translation difference	–	(636)	469	(167)
Repurchase of own shares	–	–	(2,532)	(2,532)
Other changes	–	–	(1)	(1)
Balance at December 31, 2004	**2,649**	**10,726**	**56,034**	**69,409**

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 21.

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

Consolidated cash-flow statements

SEK M			2002		2003		**2004**
Operating activities							
Operating income			2,837		2,504		**14,200**
Depreciation and amortization	Note 11		10,844		10,169		**10,305**
Other items not affecting cash	Note 27		1,955		4,929		**147**
Changes in working capital:							
(Increase)/decrease in receivables			3,649		517		**(4,017)**
(Increase)/decrease in inventories			53		1,433		**(2,243)**
Increase/(decrease) in liabilities and provisions			(2,692)		(1,507)		**4,797**
Interest and similar items received			942		1,437		**1,047**
Interest and similar items paid			(1,047)		(1,160)		**(335)**
Other financial items			(170)		(62)		**(25)**
Income taxes paid			(1,069)		(1,165)		**(1,194)**
Cash flow from operating activities			15,302		17,095		**22,682**
Investing activities							
Investments in fixed assets		(6,665)		(6,005)		**(7,405)**	
Investments in leasing assets		(5,179)		(5,333)		**(4,360)**	
Disposals of fixed assets and leasing assets		3,162		2,935		**2,444**	
Customer-financing receivables, net	Note 27	(5,739)		(4,316)		**(7,382)**	
Shares and participations, net	Note 27	(88)		(61)		**15,064**	
Acquired and divested subsidiaries and other business units, net	Note 2, 27	(159)	(14,668)	(39)	(12,819)	**(141)**	**(1,780)**
Cash flow after net investments			634		4,276		**20,902**
Financing activities							
Increase (decrease) in bond loans and other loans	Note 27	(111)		1,868		**(8,840)**	
Loans to external parties, net	Note 27	1,692		933		**13**	
Cash dividend to AB Volvo shareholders'		(3,356)		(3,356)		**(3,356)**	
Repurchase of own shares		–		–		**(2,532)**	
Dividends to minority shareholders		(13)		(9)		**(9)**	
Other		12	(1,776)	63	(501)	**38**	**(14,686)**
Change in liquid funds, excluding translation differences			(1,142)		3,775		**6,216**
Translation difference on liquid funds			(663)		(618)		**(205)**
Change in liquid funds			(1,805)		3,157		**6,011**
Liquid funds, January 1			27,383		25,578		**28,735**
Liquid funds, December 31			25,578		28,735		**34,746**

The effects of major acquisitions and divestments of subsidiaries in each year have been excluded from other changes from the balance sheet items in the cash-flow statement. The effects of currency movements in translation of foreign Group companies have also been excluded since these effects do not affect cash flow. 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 2003 and the second for 2002.

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 34.

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

Changes of accounting principles

Effective in 2005 Volvo will adopt International Financial Reporting Standards (IFRS) in its financial reporting. The transition from Swedish GAAP to IFRS is being made according to a regulation applicable to all listed companies within the European Union as of 2005. A more detailed overview of the transition to IFRS is presented on pages 108–115.

No changes of accounting principles have been made during 2004.

As of 2003, Volvo has adopted RR 29 Employee Benefits in its financial reporting. RR 29 Employee Benefits conforms in all significant respects with IAS 19 Employee Benefits issued earlier by the International Accounting Standards Committee (IASC). 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.

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 as from 2003, 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.

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 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

Exchange rates

Country	Currency	Average rate 2002	Average rate 2003	Average rate 2004	Year-end rate 2002	Year-end rate 2003	Year-end rate 2004
Denmark	DKK	1.2326	1.2281	1.2285	1.2386	1.2226	1.2126
Japan	JPY	0.0779	0.0697	0.0680	0.0740	0.0681	0.0638
Norway	NOK	1.2205	1.1418	1.0926	1.2605	1.0815	1.0890
Great Britain	GBP	14.5816	13.2023	13.4515	14.1538	12.9188	12.7163
United States	USD	9.7287	8.0778	7.3655	8.8263	7.2763	6.6138
Canada	CAD	6.1965	5.7688	5.6495	5.6335	5.5610	5.4635
Euro	EUR	9.1596	9.1258	9.1408	9.2018	9.1033	9.0163

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

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.

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. 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.

By applying RR 29 all defined-benefit pension plans and healthcare benefit plans are accounted for by use of consistent principles, in all the Group's subsidiaries. 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.

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, 2004 is shown on pages 103–105. Significant acquisitions, formations and divestments within the Group are listed below.

L.B. Smith (SABA Holding Inc.)
On May 2, 2003 Volvo Construction Equipment purchased the assets amounting to USD 189 M associated with the Volvo distribution business of L.B. Smith Inc. in the US. No goodwill or real estate was included in the deal. Because the intention was to spin off the acquired operations, the L.B. Smith distribution business was not consolidated in the Volvo Group's financial statements during 2003. The major part of the dealerships was divested during 2004. The remaining part of the operation has been consolidated in the Volvo Group's financial statements during 2004.

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

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

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

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 was 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.

The effects during 2004, 2003 and 2002 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:

	2002	2003	2004
Intangible assets	135	948	(599)
Property, plant and equipment	95	1,102	300
Assets under operating lease	286	95	115
Shares and participations	(214)	(1,303)	(260)
Inventories	234	1,477	630
Current receivables	382	1,562	958
Liquid funds	105	31	180
Other assets	3	129	62
Minority interests	119	–	(20)
Provisions	(33)	(225)	(63)
Loans	(247)	(2,144)	(347)
Liabilities	(582)	(1,469)	(448)
Acquired net assets	**283**	**203**	**508**
Liquid funds paid	(283)	(203)	(508)
Liquid funds according to acquisition analysis	105	31	180
Effect on Group liquid funds	**(178)**	**(172)**	**(328)**

The effects during 2004, 2003 and 2002 includes wholly owned subsidiaries that previously were accounted for according to the equity method.

The effects during 2004, 2003 and 2002 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:

	2002	2003	2004
Intangible assets	–	(1)	–
Property, plant and equipment	(5)	(23)	(440)
Inventories	(23)	(170)	(4)
Other receivables	(43)	(112)	181
Liquid funds	(13)	(1)	–
Provisions	–	24	94
Other liabilities	52	170	50
Divested net assets	**(32)**	**(113)**	**(119)**
Liquid funds received	32	134	187
Liquid funds, divested companies	(13)	(1)	–
Effect on Group liquid funds	**19**	**133**	**187**

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, 2004	
Shares in Joint ventures[1]	Holding percentage	Holding no of shares
Shanghai Sunwin Bus Corp., China[2]	50	–
Xian Silver Bus Corp., China[2]	50	–

1 Jinan Hua Wo Truck Corp. and Prevóst Car Inc., owned to 100 per cent, are fully consolidated from 2004.
2 Reported according to the equity method up to 2002.

Volvo's share of joint ventures' income statements	2002	2003	2004
Net sales	2,724	1,832	492
Operating income	74	51	(27)
Income after financial items	10	19	(32)
Net income	**(21)**	**3**	**(34)**

Volvo's share of joint ventures' balance sheets	2002	2003	2004
Non-current assets	782	665	100
Current assets	1,484	1,217	394
Total assets	**2,266**	**1,882**	**494**
Shareholders' equity	570	581	228
Provisions	180	124	6
Long-term liablities	361	295	0
Current liabilities	1,155	882	260
Total shareholders' equity and liabilities	**2,266**	**1,882**	**494**

At the end of 2004 no guarantees were issued for the benefit of joint ventures, neither by Volvo alone or jointly with other venturers. At the same date Volvo's share of contingent liabilities issued by its joint ventures amounted to 6 (96; 109).

Average number of employees	2002 Number of employees	2002 of which women, %	2003 Number of employees	2003 of which women, %	2004 Number of employees	2004 of which women, %
Shanghai Sunwin Bus Corp.	622	13	617	13	604	21
Xian Silver Bus Corp.	210	13	267	13	252	12
Jinan Hua Wo Truck Corp.	–	–	5	20	–	–
Prévost Holding BV	978	11	842	15	–	–
Total number of employees	**1,810**	**12**	**1,731**	**14**	**856**	**18**

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	2002	2003	2004
Trucks	118,752	116,969	136,879
Buses	14,035	11,978	12,722
Construction Equipment	21,012	23,154	28,685
Volvo Penta	7,669	7,596	9,057
Volvo Aero	8,837	8,030	6,925
Other and eliminations	6,775	7,041	7,228
Volvo Group excl Financial Services	**177,080**	**174,768**	**201,496**
Financial Services	9,925	9,153	9,598
Eliminations	(807)	(630)	(693)
Volvo Group total	**186,198**	**183,291**	**210,401**

The above sales figures include internal sales with the following amounts: Trucks 690 (719; 400), Buses 377 (166; 0), Construction Equipment 162 (313; 318), Volvo Penta 27 (31; 27), Volvo Aero 43 (87; 74) and Financial Services 693 (630; 807). Other and eliminations include internal sales of 9,853 (8,014; 7,638) and eliminations amounting to 11,152 (9,330; 8,457).

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)	2002	2003	2004
Trucks	1,189	3,951	8,989
Buses	(94)	(790)	90
Construction Equipment	406	908	1,572
Volvo Penta	647	695	937
Volvo Aero	5	(44)	377
Financial Services	490	926	1,365
Other	194	(3,142)	870
Volvo Group total	**2,837**	**2,504**	**14,200**

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

Operating income in 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).

Depreciation and amortization	2002	2003	2004
Trucks	5,766	4,933	5,330
Buses	328	293	286
Construction Equipment	647	653	789
Volvo Penta	80	78	122
Volvo Aero	495	545	417
Other	448	721	232
Total excl Financial Services	**7,764**	**7,223**	**7,176**
Financial Services	3,080	2,946	3,129
Volvo Group total	**10,844**	**10,169**	**10,305**

Research and development expenses	2002	2003	2004
Trucks	4,175	4,874	5,145
Buses	396	453	475
Construction Equipment	685	904	1,007
Volvo Penta	352	291	312
Volvo Aero	173	224	209
Other	88	83	85
Volvo Group total	**5,869**	**6,829**	**7,233**

Income from investments in associated companies	2002	2003	2004
Trucks	15	(55)	13
Buses	8	1	1
Construction Equipment	–	–	–
Volvo Penta	–	–	–
Volvo Aero	(70)	(77)	(1)
Other	173	297	(11)
Volvo Group excl Financial Services	**126**	**166**	**2**
Financial Services	56	34	25
Volvo Group total	**182**	**200**	**27**

Total assets	2002	2003	2004
Operating assets, excluding Financial Services: [1]			
Trucks	68,988	68,307	70,772
Buses	8,913	6,855	7,911
Construction Equipment	14,409	14,476	16,673
Volvo Penta	3,340	2,604	3,242
Volvo Aero	11,631	8,982	8,670
Other [2]	28,166	23,664	3,858
Total operating assets excluding Financial Services	**135,447**	**124,888**	**111,126**
Interest-bearing financial assets	32,648	37,516	46,312
Tax receivables	8,113	7,220	6,193
Total assets in Financial Services	69,364	66,842	71,532
Other and eliminations	(6,350)	(5,214)	(12,267)
Volvo Group total	**239,222**	**231,252**	**222,896**

1 Defined as Total assets less Interest-bearing financial assets and Tax receivables.
2 Investment in Scania included with 0 (20,424; 24,026).

Total shareholders' equity and liabilities	2002	2003	2004
Operating liabilities, excluding Financial Services: [1]			
Trucks	50,481	49,261	55,129
Buses	3,006	2,600	3,327
Construction Equipment	4,079	4,822	6,613
Volvo Penta	1,450	1,460	1,621
Volvo Aero	4,629	3,265	3,707
Other	2,330	3,291	2,825
Total operating liabilities excluding Financial Services	**65,975**	**64,699**	**73,222**
Financial liabilities	38,714	39,940	27,854
Tax liabilities	770	650	1,513
Total liabilities in Financial Services	61,870	58,838	63,226
Other and eliminations	(6,632)	(5,511)	(12,557)
Total liabilities	**160,697**	**158,616**	**153,258**
Shareholders' equity	78,278	72,420	69,409
Minority interests	247	216	229
Volvo Group total	**239,222**	**231,252**	**222,896**

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

Investments in associated companies	2002	2003	2004
Trucks	213	26	37
Buses	296	21	20
Construction Equipment	–	–	–
Volvo Penta	–	–	–
Volvo Aero	44	35	37
Financial Services	208	165	172
Other	896	116	647
Volvo Group total	**1,657**	**363**	**913**

Capital expenditures	2002	2003	2004
Trucks	4,797	4,384	5,030
Buses	256	161	176
Construction Equipment	660	525	1,158
Volvo Penta	236	362	297
Volvo Aero	583	262	801
Other	244	528	237
Volvo Group excl Financial Services	**6,776**	**6,222**	**7,699**
Financial Services	5,461	5,459	4,784
Volvo Group total	**12,237**	**11,681**	**12,483**

Reporting by geographical segment

Net sales	2002	2003	2004
Europe	105,069	109,668	119,077
North America	53,438	44,502	54,094
South America	5,070	5,080	7,338
Asia	12,693	15,819	20,789
Other markets	9,928	8,222	9,103
Volvo Group total*	**186,198**	**183,291**	**210,401**
*of which:			
Sweden	12,923	14,801	14,606
United States	44,652	36,406	45,251
France	26,387	25,679	26,900

Total assets	2002	2003	2004
Sweden	91,558	89,747	79,163
Europe excluding Sweden	71,078	75,612	77,616
North America	61,266	50,234	47,854
South America	4,966	4,996	6,496
Asia	7,006	7,236	7,734
Other markets	3,348	3,427	4,033
Volvo Group total	**239,222**	**231,252**	**222,896**

Capital expenditures	2002	2003	2004
Sweden	3,701	2,629	3,690
Europe excluding Sweden	5,793	6,042	6,305
North America	2,261	2,442	1,835
South America	147	214	247
Asia	194	299	362
Other markets	141	55	44
Volvo Group total	**12,237**	**11,681**	**12,483**

Note 5 Other operating income and expenses

	2002	2003	2004
Gains/losses on forward and options contracts	(195)	1,243	828
Exchange rate differences on trade receivables and payables	(266)	(199)	(86)
Amortization of goodwill	(1,094)	(873)	(684)
Change in allowances for doubtful receivables, customer financing	(1,018)	(812)	(545)
Change in allowances for doubtful receivables, other	(362)	(294)	37
Expenses for industrial relocation of Renault Trucks Villaverde plant in Spain	–	–	(470)
Volvo profit sharing program	–	–	(200)
Other income and expenses	(1,217)	(432)	(165)
Total	**(4,152)**	**(1,367)**	**(1,285)**

Note 6 Income from investments in associated companies

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

	Income (loss)			**Dividends received**		
	2002	2003	2004	2002	2003	2004
Aviation Lease Finance	51	30	27	–	–	–
Petro Stopping Centers Holding LP	(57)	(73)	0	–	–	–
Other companies	77	15	0	20	–	–
Holdings no longer reported as equity method investments						
Bilia AB [3]	128	64	–	44	47	–
Turbec AB [2]	(67)	(77)	–	–	–	–
Xian Silver Bus Corp [4]	29	–	–	–	–	–
Shanghai Sunwin Bus Corp [4]	(23)	–	–	–	–	–
Other companies	–	–	–	–	4	–
Subtotal	**138**	**(41)**	**27**	**64**	**51**	**–**

	Income (loss) 2002	2003	2004
Gains (losses) on sale of shares in associated companies			
Bilia AB [3]	–	188	–
Effero AB [2]	–	59	–
Eddo Restauranger AB [1]	32	–	–
Other companies	12	(6)	–
Subtotal	**44**	**241**	**–**
Total income from investments in associated companies	**182**	**200**	**27**

1 Divested in 2002.
2 Divested in 2003.
3 Main part of holding divested in 2003, remaining part divested in 2004.
4 As from 2003 reported in accordance with the proportionate method of consolidation.

Note 7 Income from other investments

	2002	2003	2004
Dividends received			
Scania AB	319	501	–
Henlys Group Plc	7	7	–
Diamond Finance, Ltd	–	5	–
Holdings of Volvo Technology Transfer[1]	–	4	–
Other	3	3	11
Subtotal	**329**	**520**	**11**
Revaluation and write downs of shares			
Scania AB	–	(3,601)	915
Henlys Group Plc	–	(429)	(95)
Holdings of Volvo Technology Transfer[1]	(7)	(39)	(13)
Smith Land & Improvement (SABA Holding)	–	–	(22)
Other	–	(4)	(8)
Subtotal	**(7)**	**(4,073)**	**777**
Gain (loss) on divestment of shares			
Holdings of Volvo Technology Transfer[1]	(16)	(36)	1
Bilia AB	–	–	24
Other	3	10	17
Subtotal	**(13)**	**(26)**	**42**
Total	**309**	**(3,579)**	**830**

1 A Volvo venture-capital company.

Note 8 Other financial income and expenses

Other financial income and expenses in 2004 include a write-down of 1,196, pertaining to the restructuring of Henlys Group plc. The net amount of exchange losses were 1 (gain 31; losses 55).

Note 9 Income taxes

Income taxes were distributed as follows:

	2002	2003	2004
Current taxes relating to the period	(802)	(984)	(1,854)
Adjustment of current taxes for prior periods	156	(291)	288
Deferred taxes originated or reversed during the period	(121)	(831)	(1,712)
Recognition and derecognition of deferred tax assets	242	802	99
Income taxes relating to associated companies	(65)	(30)	(5)
Total income taxes	**(590)**	**(1,334)**	**(3,184)**

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 1,433 (1,098; 982) 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, 2004, 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 2,592 (2,718; 3,063).

At year-end 2004, the Group had unused tax loss carryforwards of about 10,100, of which approximately 1,900 will expire within 5 years.

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

	2002, %	2003, %	2004, %
Swedish corporate income tax rates	28	28	28
Difference in tax rate in various countries	8	11	3
Capital gains	(2)	(2)	(3)
Other non-taxable income	(15)	(23)	(3)
Amortization of goodwill	16	13	1
Other non-deductible expenses	14	83	2
Adjustment of current taxes for prior years	(8)	18	(2)
Recognition and derecognition of deferred tax assets	(12)	(48)	(1)
Other, net	0	1	0
Income tax rate for the Group	**29**	**81**	**25**

Specification of deferred tax assets and tax liabilities	2002	2003	2004
Deferred tax assets:			
Unused tax loss carryforwards	5,725	5,370	3,223
Other unused tax credits	343	329	259
Intercompany profit in inventories	280	236	294
Valuation allowance for doubtful receivables	536	523	587
Provisions for warranties	997	975	966
Provisions for post-employment benefits	4,971	4,687	4,300
Provisions for restructuring measures	622	370	220
Other deductible temporary differences	2,950	2,756	2,891
	16,424	**15,246**	**12,740**
Valuation allowance	(3,063)	(2,718)	(2,592)
Deferred tax assets after deduction for valuation allowance	**13,361**	**12,528**	**10,148**
Deferred tax liabilities:			
Accelerated depreciation on property, plant and equipment	2,059	1,979	2,047
Accelerated depreciation on leasing assets	684	1,062	815
LIFO valuation of inventories	1,075	350	160
Capitalized product and software development	951	1,071	1,350
Untaxed reserves	564	688	126
Other taxable temporary differences	1,329	1,119	1,058
	6,662	**6,269**	**5,556**
Deferred tax assets, net [1]	**6,699**	**6,259**	**4,592**

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

Note 10 Minority interests

Minority interests in net income (loss) and in shareholders' equity consisted mainly of the minority interests in Volvo Aero Norge AS (22%), in Volvo Aero Services LP (5%) and Wuxi da Hao Power Co, Ltd (30%).

Note 11 Intangible and tangible assets

Acquisition costs	Value in balance sheet 2002	Value in balance sheet 2003	Capital expenditures	Sales/ scrapping	Acquired and divested operations [4]	Translation differences	Reclassi-fications and other	Value in balance sheet 2004
Goodwill	14,787	14,977	–	(17)	(473)	(239)	(64)	14,184
Entrance fees, aircraft engine programs	2,116	2,221	483	–	–	–	54	2,758
Product and software development	3,949	4,892	1,714	–	–	(38)	1	6,569
Other intangible assets	2,122	1,596	90	(27)	35	(15)	55	1,734
Total intangible assets	**22,974**	**23,686**	**2,287**	**(44)**	**(438)**	**(292)**	**46**	**25,245**
Buildings	16,688	16,820	983	(297)	188	(261)	(505)	16,928
Land and land improvements	4,169	4,124	37	(113)	23	(27)	(56)	3,988
Machinery and equipment [1]	38,425	40,107	3,370	(1,608)	(256)	(679)	(1,404)	39,530
Construction in progress including advance payments	2,111	1,811	1,400	(6)	–	(53)	(717)	2,435
Total property, plant and equipment	61,393	62,862	5,790	(2,024)	(45)	(1,020)	(2,682)	62,881
Assets under operating leases	39,367	34,354	4,406	(3,893)	144	(948)	(3,064)	30,999
Total tangible assets	**100,760**	**97,216**	**10,196**	**(5,917)**	**99**	**(1,968)**	**(5,746)**	**93,880**

1 Machinery and equipment pertains mainly to production equipment.

Accumulated depreciation and amortization	Value in balance sheet 2002	Value in balance sheet 2003	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 2004	Net carrying value in bal-ance sheet 2004 [3]
Goodwill	3,490	3,826	702	(17)	161	(90)	(54)	4,528	9,656
Entrance fees, aircraft engine programs	1,201	1,291	95	–	–	–	–	1,386	1,372
Product and software development	491	997	751	–	–	(8)	(2)	1,738	4,831
Other intangible assets	747	816	150	(26)	–	(16)	63	987	747
Total intangible assets	**5,929**	**6,930**	**1,698**	**(43)**	**161**	**(114)**	**7**	**8,639**	**16,606**
Buildings	6,445	6,763	724	(128)	47	(117)	(557)	6,732	10,196
Land and land improvements	454	483	50	(21)	2	(10)	(63)	441	3,547
Machinery and equipment [1]	23,695	24,976	3,408	(1,493)	46	(378)	(2,002)	24,557	14,973
Construction in progress, including advance payments	–	–	–	–	–	–	–	–	2,435
Total property, plant and equipment	30,594	32,222	4,182	(1,642)	95	(505)	(2,622)	31,730	31,151
Assets under operating leases	15,842	13,153	4,425	(1,851)	29	(334)	(3,957)	11,465	19,534
Total tangible assets	**46,436**	**45,375**	**8,607**	**(3,493)**	**124**	**(839)**	**(6,579)**	**43,195**	**50,685**

1 Machinery and equipment pertains mainly to production equipment.
2 Includes write-downs, 244.
3 Acquisition costs less accumulated depreciation and amortization.
4 Includes subsidiaries and joint ventures that previously were accounted for according to the equity method. The disagreement between AB Volvo and Renault SA regarding the acquisition of Renault V.I was settled during 2004. The settlement amount, EUR 108 M, has reduced the goodwill pertaining to the aquisition.

Depreciation and amortization by type of asset	2002	2003	2004
Intangible assets	1,586	1,633	1,698
Property, plant and equipment	4,134	4,009	4,182
Assets under operating leases	5,124	4,527	4,425
Total	**10,844**	**10,169**	**10,305**

Capital expenditures by type of asset	2002	2003	2004
Intangible assets	2,011	1,176	2,287
Property, plant and equipment	4,802	4,939	5,790
Assets under operating leases	5,424	5,566	4,406
Total	**12,237**	**11,681**	**12,483**

Capital expenditures for property, plant and equipment approved but not yet implemented at December 31, 2004, amounted to SEK 8.2 billion (6.4; 5.5).

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 1,859 at year-end. Capital expenditures during 2004 amounted to 20. Accumulated depreciation was 472 at year-end, whereof 68 during 2004. 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 332 in rental income from investment properties and 66 in direct costs.

Note 12 Shares and participations

The market values of Volvo's holdings of shares and participations in listed companies as of December 31, 2004 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.

Peach County Holdings Inc

In 2004, as a part of the restructuring of Henlys Group plc, the convertible debenture loan issued to Henlys was partly converted into shares in Peach County Holdings (owner of school bus manufacturer Blue Bird). Volvo's holding in Peach County Holdings Inc is 42,5%.

	Carrying value	Market value
Deutz AG	670	169
Total holdings in listed companies	**670**	**169**
Holdings in non-listed companies	1,333	–
Total shares and participations	**2,003**	

Group holdings of shares and participations in non-Group companies	Registration number	Percentage holding	Dec 31, 2002 Carrying value SEK M [1]	Dec 31, 2003 Carrying value SEK M [1]	Dec 31, 2004 Carrying value SEK M [1]
Shares in associated companies, equity method of accounting					
Peach County Holdings Inc, USA	–	43	–	–	556
Aviation Lease Finance USA	–	49	172	165	172
Blue Chip Jet HB, Sweden	969639-1011	40	151	98	90
Arbustum Invest AB, Sweden	556543-4247	40	32	33	35
Merakvim Metal Works Ltd, Israel	–	27	22	21	20
Thomas Hardie Commercials Ltd, Great Britain	–	24	3	5	10
Fonderie Venissieus, France	–	49	–	–	15
Euromation AB, Sweden [2]	–	–	20	20	–
Petro Stopping Centers Holding LP, USA	–	29	80	0	0
Bilia AB, Sweden	556112-5690	–	710	–	–
Shanghai Sunwin Bus Corp, China [3]	–	–	139	–	–
Xian Silver Bus Corp, China [3]	–	–	135	–	–
Other holdings	–	–	193	21	15
Total shares and participations in associated companies [4]			**1,657**	**363**	**913**
Shares and participations in other companies					
Scania AB, Sweden	556184-8564	–	24,026	20,424	–
Deutz AG, Germany	–	7	670	670	670
Henlys Group Plc, Great Britain	–	10	524	95	0
Bilia AB, Sweden	556112-5690	–	–	28	–
Other holdings			615	626	420
Total shares and participations in other companies			**25,835**	**21,843**	**1,090**
Carrying value in accordance with Group balance sheet			**27,492**	**22,206**	**2,003**

1 Associated companies are reported in accordance with the equity method. Other companies are reported at cost.
2 From 2004 consolidated in the Volvo Group.
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 913 (363; 1,629). Excess values amounted to 0 (0; 28).

Scania AB
Volvo's holding of Scania B shares was sold to Deutsche Bank on March 4, 2004 for an amount of SEK 14.9 billion. As a consequence of the divestment, the Scania holding was written down as of the fourth quarter of 2003. The transaction was carried out as part of Volvo's commitment to the European Commission to divest the Scania shares not later than April 23, 2004. After the sale of the Scania B shares to Deutsche Bank, Volvo owned 27.3 million A shares in Scania AB, corresponding to 24.8% of the votes and 13.7% of the capital. At the Annual General Meeting of AB Volvo on April 16, 2004, the Board's proposal to transfer all A shares in Scania to Ainax and thereafter to distribute the shares in Ainax to Volvo's shareholders was approved. The value of the distribution of Ainax was set at 6,310. The shares in Ainax were distributed to Volvo's shareholders on June 8, 2004. As of June 8, 2004 Volvo no longer holds any shares in Scania AB. On June 9, 2004 Volvo sold the remaining 0.9% holding in Ainax.

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. 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 share holding in Henlys Group plc was permanently impaired at December 31, 2003, and a write-down of SEK 429 M was charged to income for the year. After this write-down, the carrying value of Volvo's shares in Henlys Group amounted to SEK 95 M, corresponding to the market value of these shares at year-end 2003. During 2004 Volvo's share holding in Henlys Group has been fully written down and a write-down of SEK 95 M was thereby charged to the income statement.

Bilia AB
In 2004, Volvo sold all of its remaining holding in Bilia. The sale resulted in a capital gain for Volvo of SEK 24 M.

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.

Changes in the Volvo Group's holdings of shares and participations:	2002	2003	2004
Balance sheet, December 31, preceding year	27,798	27,492	22,206
Acquisitions and divestments, net	97	(720)	(20,740)
New issue of shares and shareholders' contributions	89	280	45
Share of income in associated companies, before income taxes	138	(41)	27
Income taxes related to associated companies	(65)	(30)	(5)
Dividends	(64)	(51)	0
Net of write-downs/revaluations	(7)	(4,073)	774
Change in Group structure	(210)	(470)	(280)
Translation differences	(203)	(118)	(29)
Other	(81)	(63)	5
Balance sheet, December 31	**27,492**	**22,206**	**2,003**

Note 13 Long-term customer-financing receivables

	2002	2003	2004
Installment credits	14,239	13,011	14,726
Financial leasing	10,341	9,975	10,334
Other receivables	627	462	127
Total	**25,207**	**23,448**	**25,187**

Note 14 Other long-term receivables

	2002	2003	2004
Convertible debenture loan in Henlys Group plc [1]	2,118	1,746	–
Other loans to external parties [2]	1,364	871	1,377
Prepaid pensions	706	152	364
Deferred tax assets	7,611	6,828	5,012
Other receivables [2]	686	890	1,022
Total	**12,485**	**10,487**	**7,775**

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. In October 2004 Volvo acquired the remaining 50 percent of Prévost Car Inc. In conjunction with this agreement the debenture loan was converted into shares in a the new US based company, Peach, which holds 100 percent of Bluebird.

2 Effective in 2003, Volvo has adopted RR27, Financial instruments; Disclosure and presentation. See further in Note 1. As a result of the application, loans increased by 657 (–) and other receivables increased by 15 (–) at December 31, 2004.

Note 15 Inventories

	2002	2003	2004
Finished products	17,987	17,425	17,861
Production materials, etc.	10,318	9,034	10,737
Total [1]	**28,305**	**26,459**	**28,598**

1 Of which inventories valued to net realisable value amounting to 7,500.

Increase (decrease) in allowance for inventory obsolescence			
Balance sheet, December 31, preceding year	3,017	2,710	2,246
Increase in allowance for inventory obsolescence charged to income	248	203	244
Scrapping	(348)	(338)	(226)
Acquired and divested operations	(1)	(15)	14
Translation differences	(262)	(160)	(85)
Reclassifications, etc.	56	(154)	(69)
Balance sheet, December 31	**2,710**	**2,246**	**2,124**

Note 16 Short-term customer-financing receivables

	2002	2003	2004
Installment credits	8,306	8,947	10,382
Financial leasing	5,269	5,737	5,488
Retailer financing	7,356	6,555	8,850
Other receivables	860	1,315	1,286
Total	**21,791**	**22,554**	**26,006**

Note 17 Other short-term receivables

	2002	2003	2004
Accounts receivable	17,155	16,924	20,137
Prepaid expenses and accrued income [1]	2,846	3,036	3,203
VAT receivables	1,333	1,181	1,561
Loans to external parties [1]	1,300	3,863	1,642
Current income tax receivables	634	530	1,426
Other receivables [1]	3,727	3,232	3,321
Total, after deduction of valuation allowances for doubtful accounts receivable 837 (932; 1,079)	**26,995**	**28,766**	**31,290**

1 Effective in 2003, Volvo has adopted RR 27, Financial instrument; Disclosure and presentation. See further in Note 1. As a result of the application, accrued interest income increased by 818 (600) and loans increased by 292 (3,000) and other receivables decreased by 77 (–).

Change of valuation allowances for doubtful accounts receivable	2002	2003	2004
Balance sheet, December 31, preceding year	1,393	1,079	932
Change of valuation allowance charged to income	224	201	(30)
Utilization of valuation allowance related to actual losses	(290)	(239)	(174)
Acquired and divested operations	(5)	68	1
Translation differences	(266)	(81)	17
Reclassifications, etc.	23	(96)	91
Balance sheet, December 31	**1,079**	**932**	**837**

Note 18 Marketable securities

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

	2002	2003	2004
Government securities	203	203	6,354
Banks and financial institutions	484	116	371
Corporate institutions	1,140	176	–
Real estate financial institutions	14,841	19,023	19,220
Other	39	11	10
Total [1]	**16,707**	**19,529**	**25,955**

1 Effective in 2003, Volvo has adopted RR27, Financial instruments; Disclosure and presentation. See further in Note 1. As a result of the application, marketable securities increased by 66 (–) at December 31, 2004.

Note 19 Cash and bank accounts

	2002	2003	2004
Cash in banks	4,157	5,782	5,787
Time deposits in banks	4,714	3,424	3,004
Total	**8,871**	**9,206**	**8,791**

Note 20 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 2004 amounted to 441,520,885. After repurchase of additionally 2% of the registered shares during 2004, Volvo held 7% of the registered shares at year end 2004. The total number of outstanding Volvo shares by year end 2004 amounted to 410,129,842 whereof Series A shares 131,529,699 and Series B shares 278,600,143. 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 418,528,078 in 2004.

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, 2004 amounted to 43,778.

As of December 31, 2004, Volvo-related foundations' holdings in Volvo were 0.05% of the share capital and 0.12% of the voting rights.

As shown in the consolidated balance sheet as of December 31, 2004, unrestricted equity amounted to 56,034 (57,002; 61,536). It is estimated that 0 of this amount will be allocated to restricted reserves.

Note 21 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 2002 have not been restated. See note 1 for further information about the 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	2003		2004
actuarial calculations	January 1	December 31	December 31
Sweden			
Discount rate	5.5	5.5	5.0
Expected return on plan assets[1]	6.0	6.0	6.0
Expected salary increases	3.0	3.0	3.2
United States			
Discount rate	6.75	6.25	5.75
Expected return on plan assets[1]	7.65	7.65	7.65
Expected salary increases	3.5	3.5	3.5
France			
Discount rate	5.5	5.25	4.75
Expected salary increases	3.0	3.0	3.0
Great Britain			
Discount rate	5.5	5.5	5.25
Expected return on plan assets[1]	7.0	7.0	6.25
Expected salary increases	3.5	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	2002	2003	2004
Current service costs		646	616
Interest costs		1,377	1,306
Expected return on plan assets		(828)	(931)
Actuarial gains and losses [1]		–	(4)
Past service costs			
– Unvested		–	7
– Vested		46	38
Curtailments and settlements		3	(28)
Termination benefits		169	729
Pension costs for defined benefit plans		**1,413**	**1,733**
Pension costs for defined contribution plans		2,461	2,681
Total pension costs	**4,472**	**3,874**	**4,414**

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	2004
Current service costs	107	196
Interest costs	415	349
Expected return on plan assets	0	(12)
Actuarial gains and losses [1]	–	6
Past service costs		
– Unvested	–	(1)
– Vested	–	5
Curtailments and settlements	(4)	–
Termination benefits	32	47
Total costs for post-employment benefits other than pensions	**550**	**590**

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, 2004 by approximately 170, and the post-employment benefit expense by approximately 15. A decrease of 1% would decrease the accumulated value of obligations by about 145 and reduce costs by approximately 12.

Calculations made as of December 31, 2004 show an annual increase of 10.0% in the weighted average per capita costs of covered healthcare benefits; it is assumed that the percentage will decline gradually to 5% and then remain at that level.

Obligations in defined benefit plans	Sweden Pensions	United States Pensions	France Pensions	Great Britain Pensions	US Other benefits	Other plans	Total
Obligations at January 1, 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**
Acquisitions, divestments and other changes	140	–	(85)	138	–	–	**193**
Service costs	176	206	19	82	193	136	**812**
Interest costs	280	668	115	172	348	72	**1,655**
Unvested past service costs	–	3	(66)	–	–	–	**(63)**
Vested past service costs	(46)	66	–	–	–	22	**42**
Termination benefits	88	–	205	–	–	483	**776**
Curtailments	(35)	(5)	-	–	–	35	**(5)**
Employee contributions	–	–	–	30	–	1	**31**
Actuarial gains (–) and losses (+)	573	683	74	215	364	39	**1,948**
Exchange rate translation	–	(1,103)	(19)	(76)	(576)	29	**(1,745)**
Benefits paid	(271)	(704)	(497)	(101)	(532)	(124)	**(2,229)**
Obligations at December 31, 2004	**6,237**	**10,521**	**2,079**	**3,446**	**6,075**	**2,288**	**30,646**
of which							
Funded defined benefit plans	5,366	10,287	–	3,434	3,279	1,174	23,540

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**
Acquisitions, divestments and other changes	129	15	–	114	–	18	**276**
Actual return on plan assets	358	691	–	224	2	51	**1,326**
Employer contributions	–	1,153	–	83	106	105	**1,447**
Employee contributions	–	–	–	30	–	1	**31**
Exchange rate translation	–	(730)	–	(55)	(20)	1	**(804)**
Benefits paid	–	(693)	–	(98)	–	(92)	**(883)**
Plan assets at December 31, 2004	**4,079**	**7,163**	**–**	**2,552**	**199**	**1,146**	**15,139**

Net provisions for post-employment benefits	Sweden Pensions	United States Pensions	France Pensions	Great Britain Pensions	US Other benefits	Other plans	Total
Funded status at December 31, 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)

Net provisions post-employment benefits							
Funded status at December 31, 2004	**(2,158)**	**(3,358)**	**(2,079)**	**(894)**	**(5,876)**	**(1,142)**	**(15,507)**
Unrecognized actuarial (gains) and losses	145	673	73	73	785	57	**1,806**
Unrecognized past service costs	–	2	(66)	(3)	(9)	(7)	**(83)**
Net provisions for post-employment benefits at December 31, 2004	**(2,013)**	**(2,683)**	**(2,072)**	**(824)**	**(5,100)**	**(1,092)**	**(13,784)**
whereof reported as							
Prepaid pensions and other assets	2	166	0	0	133	70	371
Provisions for post-employment benefits	(2,015)	(2,849)	(2,072)	(824)	(5,233)	(1,162)	(14,155)

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 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 807 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, 2004, the fair value of the foundation's plan assets amounted to 4,079 (3,592), of which 55% (47%) was invested in shares or mutual funds. At the same date, retirement pension obligations attributable to the ITP plan amounted to 5,366 (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 2004, 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 2004, the total value of pension obligations secured by pension plans of this type amounted to 10,287 (10,433). At the same point in time, the total value of the plan assets in these plans amounted to 7,163 (6,727), of which 64% (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 2004, Volvo contributed 1,153 (843) to the pension plans in order to comply with these regulations.

Note 22 Other provisions

	Value in balance sheet 2002	Value in balance sheet 2003	Provisions and reversals	Utilization	Acquired and divested companies	Trans-lation differences	Reclassi-fications	Value in balance sheet 2004	Whereof due within 12 months	Whereof due after 12 months
Warranties	5,977	6,175	5,922	(5,659)	145	(195)	354	6,742	3,572	3,170
Provisions in insurance operations	419	386	(74)	–	–	–	–	312	0	312
Restructuring measures	1,417	941	(7)	(297)	19	(23)	(62)	571	325	246
Provisions for residual value risks	1,698	1,207	202	(336)	3	(43)	(46)	987	354	633
Provisions for service contracts	1,478	1,481	294	(288)	25	(20)	20	1,512	430	1,082
Other provisions	4,820	4,289	1,272	(1,580)	27	(172)	518	4,354	2,501	1,853
Total	**15,809**	**14,479**	**7,609**	**(8,160)**	**219**	**(453)**	**784**	**14,478**	**7,182**	**7,296**

Note 23 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, 2004. Volvo hedges foreign-exchange and interest-rate risks using derivative instruments. See Note 33.

Bond loans	2002	2003	2004
GBP 2004/2006, 5.18%	–	–	1,905
DKK 1998/2005, 4.0%	310	58	–
SEK 1998–2004/2006–2009, 2.35–6.0%	5,950	6,372	4,798
JPY 2001–2003/2006–2011, 0.45–2.1%	888	1,443	542
HKD 1999/2006, 7.99%	113	94	85
CZK 2001/2004–2006/2010, 2.6–6.5%	306	514	380
USD 1998–2004/2006–2008, 2.22–2.89%	2,154	1,274	2,150
EUR 1996–2004/2006–2011, 2.32–7.0%	24,120	23,047	17,546
Other bond loans	29	288	206
Total	**33,870**	**33,090**	**27,612**

Other loans	2002	2003	2004
USD 1989–2004/2006–2015, 2.74–13.0%	7,280	5,634	5,360
EUR 1986–2004/2006–2013, 0.5–9.59%	1,841	3,245	2,596
GBP 1995-2004/2007–2010, 4.95-7.58%	1,028	1,786	1,269
SEK 1992–2004/2006–2016, 2.84–5.96%	224	349	519
BRL 2000–2004/2006–2011, 7.45–18.05%	435	626	944
CAD 2002–2004/2008–2010, 3.37–3.53%	972	1,527	1,557
AUD 2004–2008, 5.89%	400	208	49
Other loans[1]	369	209	505
Total other long-term loans	**12,549**	**13,584**	**12,799**
Deferred leasing income	**1,481**	**1,186**	**1,377**
Residual value liability	**5,121**	**3,249**	**3,122**
Other long-term liabilities[1]	**102**	**192**	**154**
Total	**53,123**	**51,301**	**45,064**

Of the above long-term loans, 1,422 (1,777; 1,358) was secured.

1 Effective in 2003, Volvo has adopted RR27, Financial instruments; Disclosure and presentation. See further in Note 1. As a result of the application, other loans increased by 241 (–) and other long-term liabilities increased by 15 (–) at December 31, 2004.

Long-term loans mature as follows:

2006	15,637
2007	9,858
2008	5,358
2009	2,922
2010 or later	6,636
Total	**40,411**

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

At year-end 2004, credit facilities granted but not utilized and which can be used without restrictions amounted to approximately SEK 19 billion (15; 18). Approximately SEK 18 billion of these facilities consisted of stand-by facilities for loans with varying maturities through the year 2009. A fee normally not exceeding 0.25% of the unused portion is charged for credit facilities.

Note 24 Current liabilities

Balance sheet amounts for loans were as follows:

	2002	2003	2004
Bank loans	5,442	3,430	4,267
Other loans [1]	20,576	23,988	17,129
Total	**26,018**	**27,418**	**21,396**

Bank loans include current maturities, 2,259 (1,659; 1,046), of long-term loans. Other loans include current maturities of long-term loans, 13,324 (14,470; 11,138), and commercial paper, 2,667 (5,836; 8,762).

Non-interest-bearing liabilities accounted for 57,745 (49,561; 48,599), or 73% (64; 65) of the Group's total current liabilities.

Balance sheet amounts for Other current liabilities were as follows:

	2002	2003	2004
Advances from customers	2,589	1,821	2,298
Current income tax liabilities	621	459	1,753
Wages, salaries and withholding taxes	4,335	4,630	4,987
VAT liabilities	1,056	988	1,193
Accrued expenses and prepaid income[1]	7,315	8,113	9,811
Deferred leasing income	1,652	1,230	1,141
Residual value liability	3,985	3,201	1,873
Other liabilities[1]	4,832	4,591	3,876
Total	**26,385**	**25,033**	**26,932**

Secured bank loans at year-end 2004 amounted to 194 (96; 588). The corresponding amount for other current liabilities was 1,578 (1,987; 1,775).

1 Effective in 2003, Volvo has adopted RR 27, Financial instrument; Disclosure and presentation. See further in Note 1. As a result of the adoption, other loans increased by 612 (3,000) and accrued interest expenses increased by 981 (600) and other liabilities decreased by 77 (–) at December 31, 2004.

Note 25 Assets pledged

	2002	2003	2004
Property, plant and equipment – mortgages	356	248	205
Assets under operating leases	964	2,031	1,665
Chattel mortgages	495	350	374
Receivables	1,180	678	319
Inventories	66	76	13
Cash, marketable securities	549	426	470
Total	**3,610**	**3,809**	**3,046**

The liabilities for which the above assets were pledged amounted at year-end to 3,194 (3,860; 3,721).

Note 26 Contingent liabilities

	2002	2003	2004
Credit guarantees			
– issued for associated companies	219	154	110
– issued for customers and others	3,337	3,508	2,471
Tax claims	982	1,098	1,433
Other contingent liabilities	4,796	4,851	5,175
Total	**9,334**	**9,611**	**9,189**

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, 2004, the estimated value of counter guarantees received and other collaterals, for example the estimated net selling price of used products, amounted to 5,135.

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. The Mont Blanc tunnel was re-opened for traffic in 2002. An expert group was appointed by the Commercial Court in Nanterre, France, to investigate the cause of the fire and the losses it caused. At present, it is not possible to anticipate the result of this on-going investigation or the result of other French legal actions in progress regarding the fire. Following the closure in October 2003 of an investigation for potential criminal liability for the fire, the trial for unintentional manslaughter started in Bonneville (France) on January 31, 2005 and is expected to last until late April 2005. Volvo Truck Corporation is one of 16 parties tried for unintentional manslaughter. A claim was filed with the Commercial Court in Nanterre by the insurance company employed by the French tunnel operating company against certain Volvo Group companies and the trailer manufacturer in which compensation for the losses claimed to have been incurred by the tunnel operating company was demanded. The claimant requested that the Court postpone its decision until the expert group has submitted its report. The Court of Nanterre has since then declined jurisdiction in 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. Although the total sums claimed are substantial, Volvo is unable to determine the ultimate outcome of the litigation referred to above.

AB Volvo and Renault SA have signed a settlement agreement regarding the disagreement the companies have had since 2001 pertaining to Volvo's acquisition of Renault VI/Mack. According to this settlement, Renault SA transferred EUR 108 M to AB Volvo. The receivable was reported as a reduction of the goodwill amount pertaining to the acquisition of Renault VI/Mack.

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 27 Cash flow

Other items not affecting cash pertain to risk provisions and losses related to doubtful receivables and customer-financing receivables 551 (1,079; 1,306), capital gains on the sale of subsidiaries and other business units 95 (85; –), revaluation of shares in Scania AB and Henlys Group Plc amounting to negative 820 (positive 4,030; –), provision for industrial relocation and contractual pension 530 (–; –), deficit in the Swedish pension fund – (–; 807), and other negative 19 (negative 95; negative 158).

Net investments in customer-financing receivables resulted in 2004 in a negative cash flow of SEK 7.4 billion (4.3; 5.7). In this respect, liquid funds were reduced by SEK 19.4 billion (15.6; 14.9) pertaining to new investments in financial leasing contracts and installment contracts.

Divestments of shares and participations, net in 2004 amounted to SEK 15.1 billion, mainly related to the divestment of the Scania B-shares. Investments in shares and participations, net in 2003 and in 2002 amounted to SEK 0.1 billion.

Acquired and divested subsidiaries and other business units, net in 2004 amounted to negative SEK 0.1 billion and in 2003 to SEK 0.0 billion and in 2002 to a negative SEK 0.1 billion.

During 2004, 2003 and 2002 net installments of loans to external parties contributed SEK 0.0 billion, SEK 0.9 billion, SEK 1.7 billion, respectively to liquid funds.

The change during the year in bonds and other loans increased liquid funds by SEK 8.8 billion (1.9; decrease 0.1). New borrowing during the year, mainly the issue of bond loans, provided SEK 19.1 billion (25.4; 33.1). Amortization during the year amounted to SEK 28.9 billion (23.5; 33.2).

Note 28 Leasing

At December 31, 2004, future rental income from noncancellable financial and operating leases (minimum leasing fees) amounted to 25,181 (27,586; 28,327), of which 23,092 (25,548; 25,737) pertains to customer-financing companies. Future rental income is distributed as follows:

	Financial leases	Operating leases
2005	6,174	3,008
2006–2009	11,227	5,889
2010 or later	126	462
Total	**17,527**	**9,359**
Allowance for uncollectible future rental income	(246)	
Unearned rental income	(1,459)	
Present value of future rental income related to noncancellable leases	15,822	

At December 31, 2004, future rental payments (minimum leasing fees) related to noncancellable leases amounted to 4,142 (5,009; 4,335).

Future rental payments are distributed as follows:

	Financial leases	Operating leases
2005	371	965
2006–2009	759	1,343
2010 or later	204	500
Total	**1,334**	**2,808**

Rental expenses amounted to:

	2002	2003	2004
Financial leases:			
– Contingent rents	(11)	(29)	(30)
Operating leases:			
– Contingent rents	(46)	(58)	(27)
– Rental payments	(1,238)	(1,187)	(910)
– Sublease payments	16	69	28
Total	**(1,279)**	**(1,205)**	**(939)**

Book value of assets subject to finance lease:

	2003	2004
Acquisition costs:		
Buildings	143	526
Land and land improvements	66	66
Machinery and equipment	69	236
Assets under operating lease	1,129	1,065
Total	**1,407**	**1,893**
Accumulated depreciation:		
Buildings	(27)	(56)
Land and land improvements	–	–
Machinery and equipment	(3)	(46)
Assets under operating lease	(561)	(518)
Total	**(591)**	**(620)**
Book value:		
Buildings	116	470
Land and land improvements	66	66
Machinery and equipment	66	190
Assets under operating lease	568	547
Total	**816**	**1,273**

Note 29 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.

	2002	2003	2004
Sales to associated companies	2,813	1,486	279
Purchase from associated companies	44	24	73
Receivables from associated companies, Dec 31	370	253	174
Liabilities to associated companies, Dec 31	6	32	70

Group holdings of shares in associated companies are shown in Note 12, 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 277 (310; 1,523) and 3,242 (2,756; 3,608). Amounts due from and due to Renault S.A. amounted to 81 (93; 426) and 554 (537; 642) respectively, at December 31, 2004. The sales were mainly from Renault Trucks to Renault S.A. and consisted of components and spare parts. The decrease in sales is due to the sales to Irisbus that was a subsidiary to Renault S.A until the beginning of 2003. The purchases were mainly made by Renault Trucks from Renault S.A. and consisted mainly of light trucks. AB Volvo had a receivable on Renault S.A. regarding the settlement agreement amounting to 979 at December 31, 2004 (not included above). In addition Renault Trucks has a license from Renault SA for the use of the trademark "Renault".

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. During 2004 Volvo CE divested almost 90% of these dealerships. The sales from Volvo CE to the operations divested during 2004 amounted to 1,411 (1,301). The receivables at year-end 2003 amounted to 15.

Note 30 Government grants

During 2004, government grants amounting to 165 (121) have been received, of which 137 (77) has been accounted for in the income statement. The grants were mainly received from the European Commission and the Swedish government.

Note 31 Personnel

In accordance with a resolution adopted at the Annual General Meeting 2004, the fee paid to the Board of Directors is a fixed amount of SEK 4,800,000, to be distributed as decided by the Board. The Chairman of the Board, Finn Johnsson, received a fee of SEK 1,200,000. Fixed and variable salaries and other benefits for the Chief Executive Officer and Executive Vice Presidents 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, including pensions and severance payment for the Group Executive Committee as well as principles for variable salary systems, share-based incentive programmes, pension schemes and severance payment for senior executives. In addition, the Remuneration Committee approves remuneration of the members of the Group Executive Committee. Fixed and variable salaries for other senior executives are prepared and decided by the executive's superior, in consultation with his or her superior, and in accordande with the principles decided by the Board.

Remuneration to senior executives, SEK	Fixed salary	Variable salary	Other benefits	Pension costs 3	Total
Board Chairman	1,200,000	–	–	–	1,200,000
CEO 2	10,511,781	5,280,000	2,037,249	14.076.717	31.905.747
GEC 1	49,034,000	22,481,000	7,119,000	31.004.311	109.638.311
Total	**60,745,781**	**27,761,000**	**9,156,249**	**45.081.028**	**142.744.058**

1 Group Executive Committee, consists of 16 members, in addition to Leif Johansson, at the end of the year.
2 Other benefits (1,485,800) relates to excercised options during 2004.
3 Pension costs are calculated according to FAR's Recommendation 4, "Accounting of pensions liabilities and pension cost" which is the accounting principle used in the Parent Company and includes social cost. The Volvo Group principle RR 29 "Employee Benefits", is not suitable for calculations on an individual basis, due to the handling of actuarial gains and losses and certain amortizations rules.

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 2004, the variable salary corresponded to 50% of the fixed annual salary. Leif Johansson is also participating in the Volvo Group long-term incentive program. There was however no allotment in 2004, as the financial targets for year 2003 were not met.

Leif Johansson's pension benefits has been renegotiated during the fourth quarter 2004, resulting in him no longer being eligible to take retirement with pension at age 55. Instead, only a twelve-month notice of termination is applicable from AB Volvo and six months on his own initiative. At the same time, the possibility of 2 years of severance pay was removed. Leif Johansson will from now on receive a defined contribution based pension, meaning that Leif Johansson's pension will equal the sum of all paid premiums with the addition of possible yields instead of the former system with a guaranteed percentage of the pensionable salary. The pensionable salary consists of the current monthly salary times twelve, Volvo's internal value for company car, together with the average of the outcome of the variable salary for the previous five years. The corresponding agreement has been offered to all senior executives currently participating in the defined benefits pension plan.

In conjunction with the transition to a defined-contribution pension plan for Leif Johansson, AB Volvo pays 34 MSEK to an insurance policy in the first quarter 2005. At the same time, Volvo transfers to this insurance policy 76 MSEK already reserved in the defined-benefit system. If Leif Johansson leaves his position before the age of 55 he has an obligation to repay part of the pension premiums.

Variable salaries

In addition to Leif Johansson, the members of the Group Executive Committee and a number of senior executives in Group Companies receive variable salaries in addition to fixed salaries. Variable salaries are in most cases based on operating income and cash flow of the Volvo Group and/or the senior executive's company. A variable salary may amount to a maximum of 50% of the fixed annual salary.

Severance payments

The employment contracts of the Group Executive Committee and certain other senior executives contain rules governing severance payments when the Company terminates employment. The rules 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 month, depending on age at date of severance.

In agreements concluded after the spring of 1993, severance pay is reduced, in the event the employee gains employment during the severance period, in an amount equal to 75% of income from new employment. In agreements concluded after the spring of 2004, severance pay is reduced by the full income from new employment. Furthermore, age limit at date of notice of termination has been removed and an employee is, with few exceptions, entitled to severance pay for a period of twelve months.

Pensions

Previous pension agreements for certain senior executives stipulated that early retirement can be obtained from the age of 60. The defined pension benefits are vested and earned gradually over the years up to the employee's retirement age and are fully earned at age 60. During the period between ages of 60 and 65 the employee receives a pension equal to 70% of the pensionable salary.

Agreements of retirement at an age of 60 are no longer signed, and are instead replaced by a defined contribution plan without a definite time for retirement. The premium constitutes 10% of the pensionable salary.

The previous agreement, which entitled the employee 50% of the pensionable salary after normal retirement age, has also been replaced by a defined contribution plan. The premium constitutes of 30,000 SEK plus 20% of the pensionable salary over 30 income base amounts.

Renegotiation, on a voluntary basis, is in progress with those executives currently covered by the defined-benefit pension plan.

Incentive programs

Volvo currently has two different types of option programs for certain senior executives outstanding, one call option program (expires during 2005) and one program for employee stock options (expires 2006/2008). 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.

Stock-based incentive program

In 2004 the Annual General Meeting approved a stock based incentive program for certain senior executives within the Volvo Group. Allotment in the program will be executed in April 2005, and is based on the fulfilment of certain financial goals for 2004. The Annual General Meeting decided that Volvo's own shares may be used for allotment in the stock-based incentive program.

The Board of directors has proposed to the Annual General Meeting to approve a new stock-based incentive programme similar to the program approved in 2004. Under the new program, a total of maximum 185,000 (110,000; –) Volvo shares can be allotted to approximately 165 (165; –) senior executives. The number of shares to be allotted is proposed to depend upon the fulfilment of certain financial goals for 2005. Assuming that the financial goals are fulfilled in full and that the Volvo share price is SEK 300 at grant date, Volvo's cost for the program including social fees will be approximately SEK 70 M. The Board has furthermore proposed to the Annual General Meeting that Volvo's own shares may be used for allotment in the stock-based incentive program.

	Programs from prior years	
Financial instruments	2000/2005, call options number	2003/2008 employee stock options number
Board Chairman	–	–
CEO	8,821	50,000
GEC and other senior executives	93,009	895,000
Total	**101,830**	**945,000**

Summary of option programs	Allotment date	Total number of outstanding options Dec 31, 2003	Dec 31, 2004	Excercise price	Term of the options	Value/ option	Vesting, years
1998, call options [1]	May 5, 1999	46,097	–	290.70	May 18, 1999–May 4, 2004	68.70	n/a
1998, call options [2]	April 28, 2000	116,929	101,830	302.12	Apr 28, 2000–Apr 27, 2005	55.75	n/a
2000, employee stock options [3]	May 4, 2001	96,245	–	159.00	May 4, 2003–May 3, 2004	22.00	2
2002, employee stock options [3]	May 2, 2003	1,050,000	945,000	163.00	May 2, 2006–May1, 2008	32.00	3

1 The call options gave 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. For the options allotted in 2001, the committements related to a future increase in share price (including social costs) were hedged through a Total Return Swap. The Annual General Meeting has decided that Volvo's own shares may be used as a hedge for the options allotted in 2003.

Employee stock option program 2003 with allotment in 2004
The Board of AB Volvo decided to renew the employee stock option programs established in 2000, and renewed in 2001 and 2002, through which senior executives in the Volvo Group are allotted options on B shares in AB Volvo. The size of the allotment was determined by how well certain financial goals for 2003 were fulfilled. No options were however allotted in this program as the financial targets were not achieved.

Cost for incentive programs
All obligations related to the employee stock option programs, including the Total Return Swap, and share based compensation program are marked to market on a continuing basis and any change in the obligation is recorded in the income statement. In 2004, the cost for the employee stock option programs and share based compensation program amounted to SEK 66 M (65; 36). At December 31, 2004, provision related to the employee stock option program and share based incentive program amounted to SEK 142 M.

Change in number of options per program

	Program	
Number of options	2000	2002
Dec 31, 2001	163,109	–
Alloted	–	–
Cancelled	–	–
Exercised	–	–
Dec 31, 2002	163,109	–
Alloted	–	1,125,000
Cancelled	9,792	75,000
Exercised	57,072	–
Dec 31, 2003	96,245	1,050,000
Alloted	–	–
Cancelled	–	105,000
Exercised	96,245	–
Dec 31, 2004	–	945,000

	2002		2003		2004	
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	132	54	117	54	136	54
Subsidiaries						
Sweden	24,434	18	25,553	17	27,034	18
Western Europe	24,996	14	26,604	15	26,325	14
Eastern Europe	2,087	14	2,302	15	2,731	16
North America	12,759	17	11,136	19	13,057	19
South America	2,057	11	2,216	11	3,040	12
Asia	2,526	13	3,599	13	4,114	16
Other countries	1,555	11	1,629	13	1,759	11
Group total	**70,546**	**16**	**73,156**	**16**	**78,196**	**16**

	2003		2004	
Board members and chief officers	Number at year-end	of which women, %	Number at year-end	of which women, %
AB Volvo				
Board members	13	15	11	9
CEO and GEC	15	7	17	6
Volvo Group				
Board members	1,018	13	1,017	15
Presidents and other senior executives	1,412	14	1,276	16

Wages, salaries and other remunerations, SEK M	2002 Board and Presidents[1]	2002 of which variable salaries	2002 Other employees	2003 Board and Presidents[1]	2003 of which variable salaries	2003 Other employees	2004 Board and Presidents[1]	2004 of which variable salaries	2004 Other employees
AB Volvo									
Sweden	22.7	3.4	93.9	29.6	7.7	85.7	33.4	11.6	106.3
Subsidiaries									
Sweden	64.6	9.0	7,553.4	77.7	10.7	8,028.5	79.3	15.5	9,041.7
Western Europe	381.7	15.7	7,802.2	390.3	25.8	8,352.1	442.3	10.9	8,905.3
Eastern Europe	6.1	–	247.0	7.3	–	281.5	14.5	0.2	367.0
North America	170.1	13.2	6,200.9	184.5	12.9	5,075.3	209.1	10.2	5,292.7
South America	37.5	1.8	298.2	38.3	–	276.8	45.6	2.7	325.5
Asia	43.5	1.1	700.1	42.4	0.9	670.4	49.9	0.7	724.9
Other countries	9.2	–	295.7	8.9	–	325.8	12.7	0.0	394.5
Group total	**735.4**	**44.2**	**23,191.4**	**779.0**	**58.0**	**23,096.1**	**886.8**	**51.8**	**25,157.9**

Wages, salaries, other remunerations and social costs, SEK M	2002 Wages, salaries, remunerations	2002 Social costs	2002 of which pension costs	2003 Wages, salaries, re-munerations	2003 Social costs	2003 of which pension costs	2004 Wages, salaries, re-munerations	2004 Social costs	2004 of which pension costs
AB Volvo [2]	116.6	192.8	167.9	115.3	80.0	54.0	139.7	80.7	48.7
Subsidiaries	23,810.2	10,016.0	4,304.1	23,759.8	10,565.8	3,820.2	25,905.0	10,964.8	4,365.2
Group total [3]	**23,926.8**	**10,208.8**	**4,472.0**	**23,875.1**	**10,645.8**	**3,874.2**	**26,044.7**	**11,045.5**	**4,413.9**

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

2 The **Parent Company's** pension costs, pertaining to Board members and Presidents are disclosed in Note 22 in the Parent Company. The Parent Company's outstanding pension obligations according to RR29 for these individuals amount to 405.2 (290.8; 334.7).

3 Of the **Group's** pension costs, 157.8 (170.7; 135.9) pertain to Board members and Presidents. The Group's outstanding pension obligations to these individuals amount to 838.3 (732.7; 670.3).

Note 32 Fees to the auditors

Audit fees	2002	2003	2004
Audit fees to PricewaterhouseCoopers	63	66	78
Audit fees to other audit firms	4	3	2
Total	**67**	**69**	**80**
Other fees to PricewaterhouseCoopers			
Fees for audit related services	22	23	20
Fees for tax services	43	30	16
Fees for other services	25	11	0
Total	**90**	**64**	**36**
Fees and other remuneration to external auditors total	**157**	**133**	**116**

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 33 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 described 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, 2004 was SEK 19.9 billion (16.5; 20.9). The fair value of these contracts amounted on the same date to 1,371. If assuming an instantaneous 10% strengthening of the SEK versus all other currencies, the fair value would amount to 3,377. If assuming an instantaneous 10% weakening of the SEK versus all other currencies the fair value would be negative of 635. 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, 2004 for hedging of commercial currency risks

Million		Currencies Net flow USD	Net flow GBP	Net flow EUR	Other currencies Net SEK	Fair value [2]
Due date 2005	amount	1,058	168	441	4,005	
	rate [1]	7.42	13.44	9.15		
Due date 2006	amount	131	–	75	(158)	
	rate [1]	7.86	–	9.23		
Due date 2007	amount	78	–	–	(131)	
	rate [1]	7.39	–	–		
Total		**1,267**	**168**	**516**	**3,716**	
of which, option contracts		267	–	187	(838)	
Fair value of forward and option contracts, SEK M [2]		**1,134**	**118**	**122**	**(3)**	**1,371**

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

Net flows per currency 2004

Million		Currencies USD	GBP	EUR	Other Currencies Net SEK	Total
Net flows 2004	amount	1,782	314	735		
	rate [3]	7.3655	13.4515	9.1408		
Net flows SEK M, [3]		**13,100**	**4,200**	**6,700**	**12,100**	**36,100**
Hedged portion, % [4]		**59**	**54**	**60**		

3 Average exchange rate during the financial year.
4 Outstanding currency contracts, regarding commercial exposure due in 2005, percentage of net flows 2004.

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

	December 31, 2002			December 31, 2003			December 31, 2004		
	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	25,857	149	1,017	19,823	53	1,449	26,203	264	1,775
– payable position	10,210	(5)	(202)	6,104	–	(208)	9,982	(88)	(511)
Options – purchased									
– receivable position	4,484	–	94	8,012	–	148	2,831	–	112
– payable position	117	–	(1)	110	–	–	–	–	–
Options – written									
– receivable position	–	–	–	–	–	–	233	–	0
– payable position	3,458	–	(53)	7,082	–	(54)	2,729	–	(5)
Subtotal		144	855		53	1,335		176	1,371
Commodity forward contracts									
– receivable position	223	–	272	148	–	19	(10)	–	7
– payable position	88	–	(113)	119	–	(14)	243	–	(32)
Total		144	1,014		53	1,340		176	1,346

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 86.

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 2004, net assets in subsidiaries and in associated companies outside Sweden amounted to SEK 24.6 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 2004, this matching was 100%. Volvo's interest-bearing assets, apart from the customer financing portfolio, consisted at the end of 2004 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, 2004, the average interest rate on liquid funds was 2.3%. Volvo's interest bearing liabilities, apart from loans designated to funding of the customer financing portfolio, consisted on the same date mainly of provisions for post-employment benefits and loans. For the outstanding loans, the interest rate terms with consideration of derivative instruments were corresponding to a fixed interest period of six months. The average interest rate at year-end was 3.7%.

If assuming an instantaneous one percentage (100 basis points) increase in interest rates of all currencies from their levels at December 31, 2004, with all other variables held constant, Volvo's income after financial items over a 12-month period would increase by 246. If assuming a corresponding one percentage (100 basis points) decrease in interest rates, Volvo's income after financial items would decrease by the same amount. It should be noted that the assumptions on which this sensitivity analysis is based upon rarely occur in reality. Actual interest rates rarely move instantaneously. Also, the sensitivity analysis assumes a parallel shift of the yield curve and that both assets and liabilities react correspondingly to changes in market interest rates. The impact from actual interest rate movements may thus differ from the above analysis.

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

	December 31, 2002			December 31, 2003			December 31, 2004		
	Notional amount	Carrying value	Fair value	Notional amount	Carrying value	Fair value	Notional amount	Carrying value	Fair value
Interest-rate swaps									
– receivable position	78,571	2,822	4,404	90,428	3,253	4,662	76,667	1,659	2,919
– payable position	73,257	(1,568)	(2,536)	93,400	(1,431)	(2,266)	68,018	(1,585)	(2,144)
Forwards and futures									
– receivable position	260,921	216	216	426,873	183	182	497,951	168	168
– payable position	255,503	(217)	(220)	437,570	(193)	(198)	499,512	(182)	(182)
Foreign exchange derivative contracts									
– receivable position	15,962	211	202	14,639	216	238	17,120	286	286
– payable position	5,443	(70)	(72)	1,774	(67)	(39)	8,273	(82)	(107)
Options purchased, caps and floors									
– receivable position	–	–	–	291	–	15	–	–	–
– payable position	200	–	(7)	200	–	(5)	200	–	(4)
Options written, caps and floors									
– receivable position	–	–	–	–	–	–	133	0	0
– payable position	–	–	–	–	–	–	1,946	(12)	(12)
Total		1,394	1,987		1,961	2,589		252	924

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 87.

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 21. 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 12.

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, 2004, the credit portfolio within Volvo's customer financing operations amounted to approximately SEK 64 billion. The credit risks within this portfolio are distributed among a large number of individual customers and dealers. Collaterals exist in the form of the products being financed. When granting credits, an effort is made to balance risk exposure and expected yield.

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

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 2,061; 3,087; 112 and 7 as of December 31, 2004.

Liquidity risks

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

Fair value of Volvo's financial instruments [1]

	December 31, 2002		December 31, 2003		December 31, 2004	
	Carrying value	Fair value	Carrying value	Fair value	Carrying value	Fair value
Assets						
Investments in shares and participations						
fair value determinable [2]	25,220	15,537	21,217	18,798	670	169
fair value not determinable [3]	615	–	626	–	420	–
Customer-financing receivables	46,998	47,508	46,002	46,244	51,193	51,948
Other loans to external parties and other interest-bearing receivables	4,807	4,735	6,483	6,623	3,047	3,075
Marketable securities	16,707	16,659	19,529	19,518	25,955	25,955
Total	**94,347**	**84,439**	**93,857**	**91,183**	**81,285**	**81,147**
Liabilities						
Long-term bond loans and other loans	46,419	48,282	46,674	48,175	40,411	41,684
Short-term bank loans and other loans	26,018	26,083	27,418	27,655	21,396	21,584
Total	**72,437**	**74,365**	**74,092**	**75,830**	**61,807**	**63,268**
Derivative instruments						
Outstanding derivative contracts for hedging of commercial currency risks	144	855	53	1,335	176	1,371
Outstanding commodity contracts	–	159	–	5	–	(25)
Outstanding derivative contracts for hedging of financial currency risks and interest rate risks	1,394	1,987	1,961	2,589	252	924

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

2 Pertains mainly to Volvo's investments in Scania AB, Deutz AG and Henlys Group plc 2002–2003 and in Deutz AG 2004. 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 34 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	2002	2003	2004
Net income in accordance with Swedish accounting principles	1,393	298	9,355
Items increasing (decreasing) reported net income			
Derivative instruments and hedging activities (A)	1,772	882	228
Business combinations (B)	1,094	556	826
Investments in debt and equity securities (C)	(9,616)	4,007	5,157
Restructuring costs (D)	–	–	311
Post-employment benefits (E)	669	(651)	(273)
Software development (F)	(212)	(211)	(119)
Product development (G)	(1,236)	(352)	(828)
Entrance fees, aircraft engine programs (H)	(219)	(20)	(392)
Other (I)	447	2	(60)
Income taxes on above US GAAP adjustments (J)	(357)	(532)	211
Net increase (decrease) in net income	(7,658)	3,681	5,061
Net income (loss) in accordance with US GAAP	**(6,265)**	**3,979**	**14,416**
Net income (loss) per share, SEK in accordance with US GAAP	**(14.90)**	**9.50**	**34.44**
Weighted average number of shares outstanding (in thousands)	419,445	419,445	418,529

Shareholders' equity	2002	2003	2004
Shareholders' equity in accordance with Swedish accounting principles	78,278	72,420	69,409
Items increasing (decreasing) reported shareholders' equity			
Derivative instruments and hedging activities (A)	188	1,054	1,300
Business combinations (B)	5,219	5,788	6,597
Investments in debt and equity securities (C)	(9,813)	(2,326)	(494)
Restructuring costs (D)	–	–	311
Post-employment benefits (E)	(20)	1,658	778
Software development (F)	330	119	–
Product development (G)	(3,263)	(3,568)	(4,368)
Entrance fees, aircraft engine programs (H)	(855)	(874)	(1,320)
Other (I)	52	52	33
Income taxes on above US GAAP adjustments (J)	1,066	467	833
Net increase (decrease) in shareholders' equity	(7,096)	2,370	3,670
Shareholders' equity in accordance with US GAAP	**71,182**	**74,790**	**73,079**

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 unrealized gains or losses that thereby arise are included when calculating income. Unrealized net gains for 2004 pertaining to forwards and options contracts are estimated at 1,170 (1,287; 870).

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 unrealized 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. During 2004 Volvo has ceased to apply hedge accounting for hedging of interest rate risks in fair value hedges. The basis adjustment on previously hedged items will be amortized over the remaining time to maturity. 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	2002	2003	2004	2002	2003	2004
Derivatives Commercial exposure	1,814	417	(117)	870	1,287	1,170
Derivatives Financial exposure	43	92	23	(642)	315	672
Derivatives in fair value hedges	426	(36)	–	1,234	315	–
Fair value adjustment hedged items	(511)	36	–	(1,274)	(138)	–
Basis adjustment on derecognised fair value hedges	–	373	322	–	(725)	(542)
Derivative instruments and hedging activities in accordance with US GAAP	**1,772**	**882**	**228**	**188**	**1,054**	**1,300**

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 was recognized as a result of the transitional goodwill evaluation. In Volvo's income statement for 2004 prepared in accordance with Swedish GAAP, amortization of goodwill charged to income amounted to 684 (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, 2004. 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 was classified as a temporary investment and therefore not consolidated in the Volvo Group. Under

Goodwill	Net income 2002	Net income 2003	Net income 2004	Shareholders' equity 2002	Shareholders' equity 2003	Shareholders' equity 2004
Goodwill in accordance with Swedish GAAP	(1,094)	(873)	(684)	11,297	11,151	9,655
Items affecting reporting of goodwill:						
Acquisition of Renault V.I. and Mack Trucks Inc.	430	415	223 [1]	3,329	3,744	3,967
Acquisition of Volvo Construction Equipment Corporation	51	51	51	1,277	1,328	1,379
Other acquisitions	613	407	410	613	841	1,251
Net change in accordance with US GAAP	1,094	873	684	5,219	5,913	6,597
Goodwill in accordance with US GAAP	**0**	**0**	**0**	**16,516**	**17,064**	**16,252**

1 Lower amortization due to adjusted goodwill value resulting from the settlement of dispute between AB Volvo and Renault SA.

US GAAP, the acquired operations have been consolidated and accruals were made for intercompany profits in the year-end 2003 inventory of the L.B. Smith business. During 2004 the major part of L.B. Smith has been divested and there are no GAAP difference regarding L.B Smith, due to that the remaining part has been consolidated under Swedish GAAP in the year end closing of 2004. Consolidation of the L.B. Smith distribution business under US GAAP affected Volvo's income after financial items with 142 (negatively 138). The Group's total assets are no longer effected (SEK 1.1 billion).

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 has been reduced with EUR 108 M due to the settlement 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, 2004, unrealized losses after deduction of unrealized gains in "available-for-sale" securities amounted to 494 (2,315; 9,763). Sale of "available-for-sale" shares in 2004 provided SEK 21.4 bilion (– ; –) and the capital gain, before income tax, on sales of these shares amounted to SEK 24 (– ; –).

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 0 (62; 9,683), have been charged to Volvo's net income under US GAAP. During 2004 Volvo has divested the investment in Scania AB and a restructuring of Henlys Group plc has been made. Henlys Group Plc. Earlier recorded value adjustments in the income statement under US GAAP have been reversed with corresponding adjustment in Other comprehensive income. After these reversals, the remaining value of unrealized gains before tax credited to Other comprehensive income amounted to 72 as of December 31, 2004.

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, 2004	25,400	25,400	0	0	0
Trading, January 1, 2004	19,083	19,072	(11)	3	(8)
Change 2004			11	(3)	8
Available for sale					
Marketable securities	387	387	–	–	–
Shares and convertible debenture loan	677	183	(494)	0	0
Available for sale					
December 31, 2004	1,057	563	(494)	0	(494)
January 1, 2004	23,409	21,094	(2,315)	(29)	(2,344)
Change 2004 [3]			1,821	29	1,850

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 2004, 5,157 has been reported as an increase of net income in accordance with US GAAP and (3,299) has been reported in Other comprehensive income.

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

	January 1, 2004		December 31, 2004	
	Carrying value [1]	Fair value [2]	Carrying value [1]	Fair value [2]
Available for sale				
Marketable securities	446	446	387	387
Shares and convertible debenture loan	22,963	20,648	677	183
Trading	19,083	19,072	25,400	25,400

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 was identified in relation to business transactions during 2003. During 2004 the Renault Truck industrial relocation in Spain will be treated differently under US-GAAP and the restructuring charge will be accounted for during 2004–2006.

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 21. 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	2002	2003	2004
Net periodical costs in accordance with Swedish accounting principles	5,087	4,424	4,414
Net periodical costs in accordance with US GAAP	4,418	5,075	4,687
Adjustment of this year's income in accordance with US GAAP, before income taxes	**669**	**(651)**	**(273)**

Net provisions for post-employment benefits	Dec 31, 2002	Dec 31, 2003	Dec 31, 2004
Net provisions for post-employment benefits in accordance with Swedish accounting principles	(15,528)	(15,094)	(13,784)
Difference in actuarial methods	170	–	–
Unrecognized actuarial (gains) and losses	1,350	5,296	4,733
Unrecognized transition (assets) and obligations according to SFAS 87, net	(33)	(29)	(15)
Unrecognized past service costs	–	659	602
Minimum liability adjustments	(1,507)	(4,268)	(4,542)
Net provisions for post-employment benefits in accordance with US GAAP	**(15,548)**	**(13,436)**	**(13,006)**

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 20,157; 19,472 and 14,722 at December 31, 2004.

F. 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.

G. 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.

H. 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.

I. Other. Other include accounting differences regarding interest costs, leasing, stock option plans, guarantees, Alecta surplus funds, revenue recognition and consolidation of Variable Interest Entities.

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.

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, 2004, the gross value of credit guarantees issued for external parties amounted to 2,869 (3,879). The fair value of these guarantees recognized under US GAAP amounted to 92 (244), whereof 82 (217) provided for under Swedish GAAP. Counterguarantees received in respect of these commitments amounted to 56 (167).

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.

Revenue recognition. When determining timing for recognition of revenue, US GAAP focuses more on the formal contract terms while Swedish GAAP focuses more on actual risk that the residual value guarantee will be exercised. This means in certain cases that sales recognised under Swedish GAAP cannot be recognised under US GAAP.

Under Swedish GAAP all sales not qualifying for revenue recognition are treated in the same way as deferred income. Under US GAAP sales that are made to companies who in turn lease out the equipment under operating leases are accounted for as financing transactions rather than as deferred income. The total impact of revenue recognition is an additional 433 as assets under operating leases, 270 reduced residual value liability and 783 as interest bearing liablilities. The net income effect is negative 73.

Variable Interest Entities, In accordance with US GAAP FIN -46 certain entities should be consolidated where the Group is the Primary Beneficiary of the Variable Interest Entity. Volvo adopted FIN 46 as per January 1, 2004. In Volvo this has had a limited impact and a minor number of entities have been consolidated. The majority of the consolidated entities have been so called Franchisees to Volvo Rents. The balance sheet impact is 42 and the additional turnover 112.

J. Income taxes on U.S. 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)	2002	2003	2004
Net income (loss) in accordance with US GAAP	(6,265)	3,979	14,416
Other comprehensive income (loss), net of income taxes			
Translation differences	(2,222)	(606)	(172)
Unrealized gains and (losses) on securities (SFAS 115):			
Unrealized gains (losses) arising during the year	(2,425)	3,366	(14)
Less: Reclassification adjustment for (gains) and losses included in net income	7,558	62	(3,285)
Additional minimum liability for pension obligations (SFAS 87)	(3,234)	186	(471)
Fair value of cash-flow hedges (SFAS 133)	–	(11)	13
Other	(165)	(12)	(1)
Other comprehensive income (loss), subtotal	(488)	2,985	(3,930)
Comprehensive income (loss) in accordance with US GAAP	**(6,753)**	**6,964**	**10,486**

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 5 (30: 65).

Parent Company AB Volvo

Corporate registration number 556012-5790.

Board of Directors' report in 2004

Volvo's holding of Scania B shares was sold to Deutsche Bank on March 4, 2004 for an amount of SEK 14.9 billion. As a consequence of the divestment, the Scania holding was written down in the fourth quarter of 2003. At the Annual General Meeting on April 16, the Board's proposal to transfer all A shares in Scania to Ainax and thereafter to distribute 99% of the shares in Ainax to Volvos' shareholders was approved. The value of the distribution of Ainax was SEK 6.3 bn. Further information regarding the holding in Scania is provided in Note 10.

The Annual General Meeting also authorized the Board of Directors to decide on the acquisition of own shares. During the year 145,000 Series A and 9,170,000 Series B shares have been repurchased with a total purchase value of SEK 2,532 M or 2% of the registered shares. Continued repurchases may be carried out during the period until the Annual General Meeting in 2005.

AB Volvo and Renault SA signed a settlement agreement regarding the disagreement the companies have had since 2001 pertaining to Volvo's acquisition of Renault V.I. and Mack. According to this settlement, Renault SA has transferred EUR 108 M to AB Volvo. The amount has then been transferred to Volvo Holding France SA as the owner of the shares in Renault V.I. and Mack.

Income from investments in Group companies includes dividends in the amount of 101 (4,368; 770), write-down of shares of 1,364 (1,579; 531) and group contributions and transfer pricing adjustments received totaling a net amount of 5,673 (delivered 406; delivered 3,835). Income from other shares and participations includes a revaluation of shares in Scania AB of 915 and a write-down of shares in Henlys Group plc amounting to 95.

The carrying value of shares and participations in Group companies amounted to 40,393 (41,329; 38,950), of which 39,878 (40,060; 38,537) 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 55,831 (51,395; 49,657).

Shares and participations in non-Group companies included 0 (1; 628) 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 90 (98; 861). Shares and participations in non-Group companies included listed shares in Deutz AG with a carrying value of 670. The market value of this holding amounted to 169 at year-end. 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.

Financial net assets amounted to 5,149 (debt 3,606; assets 3,281).

AB Volvo's risk capital (shareholders' equity plus untaxed reserves) amounted to 53,673 corresponding to 94% of total assets. The comparable figure at year-end 2003 was 89%.

Income statements

SEK M		2002	2003	**2004**
Net sales		441	458	**531**
Cost of sales		(441)	(458)	**(531)**
Gross income		–	–	**–**
Administrative expenses	Note 1	(560)	(498)	**(471)**
Other operating income and expenses		16	52	**5**
Income from investments in Group companies	Note 2	(3,599)	1,812	**4,409**
Income from investments in associated companies	Note 3	54	283	**(1)**
Income from other investments	Note 4	326	(3,822)	**851**
Operating income (loss)		(3,763)	(2,173)	**4,793**
Interest income and similar credits	Note 5	503	139	**294**
Interest expenses and similar charges	Note 5	(261)	(196)	**(238)**
Other financial income and expenses	Note 6	(34)	(117)	**45**
Income (loss) after financial items		(3,555)	(2,347)	**4,894**
Allocations	Note 7	–	0	**1,524**
Income taxes	Note 8	1,070	158	**(1,320)**
Net income (loss)		(2,485)	(2,189)	**5,098**

Balance sheets

SEK M		Dec 31, 2002		Dec 31, 2003		**Dec 31, 2004**	
Assets							
Non-current assets							
Rights	Note 9		0		0		**0**
Property, plant and equipment	Note 9		31		23		**21**
Financial assets							
Shares and participations in Group companies	Note 10	38,950		41,329		**40,393**	
Other shares and participations	Note 10	26,168		813		**691**	
Other long-term receivables	Note 11	2,362	67,480	2,520	44,662	**1,109**	**42,193**
Total non-current assets			67,511		44,685		**42,214**
Current assets							
Short-term receivables from Group companies			2,543		3,729		**7,274**
Other short-term receivables	Note 12		250		85		**1,143**
Shares in Scania AB	Note 10		–		20,424		**–**
Short-term investments in Group companies	Note 13		9,045		924		**6,558**
Cash and bank accounts			0		0		**50**
Total current assets			11,838		25,162		**15,025**
Total assets			79,349		69,847		**57,239**
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		58,908		53,067		**38,680**	
Net income (loss)		(2,485)	56,423	(2,189)	50,878	**5,098**	**43,778**
Total shareholders' equity			66,313		60,768		**53,668**
Untaxed reserves	Note 14		1,528		1,528		**4**
Provisions							
Provisions for pensions	Note 15	425		437		**419**	
Other provisions	Note 16	41	466	29	466	**2**	**421**
Non-current liabilities	Note 17						
Liabilities to Group companies			4,330		3,252		**6**
Current liabilities							
Loans from Group companies		1,081		1,054		**2,020**	
Trade payables		36		42		**58**	
Other liabilities to Group companies		5,312		2,518		**749**	
Other current liabilities	Note 18	283	6,712	219	3,833	**313**	**3,140**
Total shareholders' equity and liabilities			79,349		69,847		**57,239**
Assets pledged			–		–		**–**
Contingent liabilities	Note 19		133,330		128,411		**120,738**

Changes in Shareholders' equity

SEK M

	Restricted equity			
	Share capital	Legal reserves	Unrestricted equity	Total share-holders' equity
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**
Cash dividend	–	–	(3,356)	(3,356)
Distribution of shares in Ainax AB to shareholders	–	–	(6,310)	(6,310)
Repurchase of own shares	–	–	(2,532)	(2,532)
Net income 2004	–	–	5,098	5,098
Balance at December 31, 2004	**2,649**	**7,241**	**43,778**	**53,668**

The distribution of share capital by class of shares is shown in Note 20 to the consolidated financial statements.

Cash-flow statements

SEK M		2002	2003	**2004**
Operating activities				
Operating income		(3,763)	(2,173)	**4,793**
Depreciation and amortization		2	1	**1**
Other items not affecting cash	Note 20	(815)	288	**(4,726)**
Changes in working capital:				
Increase (–)/decrease (+) in receivables		50	18	**111**
Increase (+)/decrease (–) in liabilities and provisions		(36)	(29)	**(20)**
Interest and similar items received		504	131	**282**
Interest and similar items paid		(263)	(175)	**(210)**
Other financial items		(8)	(124)	**32**
Income taxes paid/received		210	(6)	**75**
Cash flow from operating activities		(4,119)	(2,069)	**338**
Investing activities				
Investments in fixed assets		(1)	0	**(2)**
Disposals of fixed assets		3	7	**4**
Shares and participations in Group companies, net	Note 20	(1,544)	(1,033)	**(670)**
Shares and participations in non-Group companies, net	Note 20	66	(1)	**15,082**
Cash flow after net investments		(5,595)	(3,096)	**14,752**
Financing activities				
Increase (+)/ decrease (–) in loans	Note 20	(775)	(1,078)	**(3,180)**
Loans granted, net	Note 20	891	(591)	**0**
Dividend to AB Volvo shareholders		(3,356)	(3,356)	**(3,356)**
Repurchase of own shares		–	–	**(2,532)**
Change in liquid funds		(8,835)	(8,121)	**(5,684)**
Liquid funds at January 1		17,880	9,045	**924**
Liquid funds at December 31		9,045	924	**6,608**

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 2003 and the second for 2002.

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.

Intra-Group transactions

Of the Parent Company's sales, 426 (372; 320) were to Group companies and purchases from Group companies amounted to 126 (173; 191).

Fees to auditors

Fees and other remunerations paid to external auditors for the fiscal year 2004 totaled 26 (25; 23), of which 13 (5; 2) for auditing, distributed between PricewaterhouseCoopers, 13 (5; 2) and others, 0 (0; 0), and 13 (20; 21) related to non-audit services from PricewaterhouseCoopers.

Note 1 Administrative expenses

Administrative expenses include depreciation of 1 (1; 2) of which 1 (1; 2) pertain to machinery and equipment and 0 (0; 0) to buildings.

Note 2 Income from investments in Group companies

Of the income reported, 101 (4,368; 770) pertained to dividends from Group companies. Transfer pricing adjustments and Group contributions total a net of 5,673 (–406; –3,835). Divestments of shares resulted in capital loss of 1 (gains 60, loss 3). Write-downs of shareholdings amounted to 1,364 (1,579; 531).

In 2003 a long-term receivable was written-down by 631.

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). The participation in Blue Chip Jet HB amounted to a loss of 1 (14; 25).

Of the income reported in 2003, 250 pertained to a capital gain from the exchange of shares in Bilia AB for shares in Kommersiella Fordon Europa AB.

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, 3 (508; 326) pertained to dividends from other companies. The dividend from Bilia AB was 3 (–; –), from Scania AB – (501; 319) and from Henlys Group Plc – (7; 7). Revaluation of shareholdings amounted to 820 (–4,330; –), whereof reversal of previous year's write-down of Scania AB, 915 (–3,901; –) and write-down of Henlys Group Plc, 95 (429; –). Divestment of total shares in Bilia AB resulted in a capital gain of 28.

Note 5 Interest income and expenses

Interest income and similar credits amounting to 294 (139; 503) included interest in the amount of 289 (139; 503) from subsidiaries and interest expenses and similar charges totaling 238 (196; 261), included interest of 213 (155; 221) to subsidiaries.

Note 6 Other financial income and expenses

Other financial income and expenses include exchange rate differences on loans, guarantee commissions from subsidiaries, costs for confirmed credit facilities as well as costs of having Volvo shares registered on various stock exchanges. In 2004 expenses for distribution of the shares in Ainax AB to Volvo's shareholders and repayment of interest and residual taxes regarding a judgement in the Administrative court of appeal are included. Previous years unrealized gains (losses) pertaining to a hedge for a program of employee stock options also are included.

Note 7 Allocations

	2002	2003	2004
Allocation to additional depreciation	0	0	(1)
Utilization of tax allocation reserves	–	–	1,525
Total	**0**	**0**	**1,524**

Note 8 Income taxes

	2002	2003	2004
Current taxes	(51)	–	92
Deferred taxes	1,121	158	(1,412)
Total income taxes	**1,070**	**158**	**(1,320)**

Current taxes were distributed as follows:

Current taxes	2002	2003	2004
Current taxes for the period	–	–	–
Adjustment of current taxes for prior periods	(51)	–	92
Total income taxes	**(51)**	**–**	**92**

Claims as a consequence of tax audit carried out previously for which provisions are not deemed necessary amount to 135 (–; –). The amount is included in contingent liabilities.

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

Deferred taxes related to change in tax-loss carryforwards amount to –1,427 (148; 1,111) and to changes in other temporary differences to 15 (10; 10). 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.

	2002	2003	2004
Income before taxes	(3,555)	(2,347)	6,418
Income tax according to applicable tax rate (28%)	**995**	**657**	**(1,797)**
Capital gains	1	87	184
Non-taxable dividends	350	1,362	46
Recognition of deferred tax assets	(70)	–	–
Non-taxable revaluations of shareholdings	(150)	(1,831)	(153)
Other non-deductible expenses	(11)	(120)	26
Other non-taxable income	6	3	282
Adjustment of current taxes for prior periods	(51)	–	92
Total income taxes	**1,070**	**158**	**(1,320)**

Specification of deferred tax assets	2002	2003	2004
Tax-loss carryforwards	2,221	2,369	942
Valuation allowance for doubtful receivables	1	2	1
Provision for post-employment benefits	125	137	154
Other deductible temporary differences	4	1	0
Deferred tax assets	**2,351**	**2,509**	**1,097**

Note 9 Intangible and tangible assets

Acquisition cost	Value in balance sheet 2002	Value in balance sheet 2003	Capital expenditures	Sales/ scrapping	Value in balance sheet 2004
Rights	52	52	–	–	52
Total intangible assets	**52**	**52**	**–**	**–**	**52**
Buildings	15	11	0	(2)	9
Land and land improvements	7	5	–	(1)	4
Machinery and equipment	47	47	2	0	49
Construction in progress	1	–	–	–	–
Total tangible assets	**70**	**63**	**2**	**(3)**	**62**

Accumulated depreciation	Value in balance sheet 2002 [2]	Value in balance sheet 2003 [2]	Depreciation [1]	Sales/ scrapping	Value in balance sheet 2004 [2]	Net carrying value in balance sheet 2004 [3]
Rights	52	52	–	–	52	0
Total intangible assets	**52**	**52**	**–**	**–**	**52**	**0**
Buildings	1	1	0	0	1	8
Land and land improvements	–	–	0	–	–	4
Machinery and equipment	38	39	1	0	40	9
Construction in progress	–	–	–	–	–	–
Total tangible assets	**39**	**40**	**1**	**0**	**41**	**21**

The assessed value of buildings was 5 (7; 7) and of land 2 (3; 4). Capital expenditures in tangible assets amounted to 2 (0; 1). Capital expenditures approved but not yet implemented at year-end 2004 amounted to 0 (1; 2).

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 103-105. Changes in holdings of shares and participations are shown below.

	Group companies			Non-Group companies		
	2002	2003	2004	2002	2003	2004
Balance December 31, previous year	38,140	38,950	41,329	26,224	26,168	813
Acquisitions/New issue of shares	1,055	2,796	133	(25)	0	–
Divestments	(3)	(1,998)	(81)	(6)	(587)	(25)
Shareholder contributions	289	3,160	376	–	–	–
Write-downs	(531)	(1,579)	(1,364)	(25)	(4,344)	(97)
Reclassification, Scania AB	–	–	–	–	(20,424)	–
Balance, December 31	**38,950**	**41,329**	**40,393**	**26,168**	**813**	**691**

Shares and participations in Group companies
In 2004 the remaining 2% of the shares in Kommersiella Fordon Europa AB has been acquired for 28 by compulsory acquisition. The acquisition costs of the stockholding increased with 4 and at year-end the holding was written-down with 643.

25% of the shares in VFS Servizi Financiari Spa has been acquired inter-company for 101.

The holdings in seven dormant Group companies with a total book value of 82 have been transferred Group internal.

Shareholder contributions were made to Alviva AB, 2 and to Celero Support AB, 10, whereupon the shareholdings were written down by the corresponding amounts.

Shareholder contributions were also made to Volvo Bussar AB, 18, Volvo Global Trucks AB, 1 and Volvo Financial Services AB, 345.

Write-downs were carried out at year-end on holdings in Sotrof AB, 600, Volvo China Investment Co Ltd, 99 and Volvo Penta UK, 10.

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

Shares and participations in non-Group companies
Volvo's holding of Scania B shares was sold to Deutsche Bank on March 4, 2004 for an amount of 14,905. As a consequence of the divestment, the Scania holding was written down in the fourth quarter of 2003. The transaction was carried out as part of Volvo's commitment to the European Commission to divest the Scania shares not later than April 23, 2004. After the sale of the Scania B shares, Volvo owned 27.3 million A shares in Scania AB, corresponding to 24.8% of the votes and 13.7% of the capital. The holding of the Scania A shares was revaluated to market value on April 15, meaning an income of 915 in 2004. At the Annual General Meeting on April 16, 2004, the Board's proposal to transfer all A shares in Scania to Ainax and thereafter to distribute the shares in Ainax to Volvo's shareholders was approved. The value of the distribution of Ainax was 6,310. The shares in Ainax were distributed to Volvo's shareholders on June 8, 2004. As of June 8, 2004 Volvo no longer holds any shares in Scania AB. On June 9, 2004 Volvo sold the remaining 0.9% holding in Ainax.

During 2004 Volvo's holding in Henlys Group plc has been fully written down and a write-down of 95 was thereby charged to the income statement.

The holding in Bilia AB with a book value of 25 was sold.

The participations in Blue Chip Jet HB were written down by 1.

2003: 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.

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. 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 share 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.

Note 11 Other long-term receivables

	2002	2003	2004
Deferred tax assets	2,351	2,509	1,097
Other receivables	11	11	12
Total	**2,362**	**2,520**	**1,109**

Note 12 Other short-term receivables

	2002	2003	2004
Accounts receivable	45	16	14
Prepaid expenses and accrued income	48	48	135
Other receivables	157	21	994
Total	**250**	**85**	**1,143**

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

Of other receivables 979 pertained to a receivable from Renault SA. AB Volvo and Renault SA signed a settlement agreement regarding the disagreement the companies have had since 2001 pertaining to Volvo's acqusition of Renault V.I. According to this settlement Renault SA transferred EUR 108 M to AB Volvo on January 26, 2005.

Note 13 Short-term investments in Group companies

Short-term investments in Group companies comprise deposits of 6,558 (924; 9,045) in Volvo Treasury.

Note 14 Untaxed reserves

The composition of, and changes in, untaxed reserves:	Value in balance sheet 2002	Allocations 2003	Value in balance sheet 2003	Allocations 2004	Value in balance sheet 2004
Tax allocation reserve	1,525	–	1,525	(1,525)	–
Accumulated additional depreciation					
Land	3	–	3	–	3
Machinery and equipment	0	0	0	1	1
Total	**1,528**	**0**	**1,528**	**(1,524)**	**4**

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, 26 (42; 60) 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 2004 amounted to 79 (85; 168).

The accumulated benefit obligation of all AB Volvo's pension obligations at year-end 2004 amounted to 823, 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 26 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).

Note 17 Non-current liabilities

Long-term debt matures as follows:	
2008 or later	6
Total	**6**

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

Note 18 Other current liabilities

	2002	2003	2004
Income tax liabilities	6	–	–
Wages, salaries and withholding taxes	38	39	53
Other liabilities	93	110	170
Accrued expenses and prepaid income	146	70	90
Total	**283**	**219**	**313**

No collateral is provided for current liabilities.

Note 19 Contingent liabilities

Of the contingent liabilities amounting to 120,738 (128,411; 133,330), 120,591 (128,399; 133,298) pertained to Group companies.

Guarantees for various credit programs are included in amounts corresponding to the credit limits. These guarantees amount to 115,266 (123,503; 129,471), of which guarantees on behalf of Group companies totaled 115,261 (123,498; 129,446).

At the end of each year, the utilized portion amounted to 53,142 (67,603; 69,672) including 53,130 (67,591; 69,640) pertaining to Group companies.

Note 20 Cash flow

	2002	2003	2004
Other items not affecting cash			
Revaluation of shareholdings and long-term receivables	557	6,555	545
Dividends, transfer pricing adjustments and Group contributions	(1,408)	(6,017)	(5,273)
Gain on sale of shares	(32)	(310)	(27)
Other	68	60	29
Total	**(815)**	**288**	**(4,726)**

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

Shares and participations in Group companies, net			
Investments	(1,616)	(1,151)	(703)
Disposals	72	118	33
Net investments in shares and participations in Group companies	**(1,544)**	**(1,033)**	**(670)**

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

Shares and participations in non-Group companies, net			
Investments	25	(1)	–
Disposals	41	–	15,082
Net investments in shares and participations in non-Group companies	**66**	**(1)**	**15,082**

Sales of shares in Scania AB resulted in a positive cash flow of 15,029. Other investments and sales of shares in non-Group companies are presented in Note 10.

Increase/decrease in loans			
New loans	1,054	–	–
Amortization	(1,829)	(1,078)	(3,180)
Change in loans, net	**(775)**	**(1,078)**	**(3,180)**

Loans granted, net			
New loans granted	–	(631)	0
Amortization received	891	40	–
Change in loans granted, net	**891**	**(591)**	**0**

Note 21 Financial risks and instruments

Volvo's accounting policies for financial instruments are described in Note 1 and Note 33 to the consolidated financial statements. Hedging transactions in AB Volvo are carried out through Volvo Treasury AB. The Parent Company has used interest-rate swaps to hedge financial liabilities of Group companies. Maturities of these swaps are between 2006 and 2009. During the year AB Volvo has used forward exchange contracts for hedging of short-term receivable and liability regarding the amount of the settlement agreement between AB Volvo and Renault SA (See Note 12). Maturities of theses contracts are on January 26, 2005. Volvo had in 2003 forward exchange contracts for hedging of a long-term liability to Renault V.I. These contracts were renewed every sixth month.

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

	December 31, 2003			December 31, 2004		
	Notional amount	Carrying value	Fair value	Notional amount	Carrying value	Fair value
Interest-rate swaps						
– payable position	2,874	(14)	(50)	4,563	(17)	(17)
Foreign exchange contracts						
– receivable position	3,190	11	13	1,942	13	13

Note 22 Personnel

Wages, salaries and other remunerations amounted to 140 (115; 117). Social costs amounted to 111 (110; 193) of which pension costs, 79 (85; 168). Of these 53 (59; 47) pertained to Board members and Presidents. The Company's outstanding pension obligations to these individuals amounted to 400 (366; 335).

The number of employees at year-end was 144 (132; 124). 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 31 to the consolidated financial statements.

Absence due to illness	July 1–Dec 31, 2003	Jan 1–Dec 31, 2004
Total absence due to illness as percentage of regular working hours	2.6%	2.2%
of which, continuous sick leave for 60 days or more	46.8%	70.9%
Absence due to illness (as percentage of regular working hours) by gender:		
Men	1.4%	0.8%
Women	3.7%	3.6%
Absence due to illness (as percentage of regular working hours) distributed by age group:		
29 years or younger	0.5%	0.9%
30–49 years	2.2%	1.2%
50 years or older	3.4%	3.6%

AB Volvo's holding of shares

AB Volvo's holding of shares and participations in non-Group companies	Registration number	Percentage holding [1]	Dec 31, 2003 Carrying value, SEK M	Dec 31, 2004 Carrying value, SEK M
Scania AB, Sweden	556184-8564	–	20,424	–
Deutz AG, Germany [2]	–	7	670	670
Bilia AB, Sweden [2]	556112-5690	2	25	–
Henlys Group Plc, Great Britain [2]	–	10	95	0
Blue Chip Jet HB, Sweden	969639-1011	40	1	1
Other investments			22	20
Total carrying value, non-Group companies			**21,237**	**691**

1 Percentage figures refer to share capital as well as voting rights.
2 The market value of the holdings is shown in Note 12 to the consolidated financial statements.

AB Volvo's holding of shares and participations in Group companies	Registration number	Percentage holding	Dec 31, 2003 Carrying value, SEK M	Dec 31, 2004 Carrying value, SEK M
Volvo Global Trucks AB, Sweden	556605-6759	100	8,420	8,420
Volvo Lastvagnar AB, Sweden	556013-9700	100	–	–
Volvo Finland AB, Finland	–	100	–	–
Volvo Trucks (Deutschland) GmbH, Germany	–	100	–	–
Volvo Europa Truck NV, Belgium	–	100	–	–
Volvo Trucks (Schweiz) AG, Switzerland	–	100	–	–
Volvo Truck Espana, SA, Spain	–	100	–	–
Volvo Truck and Bus Limited, Great Britain [1]	–	100	–	–
Volvo Truck Latvia Sia, Latvia	–	100	–	–
Volvo Truck Czech S R O, Czech Republic	–	100	–	–
Volvo Truck Slovak, Slovakia	–	100	–	–
Volvo 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 Truck Korea Ltd, South Korea	–	100	–	–
Volvo Truck Australia Pty Ltd, Australia	–	100	–	–
Volvo India Ltd., India	–	100	–	–
Renault Trucks, France	–		–	–
Renault Trucks Commercial SA, 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 Trucks 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, 2003 Carrying value, SEK M	Dec 31, 2004 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	–	–
North American Truck Leasing Group, 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	1,859	1,877
Volvo Bussar Säffle AB, Sweden	556058-3485	100	–	–
Acrivia AB, Sweden	556540-1691	100	–	–
Volvo Bus Finland Oy, Finland	–	100	–	–
Volvo Busse Deutschland GmbH, Germany	–	100	–	–
Volvo Busse Industries (Detuschland) GmbH, Germany	–	100	–	–
Volvo Austria, GmbH, Austria	–	100	–	–
Prévost Holding BV, Canada	–	100	–	–
Shanghai Sunwin Bus Co, China [2]	–	50	–	–
XIAN Silver Bus Co, China [2]	–	50	–	–
Volvo Construction Equipment NV, 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 Holding 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	–	–
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, 2003 Carrying value, SEK M	Dec 31, 2004 Carrying value, SEK M
VNA Holding Inc, USA	–	100	3,510	3,510
Volvo Trucks North America, Inc, USA	–	100	–	–
Arrow Truck Sales, Inc, USA	–	100	–	–
Volvo Construction Equipment North America Inc., USA	–	100	–	–
Volvo Penta of The Americas, Inc, USA	–	100	–	–
Volvo Aero North America Inc, USA	–	100	–	–
Volvo Aero Services LP, USA	–	95	–	–
Volvo Treasury North America Inc, USA	–	100	–	–
Volvo Commercial Finance LLC The Americas, USA	–	100	–	–
Volvo Holding Sverige AB, Sweden	556539-9853	100	7,634	7,634
Volvo Holding France SA, France	–	100	–	–
VFS Finance France, SA, France	–	100	–	–
Volvo Polska Sp. O.O., Poland	–	100	–	–
Volvo do Brasil, Veiculos Ltda, Brasil	–	100	–	–
Banco Volvo (Brasil) SA	–	100	–	–
Comercio e Participacao Volvo Ltda, Brasil	–	100	–	–
Volvo Treasury AB, Sweden	556135-4449	100	3,044	3,044
Sotrof AB, Sweden	556519-4494	100	1,988	1,388
Danafjord AB, Sweden	556006-8313	100	–	–
Volvo Group Finance Europe BV, The Netherlands	–	100	1,003	1,003
Volvo Construction Equipment Korea Co Ltd, South Korea	–	100	–	–
Volvo Financial Services AB, Sweden	556000-5406	100	886	1,231
Kommersiella Fordon Europa AB, Sweden	556049-3388	100	855	245
Volvo China Investment Co Ltd, China	–	100	622	523
Volvo Truck & Bus Ltd, Great Britain [1]	–	100	413	413
Volvo Holding Mexico, Mexico	–	100	388	388
Volvo Technology Transfer AB, Sweden	556542-4370	100	361	361
Volvo Powertrain AB, Sweden	556000-0753	100	348	348
Volvo Parts AB, Sweden	556365-9746	100	200	200
Volvo Group Insurance Försäkrings AB, Sweden	516401-8037	100	182	182
Volvo Business Services, Sweden	556029-5197	100	107	107
Volvo Danmark Holding AS, Denmark	–	100	104	104
Volvo Italia Spa, Italy	–	100	0	0
VFS Servizi Financiari Spa, Italy [3]	–	100	–	101
Volvo Norge AS, Norway	–	100	56	56
Volvo Malaysia Sdn, Malaysia	–	100	48	48
Celero Support AB, Sweden	556039-1798	100	25	25
Rossareds Fastighets AB, Sweden	556009-1190	100	26	26
Volvo Penta UK Ltd, Great Britain		100	26	16
ZAO Volvo Vostok, Russia	–	100	0	0
Volvo East Asia (Pte) Ltd, Singapore		100	9	9
Volvo Information Technology AB, Sweden	556103-2698	100	8	8
Other holdings			94	13
Total carrying value Group companies [4]			**41,329**	**40,393**

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 Total holdings by Volvo Italia and AB Volvo is 100%.
4 AB Volvo's share of shareholders' equity in subsidiaries (including equity in untaxed reserves) was 55,831 (51,395).

Proposed disposition of unappropriated earnings

Group

As shown in the consolidated balance sheet at December 31, 2004, unrestricted equity amounted to SEK 56,034 M (57,002). Of this amount, SEK 0 M is estimated to be appropriated to restricted equity.

AB Volvo	SEK M
Retained earnings	38,680
Net income 2004	5,098
Total	43,778

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 12.50 per share [1]	5,126
To be carried forward [1]	38,652
Total	43,778

1 As per February 9, 2005, the amount of outstanding shares amounted to 410,129,842. If further repurchase of own shares is carried out before the Annual General Meeting held April 12, 2005, the total dividend according to the proposal of the Board of Directors will be reduced with an amount corresponding to SEK 12.50 multiplied with the amount additional repurchased shares. Correspondingly the amount to be carried forward will be increased with the equivalent amount.

Göteborg, February 9, 2005

Finn Johnsson

Per-Olof Eriksson   Patrick Faure

Haruko Fukuda   Tom Hedelius   Leif Johansson

Louis Schweitzer   Ken Whipple

Martin Linder   Olle Ludvigsson   Johnny Rönnkvist

Our audit report was issued on February 9, 2005

PricewaterhouseCoopers AB

Olof Herolf
Authorized Public Accountant
Lead Partner

Olov Karlsson
Authorized Public Accountant
Partner

Audit report for AB Volvo

We have audited the annual accounts, the consolidated accounts, the accounting records and the administration of the Board of Directors and the President of AB Volvo for the year 2004. These accounts and the administration of the Company and the application of the Annual Accounts Act when preparing the annual accounts and the consolidated accounts 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, and significant estimates made by the Board of Directors and the President when preparing the annual accounts and consolidated accounts, as well as evaluating the overall presentation of information in the annual accounts and consolidated accounts. As a basis for our opinion concerning discharge from liability, we examined significant decisions, actions taken and circumstances of the Company in order to be able to determine the liability, if any, to the Company of any Board member, or the President. We also examined whether any Board member or the President has, in any other way, acted in contravention of the Companies Act, the Annual Accounts Act, or the Company's Articles of Association. We believe that our audit provides a reasonable basis for our opinion set out below.

The annual accounts and consolidated accounts have been prepared in accordance with the Annual Accounts Act and, 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. The Board of Directors' Report is consistent with the other parts of the annual accounts and the consolidated accounts.

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

Göteborg, February 9, 2005

PricewaterhouseCoopers AB

Olof Herolf
Authorized Public Accountant
Lead Partner

Olov Karlsson
Authorized Public Accountant
Partner

Expected impact of IFRS

Reporting in accordance with IFRS as from 2005

The Volvo Group's financial reporting is up to 2004 prepared in accordance with generally accepted accounting principles in Sweden ("Swedish GAAP"). Effective from 2005, all listed companies within the European Union ("the EU") are required to prepare their consolidated financial reporting in accordance with International Financial Reporting Standards ("IFRS"), as endorsed by the EU. The EU carve outs, rules not approved by EU, have no impact for Volvo. The purpose of the presentations on the following pages is to describe and explain the expected impact on Volvo's financial reporting as a consequence of adopting IFRS. Volvo Group's accounting principles are described in note 1. The below presentation is focused on the areas where Volvo's present accounting principles will be effected by the implementation of IFRS.

Restatements and transition effects

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

– IAS 39 "Financial instruments: Recognition and measurement" is adopted from January 1, 2005.
– Non-amortization of intangible assets with indefinite useful lives (e.g. goodwill) in accordance with revised version of IAS 38 should be applied retroactively only from the transition date January 1, 2004.

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

Financial position January 1, 2004: Affected by differences between Swedish GAAP and IFRS for which retroactive application prior to the transition date is required.

Financial performance 2004 and financial position December 31, 2004: Affected by all differences between Swedish GAAP and IFRS except IAS 39 and IFRS 5, "Non-Current Assets Held for Sale and Discontinued Operations".

Financial position January 1, 2005: Affected by all differences between Swedish GAAP and IFRS including IAS 39 and IFRS 5. Impact of adopting IAS 39 will be charged to Equity according to IFRS 1.

The defined transition effects and presented reconciliations are made according to the present issued IFRS standards. New standards or interpretations could be issued during 2005. The transition effects could be affected by such development until the year-end release for 2005.

Significant differences between Swedish GAAP and IFRS

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

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

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

Summarized reconciliation of net financial position, SEK bn	2004
Volvo Group excl VFS	
Net financial position at December 31, 2004 under Swedish GAAP	**18.7**
IFRS adjustments:	
Post Employee benefits	(0.5)
Financial assets not qualified for derecognition	(3.4)
Total adjustments to IFRS	**(3.9)**
Net financial position at January 1, 2005 under IFRS	**14.8**

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

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

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

Post Employee benefits:
Effective on January 1, 2003, Volvo adopted RR 29 "Employee benefits" under Swedish GAAP. RR 29 is similar to the IFRS accounting standard IAS 19. The only difference between Swedish GAAP and IFRS relates to the date of transition. In accordance with the transition rules of RR 29, actuarial gains and losses arising prior to January 1, 2003, were set to zero and charged to equity as of the transition date. In accordance with the IFRS transition rules, actuarial gains and losses arising prior to January 1, 2004, could be set to zero and charged to equity as of the transition date. The transition effects attributable to the accounting change therefore pertain to recognizing actuarial gains and losses that have arisen between January 1, 2003 and January 1, 2004.

Volvo has applied URA43 according to the statement from The Association for the Development of Generally Accepted Accounting Principles in Sweden when calculating the Swedish pension liabilities, in addition to IAS 19.

Investments in companies:
In accordance with IAS 39, which is adopted by Volvo under IFRS on January 1, 2005, all investments in companies, except if these investments are classified as associated companies, should be reported in the balance sheet at fair value. Under Swedish GAAP such investments have been carried at their cost of acquisition unless there has been a permanent decrease in value. Under IAS 39, unrealized gains and losses attributable to the fair value of investments are reported against a separate component of shareholders equity except when an impairment is other than temporary. The transition effect on January 1, 2005, attributable to this accounting change is mainly related to Volvo's investment in Deutz AG.

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

– Derivative financial instruments used for hedging of forecasted commercial cash-flows and forecasted electricity consumption: Under Swedish GAAP Volvo has applied hedge accounting for the main part of these derivatives and these instruments have consequently not been reported in the balance sheet ("Off-balance sheet instruments"). Gains and losses on these contracts have been charged to the income statement at the time of maturity of the specific contracts. Under IFRS, the fair value of outstanding derivative instruments is debited or credited to a separate component of equity to the extent the requirements for cash-flow hedge accounting are fulfilled. To the extent that the requirements are not met, the unrealised gain or loss will be charged to income statement.
– Derivative financial instruments used for hedging of interest rate risks and currency rate risks on loans: Under Swedish GAAP Volvo has applied hedge accounting for these derivatives and the carrying value of such derivatives has therefore been corresponding to currency rate and interest rate gains and losses accruable up to the reporting date. Under the more complex rules in IAS 39 Volvo will not attain hedge accounting for many interest rate contracts. The difference between carrying values reported under Swedish GAAP and fair values to be reported under IFRS pertains to unrealized interest rate gains and losses attributable to the period between the reporting date and maturity dates of the derivatives. The unrealized gains and losses will be charged to the financial net in the income statement.

Derecognition of financial assets:
In accordance with IAS 39 which is adopted by Volvo under IFRS on January 1, 2005, financial assets should be derecognized from the balance sheet when substantially all risks and rewards have been transferred to an external party. Under Swedish GAAP, financial assets should be derecognized at settlement or if the ownership of

the financial assets has been transferred to an external party. The transition effect on January 1, 2005, attributable to this accounting change is mainly related to certain dealer financing arrangements for which Volvo has retained components of credit risk. Such credit risk commitments have under Swedish GAAP been reported as contingent liabilities. This will mainly affect the segment reporting and to a less extent Volvo's consolidated balance sheet.

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

IFRS 2 Share-based Payments
Volvo has defined the "new stock-based incentive program" decided on the Annual General Meeting 2004 as a program that will be accounted for according to IFRS 2 Share-based payments. The impact however will be limited. The IFRS 2 separates so-called "cash-settled" and "equity-settled" parts of share-based payments. The Volvo program includes both a cash-settled and an equity-settled part. The equity-settled part was earlier accounted for at fair value and provided for as an accrued expense over the vesting period with a "true up" each reporting date. According to IFRS 2 the fair value is determined at the grant-date, recognised as an expense during the vesting period and credited to equity.

IFRS 5 Non-Current Asset Held for Sale and Discontinued Operations:
Volvo has not identified any non-current assets that could have a material impact on the balance sheet and no effect has been identified in the income statement. IFRS 5 is adopted prospectively as from January 1, 2005, according to IFRS 1.

Other transition rules according to IFRS 1 and IFRS standards
On the adoption of IFRS Volvo had the possibility to elect to measure property, plant and equipment at fair value. Volvo has chosen not to use this possibility but continue the present valuation of property, plant and equipment at historical cost less accumulated depreciations. The same treatment will be used for investment real estate properties.

IFRS 1 gives an option how to treat the effects of Changes in Foreign Exchange Rates, according to IAS 21. A first time adopter to IFRS could set the cumulative translation difference to zero for foreign operations. Volvo has chosen to use this possibility and will set the translation difference to zero as per January 1, 2004.

Estimates done under previous GAAP should not be changed under the transition to IFRS unless there is objective evidence that those were in error. Volvo has made no changes in estimates in the preparation of comparative information prepared in accordance with IFRS.

Special Purpose Entities should be consolidated as from January 1, 2004. Volvo has not indentified any such Special Purpose Entities.

Definition of liquid funds in presentation of cash-flow statements:
Under Swedish GAAP, all investments in marketable debt securities have been included in the definition of liquid funds for the purpose of the cash-flow statement. In accordance with Volvo's financial risk policy, all such securities should fulfil requirements regarding low risk and high liquidity. Under IFRS, investments in marketable debt securities are excluded from the definition of liquid funds for the purpose of the cash-flow statement if these instruments have maturity dates beyond 3 months from the date of investment. In the 2004 closing no marketable securities are defined as cash equivalents according to IFRS. However, all these assets will still be included in the net financial position.

Classification of leasing contracts in segment reporting of Volvo Financial Services:
Under IFRS, operating lease contracts with end customers are in segment reporting for Volvo Financial Services reported as financial leasing contracts if the residual value in these contracts is guaranteed to Volvo Financial Services by another Volvo business area. In the Volvo Group's consolidated balance sheet, these leasing agreements are still reported as operating leases. In comparison with the 2004 closing approximately 13 billion SEK will be reclassified to financial leases from operating leases in the VFS segment reporting.

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

1 Financial Services reported in accordance with the equity method.

The Expected impact of IFRS on the balance sheet is shown above. The first column is the closing balance per December 31, 2004 according to Swedish GAAP. The expected impact of IFRS is shown as IFRS adjustment and the third column shows the adjusted closing balance December 31, 2004, according to IFRS. This balance will be the expected opening balance for the 2005 reporting.

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

1 Financial Services reported in accordance with the equity method.

This table shows the expected impact of the adoption of IAS 39 that should be prospectively applied from January 1, 2005. The IFRS balance including IAS 39 effects will be used as opening balance for cash flow calculation during 2005.

Consolidated income statements IFRS comparison Volvo Group (VFS reported according to the equity method) SEK M unless otherwise specified	IFRS	Sw GAAP
Net sales	202,171	201,496
Cost of sales	(158,453)	(158,231)
Gross income	**43,718**	**43,265**
Research and development expenses	(7,614)	(7,233)
Selling expenses	(18,317)	(18,048)
Administrative expenses	(5,310)	(5,321)
Other operating income and expenses	7	(658)
Income from Financial Services	1,365	1,365
Income from investments in associated companies	2	2
Income from other investments	828	828
Operating income (loss)	**14,679**	**14,200**
Interest income and similar credits	993	993
Interest expenses and similar charges	(1,426)	(1,404)
Other financial income and expenses	(1,210)	(1,210)
Income after financial items	**13,036**	**12,579**
Minority	–	(40)
Income taxes	(3,129)	(3,184)
Net income[1]	**9,907**	**9,355**
[1] Attributable to:		
Equity holders	9,867	–
Minority	40	–
	9,907	–
Depreciation and amortization included above		
Depreciation		
Industrial and Commercial	(5,542)	(5,540)
Financial Services	(3,064)	(3,066)
Total Depreciation	**(8,606)**	**(8,606)**
Amortization		
Industrial and Commercial	(951)	(1,635)
Financial Services	(63)	(63)
Total Amortization	**(1,014)**	**(1,698)**
Income per share, SEK	23.67	22.35
Average number of shares, million	418.5	418.5

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

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

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

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

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

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

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

Eleven-year summary

Consolidated income statements SEK M	1994	1995	1996	1997	1998	1999	2000	2001	2002	2003	2004
Net sales	**155,866**	**171,511**	**156,060**	**183,625**	**212,936**	**125,019**	**130,070**	**189,280**	**186,198**	**183,291**	**210,401**
Cost of sales	(115,092)	(128,529)	(121,249)	(138,990)	(163,876)	(99,501)	(104,548)	(155,592)	(151,569)	(146,879)	(163,947)
Gross income	**40,774**	**42,982**	**34,811**	**44,635**	**49,060**	**25,518**	**25,522**	**33,688**	**34,629**	**36,412**	**46,454**
Research and development expenses	(4,652)	(7,343)	(8,271)	(8,659)	(10,104)	(4,525)	(4,876)	(5,391)	(5,869)	(6,829)	(7,233)
Selling expenses	(15,737)	(17,418)	(14,895)	(17,160)	(19,042)	(8,865)	(10,140)	(15,766)	(16,604)	(16,866)	(19,099)
Administrative expenses	(7,711)	(7,399)	(6,685)	(7,018)	(8,091)	(4,791)	(4,974)	(6,709)	(5,658)	(5,467)	(5,494)
Other operating income and expenses	(3,262)	(1,657)	(1,087)	(3,141)	(2,634)	(611)	622	(4,096)	(4,152)	(1,367)	(1,285)
Income (loss) from investments in associated companies	5,861	2,119	314	2,929	444	567	444	50	182	200	27
Income from other investments	1,667	788	9,007	1,168	4,526	170	70	1,410	309	(3,579)	830
Income from divestment of subsidiaries	–	3,032	–	–	–	26,695	–	–	–	–	–
Restructuring costs	–	(1,817)	–	–	(2,331)	–	–	(3,862)	–	–	–
Operating income (loss)	**16,940**	**13,287**	**13,194**	**12,754**	**11,828**	**34,158**	**6,668**	**(676)**	**2,837**	**2,504**	**14,200**
Interest income and similar credits	2,927	3,801	4,530	3,197	1,268	1,812	1,588	1,275	1,217	1,096	820
Interest expenses and similar charges	(3,572)	(3,686)	(3,114)	(2,699)	(1,315)	(1,505)	(1,845)	(2,274)	(1,840)	(1,888)	(1,231)
Other financial income and expenses	83	(354)	(407)	(76)	(162)	131	(165)	(191)	(201)	(55)	(1,210)
Income (loss) after financial items	**16,378**	**13,048**	**14,203**	**13,176**	**11,619**	**34,596**	**6,246**	**(1,866)**	**2,013**	**1,657**	**12,579**
Income taxes	(2,783)	(3,741)	(1,825)	(2,583)	(3,140)	(2,270)	(1,510)	326	(590)	(1,334)	(3,184)
Minority interests in net income (loss)	(365)	(45)	99	(112)	(42)	(104)	(27)	73	(30)	(25)	(40)
Net income (loss)	**13,230**	**9,262**	**12,477**	**10,481**	**8,437**	**32,222**	**4,709**	**(1,467)**	**1,393**	**298**	**9,355**

Consolidated income statements with Financial Services reported in accordance with the equity method SEK M	1994	1995	1996	1997	1998	1999	2000	2001	2002	2003	2004
Net sales	**154,668**	**166,541**	**150,425**	**178,531**	**205,712**	**116,382**	**120,392**	**180,615**	**177,080**	**174,768**	**201,496**
Cost of sales				(135,027)	(158,077)	(92,772)	(97,131)	(149,477)	(145,453)	(141,256)	(158,231)
Gross income				**43,504**	**47,635**	**23,610**	**23,261**	**31,138**	**31,627**	**33,512**	**43,265**
Research and development expenses				(8,659)	(10,104)	(4,525)	(4,876)	(5,391)	(5,869)	(6,829)	(7,233)
Selling expenses				(16,763)	(18,468)	(8,117)	(9,285)	(14,663)	(15,393)	(15,891)	(18,048)
Administrative expenses				(6,889)	(7,950)	(4,632)	(4,651)	(6,474)	(5,464)	(5,259)	(5,321)
Other operating income and expenses				(3,015)	(2,515)	(587)	309	(3,071)	(2,989)	(540)	(658)
Income from Financial Services				375	681	1,066	1,499	325	490	926	1,365
Income (loss) from investments in associated companies				3,033	354	478	341	(86)	126	166	2
Income from other investments				1,168	4,526	170	70	1,408	309	(3,581)	828
Income from divestment of subsidiaries				–	–	26,695	–	–	–	–	–
Restructuring costs				–	(2,331)	–	–	(3,862)	–	–	–
Operating income (loss)	**16,940**	**13,287**	**13,194**	**12,754**	**11,828**	**34,158**	**6,668**	**(676)**	**2,837**	**2,504**	**14,200**

Consolidated balance sheets SEK M	1994	1995	1996	1997	1998	1999	2000	2001	2002	2003	2004
Intangible assets	4,545	5,626	2,277	3,284	5,778	6,618	6,925	17,525	17,045	16,756	16,606
Property, plant and equipment	25,991	25,094	26,458	30,793	36,207	19,788	22,231	33,234	30,799	30,640	31,151
Assets under operating leases	2,205	2,847	4,968	13,501	22,285	12,337	14,216	27,101	23,525	21,201	19,534
Shares and participations	18,548	18,087	12,412	4,583	3,393	29,213	30,481	27,798	27,492	22,206	2,003
Inventories	23,380	23,929	23,148	27,993	32,128	21,438	23,551	31,075	28,305	26,459	28,598
Customer financing receivables	9,351	10,336	15,552	32,304	46,798	34,313	41,791	48,784	46,998	46,002	51,193
Interest-bearing receivables	1,516	2,766	4,080	4,667	4,735	18,617	19,228	8,079	5,490	6,632	3,384
Other receivables	28,597	26,708	25,603	27,087	34,197	24,019	26,352	39,946	33,990	32,621	35,681
Liquid funds	24,449	23,306	26,661	20,603	20,224	29,269	15,968	27,383	25,578	28,735	34,746
Assets	**138,582**	**138,699**	**141,159**	**164,815**	**205,745**	**195,612**	**200,743**	**260,925**	**239,222**	**231,252**	**222,896**
Shareholders' equity	43,332	51,200	57,876	61,951	69,375	97,692	88,338	85,185	78,278	72,420	69,409
Minority interests	838	605	504	899	860	544	593	391	247	216	229
Provision for post employment benefits	6,097	6,890	3,150	3,296	2,936	2,130	2,632	14,647	16,236	15,288	14,155
Other provisions	13,914	14,602	14,988	19,657	25,187	14,832	14,941	18,427	16,721	15,048	14,898
Loans	33,551	28,166	31,886	41,217	64,230	53,345	66,233	81,568	72,437	74,092	61,807
Other liabilities	40,850	37,236	32,755	37,795	43,157	27,069	28,006	60,707	55,303	54,188	62,398
Shareholders' equity and liabilities	**138,582**	**138,699**	**141,159**	**164,815**	**205,745**	**195,612**	**200,743**	**260,925**	**239,222**	**231,252**	**222,896**
Assets pledged	6,527	5,434	6,503	6,743	5,388	3,930	2,990	3,737	3,610	3,809	3,046
Contingent liabilities	7,581	7,450	6,188	5,406	6,737	6,666	6,789	10,441	9,334	9,611	9,189

Consolidated balance sheets with Financial Services reported in accordance with the equity method SEK M	1994	1995	1996	1997	1998	1999	2000	2001	2002	2003	2004
Intangible assets	4,544	5,623	2,258	3,262	5,692	6,518	6,781	17,366	16,919	16,662	16,564
Property, plant and equipment	25,246	23,430	24,720	28,755	33,944	17,318	19,652	30,370	27,789	27,248	27,260
Assets under operating leases	0	0	49	1,366	1,817	1,611	4,245	15,020	11,155	8,976	8,477
Shares and participations	20,782	20,699	16,359	9,894	11,744	35,296	37,366	35,145	34,750	30,022	10,116
Inventories	23,047	23,813	23,042	27,756	31,883	21,053	22,998	30,557	27,564	25,848	28,291
Customer financing receivables	0	0	0	227	384	9	15	114	99	118	230
Interest bearing receivables	1,516	2,720	4,060	4,664	4,715	18,617	19,286	12,426	8,495	9,413	12,127
Other receivables	28,596	26,110	24,312	25,802	31,398	21,075	24,882	38,815	34,256	33,079	36,469
Liquid funds	21,811	20,637	23,170	16,605	15,439	24,465	10,958	24,874	24,154	28,102	34,628
Assets	**125,542**	**123,032**	**117,970**	**118,331**	**137,016**	**145,962**	**146,183**	**204,687**	**185,181**	**179,468**	**174,162**
Shareholders' equity	43,332	51,200	57,876	61,951	69,375	97,692	88,338	85,185	78,278	72,420	69,409
Minority interests	703	351	448	859	804	544	593	391	247	216	229
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	14,129
Other provisions	11,806	12,525	12,618	15,962	19,435	9,861	8,277	14,085	13,893	12,792	14,020
Loans	24,266	16,301	13,432	1,047	5,018	12,206	18,233	29,710	22,494	24,677	13,968
Other liabilities	39,375	35,800	30,470	35,246	39,480	23,541	28,123	60,684	54,051	54,099	62,407
Shareholders' equity and liabilities	**125,542**	**123,032**	**117,970**	**118,331**	**137,016**	**145,962**	**146,183**	**204,687**	**185,181**	**179,468**	**174,162**

Consolidated cash-flow statements

SEK bn	1994	1995	1996	1997	1998	1999	2000	2001	2002	2003	2004
Operating income [1]	16.9	13.3	13.2	12.8	11.8	7.5	6.7	(0.7)	2.8	2.5	14.2
Depreciation and amortization	5.1	5.6	5.4	6.8	9.6	5.2	6.3	10.0	10.8	10.2	10.3
Other items not affecting cash [2]				(3.5)	(4.9)	(0.3)	(0.4)	0.5	2.0	4.9	0.2
Change in working capital [2]	(8.9)	(7.3)	(11.2)	4.7	1.5	(1.0)	(3.3)	6.4	1.0	0.4	(1.5)
Financial items and income tax [2]				(0.4)	(2.0)	(1.7)	(1.3)	(2.1)	(1.3)	(0.9)	(0.5)
Cash flow from operating activities	**13.1**	**11.6**	**7.4**	**20.4**	**16.0**	**9.7**	**8.0**	**14.1**	**15.3**	**17.1**	**22.7**
Investments in fixed assets	(4.3)	(6.5)	(8.2)	(9.9)	(10.5)	(4.9)	(5.4)	(8.1)	(6.7)	(6.0)	(7.4)
Investments in leasing assets	(2.5)	(2.6)	(3.9)	(9.8)	(12.7)	(5.6)	(5.7)	(5.8)	(5.2)	(5.3)	(4.4)
Disposals of fixed assets and leasing assets	1.4	1.3	2.0	1.8	2.6	1.6	2.1	2.6	3.2	2.9	2.4
Customer financing receivables, net	(1.5)	(1.6)	(4.8)	(15.5)	(12.8)	(7.1)	(4.5)	(3.7)	(5.7)	(4.3)	(7.4)
Shares and participations, net	8.2	2.0	14.1	10.7	5.5	(25.9)	(1.6)	3.9	(0.1)	(0.1)	15.1
Acquired and divested subsidiaries and other business units, net	–	(4.4)	(0.9)	(1.3)	(5.6)	31.0	0.0	13.0	(0.2)	0.0	(0,1)
Cash flow after net investments	**14.4**	**(0.2)**	**5.7**	**(3.6)**	**(17.5)**	**(1.2)**	**(7.1)**	**16.0**	**0.6**	**4.3**	**20.9**
Increase (decrease) in loans	(8.3)	1.5	6.8	5.6	19.5	16.3	8.1	6.2	(0.1)	1.9	(8.8)
Loans to external parties, net	(0.9)	(0.9)	(1.9)	(0.4)	(0.3)	(3.2)	0.3	0.2	1.7	0.9	0.0
Repurchase of own shares	–	–	–	–	–	–	(11.8)	(8.3)	–	–	(2.5)
Cash dividend to AB Volvo's shareholders	(0.6)	(1.5)	(1.9)	(2.0)	(2.2)	(2.6)	(3.1)	(3.4)	(3.4)	(3.4)	(3.4)
Other	(1.3)	0.7	(5.0)	(5.9)	(0.2)	(0.1)	0.0	0.1	0.1	0.1	0.0
Change in liquid funds, excluding translation differences	**3.3**	**(0.4)**	**3.7**	**(6.3)**	**(0.7)**	**9.2**	**(13.6)**	**10.8**	**(1.1)**	**3.8**	**6.2**
Translation differences on liquid funds	(0.3)	(0.7)	(0.3)	0.3	0.3	(0.2)	0.3	0.6	(0.7)	(0.6)	(0.2)
Change in liquid funds	**3.0**	**(1.1)**	**3.4**	**(6.0)**	**(0.4)**	**9.0**	**(13.3)**	**11.4**	**(1.8)**	**3.2**	**6.0**

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

2 Reported on a single line in 1994–1996.

Operating cash flow excluding Financial Services

SEK bn	1994	1995	1996	1997	1998	1999	2000	2001	2002	2003	2004
Operating income		12.9	12.8	12.4	11.1	6.4	5.2	(1.0)	2.3	1.6	12.8
Depreciation and amortization		4.8	4.4	5.0	6.4	3.1	3.8	7.0	7.8	7.2	7.4
Other items not affecting cash				(4.0)	(5.5)	(0.5)	(1.6)	0.0	1.0	4.1	(0.4)
Change in working capital		(6.3)	(11.1)	3.4	0.7	(1.7)	(3.0)	6.0	0.4	0.7	(1.5)
Financial items and income taxes				(0.5)	(2.3)	(1.7)	(0.8)	(2.3)	(1.1)	(0.7)	(0.2)
Cash flow from operating activities		**11.4**	**6.1**	**16.3**	**10.4**	**5.6**	**3.6**	**9.7**	**10.4**	**12.9**	**18.1**
Investments in fixed assets		(6.4)	(8.0)	(9.5)	(10.2)	(4.7)	(5.1)	(7.7)	(6.3)	(5.8)	(7.2)
Investments in leasing assets		(0.8)	(0.8)	(0.5)	(0.9)	(0.5)	(0.6)	(0.5)	(0.1)	(0.1)	(0.3)
Disposals of fixed assets and leasing assets		1.2	1.8	1.0	1.5	0.8	0.7	1.1	1.1	0.6	0.7
Customer-financing receivables, net		–	–	0.3	(0.3)	0.1	0.0	0.8	0.0	0.0	0.1
Operating cash flow		**5.4**	**(0.9)**	**7.6**	**0.5**	**1.3**	**(1.4)**	**3.4**	**5.1**	**7.6**	**11.4**

Exports from Sweden SEK M	1994	1995	1996	1997	1998	1999	2000	2001	2002	2003	2004
Volvo Group, total	43,330	56,059	54,589	58,569	64,401	52,719	46,251	50,394	52,730	49,300	62,653

Key ratios	1994	1995	1996	1997	1998	1999	2000	2001	2002	2003	2004
Gross margin, % [1, 2]	26.2	25.1	22.3	24.4	23.2	20.3	19.3	17.2	17.9	19.2	21.5
Research and development expenses as percentage of net sales [1, 2]	3.0	4.3	5.3	4.9	4.9	3.9	4.1	3.0	3.3	3.9	3.6
Selling expenses as percent of net sales [1, 2]	10.1	10.2	9.5	9.4	9.0	7.0	7.7	8.1	8.7	9.1	9.0
Administration expenses as percentage of net sales [1, 2]	4.9	4.3	4.3	3.9	3.9	4.0	3.9	3.6	3.1	3.0	2.6
Return on shareholders' equity, %	36.5	19.3	23.7	17.2	13.0	34.9	5.0	neg	1.7	0.4	13.2
Interest coverage, times	5.5	4.6	5.5	5.8	9.6	23.1	4.5	neg	2.2	1.9	10.8
Self-financing ratio, % [3]	247	151	73	115	78	108	89	125	176	204	241
Self-financing ratio excluding Financial Services, % [3]		190	87	181	108	127	72	137	196	243	266
Net financial position, SEK M	(6,999)	201	10,672	16,956	12,232	28,758	9,392	(7,042)	(6,063)	(2,426)	18,667
Net financial position as percentage of shareholders' equity and minority interests	(15.9)	0.4	18.3	27.0	17.4	29.3	10.6	(8.2)	(7.7)	(3.3)	26.8
Shareholders' equity and minority interests as percentage of total assets	31.9	37.4	41.4	38.1	34.1	50.2	44.3	32.8	32.8	31.4	31.2
Shareholders' equity and minority interests as percentage of total assets, excluding Financial Services	35.1	41.9	49.4	53.1	51.2	67.3	60.8	41.8	42.4	40.5	40.0
Shareholders' equity as percentage of total assets	31.3	36.9	41.0	37.6	33.7	49.9	44.0	32.6	32.7	31.3	31.1

1 Key ratios are stated in accordance with the new 1997 Annual Accounts Act. Figures for the years 1994 through 1996 have been adjusted to conform with the new principle.

2 1994–1996 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.

Volvo share statistics

Data per share (adjusted for issues and splits) [1]	1994	1995	1996	1997	1998	1999	2000	2001	2002	2003	2004
Income, SEK [1]	31.80	20.20	26.90	23.20	19.10	73.00	11.20	(3.50)	3.32	0.71	22.35
Cash dividend, SEK	3.40	4.00 [8]	4.30	5.00	6.00	7.00	8.00	8.00	8.00	8.00	12.50 [9]
Share price at year-end, SEK (B share)	140	136	151	213	186	220	156.50	176	142	220	263.50
Direct return, % (B share) [2]	2.4	2.9	2.9	2.3	3.2	3.2	5.1	4.5	5.6	10.5	4.7
Effective return, % (B share) [3]	32	0	30	46	(10)	22	(23)	17.6	(14.8)	71.2	25.4
Price/earnings ratio (B share) [4]	4	7	6	9	9	3	14	neg	43	310	11.8
EBIT multiple [5]	7	7	16	9	11	10	10	25	23	14	9.4
Payout ratio, % [6]	11	20	16	22	31	10	71	neg	242	1,143	56
Shareholders' equity, SEK [7]	98	110	125	140	157	221	222	203	187	173	169
Return on shareholders' equity	36.5	19.3	23.7	17.2	13.0	34.9	5.0	neg	1.7	0.4	13.2

Other share data	1994	1995	1996	1997	1998	1999	2000	2001	2002	2003	2004
Number of shareholders at year-end	182,700	206,700	176,800	225,500	210,600	238,000	230,000	214,000	211,000	208,500	202,300
Number of Series A shares outstanding at year-end, millions	142.2	142.2	142.2	138.6	138.6	138.6	124.7	131.7	131.7	131.7	131.5
Number of Series B shares outstanding at year-end, millions	301.9	321.4	321.4	302.9	302.9	302.9	272.6	287.8	287.8	287.8	278.6
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	418.5
Number of Series A shares traded in Stockholm during the year, millions	54.1	23.2	23.7	23.7	34.5	27.0	42.4	40.3	27.3	31.4	42.0
Number of Series B shares traded in Stockholm during the year, millions	363.3	363.3	316.4	362.7	371.3	479.6	391.2	344.4	349.4	404.8	498.0
Number of shares traded in ADR, NASDAQ during the year, millions	19.0	73.5	83.0	51.8	50.5	54.9	16.0	15.0	11.0	10.4	24.0

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 Proposed dividend in SEK per share divided by share price at year-end, including distribution of shares in Ainax equal to SEK 15.05 per Volvo share in 2004.

3 Share price at year-end, including proposed dividend during the year, divided by share price at beginning of the year, including redemption in 1997 and distribution of one share of Swedish Match 1996 and proposed distribution of shares in Ainax in 2003.

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 revaluation of shares.

6 Cash 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.

The largest shareholders in AB Volvo, December 31, 2004 [1]	Number of shares	% of total votes [2]	Share capital, % [2]
Renault	88,304,177	20.0	20.0
Robur fonder (savings funds)	11,663,821	4.4	2.6
Svenska Handelsbanken [3]	8,265,786	4.8	1.9
Second Swedish National Pension Fund (AP2)	8,070,208	3.9	1.8
Svenska Handelsbanken/ SPP fonder [4]	7,943,217	1.1	1.8
AMF Pension	7,286,100	2.9	1.7
Alecta (pension funds)	7,245,009	2.6	1.6
SEB fonder (savings funds)	7,073,200	3.4	1.6
Fourth Swedish National Pension Fund (AP4)	6,683,095	2.2	1.5
Nordea fonder (savings funds)	5,607,279	1.2	1.3
Total	**158,141,892**	**46.5**	**35.8**

Distribution of shares, December 31, 2004 Volvo shareholders [1] holding	Number of shareholders	% of total votes [2]	Share of capital, % [2]
1–1,000 shares	191,532	6.1	6.8
1,001–10,000 shares	9,815	4.3	5.4
10,001–100,000 shares	735	3.5	4.8
100,001–	267	86.0	83.0
Total	**202,349**	**100.0**	**100.0**

1 Following the repurchase of own shares, AB Volvo held 7.1% of the Company's shares on Dec 31, 2004.

2 Based on all registered shares.

3 Svenska Handelsbanken comprises shares held by Svenska Handelsbanken, Svenska Handelsbanken Pension Fund and Oktogonen.

4 Savings and pension funds.

Business area statistics

Net sales SEK M		1994	1995	1996	1997	1998	1999	2000	2001	2002	2003	2004
Trucks [1]	Western Europe	21,121	22,548	21,244	22,280	27,837	30,006	30,415	60,841	61,406	63,097	68,664
	Eastern Europe	948	1,299	1,721	2,274	3,089	2,265	3,158	5,526	6,424	7,004	8,767
	North America	13,951	13,069	8,510	12,206	17,659	22,303	17,048	33,630	33,721	28,151	35,154
	South America	4,780	4,641	2,759	3,832	3,777	2,190	3,111	3,993	3,277	3,464	5,223
	Asia	2,474	2,863	2,577	2,410	2,047	2,010	3,432	4,659	5,919	9,206	12,378
	Other markets	1,379	1,330	1,443	1,503	1,267	1,492	1,911	7,919	8,005	6,047	6,693
	Total	**44,653**	**45,750**	**38,254**	**44,505**	**55,676**	**60,266**	**59,075**	**116,568**	**118,752**	**116,969**	**136,879**
Buses	Western Europe	3,838	4,709	4,660	5,082	5,528	5,735	6,767	6,263	6,695	6,153	6,422
	Eastern Europe	102	34	80	190	366	226	182	373	409	381	526
	North America	34	736	1,575	2,314	5,574	6,871	7,723	6,847	3,838	2,984	2,960
	South America	1,005	1,087	853	1,002	910	469	732	757	366	329	521
	Asia	868	844	1,112	1,562	1,519	943	1,269	1,839	2,022	1,447	1,632
	Other markets	289	285	247	432	389	469	514	596	705	684	661
	Total	**6,136**	**7,695**	**8,527**	**10,582**	**14,286**	**14,713**	**17,187**	**16,675**	**14,035**	**11,978**	**12,722**
Construction Equipment [2]	Western Europe		4,199	7,163	7,836	9,557	9,901	10,029	10,326	10,383	11,576	12,443
	Eastern Europe		112	93	263	336	193	255	341	454	772	1,010
	North America		1,403	3,385	5,680	6,548	5,725	5,823	6,145	5,667	5,428	7,926
	South America		556	598	991	957	498	776	847	709	636	922
	Asia		339	937	1,036	1,092	1,903	2,484	2,773	3,048	3,707	4,961
	Other markets		307	628	847	882	662	626	703	751	1,035	1,423
	Total		**6,916**	**12,804**	**16,653**	**19,372**	**18,882**	**19,993**	**21,135**	**21,012**	**23,154**	**28,685**
Volvo Penta	Western Europe	1,753	2,065	2,048	2,219	2,725	2,986	3,204	3,789	3,846	4,081	4,723
	Eastern Europe	0	1	2	34	23	26	30	38	99	108	184
	North America	1,326	1,139	1,142	1,332	1,412	1,770	2,257	2,175	2,261	2,109	2,500
	South America	92	99	109	136	153	134	160	213	127	146	142
	Asia	464	458	486	643	476	692	794	988	1,141	947	1,324
	Other markets	107	116	98	102	142	153	154	177	195	205	184
	Total	**3,742**	**3,878**	**3,885**	**4,466**	**4,931**	**5,761**	**6,599**	**7,380**	**7,669**	**7,596**	**9,057**
Volvo Aero	Western Europe	2,400	2,590	2,950	3,682	4,231	4,560	4,651	4,788	3,422	3,951	3,130
	Eastern Europe	13	27	8	6	47	16	42	87	28	49	49
	North America	1,104	1,100	1,071	3,066	3,502	4,557	5,040	5,841	4,573	3,301	3,127
	South America	0	4	4	257	284	193	134	187	177	152	138
	Asia	66	66	89	264	336	491	701	708	497	428	400
	Other markets	5	3	21	201	184	136	145	173	140	149	81
	Total	**3,588**	**3,790**	**4,143**	**7,476**	**8,584**	**9,953**	**10,713**	**11,784**	**8,837**	**8,030**	**6,925**
	Other and eliminations [1]	10,636	4,321	2,669	3,436	4,781	6,807	6,825	7,073	6,775	7,041	7,228
Net sales excl Financial Services		**68,755**	**72,350**	**70,282**	**87,118**	**107,630**	**116,382**	**120,392**	**180,615**	**177,080**	**174,768**	**201,496**
Financial Services	Western Europe	1,198	4,758	5,384	4,461	5,465	6,300	6,240	5,314	5,573	5,604	6,114
	Eastern Europe			0	0	86	185	257	360	424	474	499
	North America		6	54	509	1,152	1,620	2,626	3,216	3,344	2,542	2,432
	South America			153	72	297	455	452	451	403	358	396
	Asia			0	0	0	1	0	24	49	65	90
	Other markets		206	44	52	224	76	103	130	132	110	67
	Total	**1,198**	**4,970**	**5,635**	**5,094**	**7,224**	**8,637**	**9,678**	**9,495**	**9,925**	**9,153**	**9,598**
	Eliminations	–	–	–	–	–	–	–	(830)	(807)	(630)	(693)
Volvo Group excluding divested operations		**69,953**	**77,320**	**75,917**	**92,212**	**114,854**	**125,019**	**130,070**	**189,280**	**186,198**	**183,291**	**210,401**
Cars		73,598	83,340	83,589	96,453	103,798	–	–	–	–	–	–
Other divested operations and eliminations		12,315	10,851	(3,446)	(5,040)	(5,716)	–	–	–	–	–	–
Volvo Group total		**155,866**	**171,511**	**156,060**	**183,625**	**212,936**	**125,019**	**130,070**	**189,280**	**186,198**	**183,291**	**210,401**

Effective in 1997, the Volvo Group's accounting per market area reflects geographical definitions, based on an ISO standard. The figures for 1994–1996 have been adjusted to conform with the new principle.

1 Net sales 1994–2001 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 1994 and 1995, calculated using the average exchange rate for the US dollar in each year, amounted to 12,084 and 13,684.

Operating income SEK M	1994 [9]	1995 [8]	1996 [7]	1997 [6]	1998 [5]	1999 [4]	2000	2001 [3]	2002	2003 [2]	2004 [1]
Trucks [10]	4,051	5,020	783	1,707	2,769	3,247	1,414	(2,066)	1,189	3,951	8,989
Buses	318	405	331	550	(37)	224	440	(916)	(94)	(790)	90
Construction Equipment	–	717	1,162	1,436	626	1,709	1,594	527	406	908	1,572
Volvo Penta	223	212	(27)	181	(63)	314	484	658	647	695	937
Volvo Aero	60	103	153	472	527	584	621	653	5	(44)	377
Financial Services	271	355	244	375	681	1,066	1,499	325	490	926	1,365
Other	7,533	1,422	9,377	3,624	3,950	319	616	143	194	(3,142)	870
Volvo Group excluding divested operations	**12,456**	**8,234**	**12,023**	**8,345**	**8,453**	**7,463**	**6,668**	**(676)**	**2,837**	**2,504**	**14,200**
Cars	2,599	490	1,080	4,409	3,375	26,695	–	–	–	–	–
Other divested operations	1,885	4,563	91	–	–	–	–	–	–	–	–
Operating income (loss) Volvo Group	**16,940**	**13,287**	**13,194**	**12,754**	**11,828**	**34,158**	**6,668**	**(676)**	**2,837**	**2,504**	**14,200**

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

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

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

4 Effective January 1, 1999, Volvo Cars was reported as a divested operation. The capital gain from the divestment was SEK 26,695 M.

5 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.

6 Operating income in 1997 included a capital gain from the sale of shares in Pripps Ringnes amounting to SEK 3,027 M.

7 Operating income in 1996 included a capital gain from the sale of shares in Pharmacia UpJohn amounting to SEK 7,766 M.

8 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.

9 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.

10 Refers to Volvo Trucks for 1994–2000.

Operating margin %	1994	1995	1996	1997	1998	1999	2000	2001	2002	2003	2004
Trucks	9.1	11.0	2.0	3.8	5.0	5.4	2.4	(1.8)	1.0	3.4	6.6
Buses	5.2	5.3	3.9	5.2	(0.3)	1.5	2.6	(5.5)	(0.7)	(6.6)	0.7
Construction Equipment [1]	–	10.4	9.1	8.6	3.2	9.1	8.0	2.5	1.9	3.9	5.5
Volvo Penta	6.0	5.5	(0.7)	4.1	(1.3)	5.5	7.3	8.9	8.4	9.1	10.3
Volvo Aero	1.7	2.7	3.7	6.3	6.1	5.9	5.8	5.5	0.1	(0.5)	5.4
Volvo Group excluding divested operations	**18.1**	**11.4**	**17.1**	**9.6**	**7.9**	**6.4**	**5.5**	**(0.4)**	**1.6**	**1.4**	**7.0**
Operating margin, total	**11.0**	**8.0**	**8.8**	**7.1**	**5.7**	**29.3**	**5.5**	**(0.4)**	**1.6**	**1.4**	**7.0**

1 Included in the Volvo Group as of mid-year 1995. Operating margin for Volvo Construction Equipment for the years 1994 to 1995 amounted to 13.4 and 12.3.

Number of employees at year-end Number	1994	1995	1996	1997	1998	1999	2000	2001	2002	2003	2004
Trucks	19,790	21,450	20,860	22,090	22,560	23,330	24,320	44,180	43,470	46,900	49,450
Buses	2,600	3,620	3,750	4,220	8,690	8,860	9,060	6,230	6,660	6,680	7,700
Construction Equipment	–	7,610	7,300	8,550	9,680	8,900	8,830	7,780	8,410	9,280	9,930
Volvo Penta	1,540	1,570	1,420	1,400	1,490	1,400	1,480	1,370	1,410	1,440	1,580
Volvo Aero	3,770	3,890	3,740	4,170	3,990	4,550	4,240	4,040	3,660	3,440	3,350
Financial Services	230	450	560	710	860	1,160	1,220	1,080	1,060	1,060	1,100
Other	2,120	2,370	3,090	3,840	5,190	5,270	5,120	6,240	6,490	6,940	7,970
Volvo Group, excluding divested operations	**30,050**	**40,960**	**40,720**	**44,980**	**52,460**	**53,470**	**54,270**	**70,920**	**71,160**	**75,740**	**81,080**
Cars	29,080	31,050	29,600	27,920	27,360	–	–	–	–	–	–
Other divested operations	16,420	7,040	10	–	–	–	–	–	–	–	–
Volvo Group, total	**75,550**	**79,050**	**70,330**	**72,900**	**79,820**	**53,470**	**54,270**	**70,920**	**71,160**	**75,740**	**81,080**

Employees Number	1994	1995	1996	1997	1998	1999	2000	2001	2002	2003	2004
Sweden	44,880	47,000	43,330	43,650	43,900	24,840	25,030	24,350	25,420	26,380	28,530
Europe, excluding Sweden	18,040	16,930	15,290	16,100	17,880	11,900	12,320	27,800	27,130	29,120	28,930
North America	6,100	7,860	6,900	8,450	12,100	11,880	11,410	12,670	12,440	12,270	14,620
South America	3,400	3,620	2,130	2,000	1,980	1,930	2,100	2,090	2,020	2,640	3,110
Asia	2,380	2,830	2,260	1,720	3,340	2,480	2,570	2,550	2,590	3,710	4,130
Other markets	750	810	420	980	620	440	840	1,460	1,560	1,620	1,760
Volvo Group total	**75,550**	**79,050**	**70,330**	**72,900**	**79,820**	**53,470**	**54,270**	**70,920**	**71,160**	**75,740**	**81,080**

Vehicles invoiced Number	1994	1995	1996	1997	1998	1999	2000	2001	2002	2003	2004
Heavy trucks (>16 tons)	63,560	71,360	59,100	63,930	78,690	81,240	76,470	117,180	120,200	120,920	152,300
Medium-heavy trucks (7–15.9 tons)	4,940	5,130	4,580	5,050	4,590	3,850	5,360	17,310	16,220	15,870	18,800
Light trucks (<7 tons)								20,820	20,710	19,200	22,120
Total trucks	**68,500**	**76,490**	**63,680**	**68,980**	**83,280**	**85,090**	**81,830**	**155,310**	**157,130**	**155,990**	**193,220**
Buses and bus chassis	**5,770**	**6,830**	**7,410**	**8,730**	**10,200**	**9,500**	**11,015**	**9,953**	**9,059**	**7,817**	**8,232**

		1994	1995	1996	1997	1998	1999	2000	2001	2002	2003	2004
Trucks	Total Europe	27,000	34,160	34,970	34,470	42,350	42,530	46,140	98,040	96,290	92,080	102,670
	Western Europe	25,450	32,330	32,310	31,040	37,810	39,630	42,050	90,460	87,490	82,670	90,750
	Eastern Europe	1,550	1,830	2,660	3,430	4,540	2,900	4,090	7,580	8,800	9,410	11,920
	North America	26,460	27,090	16,850	20,900	29,310	34,300	23,610	34,650	36,510	34,760	49,270
	South America	8,320	7,800	4,980	6,970	6,020	3,900	4,530	5,790	5,360	5,980	9,190
	Asia	4,830	5,270	4,850	4,710	3,760	2,720	5,560	6,600	9,140	16,290	24,880
	Other markets	1,890	2,170	2,030	1,930	1,840	1,640	1,990	10,230	9,830	6,880	7,210
	Total	**68,500**	**76,490**	**63,680**	**68,980**	**83,280**	**85,090**	**81,830**	**155,310**	**157,130**	**155,990**	**193,220**
Buses	Total Europe	3,040	3,570	3,840	4,190	3,860	3,630	3,994	3,115	3,413	3,087	3,417
	Western Europe	2,900	3,510	3,770	4,030	3,580	3,430	3,870	2,899	3,076	2,782	3,073
	Eastern Europe	140	60	70	160	280	200	124	216	337	305	344
	North America	10	340	750	1,110	2,730	3,640	3,869	3,128	1,945	1,553	1,388
	South America	1,630	1,510	1,460	1,350	1,510	710	980	1,009	495	369	624
	Asia	780	920	1,060	1,410	1,650	1,000	1,659	2,209	2,639	2,227	2,341
	Other markets	310	490	300	670	450	520	513	492	567	581	462
	Total	**5,770**	**6,830**	**7,410**	**8,730**	**10,200**	**9,500**	**11,015**	**9,953**	**9,059**	**7,817**	**8,232**

Effective in 1997, The Volvo Group's accounting per market area reflects geographical definitions based on an ISO standard. The accounting for the years 1994–1996 has been adjusted to conform with the new principle.

Environmental performance of Volvo production plants Absolute values related to net sales	2000	2001	2002	2003	2004
Energy consumption (GWh; MWh/SEK M)	1,656; 13.8	2,586;14.3	2,564; 14.5	2,607; 14.9	2,695; 13.4
CO_2 emissions (1,000 tons; tons/SEK M)	172; 1.4	316; 1.7	307; 1.7	298; 1.7	293; 1.5
Water consumption (1,000 m^3; m^3/SEK M)	6,138; 51.0	9,187; 50.9	9,202; 52.0	8,587; 49.1	8,495; 42.2
NOx emissions (tons; kilos/SEK M)	464; 3.9	730; 4.0	726; 4.1	570; 3.3	645; 3.2
Solvent emissions (tons; kilos/SEK M)	1,422; 11.8	1,816; 10.1	1,896; 10.7	1,965; 11.2	2,085; 10.3
Sulphur dioxide emissions (tons; kilos/SEK M)	59; 0.5	308; 1.7	173; 1.0	200; 1.1	184; 0.9
Hazardous waste (tons; kg/SEK M)	17,170; 143	20,306; 112	20,531; 116	21,613; 124	24,675; 122.5
Net sales, SEK bn	120.4	180.6	177.1	174.8	201.5

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 12

The Annual General Meeting of AB Volvo will be held in Göteborg in Eriksbergshallen, with address Maskingatan 11, Eriksberg, on Tuesday April 12, 2005, at 4:00 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 1, 2005, give notice of intention to attend not later than 12:00, Wednesday, April 6, 2005

- by telephone, +46 31 66 00 00 beginning March 7
- by mail addressed to AB Volvo (publ), Legal Department, SE-405 08 Göteborg, Sweden
- by e-mail agm@volvo.com
- at Volvo's website www.volvo.com

When giving notice, shareholders should state their:

- name
- personal number (registration number)
- address and telephone number
- name and personal number (registration number) of the proxy, if any
- name(s) of any accompaning assistant(s)

Shareholders whose shares are held in the trust department of a bank or by a brokerage firm should request that the shares be temporarily reregistered in the shareholder's name several banking days prior to April 1, 2005.

April 15, 2005 has been proposed as the record date for dividends, which are expected to be distributed on April 20, 2005.

Volvo's Nomination Committee

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

Lars Idermark	Chairman of the Nomination Committee Second Swedish National Pension Fund,
Finn Johnsson	Chairman of the Board
Thierry Moulonguet	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 2004	March 11, 2005
Form 20-F US GAAP 2004	May, 2005
Three months ended March 31, 2005	April 25, 2005
Six months ended June 30, 2005	July 25, 2005
Nine months ended September 30, 2005	October 25, 2005
Report on 2005 operations	February, 2006
Annual Report 2005	March, 2006

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.

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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